PLC CHARTER SCHOOLS

Detailed Business Plan
Financial Sustainability
Part B

April 26th, 2012

P.L.C. Charter School's Financial Sustainability

P.L.C. Charter Schools is an Arizona non-profit corporation. The corporation was established to operate a charter school (Arts Academy @ South Mountain) whose mission was to teach students the content areas of education in a nurturing, safe, and drug free environment. P.L.C. Charter Schools currently provides educational services (Arts Academy @ Estrella Mountain) to approximately 900 students in kindergarten through eighth grades, and is funded primarily on student membership and federal grants. Based on the organization's fiscal year 2011 audit report, the corporation continues to demonstrate a sustainable operation.

In fiscal year 2006, P.L.C. Charter Schools opened Arts Academy @ Estrella Mountain in Tolleson. The organization became obligated to The Industrial Development Authority of the County of Pima for issued tax-exempt Education Revenue Bonds for the purpose of financing the costs of acquiring, constructing, renovating, and/or equipping educational facilities. Average Daily Membership (ADM) increased by 384 students, but the corporation realized a decrease in net assets of ($204,965) mainly due to increased salaries, purchased services, supplies and rent directly related to the opening of the new school. Amortization and depreciation expenses increased from $50,912 the previous year to $96,613.

In fiscal years 2007 through 2008 the corporation increased its ADM by another 309 students for a total of 866 students between Arts Academy @ South Mountain and Arts Academy @ Estrella Mountain. The School hired a highly experienced individual for the position of SAIS compliance to further guarantee optimum funding and reporting accuracy. Revenue increased significantly, however an increase in expenses continued to produce a decrease in net assets of ($461,229). Payroll and related expenses along with interest expense for the bond obligation were the cause of the decrease in net assets. Amortization and depreciation expenses related to property and equipment increased significantly from prior years, $365,053 for FY07 and $534,500 for FY08.

Fiscal year 2009 resulted in a net asset loss increase to $975,048. Weak internal controls were identified; hiring outside consultants, overstaffing, and the use of outside vendors were very costly. Arts Academy @ South Mountain purchased two buses to transport students to and from school to assist with declining enrollment; however the transportation expenses outweighed the budgeted projections and the school lost money. Additional expenses were also incurred due to the Corporate Board's decision to add an additional site in Scottsdale in fiscal year 2010. P.L.C. Charter Schools ADM decreased slightly to 850; however the revenue increased $50,874.

In fiscal year 2010 a new site was added, Arts Academy @ Scottsdale, which increased P.L.C. Charter School's ADM to 1018 students. Revenue increased by $1,517,748 largely due to increased federal ARRA grants. The total net asset loss improved by $407,989 from ($975,048) to ($567,059)

In fiscal year 2011, the Corporate Board accepted the resignation of the Chief Executive Officer of the corporation and a new Chief Executive Officer was designated by the board. A complete analysis of the financial position of the corporation was immediately implemented. New P.L.C. Charter School's administration eliminated administrative positions, maintenance positions, support positions and outside consultants that were unnecessary and replaced individuals that were not qualified in their current positions by those that were both qualified and experienced. All other expenses were analyzed and subsequently eliminated if not deemed necessary by the Business Office. An accounting consultant was hired to analyze the financial records, and the corporation added an in-house Finance Director. The Finance Director enhanced the school's purchasing procedures and internal controls by requiring all purchases to be pre-approved in writing by two P.L.C. Corporate Office staff members. In addition, the decision was made to add in fiscal year 2012 an in-house Special Education team to replace the existing contracted Special Education provider that was a large expense to the schools. The Corporate Board voted to close Arts Academy @ South Mountain effective the end of fiscal year 2011 due to declining enrollment and continued financial loss. In spite of losing the added Kindergarten weighted funding and additional funding cuts, these administrative changes improved the total net asset loss by $269,152 from ($567,059) to ($297,907).

The Corporate Board also voted to transfer the existing Arts Academy @ Scottsdale to its own charter. This move took effect fiscal year 2012 and is now called PLC Arts Academy at Scottsdale, Inc.

One school remains in the P.L.C. Charter School umbrella – Arts Academy @ Estrella Mountain. The Corporate Board voted unanimously to expand the campus through additional bond financing adding a potential 243 more students for fiscal year 2013. A waiting list for all grades, particularly sixth through eighth, supports the decision to expand and will allow the upper and lower grades to have their own learning environment on campus. A recruiting team has been created to promote additional enrollment. Currently, as of April 26, 2012, the school's ADM is 844 and is experiencing positive cash flow. With the new bond in fiscal year 2013, the school is analyzing the costs for future years and is working to have a plan in place to make it a positive and healthy school. With the change in staff and management, and the new policies and procedures that have been put in place to promote accountability and sustainability both financially and academically, the school will continue towards positive growth.

