

MANATEE SCHOOL OF
ARTS AND SCIENCES, INC.

A CHARTER SCHOOL AND COMPONENT UNIT OF
THE SCHOOL BOARD OF MANATEE COUNTY

FINANCIAL STATEMENTS
June 30, 2007

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AUDITOR GENERAL

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Certified Public Accountants
and Consultants

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Manatee School of Arts and Sciences, Inc.
Bradenton, Florida

We have audited the accompanying financial statements of the governmental activities and the General Fund of Manatee School of Arts and Sciences, Inc. (a Charter School and component unit of the School Board of Manatee County) as of and for the year ended June 30, 2007, which collectively comprised the Charter School's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the management of Manatee School of Arts and Sciences, Inc. 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 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 opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the General Fund of Manatee School of Arts and Sciences, Inc. as of June 30, 2007, and the respective changes in financial position and budgetary comparison for the General Fund 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 August 15, 2007, on our consideration of Manatee School of Arts and Sciences, Inc.'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. 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.

Management's Discussion and Analysis on pages 2 through 7 is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

CPA Associates

Bradenton, Florida
August 31, 2007

MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2007
(Unaudited)

The following pages represent the Management's Discussion and Analysis of Manatee School of Arts and Sciences, Inc. It depicts and reviews the financial picture and activities as of and for the year ending June 30, 2007.

The intent of this Management's Discussion and Analysis is to present a picture and assessment of the school's financial performance in an effort to more clearly demonstrate to readers the results of this year's financial operation. Readers should review this Management's Discussion and Analysis along with the basic financial statements and the notes also enclosed.

Using the Financial Statements

This financial report includes a series of financial statements and notes to those financial statements. These statements are organized so the reader can understand Manatee School of Arts and Sciences, Inc. as a financial whole, or as an entire operating entity.

The Statement of Net Assets and the Statement of Activities provide information about the activities of the School as a whole, presenting both an aggregate view of the School's finances and a longer term view of those finances. The General Fund statements provide more detail. These statements show how services were financed in the short term as well as what financial resources remain for future spending.

Financial Highlights

- **Net assets** increased by \$43,064 from \$1,446,473 to \$1,489,537 for the year ended June 30, 2007.
- **Total assets** increased by \$7,461, from \$2,593,535 to \$2,600,996. This is attributed to the following elements:

| | <u>Increase (Decrease)</u> |
|---|----------------------------|
| Cash | \$ 53,279 |
| Due from primary government | 9,528 |
| Prepaid expenses and other current assets | 14,124 |
| Capital assets, net of accumulated depreciation | (68,316) |
| Other assets | (1,154) |

There was an increase in cash. This increase is due to conservative spending and maintaining a continuing increase in reserved funds. We have been able to continue our commitment to keeping a minimum of 10% or more of revenues in reserve. The cash balance going forward is \$647,793. The increase in due from primary government is due to June Capital Outlay funding received in the month of July 2007. There was a decrease of capital assets and other assets. This decrease is due to depreciation expenses taken this year.

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2007

(Unaudited)

- **Total liabilities** decreased by \$35,603 from \$1,147,062 to \$1,111,459 due to the following items:

| | | <u>Increase (Decrease)</u> |
|-----------------------------------|----|----------------------------|
| Current portion of long term debt | \$ | 3,763 |
| Accrue payroll expenses | | 36,923 |
| Other | | 376 |
| Long term debt | | (76,665) |

Accrued payroll expenses increased due to salary increases as well as the increase in the number of staff members. Long term debt decreased as the mortgage balance is reduced.

- **Total revenues** increased by \$58,491 from \$1,431,325 to \$1,489,816. The increase is attributed to the following:

| | | <u>Increase (Decrease)</u> |
|-------------------------------|----|----------------------------|
| Federal pass-through | \$ | (4,142) |
| Local | | 60,830 |
| Fundraising and contributions | | 1,783 |
| Investment income | | 20 |

The increase in local revenues is related to our increased funding categorical and FTE. The population of our school, due to class size amendment restrictions decreased, however class size amendment funding and an increase in the per student FTE minimally increased our overall funding.

The largest revenue source for Manatee School of Arts and Sciences, Inc. is the FEFP financing program which allocates funds based on the number and type of student enrolled in our school. Grants, federal and private, account for the second largest source of funds at our school. Fundraising activities continues to remain stable. Fundraising is our primary source for maintenance and enhancement of our outdoor education programming.

