

**Wesley International Academy, Inc.  
Audited Financial Statements  
June 30, 2012**

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## INDEPENDENT AUDITORS' REPORT

To the Board of Directors  
Wesley International Academy, Inc.  
Atlanta, Georgia

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Wesley International Academy, Inc. ("the School"), a component unit of the Atlanta Public School District as of and for the year ended June 30, 2012, which collectively comprise the School's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the School's management. Our responsibility is to express an opinion on these basic 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 of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosure 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 respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the School as of June 30, 2012 and the respective changes in financial position for the year then ended in conformity with auditing standards generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated August 24, 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, 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 the 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.

The management's discussion and analysis and budgetary comparison information are not required parts of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted primarily of inquiries of management regarding the method of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our Audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the School's basic financial statements. The accompanying supplemental information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. The supplemental information has not been subjected to the auditing procedures applied in the auditing of the financial statements and, accordingly, we express no opinion on them.

*Bambo Sonaike CPA, LLC*

August 24, 2012

# Wesley International Academy, Inc.

## Management Discussion and Analysis

### As of June 30, 2012

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As management of Wesley International Academy, Inc. (the "School"), we offer readers of the School's financial statement this narrative overview and analysis of the financial activities of the School for the fiscal year ended June 30, 2012 to (a) assist the reader in focusing on significant financial issues, (b) provide an overview and analysis of the School's financial activities, (c) identify changes in the Schools financial position, (d) identify material deviations from the approved budget, and (e) highlight significant issues in individual funds.

Because the information contained in the Management's Discussion and analysis (MD&A) is intended to highlight significant transaction, events, and conditions, it should be considered in conjunction with the Basic Financial Statements found on pages 8 through 13.

#### **Financial highlights**

- At the end of the current fiscal year, unassigned fund balance for the general fund was \$355,936.
- The assets of the School exceeded its liabilities at the close of the most recent fiscal year by \$324,263 (net assets).
- At the end of the current fiscal year, the note payable had an ending balance of \$232,670.

#### **Overview of the financial statements**

This discussion and analysis is intended to serve as an introduction to the School's basic financial statements. The School's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

#### **Government-wide financial statements**

The government-wide financial statements are designed to provide readers with a broad overview of the School's finances, in a manner similar to a private-sector business.

The statement of net assets presents information on all the School's asset and liabilities, with the difference between the two reported as net assets. Over time, increases of decreases in net assets may serve as a useful indicator of whether the financial position of the School is improving or deteriorating.

The Statement of activities presents information showing how the School's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected funding and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the School that are principally supported by district, state, and federal funding (governmental activities). Basic instructions, school administration, and food services are examples of the School's governmental activities.

Wesley International Academy, Inc.  
 Management Discussion and Analysis  
 As of June 30, 2012

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The government-wide financial statements include only the School itself, which is a component unit of the Atlanta Public Schools, Georgia. The Atlanta Public Schools, Georgia includes the operations of the School in their operational results.

The government-wide financial statements can be found on pages 8 and 9 of this report. Comparison of the condensed statement of net assets and the statement of activities are provided below.

	<b>Governmental Activities</b>		
	<b>2012</b>	<b>2011</b>	<b>Variance</b>
<b>ASSETS</b>			
Current and other assets	\$ 779,854	\$ 849,773	\$ (69,919)
Capital assets, <sup>(net)</sup>	156,377	93,248	63,129
Total assets	<u>936,231</u>	<u>943,021</u>	<u>(6,790)</u>
<b>LIABILITIES</b>			
Current and other liabilities	379,298	374,496	4,802
Long term liabilities	232,670	232,670	-
Total liabilities	<u>611,968</u>	<u>607,166</u>	<u>4,802</u>
<b>NET ASSETS</b>			
Investment in capital assets, <sup>(net)</sup>	156,377	93,248	63,129
Unrestricted	167,886	242,607	(74,721)
Total net assets	<u>\$ 324,263</u>	<u>\$ 335,855</u>	<u>\$ (11,592)</u>

Wesley International Academy, Inc.  
 Management Discussion and Analysis  
 As of June 30, 2012