PLC CHARTER SCHOOLS

Detailed Business Plan
Financial Sustainability
Part B - Evidence

April 26th, 2012

PLC CHARTER SCHOOLS PURCHASING PROCEDURES

All PLC Charter School employees shall follow these purchasing procedures for the procurement of goods and services. These procedures provide tracking for all purchases and help maintain control for budgetary purposes.

A Purchase Requisition form shall be completed for all purchases and submitted to the Business Office.

All Purchase Requisition Forms must be completed and submitted to the PLC Business Office with the following information:

- Vendor Name
- Vendor Contact Information
- Complete Description of Items
- Funding Source (M&O, Title I, IDEA, etc.)
- Line Item Totals, Shipping & Handling, Tax & Grand Total
- Name of Person Ordering
- Order Quote/Registration Forms/Supporting Documentation

All Purchase Requisitions need to be pre-approved in writing by two staff members in the PLC Business Office. Furthermore, all purchases will need to be done with a purchase order, check or charge account to avoid employee reimbursements.

- The PLC Business Office will be responsible for reviewing all purchase requisitions to verify that they are appropriate and are allowable grant expenditures (if applicable).

Orders may take one to three weeks for processing, depending on vendor availability of product. For this reason, employees are advised to plan ahead to ensure items/services are received timely.

If the item(s) ordered are fixed assets, the Purchase Requisition form will indicate that the item(s) must be tagged with sequentially numbered inventory asset labels upon receipt.

PLC CHARTER SCHOOLS

Detailed Business Plan
Financial Sustainability
Part B - Evidence

April 26th, 2012

PLC Charter Schools

Corporate Offices
2504 S. 91st Ave, Tolleson, AZ 85353
Phone: (623) 474-2120 Fax: (623) 936-5337
www.plccharterschools.org

Monday, April 2nd, 2012 at 5:15pm
Meeting for PLC Corporate Board
Phone Conference: 623-474-2138

Present: Kim Steele (Vice President, "KS"), Sam Tomlin (Chairman, "ST"), Agnes Lawson (Board Member, "AL")
Absent: Cathie Devers (Board Member, "CD"), Jessica Finley (Scribe)

ST called the meeting to order at 5:15pm and verified a quorum.

AGENDA ITEMS:

1. Discussion and action to sign the 2012 Bond Documents.

- The Amended and Restated Resolution was sent to each board member before the meeting. KS made a correction in the first paragraph: it states the date of April 2, 2011; the date needs to be changed to year 2012. ST made a correction on the signature line: it shows secretary, Agnes Lawson, as the treasurer. Both corrections were crossed out, changed and initialed by AL.
- KS made a **motion to approve Sam Tomlin to sign the bond documents for the 2012 Bond series.** Seconded by AL.
  - No discussion.
- **Motion passed unanimously**.

2. Meeting adjourned at 5:42pm.

PLC CHARTER SCHOOLS

Detailed Business Plan
Financial Sustainability

April 26th, 2012

Lorenzo, PLC
Certified Public Accountant

Anthony Lorenzo, CPA

Member of American Institute of Certified Public Accountants
Member of Arizona State Society of Certified Public Accountants

March 9, 2012

P.L.C. Charter Schools
Attention: Beth Gasperone
4039 E. Raymond St. #3
Phoenix, AZ 85040

Dear Beth,

P.L.C. Charter Schools' audit for the year ending June 30, 2011 is now complete. The following items' are enclosed for your records:

- Financial Statements including the Independent Auditor's Report, and Single Audit Reporting Package. (3 copies)
- Arizona State Board for Charter Schools Legal Compliance Questionnaire. (1 copy)

Additionally, we have included our letter addressed to those charged with governance. That letter is a required communication in accordance with Statement on Auditing Standards No. 114. Please distribute the letter to the Board of Directors at the next board meeting.

We appreciate the opportunity to be of service to you, and look forward to working with you again. Have a great school year.

Sincerely,

Lorenzo, PLC

Anthony Lorenzo

Anthony Lorenzo, CPA
Managing Member

Enc

1450 W. Guadalupe Rd., Suite 111 • Gilbert, AZ 85233 • Ph: 480.644.1097 • Fax: 480.644.9405

Lorenzo, PLC
Certified Public Accountant

Anthony Lorenzo, CPA

Member of American Institute of Certified Public Accountants
Member of Arizona State Society of Certified Public Accountants

March 9, 2012

To the Governing Board
P.L.C. Charter Schools

We have audited the financial statements of P.L.C. Charter Schools for the year ended June 30, 2011, and have issued our report thereon dated February 10, 2012. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. We have communicated such information to you in our engagement letter dated November 4, 2011. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by P.L.C. Charter Schools are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the fiscal year ended June 30, 2011. We noted no transactions entered into by the Organization during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the financial statements was the estimate of useful lives of fixed assets.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the financial statements were:

> The disclosure of notes payable to IDA in Note 7 to the financial statements with an aggregate maturity balance of $10,540,462 on June 30, 2011.
>
> The disclosure of related party transactions in Note 9 and subsequent events in Note 12.