- **General Fund: Total expenditures** increased by \$72,559 from \$1,377,629 to \$1,450,188 primarily due to the following:

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2007

(Unaudited)

| | <u>Increase (Decrease)</u> |
|--------------------------|----------------------------|
| Instruction | \$ 102,313 |
| Pupil Personnel services | 134 |
| Board | 6,406 |
| General administration | (1,193) |
| School administration | 4,799 |
| Plant operation | 1,448 |
| Plant maintenance | (390) |
| Capital outlay | (32,006) |
| Debt Service: | |
| Principal | (1,192) |
| Interest | (7,760) |

Instruction increased due to increase in salaries and instructional materials as well as providing all staff members with a bonus this school year. Extra staff was also added this year to provide intensive remediation and extra classes to be in compliance with Class Size Reduction. Capital Outlay decreased as new computers were purchased in the prior year. The school did build a developmental playground this year and added a few new laptops to our inventory, but this expense is less than the prior year. Debt service continues to decline as we continue to pay down our mortgage liability.

- **General Fund Budget Comparison:** The budget of Manatee School of Arts and Sciences, Inc. is prepared according to Generally Accepted Accounting Principles and according to Florida Law. During the school year the School's Board of Directors at the request of the Director of School Operations and Finance revises its budget to adjust for changes in revenues or expenditures. This happens following the two FTE counts done in October and February of every school year. A statement showing the School's original and final budget compared with actual operating results is presented in the financial statements.

Manatee School of Arts and Sciences, Inc.'s year end results were better than had been budgeted. Revenues were slightly higher in Federal Pass Through, but lower in Local. However, it increased in Fundraising and Investment Income. Expenditures were lower than budgeted in Instruction, Board, General Administration, School Administration, Plant Operation, Plant Maintenance and debt service.

Overall, budget guidelines were met and revenues were lower by \$4,791 while expenses were lower by \$33,189. Our fund balance on July 1, 2006, was \$508,593 and on June 30, 2007, the fund balance was \$548,224 increasing for the year by \$39,631. Revenues are forecasted conservatively and expenditures are projected to meet all possible expenses and special projects.

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2007

(Unaudited)

Capital Asset and Long Term Debt Administration

- **Capital Assets**

At June 30, 2007, Manatee School of Arts and Sciences, Inc. invested in a variety of capital assets including land, building, furniture, technology and other equipment. The total capital assets, \$1,902,535 is net of accumulated depreciation.

Below is a description of the school's capital assets:

| | | |
|--------------------------|----|------------------|
| Land | \$ | 250,252 |
| Facility | | 1,878,475 |
| Furniture and equipment | | 358,120 |
| Total | | <u>2,486,847</u> |
| Accumulated depreciation | | <u>(584,312)</u> |
| | \$ | <u>1,902,535</u> |

\$33,888 in furniture fixtures and equipment was capitalized in the current year. During the current year depreciation was calculated for instruction, school administration, maintenance of plant, operation of plant, general administration and pupil personnel services totaling \$102,204.

Long Term Debt

At June 30, 2007, Manatee School of Arts and Sciences, Inc. had an outstanding loan for Phase 1 of \$790,324. This long-term debt is a 15 year mortgage at a 4.75% interest rate and is due to mature in August 2016. Payments are made monthly. Also, at June 30, 2007, Manatee School of Arts and Sciences, Inc. had an outstanding second loan of \$180,129. This long-term debt is a 15 fifteen year mortgage at a 6.75% interest rate and is due to mature July 31, 2019. Payments are debited from our account on a monthly basis.

Manatee School of Arts and Sciences, Inc. incurred interest expenses of \$52,416.

Economic Factors and Next Year's Budget

The financial success of Manatee School of Arts and Sciences, Inc. rests with the continuation of conservative financial management as well as meeting the academic needs of its student body and personnel needs of its staff. It is felt by this administration that the continued success of the student body creating a demand for the school's program, and maintaining a consistent staff is the best way to create an environment where children can learn.

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2007

(Unaudited)

It will be required for charter schools to meet certain goals regarding class size by the school year 2011. Class sizes in kindergarten through third grade must be at 18 while fourth through eighth grade must be no more than 22 students. Manatee School of Arts and Sciences, Inc. did meet class size amendment targets for the 2007 school year. In the 2008 school year, charter schools will be measured at the school average for K-3 and 4-8. It is important to note that classes that are multi-graded are measured at the grade level holding the majority in that classroom. For example if a class has 10 third graders and 11 fourth graders the state will measure the class size for that classroom as if it was a fourth grade classroom and vice versa if the class had 11 third graders and 10 fourth graders the class size would be measured by third grade standards. By the year 2011, Charter schools will be measured at the classroom level.

The 2006-2007 school year began with a student body of 220 and ended with 213 students attending our school. Our FTE funding was based on 216.5. Due to the class size amendment and charter schools having to comply with school averages there was not as big a push to grow the school as space is limited. We did have to add one classroom and all classrooms are currently being used. In order to accomplish this task, our music lab was converted to a classroom and the music teacher rotated from classroom to classroom. The maximum student body for the coming school year will be approximately 210 students in order to be in compliance with the class size amendment.