	<b>Governmental Activities</b>		
	<b>2012</b>	<b>2011</b>	<b>Variance</b>
Revenues:			
State passed through local school district	\$ 5,921,534	\$ 6,171,331	\$ (249,797)
Charges for services	267,625	262,854	4,771
Operating grants and contributions	421,027	191,751	229,276
Other revenues	132,490	125,458	7,032
Total revenues	<u>6,742,676</u>	<u>6,751,394</u>	<u>(8,718)</u>
Expenses:			
Basic instruction	3,522,017	3,033,907	(488,110)
Guidance services	12,663	6,532	(6,131)
Health services	542	157	(385)
Psychological services	7,125	25,568	18,443
Media services	2,743	3,435	692
Staff development	50,557	34,591	(15,966)
Board of directors	12,789	7,000	(5,789)
School administration	1,447,351	1,465,077	17,726
Food services	197,197	182,623	(14,574)
Central services	1,058	1,370	312
Operation of plant	1,394,083	993,260	(400,823)
Community services	106,142	91,404	(14,738)
Interest on long-term debt	-	24,788	24,788
Total expenses	<u>6,754,267</u>	<u>5,869,712</u>	<u>(884,555)</u>
Change in net asset	<u>\$ (11,591)</u>	<u>\$ 881,682</u>	<u>\$ (893,273)</u>

**Fund financial statements**

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities of objectives. The School, like state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All the operations of the School are presented in governmental funds only.

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the governmental-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar

# Wesley International Academy, Inc.

## Management Discussion and Analysis

### As of June 30, 2012

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information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund financial statements provide reconciliation to facilitate this comparison between governmental funds and governmental activities.

The School maintains individual government funds. Information is presented separately in the governmental funds balance sheet and in the governmental fund statement of revenues, expenditures and changes in fund balances for the general fund, which is considered to be the School's only major fund.

The basic governmental fund financial statements can be found on pages 10 through 13 of this report.

#### **Notes to the financial statements**

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found starting on page 14 of this report.

As noted earlier, net assets may serve over time as a useful indicator of the School's financial position. In the case of the School, assets exceed liabilities by \$324,263 for the year ended June 30, 2012.

A portion of the School's net assets reflects its investment in capital assets (e.g., furniture, fixtures and equipment, and leasehold improvements), less any related debt used to acquire those assets that is still outstanding. The School uses these capital assets to provide services to students; consequently, these assets are not available for future spending. Although the School's investment in its capital assets is reported net of debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

#### **Financial analysis of the Government's Funds**

As noted previously, the School uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The focus of the School's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the School's financing requirements. In particular, unassigned fund balance may serve as a useful measure of a School's net resources available for spending at the end of the fiscal year. The general fund is the main operating fund of the School. At the end of the current fiscal year, unassigned fund balance of the general fund was \$355,936.

#### **General Fund Budgetary Highlights**

The School's budgeted revenues exceeded actual revenues by \$69,139 due mainly to lower funding being allocated to the School from the state and local school district than what was initially expected. Actual expenditures exceeded budgeted expenditures by \$30,082 due mainly to the Schools capital expenditures being higher than budgeted.

Wesley International Academy, Inc.  
Management Discussion and Analysis  
As of June 30, 2012

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**Capital Asset**

The School's investment in capital assets for its governmental type activities as of June 30, 2012, amounts to \$156,377. This investment in capital assets includes furniture, fixtures and equipment, and leasehold improvements. Additional information on the School's capital assets can be found in Note 4.

**Debt Administration**

The School's note payable at June 30, 2012 totaled \$232,670. Additional information on the School's long-term obligations can be found in Note 5.

Wesley International Academy, Inc.  
Statement of Net Assets  
As of June 30, 2012

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	<u>Governmental Activities</u>
<b>ASSETS</b>	
Cash and cash equivalents <sup>(note 2)</sup>	\$ 709,032
Prepays	44,620
Due from School District	26,202
Capital assets <sup>(net) (note 4)</sup>	<u>156,377</u>
Total assets	<u><u>936,231</u></u>
<b>LIABILITIES AND NET ASSETS</b>	
<b>LIABILITIES</b>	
Accounts payable & accrued expenses	128,104
Due to operating company <sup>(note 8)</sup>	240,958
Other liabilities <sup>(note 8)</sup>	10,236
Notes payable <sup>(note 5) (note 7)</sup>	<u>232,670</u>
Total liabilities	<u>611,968</u>
<b>NET ASSETS</b>	
Investment in capital assets, net of related debt	156,377
Unrestricted	<u>167,886</u>
Total net assets	<u><u>\$ 324,263</u></u>

The accompanying notes are an integral part to these financial statements.