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Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. The material misstatements listed in the attached schedule were detected as a result of our audit procedures and were corrected by management.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated February 10, 2012.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Organization's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Organization's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Information in Documents Containing Audited Financial Statements

With respect to the supplementary information accompanying the financial statements, we made certain inquires of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with U.S. generally accepted accounting principles, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

This information is intended solely for the use of the Governing Board and management of P.L.C. Charter Schools and is not intended to be and should not be used by anyone other than these specified parties.

Very Truly Yours,

LORENZO, PLC

Anthony Lorenzo

Anthony Lorenzo, CPA
Managing Member

PLC
Adjusting Journal Entries
6/30/2011

		Debit	Credit
DD-2	0183 Furniture & Equipment	33,774	
	0223 Current Portion Lease		7,941
	0265 US Bank Copy Machine Lease		25,833

To present capital lease for 3 copier machines

P.L.C. CHARTER SCHOOLS

FINANCIAL STATEMENT AUDIT AND SINGLE AUDIT REPORTING PACKAGE

FOR THE YEAR ENDED JUNE 30, 2011

P.L.C. CHARTER SCHOOLS
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Lorenzo, PLC
Certified Public Accountant

Anthony Lorenzo, CPA

Member of American Institute of Certified Public Accountants
Member of Arizona State Society of Certified Public Accountants

Independent Auditor's Report

Board of Directors
P.L.C. Charter Schools

We have audited the accompanying statement of financial position of P.L.C. Charter Schools (School) as of June 30, 2011, and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of the School's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of P.L.C. Charter Schools as of June 30, 2011, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 10, 2012, on our consideration of the School's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations,* and the accompanying supplemental schedules of the debt service coverage ratio, presented for purposes of additional analysis as required by the Industrial Development Authority of the County of Pima, and the statement of activities by location, requested by management, are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Lorenzo, PLC

Lorenzo, PLC
Gilbert, Arizona
February 10, 2012

1450 W. Guadalupe Rd., Suite 111 • Gilbert, AZ 85233 • Ph: 480.644.1097 • Fax: 480.644.9405

P.L.C. CHARTER SCHOOLS
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2011

ASSETS	
Current Assets:	
Cash and cash equivalents (including cash held by trustee of $406,825)	$ 988,843
Due from Government	72,306
Accounts receivable	6,605
Due from related parties	61,075
Prepaid expenses	80,417
Total Current Assets	1,209,246
Property and equipment, net of accumulated depreciation	9,451,842
Total Assets	$ 10,661,088
LIABILITIES AND NET ASSETS	
Current Liabilities:	
Accounts payable	$ 14,615
Accrued salary and benefits	171,532
Capital leases payable-current portion	15,952
Note payable to IDA-current portion	185,000
Notes payable-current portion	5,601
Total Current Liabilities	392,700
Capital leases payable-less current portion	25,833
Note payable to IDA-less current portion	10,540,462
Total Liabilities	10,958,995
Net Assets:	
Unrestricted:	
Undesignated	(336,828)
Designated for Classroom site fund	8,926
Temporarily Restricted:	
Extracurricular activities	29,995
Total Net Assets	(297,907)
Total Liabilities and Net Assets	$ 10,661,088

See accompanying notes to financial statements

P.L.C. CHARTER SCHOOLS
STATEMENT OF ACTIVITIES
JUNE 30, 2011

REVENUES	Unrestricted	Temporarily Restricted	Total
State equalization	$ 5,678,025		5,678,025
Classroom site fund	240,155		240,155
Instructional improvement fund	39,066		39,066
State and Federal grants	873,457		873,457
Contributions	26,622		26,622
Student activities and events	91,041		91,041
Extracurricular tax credit		19,708	19,708
Rental income	15,439		15,439
Food service sales	16,013		16,013
Miscellaneous	96,065		96,065
Total Revenue and Other Support	7,075,883	19,708	7,095,591
EXPENSES			
Program services	6,445,889	7,755	6,453,644
Management and general	372,795		372,795
Total Expenses	6,818,684	7,755	6,826,439
Increase in Net Assets	257,199	11,953	269,152
Beginning Net Assets (Deficit)	(585,101)	18,042	(567,059)
Ending Net Assets (Deficit)	(327,902)	29,995	$ (297,907)