Communication with parents and families is ongoing. We have monthly conference days and if those can't be met, conferences are scheduled during the school day. We continue to use our gogeckos.com web site for parents to see their children's progress, grades, lesson plans, and learning goals. We have also implemented gogeckos.org as a communication tool for teachers and families about homework, school events, policies and weekly letters from the principal.

Grant proposals and fundraising activities are and will continue to be our number one source of additional funding.

The results of conservative fiscal management over the past ten years of operation have enabled the school to maintain a healthy reserve. It continues to be our policy to maintain 10% of revenues in reserve to plan for future growth and being in compliance with present and future legislation. The Manatee School of Arts and Sciences, Inc. also maintains a reserve to continue the school contribution to participants in the retirement plan. The school makes a matching contribution to all staff participating according to plan guidelines. The outstanding education programs at our school and the success of the students over time continue to be the best way to attract students to Manatee School of Arts and Sciences, Inc.

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2007

(Unaudited)

Manatee School of Arts and Sciences, Inc. achieved Adequate Yearly Progress and improved from a "C" school to a "B" school in the 2007 school year. Manatee School of Arts and Sciences, Inc. is accredited by the Southern Association of Schools and Colleges. The teacher's goal this year is to implement cutting edge brain research into the classrooms allowing children to learn according to their needs. Some will be standing, sitting, moving, and brain breaks will be given to improve student focus and concentration. These innovative programs continue to attract students in need of an alternative place and style to maximize their learning potential.

MANATEE SCHOOL OF ARTS AND SCIENCES, INC.
A CHARTER SCHOOL AND COMPONENT UNIT OF
THE SCHOOL BOARD OF MANATEE COUNTY

STATEMENT OF NET ASSETS

June 30, 2007

| ASSETS | |
|---|---------------------|
| Current assets: | |
| Cash | \$ 647,793 |
| Due from primary government | 17,346 |
| Prepaid expenses and other current assets | <u>24,091</u> |
| Total current assets | 689,230 |
| Noncurrent assets: | |
| Capital assets, net of accumulated depreciation | 1,902,535 |
| Other assets | <u>9,231</u> |
| TOTAL ASSETS | <u>\$ 2,600,996</u> |
| | |
| LIABILITIES AND NET ASSETS | |
| Current liabilities: | |
| Current portion of long-term debt | \$ 77,153 |
| Accrued expenses: | |
| Payroll | 134,753 |
| Other | <u>6,253</u> |
| Total current liabilities | 218,159 |
| Noncurrent liabilities: | |
| Long-term debt | <u>893,300</u> |
| Total liabilities | 1,111,459 |
| Net assets: | |
| Investment in capital assets, net of related debt | 932,082 |
| Unrestricted | <u>557,455</u> |
| Total net assets | <u>1,489,537</u> |
| TOTAL LIABILITIES AND NET ASSETS | <u>\$ 2,600,996</u> |

See accompanying notes.

MANATEE SCHOOL OF ARTS AND SCIENCES, INC.
A CHARTER SCHOOL AND COMPONENT UNIT OF
THE SCHOOL BOARD OF MANATEE COUNTY

STATEMENT OF ACTIVITIES
Fiscal Year Ended June 30, 2007

| | Expenses | Operating Grants and Contributions | Net (Expense) Revenue and Changes in Net Assets |
|--------------------------|---------------------|--|--|
| Instruction | \$ 974,797 | 36,966 | (937,831) |
| Support services: | | | |
| Pupil personnel services | 397 | -- | (397) |
| Board | 25,513 | -- | (25,513) |
| General administration | 66,563 | -- | (66,563) |
| School administration | 182,968 | -- | (182,968) |
| Operation of plant | 86,736 | -- | (86,736) |
| Maintenance of plant | 56,208 | -- | (56,208) |
| Interest expense | 52,416 | -- | (52,416) |
| Amortization expense | 1,154 | -- | (1,154) |
| | <u>\$ 1,446,752</u> | <u>36,966</u> | <u>(1,409,786)</u> |
| General revenues: | | | |
| Local | | | 1,452,033 |
| Investment income | | | 817 |
| | | | <u>1,452,850</u> |
| | | | 43,064 |
| | | | <u>1,446,473</u> |
| | | | <u>\$ 1,489,537</u> |

See accompanying notes.

