

**BALERE, INC.**

INDEPENDENT AUDITOR'S REPORT

*for the fiscal year ended June 30, 2011*

***KING & WALKER, CPAs, PL***

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*Certified Public Accountants*

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# BALERE, INC.

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**KING & WALKER, CPAs, PL**  
*Certified Public Accountants*

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***Independent Auditor's Report***

Board of Directors  
Balere, Inc.  
Miami, Florida

We have audited the accompanying statement of financial position of the Balere, Inc. a non-profit organization as of and for the year ended 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 Balere, Inc.'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. 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 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.

As described in Note 1, Balere, Inc. operated a charter school under a charter school agreement with the Miami-Dade County Schools. This activity of Balere, Inc. was subject to a separate audit issued August 18, 2011. The financial statements of Balere, Inc., as mentioned above, combine the charter school activity with Balere, Inc.'s other non-profit activity.

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

The accompanying financial statements have been prepared assuming the entity will continue as a going concern as discussed in Note 7 to the financial statements. These conditions raise substantial doubt about its ability to continue as a going concern. Management's plans regarding those matters also are described in Note 7. The financial statements do not include any adjustment that might result from the outcome of this uncertainty.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedule of functional expenses on page 6 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Respectfully submitted,

*King & Walker, CPAs*

Lutz, Florida  
November 28, 2011

**BALERE, INC.**  
**STATEMENT OF FINANCIAL POSITION**  
**as of JUNE 30, 2011**

**ASSETS**

Current Assets:	
Cash and Cash Equivalents	\$ 80,826
Accounts Receivable	39,189
Other Assets	6,550
Total Current Assets	126,565
Capital Assets, net of accumulated depreciation	3,865,499
TOTAL ASSETS	\$ 3,992,064

**LIABILITIES AND NET ASSETS**

Current Liabilities:	
Accounts Payable & Accrued Expenses	\$ 43,569
Long-Term Liabilities:	
Promissory Notes Payable	136,804
Mortgages Payable	4,041,386
TOTAL LIABILITIES	4,221,759
Net Assets:	
Unrestricted	(229,695)
Total Net Assets	(229,695)
TOTAL LIABILITIES AND NET ASSETS	\$ 3,992,064

The Notes are an integral part of these financial statements.

**BALERE, INC.**  
**STATEMENT OF ACTIVITIES**  
**Year Ended JUNE 30, 2011**

	Unrestricted	Temporarily Restricted	Total
Support and Revenue:			
Program Service Fees	\$ 230,178	\$ -	\$ 230,178
Donated Services	51,192		51,192
Grants through Miami-Dade Schools	178,573		178,573
Per Student Funding through Miami-Dade Schools	1,780,180		1,780,180
Other	12,142		12,142
Total Support and Revenue	<u>2,252,265</u>	<u>-</u>	<u>2,252,265</u>
Expenses:			
Program Services	1,728,242		1,728,242
Support Services:			
Management & General	490,672		490,672
Fundraising	-		-
Total Support Services	<u>490,672</u>	<u>-</u>	<u>490,672</u>
Total Expenses	<u>2,218,914</u>	<u>-</u>	<u>2,218,914</u>
Increase in Net Assets	33,351	-	33,351
Net Assets - Beginning	(263,046)		(263,046)
Net Assets - End	<u>\$ (229,695)</u>	<u>\$ -</u>	<u>\$ (229,695)</u>

The Notes are an integral part of these financial statements.

**BALERE, INC.**  
**STATEMENT OF CASH FLOWS**  
**Year Ended JUNE 30, 2011**

<b>OPERATING ACTIVITIES:</b>	
Increase in Net Assets	\$ 33,351
Adjustments to reconcile increase in net assets to net cash provided/(used) by operating activities:	
Depreciation	143,924
(Increase)/decrease in:	
Accounts Receivable	(97,324)
Other Assets	(1,000)
Increase/(decrease) in:	
Accounts Payable & Accrued Expenses	<u>(38,596)</u>
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<u>40,355</u>
 <b>INVESTING ACTIVITIES:</b>	
Purchase of Capital Assets	<u>(2,579)</u>
<b>NET CASH USED BY INVESTING ACTIVITIES</b>	<u>(2,579)</u>
<b>INCREASE IN CASH AND CASH EQUIVALENTS</b>	37,776
CASH AND CASH EQUIVALENTS, beginning of year	<u>43,050</u>
CASH AND CASH EQUIVALENTS, end of year	<u><u>\$ 80,826</u></u>

The Notes are an integral part of these financial statements.