See accompanying notes to financial statements

P.L.C. CHARTER SCHOOLS
STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2011

Cash flows from operating activities:	
Increase in net assets	$ 269,152
Adjustments to reconcile changes in net assets to net Cash provided/(used) by operating activities:	
Depreciation and amortization	497,069
(Increase) in due from State	(22,879)
(Increase) in accounts receivable	(3,937)
(Increase) in due from related parties	(27,225)
(Increase) in prepaid expenses	(33,994)
Decrease in security deposit	17,535
(Decrease) in accounts payable and accrued expenses	(142,767)
(Decrease) in deferred revenue	(11,220)
(Decrease) in compensated absences	(30,422)
(Decrease) in accrued payroll and related expenses	(93,049)
Net cash provided by operating activities	418,263
Cash flows from investing activities:	
Purchase of property and equipment	(16,159)
Net cash (used) by investing activities	(16,159)
Cash flows from financing activities:	
Net repayments on credit card payable	(2,487)
Repayments on capital lease payable	(31,556)
Repayments on notes payable	(15,294)
Repayments on note payable to IDA	(171,575)
Net cash (used) by operating activities	(220,912)
Net increase in cash and cash equivalents	181,192
Cash and cash equivalents, beginning of year	807,651
Cash and cash equivalents, end of year	$ 988,843
Supplemental data:	
Noncash capital and financing activities:	
Equipment acquired through capital lease payable	$ 33,774
Interest paid	$ 788,815

See accompanying notes to financial statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

P.L.C. Charter Schools (School) is an Arizona not-for-profit corporation. The School was established in 2002 to operate a charter school whose mission is to teach students the content areas of education in a nurturing, family-oriented, safe, and drug free environment. The School operates under a charter contract with the Arizona State Board for Charter Schools, which mandates policy and operational guidelines. The School provides educational services in Phoenix, Arizona to approximately 1,070 students in kindergarten through eighth grades, and is funded primarily through its sponsor, based on student membership.

The significant accounting policies followed are described below to enhance the usefulness of the financial statements to the reader.

Financial Statement Presentation – The School presents these financial statements in accordance with the Financial Accounting Standards Board Accounting Standards Codification (FASB ASC) 958-205, *Not-for-Profit Entities, Presentation of Financial Statement.* This Statement establishes standards for general purpose external financial statements provided by a not-for-profit organization. Those financial statements include a statement of financial position, a statement of activities, and a statement of cash flows.

Under this codification, net assets and revenues, expenses, gains, and losses are classified based on the existence or absence of donor imposed restrictions. Accordingly net assets of the School and changes therein are classified and reported as unrestricted, temporarily, or permanently restricted net assets. Unrestricted net assets are not subject to donor imposed restrictions. Temporarily restricted net assets are subject to donor imposed restrictions that may or will be met either by actions of the School and/or the passage of time. Permanently restricted net assets are subject to donor imposed restrictions that will be maintained permanently by the School. Generally, the donors of permanently restricted assets allow the School to use all or part of the income earned on related investments for general or specific purposes.

Donor Imposed Restrictions – All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as temporarily restricted or permanently restricted support that increases those net asset classes. However, if a restriction is fulfilled in the same time period in which the contribution is received, the School reports that support as unrestricted. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities as net assets released from restrictions.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Donated Services – The School receives donated services throughout the year from unpaid volunteers. In accordance with FASB ASC 958-605-25-16, if donated services received (1) create or enhance nonfinancial assets or (2) require specialized skills, are performed by people with those skills, and would otherwise be purchased by the School, the donated services are recognized as contributions. No amounts have been reflected in the financial statements for donated services since they do not meet the criteria for recognition.

Cash and Cash Equivalents – For purposes of the statement of cash flows, all highly liquid investments with an initial maturity of three months or less when purchased are considered cash equivalents.

Property and Equipment – Land, buildings, and improvements with a cost of $3,000 or more and vehicles, furniture and equipment with both a cost of $300 or more, except textbooks and other classroom furniture with a cost of over $20, and an estimated useful life of one year or more are capitalized. Assets are stated at cost. Depreciation of furniture and equipment is provided on a straight–line basis over the useful lives of the respective assets.

Concentration of Credit Risk – The School places its cash with high quality financial institutions. At times, such cash may be in excess of FDIC insurance limits.

Estimates – The preparation of financial statements in conformity with generally accepted accounting principles require management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Income Tax Status – The School is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code and from state income taxes under A.R.S. §43-1201, and is not classified as a private foundation. Accordingly, there are no income taxes reflected on the Statement of Financial Position or the Statement of Activities.

NOTE 2 – CASH AND CASH EQUIVALENTS

Cash in bank - The School maintains all of its cash with two financial institutions. The carrying amount of deposits was $582,018 and the bank balance was $655,461 at June 30, 2011. As of June 30, 2011, the entire $655,461 was covered by federal depository insurance.