Wesley International Academy, Inc.  
Statement of Activities  
For the period ended June 30, 2012

<i>Functions / Programs</i>	Expenses	Program revenues			Net (Expenses) Revenue and Changes in Net Assets
		Charges for services	Operating Grants and Contributions	Capital Grants and Contributions	
Basic instruction	\$ 3,522,017	\$ 38,627	\$ 276,248	\$ -	\$ (3,207,142)
Guidance services	12,663	-	-	-	(12,663)
Health services	542	-	-	-	(542)
Psychological services	7,125	-	-	-	(7,125)
Media services	2,743	-	-	-	(2,743)
Staff development	50,557	-	-	-	(50,557)
Board of directors	12,789	-	-	-	(12,789)
School administration	1,447,351	-	-	-	(1,447,351)
Food services	197,197	47,076	144,779	-	(5,342)
Central services	1,058	-	-	-	(1,058)
Operation of plant	1,394,083	-	-	-	(1,394,083)
Community services	106,142	181,922	-	-	75,780
Interest on long-term debt	-	-	-	-	-
Total governmental activities	<u>\$ 6,754,267</u>	<u>\$ 267,625</u>	<u>\$ 421,027</u>	<u>\$ -</u>	<u>\$ (6,065,615)</u>

General revenues:	
State passed through local school district	5,921,534
Other revenue	132,490
Total general revenues	<u>6,054,024</u>
Change in net assets	(11,591)
Net assets at beginning of the year	<u>335,854</u>
Net assets at end of the year	<u>\$ 324,263</u>

The accompanying notes are an integral part to these financial statements.

Wesley International Academy, Inc.  
Statement of Financial Position- Governmental Funds  
As of June 30, 2012

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	<u>General Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>CURRENT ASSETS</b>			
Cash and cash equivalents <sup>(note 2)</sup>	\$ 709,032	\$ -	\$ 709,032
Prepays	44,620	-	44,620
Due from School District	-	26,202	26,202
Due from other funds	26,202	-	26,202
Total assets	<u>779,854</u>	<u>26,202</u>	<u>806,056</u>
<b>LIABILITIES</b>			
Accounts payable & accrued expenses	128,104	-	128,104
Due to operating company <sup>(note 8)</sup>	240,958	-	240,958
Other liability <sup>(note 8)</sup>	10,236	-	10,236
Due to other funds	-	26,202	26,202
Total liabilities	<u>379,298</u>	<u>26,202</u>	<u>405,500</u>
<b>FUND BALANCE</b>			
Unassigned	355,936	-	355,936
Non-spendable	44,620	-	44,620
Total liabilities and fund balance	<u>\$ 779,854</u>	<u>\$ 26,202</u>	<u>\$ 806,056</u>

The accompanying notes are an integral part to these financial statements.

Wesley International Academy, Inc.  
Reconciliation of Statement of Financial Position – Governmental Funds to  
Statement of Net Assets  
As of June 30, 2012

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Fund balances - total governmental funds \$ 400,556

The net assets reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds. Those assets consist of:

Leasehold improvements <sup>(net)</sup>	79,012
Construction in progress	63,509
Furniture, fixtures and equipment <sup>(net)</sup>	13,856
Total capital assets	<u>156,377</u>

Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds. Those liabilities consist of:

Notes payable	<u>(232,670)</u>
Total long-term liabilities	(232,670)

Total net assets of governmental activities \$ 324,263

The accompanying notes are an integral part to these financial statements.