**BALERE, INC.**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
**Year Ended JUNE 30, 2011**

	Program	SUPPORT SERVICES		TOTAL
		Management and General	Fundraising	
Before & After Care Supplies	\$ 24,322	\$ -	\$ -	\$ 24,322
Depreciation	143,924			143,924
Interest	237,687			237,687
Office	20,242	10,000		30,242
Payroll Taxes	16,611	2,040		18,651
Professional Fees	7,640	689		8,329
Salaries and Benefits	177,901	23,275		201,176
Charter School Expenses	1,099,915	454,668		1,554,583
<b>TOTAL EXPENSES</b>	<b>1,728,242</b>	<b>490,672</b>	<b>-</b>	<b>2,218,914</b>

The Notes are an integral part of these financial statements.

**BALERE, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2011**

**1. DESCRIPTION OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES**

➤ **Reporting Entity**

The Balere, Inc. (Balere, Inc.) was incorporated June 2, 1999, and operates as a Florida non-profit corporation in accordance with Section 501(c)(3), of the Internal Revenue Code. The Balere, Inc. has been established to assist in the eradication of stereotypes and prejudices of other cultures by exposing children/students to the literature, craft, music, and cultures of others. Balere, Inc. operates a charter school under an agreement with Miami-Dade County Schools and a child care facility in Miami-Dade County, Florida.

➤ **Basis of Accounting**

The accompanying financial statements have been prepared on the accrual basis of accounting and accordingly reflect all significant receivables, payables, and other liabilities.

➤ **Basis of Presentation**

The accompanying financial statements have been prepared in accordance with the provisions of Statement of Financial Accounting Standards No. 117 (SFAS 117), Financial Statements of Not-for-Profit Organizations. SFAS 117 focuses on the entity as a whole and requires classification of assets as unrestricted, temporarily restricted, or permanently restricted. Accordingly, net assets of the Balere, Inc. and changes therein are classified and reported as follows:

Unrestricted net assets – Net assets that are not subject to donor-imposed stipulations, including restricted contributions whose restrictions are met in the same reporting period.

Temporarily restricted net assets – Net assets subject to donor-imposed stipulations that may or will be met, either by actions of the Balere, Inc. and/or the passage of time. 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 restriction.

➤ **Use of Estimates**

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

➤ **Contributions**

Contributions are recognized when the donor makes a promise to give to the Balere, Inc. that is, in substance, unconditional. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the fiscal year

**BALERE, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2011**

in which the contributions are recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

➤ **In-Kind Contributions and Contributed Services**

In accordance with SFAS 116, the Balere, Inc. recognizes the fair value of contributed services received if such services a) create or enhance nonfinancial assets or b) require specialized skills that are provided by individuals possessing those skills and would typically need to be purchased if not contributed.

➤ **Cash and Cash Equivalents**

Cash deposits are held in local financial institutions at year-end and throughout the year. Accounts at the institution are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. The Balere, Inc. considers all resources invested in money market funds, certificates of deposit and highly liquid debt instruments issued with a maturity of three months or less to be cash equivalents.

➤ **Property and Equipment**

Property and equipment acquisitions are recorded at cost and donated equipment is recorded at fair market value at the date of donation. Assets are capitalized when the purchase price exceeds \$400 and the estimated useful life is more than one year. Depreciation is provided over the estimated useful lives of the assets and computed on the straight-line method as follows:

Building	30 years
Improvements	10 years
Furniture and Equipment	3 – 7 years

➤ **Intercompany Transactions**

Transactions between the Charter School and Balere, Inc. have been eliminated in the financial statements. These transactions consist of rent income and expense and loan transactions.

➤ **Income Tax**

The Balere, Inc. has been granted tax-exempt status under Section 501(c)(3) of the Internal Revenue Code and is not considered a private foundation under Section 509(a)(2). Therefore, no provision has been made for income taxes in the accompanying financial statements.

**BALERE, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2011**

**2. CAPITAL ASSETS**

Property, plant and equipment at June 30, 2011 are shown below:

	Amount
Land & Building	\$ 4,246,380
Improvements	4,040
Furniture & Equipment	50,598
Total	4,301,018
<i>less: Accumulated Depreciation</i>	(435,519)
Total Capital Assets, Net	\$ 3,865,499

Depreciation expense for the year ended June 30, 2011 was \$143,924.