Cash held by trustee – As of June 30, 2011, the School maintained cash held by trustee totaling $406,825. The cash held by trustee is for operating reserves to cover any short term interruptions in revenue. The cash held by trustee is uninsured and uncollateralized.

NOTE 3 – PROPERTY AND EQUIPMENT

Property and equipment at June 30, 2011 consisted of the following:

Land	$ 792,161
Buildings and building improvements	10,082,118
Furniture and equipment	752,743
Textbooks	340,877
Total property and equipment	11,967,899
Amortization and accumulated depreciation	2,516,057
Property and equipment, net	$ 9,451,842

Amortization and depreciation expense related to property and equipment was $497,069 for the fiscal year ended June 30, 2011.

NOTE 4 – COMMITMENTS AND CONTINGENT LIABILITIES

Compliance – The School's compliance with certain laws and regulations is subject to review by the State Board for Charter Schools, the State of Arizona, Office of the Auditor General and Department of Education. Such reviews could result in an adjustment of state equalization assistance

Litigation – The School is contingently liable for claims and judgments that may result from lawsuits incidental to the normal operation of a school. In the opinion of the School's management, the School's insurance coverage is adequate to cover any potential claims relating to normal operations and decisions that might adversely impact the School, and would not have a material effect on the financial statements. As of the date of this report, no claims or potential claims and judgments have been identified. Accordingly, no provision for possible losses is reflected in the financial statements.

Operating lease – The School leases buildings and equipment under the provisions of long-term lease agreements classified as operating leases. Rental expense under the operating leases for the year ended June 30, 2011, totaled $333,964, which is equal to the required payments. As of June 30, 2011, the total remaining payments under the noncancelable operating leases were as follows:

Fiscal year ending June 30:	
2012	$ 208,283
2013	209,382
2014	201,530
Total	$ 619,195

See Note 12 for disclosure regarding the assignment of the building lease effective July1, 2011.

NOTE 5 – CAPITAL LEASE PAYABLE

The School has acquired copiers under the provisions of long-term lease agreements classified as capital leases for accounting purposes due to the net present value of the minimum lease payments exceeding 90% of the fair market value of the assets. Accordingly, the original cost of the leased assets totaling $95,074 has been capitalized as fixed assets. Amortization expense totaled $12,260 for the year ended June 30, 2011, and is included in depreciation expense, and accumulated amortization totaled $37,291 as of the fiscal year ended June 30, 2011. The future minimum lease payments under the lease, together with the present value of the net minimum lease payments at June 30, 2011, are as follows:

NOTE 5 – CAPITAL LEASE PAYABLE (CONT'D)

Maturities of the lease payable are as follows:

Fiscal year ending June 30:		
2012	$	20,914
2013		13,800
2014		13,800
2015		4,600
Total minimum lease payments		53,114
Less amount representing interest		(11,329)
Present value of net minimum capital lease payments		41,785
Less current portion		(15,952)
	$	25,833

NOTE 6 – RETIREMENT PLAN

Plan Description – The School contributes to a cost-sharing multiple-employer defined benefit pension plan; a cost-sharing, multiple-employer defined benefit health care plan; and a cost-sharing, multiple-employer defined benefit long-term disability plan, all of which are administered by the Arizona State Retirement System. The Arizona State Retirement System (through its Retirement Fund) provides retirement (i.e., pension), death, and survivor benefits; the Health Benefit Supplement Fund provides health insurance premium benefits (i.e., a monthly subsidy); and the Long-Term Disability Fund provides long-term disability benefits. Benefits are established by state statute. The System is governed by the Arizona State Retirement System Board according to the provisions of A.R.S. Title 38, Chapter 5, Article 2.

The System issues a comprehensive annual financial report that includes financial statements and required supplementary information. The most recent report may be obtained by writing the System, 3300 North Central Avenue, P.O. Box 33910, Phoenix, AZ 85067-3910 or by calling (602) 240-2000 or (800) 621-3778.

NOTE 6 – RETIREMENT PLAN (CONT'D)

Funding Policy – The Arizona State Legislature establishes and may amend active plan members' and the School's contribution rate. For the year ended June 30, 2011, active plan members were required by statute to contribute at the actuarially determined rate of 9.85% (9.60% for retirement and 0.25% for long-term disability) of the members' annual covered payroll and the School was required by statute to contribute at the actuarially determined rate of 9.85% (9.01% for retirement, 0.59% for health insurance premium, and 0.25% for long-term disability) of the members' annual covered payroll. The School's contributions to the System for the years ended June 30, 2011, 2010, and 2009 were $307,983, $304,773 and $254,065, respectively, which were equal to the required contributions for each year.