MANATEE SCHOOL OF ARTS AND SCIENCES, INC.
A CHARTER SCHOOL AND COMPONENT UNIT OF
THE SCHOOL BOARD OF MANATEE COUNTY

BALANCE SHEET - GENERAL FUND
June 30, 2007

ASSETS

| | |
|---|---------------------------------|
| Cash | \$ 647,793 |
| Due from primary government | 17,346 |
| Prepaid expenses and other current assets | <u>24,091</u> |
| TOTAL ASSETS | <u><u>\$ 689,230</u></u> |

LIABILITIES AND FUND BALANCE

| | |
|---|---------------------------------|
| Liabilities: | |
| Accrued expenses: | |
| Payroll | \$ 134,753 |
| Other | <u>6,253</u> |
| Total liabilities | 141,006 |
| Fund balance: | |
| Undesignated | <u>548,224</u> |
| Total fund balance | <u><u>548,224</u></u> |
| TOTAL LIABILITIES AND FUND BALANCE | <u><u>\$ 689,230</u></u> |

MANATEE SCHOOL OF ARTS AND SCIENCES, INC.
A CHARTER SCHOOL AND COMPONENT UNIT OF
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RECONCILIATION OF THE BALANCE SHEET - GENERAL FUND
TO THE STATEMENT OF NET ASSETS

June 30, 2007

| | |
|---|---------------------|
| Total fund balance per the Balance Sheet - General Fund | \$ 548,224 |
| Amounts reported in the Statement of Net Assets are different because: | |
| Capital assets used in governmental activities are not financial resources and, therefore, not reported in the General Fund. | 1,902,535 |
| Other assets used in governmental activities are not financial resources and, therefore, not reported in the General Fund. | 9,231 |
| Long-term debt is not due and payable in the current period and, therefore, not reported in the General Fund | <u>(970,453)</u> |
| Total net assets per the Statement of Net Assets | <u>\$ 1,489,537</u> |

See accompanying notes.

MANATEE SCHOOL OF ARTS AND SCIENCES, INC.
A CHARTER SCHOOL AND COMPONENT UNIT OF
THE SCHOOL BOARD OF MANATEE COUNTY

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL OF THE GENERAL FUND
Fiscal Year Ended June 30, 2007

| | <u>Budgeted Amounts (Unaudited)</u> | | | <u>Variance</u> |
|-----------------------------|-------------------------------------|------------------|------------------|-----------------|
| | <u>Original</u> | <u>Final</u> | <u>Actual</u> | |
| Revenues: | | | | |
| Intergovernmental: | | | | |
| Federal pass-through | \$ 16,634 | 13,000 | 16,937 | 3,937 |
| Local | 1,361,416 | 1,481,610 | 1,452,033 | (29,577) |
| Fundraising | 40,500 | -- | 20,032 | 20,032 |
| Investment income | -- | -- | 817 | 817 |
| Total revenues | <u>1,418,550</u> | <u>1,494,610</u> | <u>1,489,819</u> | <u>(4,791)</u> |
| Expenditures: | | | | |
| Current - Education: | | | | |
| Instruction | 898,639 | 903,967 | 887,924 | 16,043 |
| Pupil personnel services | 500 | -- | 193 | (193) |
| Board | 14,082 | 30,500 | 25,513 | 4,987 |
| General administration | 68,602 | 75,831 | 65,541 | 10,290 |
| School administration | 179,897 | 179,397 | 174,794 | 4,603 |
| Operation of plant | 80,900 | 95,400 | 85,407 | 9,993 |
| Maintenance of plant | 49,930 | 60,482 | 51,610 | 8,872 |
| Capital outlay | -- | 11,800 | 33,888 | (22,088) |
| Debt service: | | | | |
| Principal | 69,300 | 69,300 | 72,902 | (3,602) |
| Interest | 56,700 | 56,700 | 52,416 | 4,284 |
| Total expenditures | <u>1,418,550</u> | <u>1,483,377</u> | <u>1,450,188</u> | <u>33,189</u> |
| Net change in fund balance | -- | 11,233 | 39,631 | 28,398 |
| Fund balance, July 1, 2006 | <u>401,200</u> | <u>508,593</u> | <u>508,593</u> | <u>--</u> |
| Fund balance, June 30, 2007 | <u>\$ 401,200</u> | <u>519,826</u> | <u>548,224</u> | <u>28,398</u> |

See accompanying notes.

MANATEE SCHOOL OF ARTS AND SCIENCES, INC.
A CHARTER SCHOOL AND COMPONENT UNIT OF
THE SCHOOL BOARD OF MANATEE COUNTY

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL OF THE GENERAL FUND
TO THE STATEMENT OF ACTIVITIES

Fiscal Year Ended June 30, 2007

| | |
|--|-------------------------|
| Net change in fund balance (actual) per the Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual of the General Fund | \$ 39,631 |
| Amounts reported in the Statement of Activities are different because: | |
| The General Fund reports capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation expense exceeded capital outlay expenditures in the current period. | (68,315) |
| The General Fund reports loan fees as expenditures. However in the Statement of Activities, those loan fees represent an asset that can be allocated over the term of the corresponding loan as amortization expense. This is the amortization expense in the current period. | (1,154) |
| Principal payments on the mortgage are expenditures in the General Fund, but reduce long-term liabilities in the Statement of Net Assets. | <u>72,902</u> |
| Change in net assets per the Statement of Activities | <u><u>\$ 43,064</u></u> |

See accompanying notes.