Wesley International Academy, Inc.  
Statement of Revenue, Expenditures, and Changes in Fund Balances –  
Governmental Funds  
For the period ended June 30, 2012

Revenues:	General Fund	Other Governmental Funds	Total Governmental Funds
Federal passed through state	\$ -	\$144,779	\$ 144,779
Federal passed through local school district	-	102,098	102,098
State passed through local school district	5,921,534	-	5,921,534
Other revenues	527,188	47,076	574,264
Total revenue	6,448,722	293,953	6,742,675
Expenses:			
Basic instruction	3,404,313	101,930	3,506,243
Guidance services	12,663	-	12,663
Health services	542	-	542
Psychological services	7,125	-	7,125
Media services	2,743	-	2,743
Staff development	49,045	1,512	50,557
Board of directors	12,789	-	12,789
School administration	1,447,351	-	1,447,351
Food services	-	197,197	197,197
Central services	1,058	-	1,058
Operation of plant	1,394,083	-	1,394,083
Community services	106,142	-	106,142
Fixed capital outlay	78,903	-	78,903
Debt service:			
Principal	-	-	-
Interest	-	-	-
Issuance costs	-	-	-
Total expenditures	6,516,757	300,639	6,817,396
Excess (deficiency) of revenues over (under) expenditures	(68,035)	(6,686)	(74,721)
Other financing sources:			
Transfers in	(6,686)	-	(6,686)
Transfers out	-	6,686	6,686
Net change in fund balance	(74,721)	-	(74,721)
Fund balances at beginning of the year	475,277	-	475,277
Fund balances at end of the year	\$ 400,556	\$ -	\$ 400,556

The accompanying notes are an integral part to these financial statements.

Wesley International Academy, Inc.  
 Reconciliation of the Statement of Revenue, Expenditures, and Changes in  
 Fund Balances to the Statement of Activities  
 For the period ended June 30, 2012

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Net change in fund balances- total government funds \$ (74,721)

The change in net assets reported for governmental activities in the statement of activities are different because:

Governmental funds report fixed capital outlays as expenditures. However, in the statement of activities, the cost of those assets are allocated over their estimated useful lives and reported as depreciation expense.

Total fixed capital outlay	78,903
Less depreciation	<u>(15,774)</u>
Total	63,129

The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. This amount is the net effect of these differences in the treatment of long-term debt.

Total paydown of long-term debt	<u>-</u>
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Change in net assets of governmental activities	<u><u>\$ (11,591)</u></u>
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The accompanying notes are an integral part to these financial statements.

Wesley International Academy, Inc.  
Notes to Financial Statements  
June 30, 2012

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**1. Organization**

Wesley International Academy, Inc. (a Georgia Nonprofit Corporation) (the School), provides educational services to students in grades K-8. The governing body of the School is the Board of Directors, which is currently comprised of nine members. Information presented in these financial statements only reflects the financial position and activities of the School.

The general operating authority of the School is contained in O.C.G.A. (Official Code of Georgia Annotated) 20-2-2060, Georgia Statutes. The School operates under a charter of the sponsoring school district, which is the Atlanta Public Schools, Georgia (the "District"). The current charter is effective until June 30, 2013. At the end of the charter's term, the District may choose not to renew the charter under the grounds specified in the underwriting of the charter. In this case, the District must notify the School at least 90 days prior to the charter's expiration. During the term of charter, the District may terminate the charter if good cause is evident. The School is considered a component unit of the Atlanta Public Schools, Georgia.

**2. Significant accounting policies**

**Measurement focus, basis of accounting, and financial statement presentation**

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recognized in the period earned and expenses are recognized when a liability is incurred.

All governmental fund financial statements are reported using a current financial resources measurement that focuses on a modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues, except for certain grant revenues, are recognized in the accounting period in which they become both measurable and available to finance expenditures of the current period. Available means collectible within the current period, or soon enough thereafter to be used to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. When grant terms provide that the expenditure of resources is the prime factor for determining eligibility for federal, state, and other grant resources, revenue is recognized at the time the expenditure is made.

Under the modified accrual basis of accounting, expenditures are generally recorded when the related fund liability is incurred. However, principal and interest on general long-term debt is recorded as expenditures only when payment is due.

The School's financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board. Accordingly, the financial statements are organized on the basis of funds. A fund is an accounting entity having a self-balancing set of accounts for recording assets, liabilities, fund equity, revenues, expenditures, and other financing sources and uses.

Resources are allocated to and accounted for in individual funds based on the purpose for which they are to be spent and the means by which spending activities are controlled. The School reports the following major governmental fund:

Wesley International Academy, Inc.  
Notes to Financial Statements  
June 30, 2012

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General Fund - the general operating fund of the School. It is used to account for all financial resources not required to be accounted for in another fund.

**Fund Balance**

The School implemented Government Accounting Standards Board (GASB) Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions as of July 1, 2010. This new standard changed the overall definitions and classifications of governmental fund balance.

