

**FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT**

**THE VILLAGES CHARTER SCHOOL, INC.
(A CHARTER SCHOOL AND COMPONENT UNIT OF
THE SUMTER COUNTY DISTRICT SCHOOL BOARD)
THE VILLAGES, FLORIDA**

JUNE 30, 2007

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AUDITOR GENERAL

**FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT**

**THE VILLAGES CHARTER SCHOOL, INC.
(A CHARTER SCHOOL AND COMPONENT UNIT OF
THE SUMTER COUNTY DISTRICT SCHOOL BOARD)
THE VILLAGES, FLORIDA**

JUNE 30, 2007

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INDEPENDENT AUDITORS' REPORT

Board of Directors
The Villages Charter School, Inc.
The Villages, Florida

We have audited the accompanying financial statements of the governmental activities, the major fund, and aggregate remaining fund information of The Villages Charter School, Inc. (the School), a component unit of the Sumter County District School Board for the year ended June 30, 2007, 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 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 opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, the major fund and aggregate remaining fund information for the School for the year ended June 30, 2007, and the changes in financial position of those funds 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 October 25, 2007, on our consideration of the School's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on 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 conjunction with this report in considering the results of our audit.

The management's discussion and analysis is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board (GASB). We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Certified Public Accountants

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MEMBERS OF AMERICAN AND FLORIDA INSTITUTES OF CERTIFIED PUBLIC ACCOUNTANTS
MEMBER OF AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS PRIVATE COMPANIES AND S.E.C. PRACTICE SECTIONS

Board of Directors
The Villages Charter School, Inc.
The Villages, Florida

INDEPENDENT AUDITORS' REPORT
(Concluded)

The School has not presented the budgetary comparison information that GASB has determined is necessary to supplement, although not required to be part of the financial statements.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental information 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.

October 25, 2007
Ocala, Florida

Purvis, Gray and Company, LLP

Management's Discussion and Analysis

The Management of The Villages Charter School, Inc. (the Charter School) has prepared the following discussion and analysis to provide an overview and analysis of the Charter School's financial activities for the year ended June 30, 2007. The information contained in the Management's Discussion and Analysis (MD&A) is intended to highlight significant transactions, events and conditions and should be read in conjunction with the preceding Independent Auditors' Report and financial statements following this section.

Overview of Financial Statements

This discussion and analysis will serve as introduction to the Charter School's basic financial statements which include three components: 1) governmental activities financial statements, 2) fund financial statements, and 3) notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the governmental activities and fund financial statements. This report also contains accompanying information in addition to the basic financial statements.

Governmental Activities Financial Statements and Financial Analysis

The *governmental activities financial statements* report information for the Charter School as a whole. The statements are designed to provide an overview of the Charter School's financial position utilizing the full accrual basis of accounting.

The *governmental statement of net assets* presents information on all of the Charter School's assets and liabilities, with the difference between the two reported as net assets. The net assets of the Charter School are summarized in the following table:

	Governmental Activities 2007	Governmental Activities 2006
	<u>2007</u>	<u>2006</u>
Current Assets	\$ 492,176	\$ 448,824
Capital Assets	626,657	383,793
Total Assets	<u>1,118,833</u>	<u>832,617</u>
Total Liabilities	1,015,115	772,156
Invested in Capital Assets	626,657	383,793
Unrestricted	(522,939)	(323,332)
Total Net Assets	<u>\$ 103,718</u>	<u>\$ 60,461</u>

The total assets of the Charter School increased by \$286,216 in 2007. The total liabilities of the Charter School increased by \$242,959 in 2007. The Charter School has no long term debt. The total net assets increased by \$43,257 in 2007 due to the total cost of capital assets purchased during the year being more than the depreciation expense for the year. These changes are primarily due to the tremendous growth of the Charter School in 2007.