MANATEE SCHOOL OF ARTS AND SCIENCES, INC.
A CHARTER SCHOOL AND COMPONENT UNIT OF
THE SCHOOL BOARD OF MANATEE COUNTY

NOTES TO FINANCIAL STATEMENTS

NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity: Manatee School of Arts and Sciences, Inc. (Charter School) is a not-for-profit corporation that operates an elementary school in Bradenton, Florida. The corporation was organized pursuant to Chapter 617, Florida Statutes, the Florida Not For Profit Corporation Act. The governing body of the Charter School is a not-for-profit corporation Board of Directors composed of four members.

The general operating authority of the Charter School is contained in Section 1002.33, Florida Statutes. The Charter School operates under a charter of the sponsoring school board, the School Board of Manatee County. The current charter is effective until June 30, 2015, and may be renewed by mutual agreement between the Charter School and the School Board. The Manatee School of Arts and Sciences, Inc. is considered a component unit of the School Board of Manatee County.

Criteria for determining if other entities are potential component units which should be reported within the Charter School's basic financial statements are described in GASB Statement No. 14. The application of these criteria provide for identification of any entities for which the Charter School is financially accountable and other organizations for which the nature and significance of their relationship with the Charter School are such that exclusion would cause the Charter School's basic financial statements to be misleading or incomplete. Based on these criteria, no component units are included within the reporting entity of the Charter School.

Basis of Presentation: The basic financial statements of the Charter School have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The GASB has issued a codification of governmental accounting and financial reporting standards dated June 30, 2006. This codification and subsequent GASB pronouncements are recognized as GAAP for state and local governments.

Basic Financial Statements - Government Wide Statements: The Charter School's basic financial statements include both government wide (reporting on the Charter School as a whole) and fund financial statements (reporting on the General Fund only). Both the government-wide and fund financial statements present only governmental activities. The Charter School has no business type activities.

In the government wide Statement of Net Assets, the Charter School's governmental activities are reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The Charter School's net assets are reported in three parts (as applicable), invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets.

MANATEE SCHOOL OF ARTS AND SCIENCES, INC.
A CHARTER SCHOOL AND COMPONENT UNIT OF
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NOTES TO FINANCIAL STATEMENTS

NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The government wide Statement of Activities reports both the gross and net cost of each of the Charter School's functions. The functions are also supported by general government revenues (funding from the sponsoring school board). The Statement of Activities reduces gross expenses (including depreciation) by related program revenues and operating grants. Program revenues must be directly associated with the function. Operating grants include operating-specific and discretionary grants.

The net costs, by function, are normally covered by general revenue funding from the sponsoring school district.

The government wide focus is more on the sustainability of the Charter School as an entity and the change in the Charter School's net assets resulting from the current year's activities.

Basic Financial Statements - Fund Financial Statements

The financial transactions of the Charter School are reported in individual funds in the fund financial statements. Each fund is accounted for by providing a separate set of self-balancing accounts that comprise its assets, liabilities, reserves, fund equity, revenues, and expenditures/expenses.

The individual generic fund type in the Charter School's financial statements is a governmental fund. The focus of the governmental funds' measurement (in the fund statements) is upon determination of financial position and changes in financial position (sources, uses, and balances of financial resources) rather than upon net income.

The only governmental fund utilized by the Charter School is the General Fund. The General Fund is the general operating fund of the Charter School and is used to account for all financial resources except those required to be accounted for in another fund.

Basis of Accounting: Basis of accounting refers to the point at which revenues or expenditures/expenses are recognized in the accounts and reported in the financial statements. It relates to the timing of the measurements made regardless of the measurement focus applied.

Accrual: Governmental activities in the government-wide financial statements are presented on the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred.

Modified Accrual: The fund financial statements are presented on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual; i.e., both measurable and available. "Available" means collectible within the current period or within 60 days after year-end. When grant

MANATEE SCHOOL OF ARTS AND SCIENCES, INC.
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NOTES TO FINANCIAL STATEMENTS

NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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. Expenditures are generally recognized under the modified accrual basis of accounting when the related liability is incurred. The exceptions to this general rule is that principal and interest on general obligation long-term debt, if any, is recognized when due.