Fund equity at the governmental fund financial reporting level is classified as "fund balance". Fund equity for all other reporting is classified as "net assets". Generally, fund balance represents the difference between the assets and liabilities under the current financial resources measurement focus of accounting. In the fund financial statements, governmental funds report fund balance classifications that comprise a hierarchy based primarily on the extent to which the School is bound to honor constraints on the specific purposes for which amounts in those funds can be spent. The School's fund balances are classified as follows:

Non-spendable Fund Balance – These are amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact.

Restricted Fund Balance – These are amounts with limitations imposed on their use by external restrictions imposed by creditors, grantors, or laws or regulations of other governments.

Committed Fund Balance – These are amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the School's highest level of decision-making authority.

Assigned Fund Balance – These are amounts that are constrained by the School's intent to be used for specific purposes, but are neither restricted nor committed.

Un-assigned Fund Balance – These are amounts that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the general fund. This is the residual classification for the general fund.

**Cash and cash equivalent**

Cash consists of cash on hand at the School and a checking account held at the financial institution. The School does not have any cash equivalents.

**Concentrations of credit risks**

*Custodial credit risk* - Custodial credit risk is the risk that in the event of bank failure, the School's deposits may not be returned to it. The School does not have a written policy regarding custodial credit risk for deposits. At June 30, 2012, the School's deposits had a carrying balance of \$709,032.

Wesley International Academy, Inc.  
Notes to Financial Statements  
June 30, 2012

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**Capital assets**

Capital assets are reported in the applicable governmental columns on the government-wide financial statements. Capital assets are defined by the School as assets with an initial individual cost of more than \$2,500 and an estimated useful life of more than 1 year. Such assets are recorded at historical cost. Donated capital assets are recorded at their estimated fair market values at the date of donation.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Capital assets of the School are depreciated using the straight-line method over the following estimated useful lives:

<u>Asset Class</u>	<u>Estimated Useful Life (years)</u>
Furniture, fixtures and equipment	3
Leasehold improvements	7-10

**Long-term obligations**

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net assets. In the fund financial statements, governmental funds report the face amount of debt issued as other financing sources and payments of debt principal as other financing uses.

**Revenue sources and recognition**

Revenues for current operations are received primarily from the State of Georgia through the District pursuant to the funding provisions included in the School's charter. In accordance with the funding provisions of the charter and Section 20-2-2060, Georgia Statutes, the School reports the number of full-time equivalent (FTE) students and related data to the District. Under the provisions of Section 20-2-2060, Georgia Statutes, the District reports the number of FTE students and related data to the Georgia Department of Education (GDOE) for funding. Funding for the School is adjusted during the year to reflect revised calculations by the GDOE under the Georgia Education Finance Program and actual weighted FTE students reported by the School during designated FTE student survey periods.

The School receives federal awards for the enhancement of various educational programs. This assistance is generally based on applications submitted to and approved by various granting agencies. These federal awards may have eligibility requirements whereby the issuance of grant funds is withheld until qualifying expenditures are incurred. Revenues for these awards are recognized only to the extent that eligible expenditures have been incurred.

Additionally, other revenues may be derived from various fundraising activities and certain other programs.

**Use of estimates**

The process of preparing financial statements in conformity with U.S. generally accepted accounting principles requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenses. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

**Income taxes**

The School is a charter school under the District, which qualifies as a tax exempt organization, and is, therefore, exempt from income tax. In addition, the School has applied for income tax exemption with Internal Revenue Service and its application is in pending status. Accordingly, no tax provision has been made in the accompanying financial statements.

**3. Government-wide and fund financial statements**

The government-wide financial statements consist of a statement of net assets and a statement of activities. These statements report information on all of the non-fiduciary activities of the School. As part of the consolidation process, all interfold activities are eliminated from these statements. Both statements report only governmental activities as the School does not engage in any business type activities.

Net assets, the difference between assets and liabilities, as presented in the statement of net assets, are subdivided into three categories: amounts invested in capital assets, restricted net assets, and unrestricted net assets. Net assets are reported as restricted when constraints are imposed on the use of the amounts either externally by creditors, grantors, contributors, or laws or regulations of other governments, or enabling legislation.