**3. SOURCES OF SUPPORT**

The following is a schedule of revenue for the 2011 fiscal year:

Source	Amount
Federal Grants through Miami-Dade County Schools	\$ 178,573
Per Student Funding from Miami-Dade County Schools	1,780,180
Before and After Care Services	230,178
In-Kind Donated Services	51,192
Other Miscellaneous Fees	12,142
Total Unrestricted Support	\$ 2,252,265

**4. LEASE AGREEMENT**

Balere, Inc. leases its building to the Charter School through February 28, 2014. In accordance with the agreement, the School is required to maintain the premises at its own expense. Lease revenue and expenses were shown on the statement of activities for this lease.

**BALERE, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2011**

**5. PROMISSORY NOTES PAYABLE**

Promissory notes payable consist of the following:

	<u>Balance at 6-30-11</u>
<u>Promissory Note Payable - School Financial Services, Inc.</u>	
\$19,209 Borrowed 6-30-09, to cover costs associated with the professional service contract fees for the fiscal year ended June 30, 2009. Interest free note. Payments are to be made in 18 equal monthly installments of \$1,067.17, beginning July, 1, 2011.	\$ 9,605
<u>Promissory Note Payable - School Financial Services, Inc.</u>	
\$20,000 Borrowed 7-03-08, to provide cash flow for operating purposes. Interest Rate of 10%. Payments are to be made in 18 equal monthly installments of \$1,315.95, beginning July 1, 2011.	10,448
<u>Promissory Note Payable - School Financial Services, Inc.</u>	
\$35,000 Borrowed 8-28-08, to provide cash flow for operating purposes. Interest Rate of 10%. Payments are to be made in 18 equal monthly installments of \$2,265.01, beginning July 1, 2011.	17,751
<u>Judgment Promissory Note Payable - St. Faith's Episcopal Church</u>	
\$129,000 Borrowed 7-1-10, to pay prior building lease costs based on final judgment. Interest free note if principal payments remain current. 3 monthly installments of \$4,000 & 9 monthly installments of \$2,000.	<u>99,000</u>
Total Promissory Notes Payable	<u><u>\$ 136,804</u></u>

Future amounts payable for promissory notes payable are as follows:

Fiscal Year	<u>Total</u>	<u>Principal</u>	<u>Interest</u>
<u>Ending June 30</u>			
2012	\$ 68,872	\$ 67,804	\$ 1,068
2013	30,000	30,000	-
2014	30,000	30,000	-
2015	9,000	9,000	-
Total	<u><u>\$ 137,872</u></u>	<u><u>\$ 136,804</u></u>	<u><u>\$ 1,068</u></u>

**BALERE, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2011**

**6. MORTGAGE NOTES PAYABLE**

Mortgage notes payable consist of the following:

	<u>Balance at 6/30/11</u>
<u>Mortgage - Strategic Empowerment for Economic Development, Corp.</u> \$1,215,621 Borrowed 8-08-08, to provide funding for the purchase of land and building to be utilized for the Balere Language Academy. Interest Rate of 6.5%. Interest only payments are to be made in equal monthly installments of \$6,584.62.	1,215,621
<u>Mortgage - Great Florida Bank</u> \$1,500,000, Borrowed 8-08-08, to provide funding for the purchase of land and building to be utilized for the Balere Language Academy. Interest Rate of 12%. Payments are to be made in 245 equal monthly installments of \$16,721.94.	1,500,000
<u>Mortgage - Sheppard Faber</u> \$500,000, Borrowed 8-08-08, to provide funding for the purchase of land and building to be utilized for the Balere Language Academy. Interest Rate of 14.5%. Interest only payments are to be made in equal monthly installments of \$6,041.67.	524,532
<u>Mortgage - Gilbert's Angels Nursery &amp; Day Care Center, Inc.</u> \$750,000, Borrowed 8-08-08, to provide funding for the purchase of land and building to be utilized for the Balere Language Academy. Interest Rate of 5%. Interest only payments are to be made in equal monthly installments of \$3,125.	770,983
<u>Real Estate Commission Loan</u> \$56,250, Borrowed to finance the real estate commission fee charged on the purchase of land and building. No interest loan payable in monthly installments of \$1,000.	<u>30,250</u>
Total Promissory and Mortgage Notes Payable	<u><u>\$ 4,041,386</u></u>

**7. GOING CONCERN**

The accompanying financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America, which contemplates the continuation of Balere, Inc. as a going concern. For the year ended June 30, 2011, Balere, Inc. had not made the required monthly payments on its long-term debt and is in default on these loans.

**BALERE, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2011**

Management is in the process of securing financing arrangements that will allow for a modification of loan terms and thus allow for the continued operation of Balere, Inc. Property is currently listed as a short sale and Balere, Inc. is working diligently with the lender to complete this transaction.