NOTE 7 – NOTE PAYABLE TO IDA

Education Revenue Bonds - The Industrial Development Authority of the County of Pima (IDA) issued tax-exempt Education Revenue Bonds (Bonds) under an Indenture of Trust dated as of April 12, 2006. The proceeds of the bonds were loaned to the School for the purpose of financing the costs of acquiring, constructing, renovating and/or equipping educational facilities for the borrower; paying the issuance costs of the bonds; and establishing reserves equal to one year's maximum debt service to be used in the event of default.

Loan Agreement - The School is obligated to the IDA under its respective Loan Agreement and promissory note to make payments sufficient to pay the principal, premium, and interest on its loan; and to pay its share of ongoing costs.

The School has pledged substantially all of its revenues in order to meet its obligations under the Loan Agreement and promissory note. The primary revenues of the School are state equalization assistance, which are statutorily owed by the State to the School based on student enrollment. The School has irrevocably directed the State to make its monthly state equalization payments directly to the trustee of the bonds so long as any of its obligations under the Loan Agreement remain outstanding and unsatisfied. The trustee of the bonds calculates and retains the amount due under the Loan Agreement and remits the remaining state equalization payments to the School.

The Loan Agreement and promissory note remain in force until either all payments required by the promissory note have been paid or there are sufficient monies in the reserve funds to redeem all outstanding bonds.

NOTE 7 – NOTE PAYABLE TO IDA (CONT'D)

Reserve Funds – The reserve funds are held in trust solely for the benefit of the bondholders. The School has no legal, equitable, or reversionary right to the reserve funds. In the event of default of the loan agreement by the School, amounts held in the reserve funds and any proceeds from the sale of collateral will be used to satisfy/repay the promissory note.

If at any time the amount in the reserve funds exceeds the aggregate principal amount of bonds outstanding plus any redemption premium, the reserve funds will be used to redeem all outstanding bonds and, accordingly, the School's obligation under the Loan Agreement and promissory note ceases. Therefore, the School's initial and continuing contributions to the reserve funds are accounted for as prepayments of its promissory note payable to the IDA.

Promissory note payable to the IDA in monthly installments ranging from $67,582 to $79,353 through April 1, 2036 with an interest rate ranging from 6.00% to 6.75%, collateralized by cash held by trustee, land and buildings.	$ 11,685,000
	11,685,000
Less amount held in reserve funds.	(959,538)
	10,725,462
Less current portion	(185,000)
	$ 10,540,462

Interest expense under the promissory note for the year ended June 30, 2011 was $780,460.

The aggregate maturities of the note payable to the IDA as of June 30, 2011, were as follows:

Year ending June 30:	Maturities
2012	$ 185,000
2013	195,000
2014	205,000
2015	220,000
2016	235,000
Thereafter	10,645,000
	$ 11,685,000

NOTE 8 – NOTE PAYABLE

The School had the following note payable outstanding at June 30, 2011.

$23,000 note payable to a corporation, with an interest rate of 8%, secured by buildings.	$ 5,601
Total	$ 5,601

Maturities of the notes payable are as follows:

Fiscal year ending June 30:	
2012	$ 5,601
Total	$ 5,601

NOTE 9 – RELATED PARTY TRANSACTIONS

During the year ended June 30, 2011, the School had the following transactions with related parties:

A business owned by a member of the board of directors was paid $24,551 for providing contracted administrators to the School. The board member served as a contracted principal/administrator. No balance remained payable as of June 30, 2011.

The School is related to another not-for-profit charter school through common board members. During the year ended June 30, 2011, the School paid $61,075 in startup costs for the related organization to begin operations effective July 2011. The entire balance of $61,075 remains outstanding as of June 30, 2011, and is presented as due from related party on the Statement of Financial Position.

NOTE 10 – DESIGNATED UNRESTRICTED NET ASSETS

Classroom Site Fund – In June of 2000, the Arizona Legislature created a Classroom Site Fund (CSF) to be administered by the Arizona Department of Education (ADE). The CSF was created to provide funding to school districts and charter schools for designated purposes. The measure (Proposition 301) was approved by the voters of Arizona and was implemented after May 31, 2001. Proposition 301 authorizes the State to levy and collect 0.60% sales tax for educational purposes. The ADE administers and allocates CSF funds to the School based on student count and other factors specified by statute. The School must allocate funding from CSF according to the following statutory parameters:

- 40% of the funds must be used for performance based teacher compensation increases and teacher employment related expenses;
- 40% of the funds must be used for maintenance and operations purposes including class-size reduction, teacher compensation increases, AIMS intervention programs, teacher development, dropout prevention programs, and teacher liability insurance premiums;
- 20% of the funds must be used for teacher base salary increases and employment related expenses.