The statement of activities presents a comparison between the direct and indirect expenses of a given function and its program revenues, and displays the extent to which each function contributes to the change in net assets for the fiscal year. Direct expenses are those that are clearly identifiable to a specific function. Indirect expenses are costs the School has allocated to various functions. Program revenues consist of charges for services, operating grants and contributions, and capital grants and contributions. Charges for services refer to amounts received from those who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment. Grants and contributions consist of revenues that are restricted to meeting the operational or capital requirements of a particular function. Revenues not classified as program revenues are reported as general revenues.

Separate fund financial statements report detailed information about the School's governmental funds. The focus of the governmental fund financial statements is on major funds. Therefore, major funds are reported in separate columns on the fund financial statements. Reconciliation is provided that converts the results of governmental fund accounting to the government-wide presentation.

Wesley International Academy, Inc.  
Notes to Financial Statements  
June 30, 2012

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**4. Capital assets**

Capital assets activity for the year ended June 30, 2012 was as follows:

	Balance at July 1, 2011	Additions	Dispositions	Balance at June 30, 2012
Non-depreciable assets:				
Construction in progress	\$ -	\$ 63,509	\$ -	\$ 63,509
Total non-depreciable assets	-	63,509	-	63,509
Capital assets depreciated:				
Furniture, fixtures and equipment	115,867	15,394	-	131,261
Leasehold improvements	92,181	-	-	92,181
Total assets depreciated	208,048	15,394	-	223,442
Less accumulated depreciation:				
Furniture, fixtures and equipment	(114,800)	(2,605)	-	(117,405)
Leasehold improvements	-	(13,169)	-	(13,169)
Total accumulated depreciation	(114,800)	(15,774)	-	(130,574)
Total governmental activities Capital assets, net	<u>\$ 93,248</u>			<u>\$ 156,377</u>

Depreciation expense for the year ended June 30, 2012, in the amount of \$15,774 was recorded in the statements of activities.

**5. Long-term debt**

*Start-up note.* In June 2007, the School entered into a promissory note agreement with the operating company to cover costs associated with opening the School for \$250,000. The principal and interest payments are \$2,500 per month for a term of 20 years. The interest rate is calculated at 10.5%. The note payable balance as of June 30, 2012 was \$232,670. See note 8 for additional information.

**6. Concentrations**

**Revenue sources**

As stated in **Note 2**, the School receives revenues for current operations primarily from the State of Georgia through the District. The following is a schedule of revenue sources and amounts:

Wesley International Academy, Inc.  
Notes to Financial Statements  
June 30, 2012

Sources	2012 Amounts
State sources passed through the Atlanta Public Schools District , Georgia:	
Quality basic education (QBE)	\$ 5,921,534
Other grants	76,814
	<u>5,998,348</u>
Federal sources passed through the Atlanta Public Schools District , Georgia:	
National School Lunch Program	144,779
Title 1 funding	102,098
Education Job Funds	96,636
	<u>343,513</u>
Other revenue:	
Before/after care	163,593
Food service	47,076
Fundraising and donations	89,734
Field trip fees	38,627
Summer camp revenue	18,328
Other local revenue	43,456
	<u>43,456</u>
Total revenues	<u><u>\$ 6,742,675</u></u>

**7. Commitments and contingencies**

**Operating agreement**

The School entered into an operating agreement on September 15, 2010, effective September 15, 2010, with Imagine Schools, Inc. (the “operating company”) for management services effective through the duration of the School’s charter, but may not extend more than five years. The agreement requires an indirect cost allocation, as defined in the agreement, of 12% of education revenues received, to be paid monthly in an amount equal to one-twelfth of the annual budgeted amount. Shortfall of the indirect cost allocation is to be immediately paid to the operating company and any overpayment of the indirect cost allocation for the previous fiscal year is to be applied first to repayment of any advances made by the operating company to the School and then to the indirect cost allocation due for the current fiscal year. For the year ending June 30, 2012 total indirect cost allocation recorded in the statement of activities was \$710,584. Beginning on February 1, 2012 until the June 30, 2012, the School did not make payments for the indirect cost allocations as such, the outstanding balance of indirect cost allocation recorded on the statement of net assets as of June 30, 2012 was \$308,542.