Budgetary Basis Accounting: Budgets are presented on the modified accrual basis of accounting. During the fiscal year, expenditures were controlled at the object level (e.g., salaries, services, and capital outlay).

Cash: The Charter School's cash consists of demand deposits with a financial institution which are insured by Federal depository insurance. At June 30, 2007, the carrying amount of the Charter School's deposits was \$647,693 and the bank balance was \$512,428 of which \$100,000 was covered by FDIC insurance.

Capital Assets: Capital assets are recorded at cost, or estimated historical cost for assets where actual historical cost is not available. Donated assets are recorded at fair market value at the date of donation. The Charter School maintains a capitalization threshold of \$1,000 for fixed asset additions. Capital assets are recorded in the government-wide financial statements, but are not reported in the fund financial statements. All capital assets are depreciated using the straight-line method over their estimated useful lives. Useful lives vary from 30 to 40 years for buildings and 5 to 10 years for equipment.

Revenue Sources: Revenues for current operations are received primarily from the School Board of Manatee County pursuant to the funding provisions included in the Charter School's charter. In accordance with the funding provisions of the charter and Section 1002.33(17), Florida Statutes, the Charter School reports the number of full-time equivalent (FTE) students and related data to the School Board. Under the provisions of Section 1011.62, Florida Statutes, the School Board reports the number of FTE students and related data to the Florida Department of Education (FDOE) for funding through the Florida Education Finance Program. Funding for the Charter School is adjusted during the year to reflect the revised calculations by the FDOE under the Florida Education Finance Program and the actual weighted FTE students reported by the Charter School during the designated FTE student survey periods.

The Charter School also receives federal awards for the enhancement of various educational programs. Federal awards are generally received based on applications submitted to and approved by various granting agencies. For federal awards in which a claim to these grant proceeds is based on incurring eligible expenditures, revenue is recognized to the extent that eligible expenditures have been incurred.

MANATEE SCHOOL OF ARTS AND SCIENCES, INC.
A CHARTER SCHOOL AND COMPONENT UNIT OF
THE SCHOOL BOARD OF MANATEE COUNTY

NOTES TO FINANCIAL STATEMENTS

NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Additional revenues are derived from various fundraising activities (which are presented net of related fundraising expenses), contributions, and interest earned.

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

NOTE B: DUE FROM PRIMARY GOVERNMENT

Capital outlay funding in the amount of \$9,213 and additional discretionary funding of \$8,133 was due from the School Board of Manatee County at June 30, 2007.

NOTE C: CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2007, was as follows:

| | Balance 07-01-06 | Additions | Dispositions/ Adjustments | Balance 06-30-07 |
|---------------------------------------|---------------------|-----------|------------------------------|---------------------|
| Land | \$ 250,252 | -- | -- | \$ 250,252 |
| Building | 1,878,475 | -- | -- | 1,878,475 |
| Furniture, fixtures, and equipment | 324,232 | 33,888 | -- | 358,120 |
| | \$ 2,452,959 | 33,888 | -- | 2,486,847 |
| Less accumulated depreciation | | | | 584,312 |
| | | | | \$ 1,902,535 |

Depreciation expense in the amount of \$102,204 for the year ended June 30, 2007, was allocated to the following governmental functions:

MANATEE SCHOOL OF ARTS AND SCIENCES, INC.
A CHARTER SCHOOL AND COMPONENT UNIT OF
THE SCHOOL BOARD OF MANATEE COUNTY

NOTES TO FINANCIAL STATEMENTS

NOTE C: CAPITAL ASSETS (CONTINUED)

| | |
|--------------------------|-------------------|
| Instruction | \$ 86,873 |
| School administration | 8,176 |
| Maintenance of plant | 4,599 |
| Operation of plant | 1,329 |
| General administration | 1,022 |
| Pupil personnel services | <u>205</u> |
| | <u>\$ 102,204</u> |

NOTE D: LONG-TERM DEBT

Phase One: The Charter School entered into a financing arrangement with the City of Bradenton and Bank of America to secure financing for the construction of a new facility. In January 2001, the City of Bradenton issued \$1,100,000 in Industrial Revenue Bonds, Series 2001 (tax-exempt municipal bonds) and sold these bonds to Bank of America. Under a promissory note and mortgage agreement, the City of Bradenton loaned the proceeds of the sale to the Charter School to construct the new facility. The City of Bradenton then assigned its rights under the promissory note and mortgage to Bank of America.

The annual interest rate of the note is 4.75%. Payments of principal and interest are due monthly in the amount of \$8,608. The final maturity date of the note is January 26, 2017. The balance outstanding at year-end is \$790,324.

Phase Two: The Charter School entered into a mortgage agreement with Bank of America, as of July 2003, to secure financing for the construction of Phase 2 of the new facility.