Management's Discussion and Analysis

(Continued)

The *governmental statement of activities* presents information on all of the Charter School's revenue, expenses and changes in net assets for the year. The changes in net assets are detailed as follows:

	Governmental Activities 2007	Governmental Activities 2006
	<u>2007</u>	<u>2006</u>
Revenues		
Program Revenue:		
Capital Grants	\$ 1,539,770	\$ 728,158
Operating Grants and Contributions	133,095	-
Charges for Services	1,994,946	1,750,665
General Revenue:		
Federal Start-up Grant	-	-
Florida Education Finance Program	8,097,068	8,233,894
"A" School Funds	164,970	116,156
Advance Placement Funds	14,718	11,984
Voluntary Pre-kindergarten	193,403	180,418
Grants and Contributions	3,105,391	1,943,552
Miscellaneous	363,424	205,534
Total Revenues	<u>15,606,785</u>	<u>13,170,361</u>
Expenses		
Instruction	7,294,197	6,135,403
Instructional Support Services	764,554	664,947
General Support Services	6,113,540	5,082,880
Maintenance of Plant	657,932	632,035
Community Services	516,554	407,378
Depreciation - Unallocated	216,751	185,261
Total Expenses	<u>15,563,528</u>	<u>13,107,904</u>
Change in Net Assets	<u>\$ 43,257</u>	<u>\$ 62,457</u>

Charges for services revenue increased by \$244,281 in 2007 due to an increase in students participating in the Charter School's after care program as well as increases in lifelong learning fees and tuition. Capital Grants revenue increased due to the state legislature allocating significantly more funds to charter school capital outlay.

Expenses related to Instruction increased by \$1,158,794. This increase is attributed to a larger student population which continues to increase as the Charter School grows. Also, with new legislation passed mandating class size reduction, the cost of more classrooms and teachers will be reflected in the Charter School's instructional expense.

Management's Discussion and Analysis

(Concluded)

Expenses for instructional support services increased by \$99,607 in 2007 due to the increase in student population. Expenses for general support services increased by \$1,030,660 mainly due to an increase in rent expense which correlates with the increase in charter school capital outlay revenue.

Fund Financial Statements and Financial Analysis

Governmental Fund

The financial transactions of the Charter School are reported in an individual governmental fund, the general fund, which accounts for essentially the same functions as the *governmental activities* financial statements. The governmental fund financial statements are presented on the modified accrual basis of accounting, whereas the governmental activities are presented on the full accrual basis.

The fund balance-unreserved in the general fund decreased by (\$199,607) due to an operating loss of (\$173,210) and income tax expense of (\$26,397). The Charter School's governmental fund statement of revenues, and expenses and changes in fund balance shows a deficiency of revenues under expenditures of (\$199,607) for 2007.

Agency Fund

The Charter School uses an *agency fund* to account for assets held by the Charter School as agent for individuals and organizations. The agency fund included in these financial statements is the school internal fund used to administer monies collected for student athletic activities.

Capital Assets

The Charter School's investment in capital assets for its governmental activities amounts to \$626,657 (net of accumulated depreciation). This investment in capital assets includes buildings, leasehold improvements, equipment, vehicles, and library books. During the year, the Charter School completed construction on additional bleachers at the high school totaling \$377,303.

Other Matters of Significance

The Charter School is a component unit of the Sumter County District School Board. Therefore, the Charter School's financial statements are required to be included in the Sumter County District School Board's Annual Financial Report.

The Villages Charter School, Inc. is a charter school in the workplace and is subsidized by the Holding Company of The Villages, Inc. (The Villages). The Villages makes contributions to the Charter School to supplement its operations as needed.

Economic Factors

As part of the State-wide education funding formula through the Sumter County District School Board, the Charter School's economic position is closely tied to that of the State of Florida. Due to the shortfall of tax revenue in the State of Florida, the State appropriations for education for the 2007-2008 fiscal year have only slightly increased from the previous year. Management plans to be prudent in spending for the 2007-2008 fiscal year to ensure that the charter school continues to operate effectively.