The School may request advances from the operating company to pay for expenses. The agreement further requires repayment of advances from the operating company plus interest thereon from the date the funds are advanced at “Prime Rate”. “Prime Rate” is the rate published by the Wall Street Journal, Money Rates section and adjusted on July 1 of each year

Wesley International Academy, Inc.  
Notes to Financial Statements  
June 30, 2012

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to the Prime Rate reported on the immediately preceding May 31. There are no advances outstanding at June 30, 2012, refer to Note 8 for additional information.

The School is also required to reimburse the operating company on a dollar for dollar basis for any operating expenses incurred by the operating company on behalf of the School. There was no operating expense outstanding at June 30, 2012. Refer to Note 8 for additional information.

As of June 30, 2012, the School has terminated the services of the operating company and is currently in negotiations with the operating company for a settlement.

**Federal and state grants**

The School participates in federal and state grant programs, which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the School has not complied with the rules and regulations governing grants, refunds of any money received may be required and the collectability of any related receivable at June 30, 2012 may be impaired. In the opinion of the School, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore no provision has been recorded in the accompanying financial statements for such contingencies.

**Facilities and equipment**

Beginning July 1, 2010 and ending on June 30, 2012, the School has committed payments for the School's facility use to an affiliated company of the operating company. The terms of the lease agreement requires the School to pay an annual base rate of 15% of the total revenue received by or on behalf of the Charter School for the operation thereof. Total rent expense recorded in the statement of activities for the year ended June 30, 2012 was \$888,230. As of June 30, 2012, there was \$10,236 in outstanding facility lease payments due. The School has extended its current lease agreement for an additional year. See Note 11 for details.

The School has also committed to pay an equipment use fee to the operating company for certain equipment for the School. For the period ended June 30, 2012 equipment expense recorded in the statement of activities was \$40,996. As of June 30, 2012, the School has terminated the equipment lease agreement and purchased the equipments for \$36,445 as required by the equipment lease agreement.

**8. Related party**

**Due to/ (from) operating company**

The School has entered into multiple agreements with the operating company. The operating company is responsible for organizing, developing, managing, staffing, and operating the School. During the current year, the operating company charged indirect costs, as defined in the operating agreement, to the School for management services and certain equipment as described in Note 7. The due to / (from) operating company reflects activity for operating advances and certain expenses paid on behalf of the School.

The due to / (from) operating company consists of the following as of June 30, 2012:

Wesley International Academy, Inc.  
Notes to Financial Statements  
June 30, 2012

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	Management fees & services	Working capital	Due to (from)
Beginning balance	\$ -	\$ -	\$ -
Invoiced	868,322	-	868,322
Payments	(523,335)	-	(523,335)
Adjustments	(19,029)	-	(19,029)
Management contribution	-	(85,000)	(85,000)
Ending balance	<u>\$ 325,958</u>	<u>\$ (85,000)</u>	<u>\$ 240,958</u>

**Long-term debt**

As described in Note 5, the School has entered into a note payable agreement with the operating company in order to cover accumulated costs associated with opening the School prior to July 1, 2007. During the year ended June 30, 2012, the School ceased making payments on the promissory note to the operating company and is currently in negotiations with the operating company for a settlement.

**Facility lease**

Beginning July 1, 2010 and ending on June 30, 2012, the School has committed payments for the School's facility use to an affiliated company of the operating company. The terms of the lease agreement requires the School to pay an annual base rate of 15% of the total revenue received by or on behalf of the Charter School for the operation thereof. Total rent expense recorded in the statement of activities for the year ended June 30, 2012 was \$888,230. As of June 30, 2012, there was \$10,236 in outstanding facility lease payments due.

**9. Retirement plan**

Substantially all teachers, administrators, and non-instructional personnel of the School are members of Teachers Retirement System of Georgia ("TRS") a cost-sharing multiple-employer defined benefit public employee retirement system. TRS was created in 1943 by an act of the Georgia General Assemble and is administrated by a ten member board of Trustees. TRS is funded by a combination of employee, employer, and State of Georgia contributions. Benefits are established by State statute and provide retirement, death, long-term disability, survivor, and health insurance premium benefits.

Plan members are required to contribute 5.53 percent of their annual covered payroll and the School is required to contribute 10.28 percent of the covered payroll. The contribution requirements of plan members and the school are established and may be amended by the TRS board of trustees.