The CSF funds are nonreverting; therefore unspent monies at fiscal year end may be used in future years. However restrictions placed on the original allocation of revenues apply in future years. Therefore the unexpended balance must be carried forward in each of the three categories.

NOTE 11 – CONCENTRATIONS

The School receives a substantial amount of its support from the state government agencies of Arizona. If the State and its agencies significantly reduced the level of support provided to the School it would have a material effect on the School's operations. Management is aware of the concentration and its potential impact. If any reduction did occur, management would take action as appropriate to limit the effect on its programs.

NOTE 12 – SUBSEQUENT EVENTS

Subsequent events have been evaluated through February 10, 2012, and that date corresponds with the date the financial statements were available to be issued.

Effective July 1, 2011, the School ceased operating the Scottsdale campus, and it is currently being operated by a related not-for-profit organization. The building lease (Note 4) for the campus has been assigned to the related organization. Therefore, the future minimum lease payments, included in Note 4, for the fiscal years ending June 30, 2012, 2013 and 2014 of $199,411, $209,382, and $201,530, respectively, are no longer obligations of P.L.C. Charter Schools.

SINGLE AUDIT SECTION

Lorenzo, PLC
Certified Public Accountant

Anthony Lorenzo, CPA

Member of American Institute of Certified Public Accountants
Member of Arizona State Society of Certified Public Accountants

Report on Internal Control Over Financial Reporting And On Compliance And Other Matters Based On An Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

Board of Directors
P.L.C. Charter Schools

We have audited the financial statements of P.L.C. Charter Schools (School), as of and for the year ended June 30, 2011, and have issued our report thereon dated February 10, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the School's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the School's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the School's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the School's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the School's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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Board of Directors
P.L.C. Charter Schools

This report is intended solely for the information and use of the board of directors, management, the Arizona State Board for Charter Schools and the State of Arizona, Department of Education, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Lorenzo, PLC

Lorenzo, PLC
Gilbert, Arizona
February 10, 2012

Lorenzo, PLC
Certified Public Accountant

Anthony Lorenzo, CPA

Member of American Institute of Certified Public Accountants
Member of Arizona State Society of Certified Public Accountants

Report on Compliance With Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance With *OMB Circular A-133*

Board of Directors
P.L.C. Charter Schools

Compliance

We have audited P.L.C. Charter Schools (School) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the School's major federal programs for the year ended June 30, 2011. The School's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the School's management. Our responsibility is to express an opinion on the School's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States; and OMB Circular A-133, *Audit of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about P.L.C. Charter School's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of P.L.C. Charter Schools' compliance with those requirements.

In our opinion, P.L.C. Charter Schools complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011.

Internal Control Over Compliance

Management of the School is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the School's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of P.L.C. Charter School's internal control over compliance.

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A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of management of P.L.C. Charter Schools, the School's board of directors, the Arizona Department of Education, and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

Lorenzo, PLC

Lorenzo, PLC
Gilbert, Arizona
February 10, 2012

P.L.C. CHARTER SCHOOLS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
JUNE 30, 2011

Federal Grantor/Pass-Through Grantor/Program Title	CFDA Number	Pass-Through Grantor's Number	Expenditures
U.S. Department of Education			
Passed through the Arizona Department of Education			
Special Education Cluster			
IDEA-Education of Children with Disabilities-Part B, Sec 611	84.027A	H027A100007	$ 147,895
IDEA Special Ed Recovery Act	84.391	H391A090007	50,648
Total Special Education Cluster			198,543
Title II Cluster			
Title II Part D – Enhancing Ed Thru Technology	84.318X	S318X090003	1,810
Education Technology State Grants (ARRA)	84.386	S386A090003	664
Total Title II Cluster			2,474
ARRA State Fiscal Stabilization Fund Distribution	84.394	ISA GOER-FY2010-506-E	57,167
ARRA Education Jobs Fund	84.410*	ISA OER-11-ISA-EJ-001	216,390
Title I-A Improving Basic Programs	84.010*	S010A090003	350,728
Title II-A - Improving Teacher Quality	84.367A	S367A090049	24,500
Title III English Language Acquisition	84.365A	S365A090003	33,853
Total U.S. Department of Education			883,655
Total Expenditures of Federal Awards			$ 883,655

* Denotes a major program

See accompanying notes to schedule

P.L.C. CHARTER SCHOOLS
NOTES TO SCHEDULE OF EXPENDITURES
OF FEDERAL AWARDS
JUNE 30, 2011

NOTE 1 – Basis of Accounting

The accompanying schedule of expenditures of federal awards includes the federal grant activity of P.L.C. Charter Schools, and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

NOTE 2 - Cluster of Programs

OMB Circular A-133 defines a cluster of programs as a grouping of closely related federal programs that share common compliance requirements. A cluster of programs is considered one program for determining major programs. The following programs were considered a cluster for the purposes of our audit.