**STATEMENT OF NET ASSETS
GOVERNMENTAL ACTIVITIES
JUNE 30, 2007**

**THE VILLAGES CHARTER SCHOOL, INC.
(A CHARTER SCHOOL AND COMPONENT UNIT OF THE SUMTER
COUNTY DISTRICT SCHOOL BOARD) - THE VILLAGES, FLORIDA**

ASSETS

Assets	
Cash and Cash Equivalents	\$ 375,781
Accounts Receivable	108,368
Prepaid Expenses	8,027
Capital Assets, Net of Depreciation	626,657
Total Assets	<u><u>1,118,833</u></u>

LIABILITIES AND NET ASSETS

Liabilities	
Accounts Payable - Trade	405,400
Accounts Payable - Related Parties	222,366
Accrued Expenses	259,163
Deferred Revenue	128,186
Total Liabilities	<u><u>1,015,115</u></u>

Net Assets	
Invested in Capital Assets	626,657
Unrestricted	(522,939)
Total Net Assets	<u><u>103,718</u></u>

Total Liabilities and Net Assets	<u><u>\$ 1,118,833</u></u>
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See accompanying notes.

STATEMENT OF ACTIVITIES - GOVERNMENTAL
 FOR THE YEAR ENDED JUNE 30, 2007
 THE VILLAGES CHARTER SCHOOL, INC.
 (A CHARTER SCHOOL AND COMPONENT UNIT OF THE SUMTER
 COUNTY DISTRICT SCHOOL BOARD) - THE VILLAGES, FLORIDA

Functions/Programs	Expenses	Charges for Services	Program Revenues		Net (Expenses) Revenues and Changes in Net Assets
			Operating Grants and Contributions	Capital Grants	
Governmental Activities					
Instruction	\$ 7,294,197	\$ 1,064,633	\$ 133,095		\$ (6,096,469)
Instructional Support Services	764,554				(764,554)
General Support Services	6,113,540		\$ 1,539,770		(4,573,770)
Maintenance of Plant	657,932				(657,932)
Community Services	516,554	930,313			413,759
Depreciation - Unallocated	216,751				(216,751)
Total Governmental Activities	\$ 15,563,528	\$ 1,994,946	\$ 133,095	\$ 1,539,770	(11,895,717)
General Revenues					
Florida Education Finance Program					8,097,068
"A" School Funds					164,970
Advance Placement Funds					14,718
Voluntary Pre K					193,403
Contributions					3,105,391
Other Miscellaneous					363,424
Total General Revenues					11,938,974
Change in Net Assets					43,257
Net Assets, Beginning of Year					60,461
Net Assets, End of Year					\$ 103,718

See accompanying notes.

BALANCE SHEET
GENERAL FUND
JUNE 30, 2007
THE VILLAGES CHARTER SCHOOL, INC.
(A CHARTER SCHOOL AND COMPONENT UNIT OF THE SUMTER
COUNTY DISTRICT SCHOOL BOARD) - THE VILLAGES, FLORIDA

ASSETS

Assets

Cash and Cash Equivalents	\$	375,781
Accounts Receivable		108,368
Prepaid Expenses		8,027
Total Assets		<u><u>492,176</u></u>

LIABILITIES AND FUND EQUITY

Liabilities

Accounts Payable - Trade		405,400
Accounts Payable - Related Parties		222,366
Accrued Expenses		259,163
Deferred Revenue		128,186
Total Liabilities		<u><u>1,015,115</u></u>

Fund Equity

Fund Balance:		
Unreserved		<u>(522,939)</u>

Total Liabilities and Fund Equity	\$	<u><u>492,176</u></u>
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See accompanying notes.

**RECONCILIATION OF THE BALANCE SHEET
TO THE STATEMENT OF NET ASSETS - GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
THE VILLAGES CHARTER SCHOOL, INC.
(A CHARTER SCHOOL AND COMPONENT UNIT OF THE SUMTER
COUNTY DISTRICT SCHOOL BOARD) - THE VILLAGES, FLORIDA**

Total Fund Balance (Deficit) - General Fund **\$ (522,939)**

Amounts 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
as assets in governmental funds. The cost of assets
is \$1,784,827 and the accumulated depreciation is
(\$1,158,170) for 2007.

626,657

Total Net Assets - Governmental Activities

\$ 103,718

See accompanying notes.