On July 31, 2004, the Bank of America and Manatee School of Arts and Sciences have agreed to modify the original agreement. The Modification Agreement states that the school will pay one monthly interest payment, beginning July 31, 2004, with interest calculated at one percentage point over index rate; 179 monthly consecutive principal and interest payments of \$1,835.41, beginning August 31, 2004, with interest calculated on the unpaid principal balances at an interest rate of 6.75% per annum; and one principal and interest payment on July 31, 2019, with interest calculated on the unpaid balance at an interest rate of 6.75% per annum. At year-end the balance for Phase 2 construction is \$180,129.

The combined principal and interest payments due in the years subsequent to June 30, 2007, are as follows:

MANATEE SCHOOL OF ARTS AND SCIENCES, INC.
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NOTES TO FINANCIAL STATEMENTS

NOTE D: LONG-TERM DEBT (CONTINUED)

| | Principal | Interest |
|-------------|------------|------------|
| 2008 | \$ 77,153 | \$ 48,166 |
| 2009 | 81,113 | 44,206 |
| 2010 | 85,279 | 40,039 |
| 2011 | 89,664 | 35,655 |
| 2012 | 94,279 | 31,040 |
| 2013 – 2017 | 502,786 | 77,355 |
| 2018 – 2019 | 40,179 | 2,881 |
| | \$ 970,453 | \$ 279,342 |

In connection with the mortgage loans held at Bank of America, the Charter School incurred interest expense in the amount of \$52,416.

NOTE E: SCHEDULE OF LOCAL REVENUE SOURCES

The following is a schedule of local revenue sources and amounts:

| Sources | Amounts |
|---|--------------|
| School Board of Manatee County | |
| Discretionary | \$ 1,304,354 |
| Capital outlay funding | 147,679 |
| Subtotal | 1,452,033 |
| Other grants | 16,937 |
| Donations and contributions | 7,151 |
| Fundraising and field trips-net of related expenses | 12,878 |
| Total | \$ 1,488,999 |

MANATEE SCHOOL OF ARTS AND SCIENCES, INC.
A CHARTER SCHOOL AND COMPONENT UNIT OF
THE SCHOOL BOARD OF MANATEE COUNTY

NOTES TO FINANCIAL STATEMENTS

NOTE F: RISK MANAGEMENT PROGRAMS

Workers' compensation, automobile liability, general liability, errors and omissions, property, inland marine, and health and hospitalization coverage are being provided through purchased commercial insurance with minimum deductibles for each line of coverage. Settled claims resulting from these risks did not exceed commercial coverage.

NOTE G: RETIREMENT PLAN

The School maintains a Tax Sheltered Annuity Retirement Plan 403(b) that covers substantially all employees. Employees may elect to make contributions to the plan pursuant to a salary reduction agreement. The School is currently making matching contributions up to 3% for participating employees who have been employed for at least one year. Participating employees are 100% vested in their respective account balances.



Certified Public Accountants
and Consultants

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
Manatee School of Arts and Sciences, Inc.
Bradenton, Florida

We have audited the financial statements of the Manatee School of Arts and Sciences, Inc. as of and for the year ended June 30, 2007, and have issued our report thereon dated August 31, 2007. 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 Manatee School of Arts and Sciences, Inc.'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 Manatee School of Arts and Sciences, Inc.'s internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Manatee School of Arts and Sciences, Inc.'s internal control over financial reporting.

Our consideration of the internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a certain deficiency in internal control over financial reporting that we consider to be a significant deficiency.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control over financial reporting. We consider the deficiency described in the following paragraph to be a significant deficiency in internal control over financial reporting. A material weakness is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be presented or detected by the entity's internal control.

The Manatee School of Arts and Sciences, Inc. is responsible for preparing the School's financial statements, including footnote disclosures, in accordance with accounting principles generally accepted in the United States of America. These statements are submitted to oversight entities, such as the School Board of Manatee County and the Auditor General of the state of Florida. However, while the person responsible for the accounting and reporting function adequately processes, records, and summarizes the

transactions of the School, we do not believe this person has the complete skills and knowledge to adequately prepare these required statements. These statements were drafted with the assistance of CPA Associates.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe the significant deficiency described above is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Manatee School of Arts and Sciences, Inc.'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*.

The Manatee School of Arts and Sciences, Inc.'s response to the significant deficiency identified above is described in the Management's Response to the Significant Deficiency. We did not audit the Manatee School of Arts and Sciences, Inc.'s response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Board of Directors, management, and the Auditor General of the State of Florida and is not intended to be and should not be used by anyone other than these specified parties.