Program	CFDA #
Title II Cluster	
Title II Part D-Enhancing Ed Thru Technology	84.318X
Education Technology State Grants (ARRA)	84.386
Special Education Cluster	
IDEA-Education of Children with Disabilities-Part B, Sec 611	84.027A
IDEA Special Ed Recovery Act	84.391

P.L.C. CHARTER SCHOOLS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
SUMMARY OF AUDITOR'S RESULTS
FOR THE YEAR ENDED JUNE 30, 2011

FINANCIAL STATEMENTS

Type of auditor's report issued:	Unqualified
Were significant deficiencies disclosed by the audit of the financial statements?	NO
Is any significant deficiency in internal control a material weaknesses?	NO
Any noncompliance which is material to the financial statements?	NO

FEDERAL AWARDS

Were significant deficiencies in internal control over major programs disclosed by the audit of the financial statements?	NO
Is any significant deficiency reported for any major program a material weaknesses?	NO
Type of auditor's report issued:	Unqualified
Any audit findings disclosed which are required to be reported under OMB Circular A-133 (§ .510(a))?	NO

Major program:

Program	CFDA#
Title I-A Improving Basic Programs	84.010
ARRA Education Jobs Fund	84.410

Dollar threshold used to distinguish between Type A and Type B programs:	$300,000
Low risk auditee?	NO

FINANCIAL REPORTING
REFERENCE: 2010 C-1
AUDIT YEAR: JUNE 30, 2010

CONDITION
Not unlike other not-for-profit organizations of similar size, the School does not have the ability to prepare financial statements in accordance with generally accepted accounting principles (GAAP), or review them in order to prevent or detect misstatements. Consequently, the School did not have adequate controls and procedures in place to ensure accurate financial reporting. The following accounting errors were identified:

1. Accrued payroll of $35,993 related to classroom site fund performance pay was not accrued as of June 30, 2010.
2. Interest earned on cash with trustee of $33,235 was not recorded. Additionally, interest expense was understated by that same amount. The trustee nets the interest earned with the interest expense, thereby reducing the cash payment PLC needs to make to the trustee. This noncash transaction which occurs monthly was not recorded.
3. Purchases of multiple equipment items totaling $40,339 were capitalized as assets that did not meet the School's capitalization policy threshold.

STATUS
Corrected

P.L.C. CHARTER SCHOOLS, INC.
DEBT SERVICE COVERAGE RATIO
JUNE 30, 2011

Total Bonds	$ 12,325,000
Debt Service (Fiscal Year 2010-2011)	955,460
Pledged Revenues	
State Assistance	5,957,246
Federal/State Grants	873,457
Contributions	26,622
Preschool/before and after care	4,320
Food service sales	16,013
Rentals	15,439
School activities	91,041
Miscellaneous	91,745
Total Pledged Revenues	7,075,883
General Operating Expenses	
Program Services	6,445,889
Management and General	372,795
Total Operating Expenses	6,818,684
Less Debt Service Interest	(780,460)
Less Depreciation and Amortization	(497,069)
Net Operating Expenses	5,541,155
Net Income Available for Debt Service	1,534,728
Divided by Debt Service	955,460
Debt Service Coverage Ratio	1.61

P.L.C. CHARTER SCHOOLS
STATEMENT OF ACTIVITIES
JUNE 30, 2011

REVENUES	South Mountain	Estrella Mountain	Scottsdale	Administration	Total
State equalization	$ 713,066	$ 4,179,488	$ 785,471		$ 5,678,025
Classroom site fund	34,708	171,759	33,689		240,155
Instructional improvement fund	5,397	28,904	4,764		39,066
State and Federal grants	124,108	697,147	52,202		873,457
Contributions	54	4,042	22,526		26,622
Student activities and events	2,798	8,878	79,364		91,041
Extracurricular tax credit	807	5,621	13,280		19,708
Rental income	-	12,663	2,776		15,439
Food service sales	64	130	15,820		16,013
Miscellaneous	7,731	19,676	68,658		96,065
Total Revenue and Other Support	888,733	5,128,308	1,078,550	-	7,095,590
EXPENSES					
Program services	903,714	4,349,063	912,028	288,839	6,453,644
Management and general	13,901	88,712	4,096	266,086	372,795
Total Expenses	917,615	4,437,775	916,124	554,925	6,826,439
Increase in Net Assets	(28,883)	690,532	162,427	(554,925)	269,152
Beginning Net Assets (Deficit)					(567,059)
Ending Net Assets (Deficit)					$ (297,907)