Wesley International Academy, Inc.  
Notes to Financial Statements  
June 30, 2012

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**10. Risk management**

The school is exposed to various risk of loss related to torts, theft of, damage to and destruction of assets; errors and omissions; general liabilities; and natural disaster for which the school carries commercial insurance.

**11. Subsequent events**

Effective July 1, 2012, the School signed a 1 year commitment for the use of its School facility at an annual base rent of \$612,000 and expiration date of June 30, 2013.

Wesley International Academy, Inc.  
(International Academy of Smyrna)  
Schedule of Revenue, Expenditures, and Changes in Fund Balances –  
Budget and Actual – General Fund  
For the period ended June 30, 2012

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Revenues:			
State passed through local school district	\$ 5,969,876	\$ 5,921,534	\$ (48,342)
Supplemental revenue	547,985	527,188	(20,797)
Total gross revenue	<u>6,517,861</u>	<u>6,448,722</u>	<u>(69,139)</u>
Expenses:			
Salaries and benefits	3,846,559	3,817,108	29,451
Direct educational expenses	217,394	225,217	(7,823)
General and administrative	428,085	409,573	18,512
Facility operating expense	334,772	339,582	(4,810)
Facility use fee	895,480	888,230	7,250
Capital expenditures	-	78,903	(78,903)
School operating expenses	<u>5,722,290</u>	<u>5,758,613</u>	<u>(36,323)</u>
Board expenses	48,000	47,560	440
Indirect cost allocation	716,385	710,584	5,801
Total expenses	<u>6,486,675</u>	<u>6,516,757</u>	<u>(30,082)</u>
Excess (deficiency) of revenues over (under) expenditures	31,186	(68,035)	(99,221)
Other financing sources:			
Transfers in	-	(6,686)	(6,686)
Net change in fund balance	<u>31,186</u>	<u>(74,721)</u>	<u>(105,907)</u>
Fund balances at beginning of the year	475,277	475,277	-
Fund balances at end of the year	<u>\$ 506,463</u>	<u>\$ 400,556</u>	<u>\$ (105,907)</u>

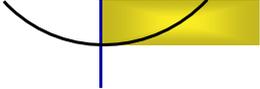
Wesley International Academy, Inc.  
Statement of Functional Expenses  
For the period ended June 30, 2012

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**1. Budgetary Information**

**Budgetary basis of accounting**

Annual budgets are adopted for the entire operations at the combined governmental level and may be amended by the board of directors (the "Board"). The budgets presented for the fiscal year ended June 30, 2012 have been amended according to Board procedures. Budgets are adopted in full accrual basis accounting. The legal level of budgetary control is the fund level.



**REPORT ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS  
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED  
IN ACCORDANCE WITH THE GOVERNMENT AUDITING STANDARDS**

To the Board of Directors  
Wesley International Academy, Inc.  
Atlanta, Georgia

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Wesley International Academy, Inc. ("the School"), a component unit of the Atlanta Public Schools, Georgia as of and for the year ended June 30, 2012, which collectively comprise the School's basic financial statements, and have issued our report thereon dated August 24, 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 of America.

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 a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity'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.

This report is intended solely for the information and use of management, others within the entity, the Board of Trustees, 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.

*Bambo Sonaike CPA, LLC*

August 24, 2012

## MANAGEMENT LETTER

To the Board of Directors  
Wesley International Academy, Inc.  
Atlanta, Georgia

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Wesley International Academy, Inc. ("the School") as of and for the year ended June 30, 2012, which collectively comprise the School's basic financial statements.

We issued our report on internal control over financial reporting and on compliance and other matters dated August 24, 2012. Disclosures in that report, if any, should be considered in conjunction with this management letter.

There are audited findings that are required to be reported by Government Auditing Standards. However, during our audit, we became aware of several matters that are opportunities for strengthening internal control and operating efficiency. We will review the status of our comments during our next audit engagement. We have already discussed many of these comments and suggestions with personnel at your organization. We will be pleased to discuss these comments in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

Our comments are summarized as follows:

### **Current Year Comments and Recommendations**

There were no comments or recommendations for the current year

### **Prior Year Comments and Recommendations**

There were no comments or recommendations for the prior year

This management letter is intended for the information of the School's management, and is not intended to be and should not be used by anyone other than these specified parties.

*Bambo Sonaike CPA, LLC*

August 24, 2012