CPA Associates

Bradenton, Florida
August 31, 2007

MANAGEMENT LETTER

Board of Directors
Manatee School of Arts and Sciences, Inc.
Bradenton, Florida

We have audited the financial statements of the Manatee School of Arts and Sciences, Inc. as of and for the year ended June 30, 2007, and have issued our report thereon dated August 31, 2007.

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. We have issued our Independent Auditor's 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*. Disclosures in this report, which are dated August 31, 2007, should be considered in conjunction with this management letter.

Additionally, our audit was conducted in accordance with Chapter 10.850, Rules of the Auditor General. Those rules (Section 10.856(2)(d)) require that we disclose in the management letter certain comments and recommendations as noted below:

As required by the Rules of the Auditor General (Section 10.854(1)(d)1.), we are to disclose whether or not corrective actions have been taken to address significant findings and recommendations made in the preceding annual financial audit report. There were no recommendations reported in the prior financial audit report.

As required by Rules of the Auditor General (Section 10.854(1)(d)2.), we are to disclose if the charter school has met one or more of the conditions of a financial emergency as described in Section 218.503(1) F. S., and identify any of the conditions met. The Manatee School of Arts and Sciences, Inc. did not meet any of the conditions of a financial emergency per the above referenced statute.

As required by the Rules of the Auditor General (Section 10.854(1)(d)3.), we are to disclose any recommendations to improve present financial management, accounting procedures, and internal controls. We have identified a significant deficiency as a material weakness in the 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.

As required by the Rules of the Auditor General (Section 10.854(1)(d)4.), we are to disclose the following matters if not clearly inconsequential, and if not already addressed in the auditor's report on internal control over financial reporting and compliance and other matters, (1) violations of

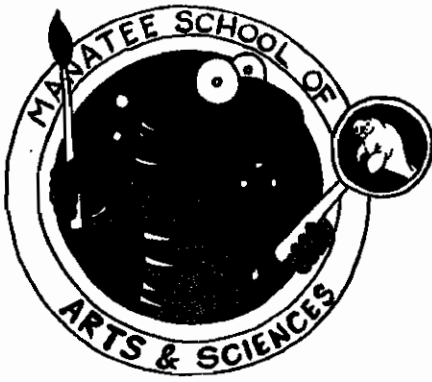
laws, rules, regulations, contracts, and grant agreements or abuse that have occurred, or are likely to have occurred, that were discovered within the scope of the financial audit that may or may not materially affect the financial statements; (2) improper expenditures which may or may not materially affect the financial statements; (3) improper or inadequate accounting procedures (e.g., the omission of required disclosures from the financial statements); and (4) failures to properly record financial transactions. Our audit disclosed no matters required to be disclosed by this section.

As required by the Rules of the Auditor General (Section 10.854(1)(d)6.), the name or official title of the charter school has been disclosed in the notes to financial statements.

This report is intended solely for the information and use of the audit committee, management, and the Auditor General of the State of Florida and is not intended to be and should not be used by anyone other than these specified parties.

CPA Associates

Bradenton, Florida
August 31, 2007



Manatee School of Arts and Sciences, Inc.

The first charter elementary school in Manatee County

3700 32nd Street West
Bradenton, FL 34205
Phone: 941-755-5012

Response to Significant Deficiency Noted

It is understood that this deficiency is noted in response to new internal control procedures now included with auditing standards generally accepted in the United States of America (SAS Number 112) and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. It is also understood that these changes to auditing standards are a direct response to misappropriation of funds noted in large public companies and the mishandling of generally accepted accounting principles that are appearing in today's news.

While one can understand the need for such expertise in companies as large as Enron (for example) it is not considered appropriate, by the school's management, for a small educational institution such as Manatee School of Arts and Sciences, Inc. (MSAS) serving 210 students with a staff of twenty four. MSAS has been operating successfully for 10 years without any deficiency or material weaknesses. All draft financial statements produced by accepted accounting software is sent monthly to the charter school's authorizer; The School Board of Manatee County. The monthly draft financial statements are reported to the school's Board of Directors, and on a yearly basis the audited Financial Statements are presented to the School Board of Manatee County in a public forum as part of it's annual report presentation. Every November following the end of the fiscal year those audited financial statements are also sent to the Auditor General.

It is the opinion of school management and the school Board of Directors that it would not be cost effective to have a Certified Public Accountant on staff simply for the purpose of creating audited financial statements on a monthly basis. Those funds would be better used for the purpose of educating the students of Manatee County. It should also be noted that the school contracts with CPA Associates for annual audits and for the very purpose of financial statement preparation.

The management of MSAS and its Board of Directors realize that until such time that auditing standards requiring that these type of deficiencies be written are revised, that this deficiency will continue to remain, however if at any time the Auditor General's office, The School Board of Manatee County, or the MSAS Board of Directors would require Official financial statements the management of this school would contract with CPA Associates to prepare those upon request.