**STATEMENT OF REVENUES, EXPENSES,
AND CHANGES IN FUND BALANCE - GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
THE VILLAGES CHARTER SCHOOL, INC.
(A CHARTER SCHOOL AND COMPONENT UNIT OF THE SUMTER
COUNTY DISTRICT SCHOOL BOARD) - THE VILLAGES, FLORIDA**

Revenue

State - Through the Sumter County District School Board:

Florida Education Finance Program	\$ 8,097,068
Charter School Capital Outlay Funds	1,539,770
"A" School Funds	164,970
Advance Placement Funds	14,718

Local:

Grants and Contracts	133,095
Contributions	3,105,391
Voluntary Pre-kindergarten	193,403
Child Care and Other Fees	1,064,633
Lifelong Learning Fees	930,313
Miscellaneous	363,424

Total Revenue

15,606,785

Expenditures

Current:

Instruction	7,294,197
Instructional Support Services	764,554
General Support Services	6,113,540
Maintenance of Plant	657,932
Community Services	514,912
Capital Outlay	461,257

(Total Expenditures)

(15,806,392)

(Deficiency) of Revenues Under Expenditures

(199,607)

Fund Balance (Deficit), Beginning of Year

(323,332)

Fund Balance (Deficit), End of Year

\$ (522,939)

See accompanying notes.

**RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES
TO THE STATEMENT OF ACTIVITIES - GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
THE VILLAGES CHARTER SCHOOL, INC.
(A CHARTER SCHOOL AND COMPONENT UNIT OF THE SUMTER
COUNTY DISTRICT SCHOOL BOARD) - THE VILLAGES, FLORIDA**

Total Net Change in Fund Balances - General Fund **\$ (199,607)**

Amounts Reported for Governmental Activities in the
Statement of Activities are Different Because:

Capital outlays are reported in governmental funds 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 capital outlay \$461,257 is more than depreciation expense (\$216,751) in the period, including the loss of (\$1,642) on the disposition of an asset.

242,864

Total Change in Net Assets - Governmental Activities

\$ 43,257

See accompanying notes.

STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
AGENCY FUND
AS OF JUNE 30, 2007
THE VILLAGES CHARTER SCHOOL, INC.
(A CHARTER SCHOOL AND COMPONENT UNIT OF THE SUMTER
COUNTY DISTRICT SCHOOL BOARD) - THE VILLAGES, FLORIDA

	<u>Internal Accounts</u>
Assets	
Cash	<u>\$ 65,440</u>
Liabilities	
Due to Students and Student Organizations	<u>\$ 65,440</u>

See accompanying notes.

STATEMENT OF CHANGES IN FIDUCIARY ASSETS AND LIABILITIES
AGENCY FUND
FOR THE YEAR ENDED JUNE 30, 2007
THE VILLAGES CHARTER SCHOOL, INC.
(A CHARTER SCHOOL AND COMPONENT UNIT OF THE SUMTER
COUNTY DISTRICT SCHOOL BOARD) - THE VILLAGES, FLORIDA

	Internal Accounts			2007
	2006	Additions	Deletions	
Assets				
Cash	<u>\$ 33,317</u>	<u>\$ 470,794</u>	<u>\$ (438,671)</u>	<u>\$ 65,440</u>
Liabilities				
Due to Students and Student Organizations	<u>\$ 33,317</u>	<u>\$ 470,794</u>	<u>\$ (438,671)</u>	<u>\$ 65,440</u>

See accompanying notes.

NOTES TO FINANCIAL STATEMENTS
THE VILLAGES CHARTER SCHOOL, INC.
(A CHARTER SCHOOL AND COMPONENT UNIT OF THE SUMTER
COUNTY DISTRICT SCHOOL BOARD) - THE VILLAGES, FLORIDA

Note 1 - Summary of Significant Accounting Policies

Reporting Entity

The Villages Charter School, Inc. (the School) is a not-for-profit corporation organized in 1999 pursuant to Chapter 617, Florida Statutes, *Florida Not-for-Profit Corporation Act*, and Section 228.056, Florida Statutes, and operates an elementary, middle school, and high school as a charter school in the workplace. The School also operates an early childhood development and life-long learning program which is not included with the charter provisions. The governing body of the School is the Board of Directors, which is composed of five members.

The general operating authority of the School is contained in Section 228.056, Florida Statutes. The School operates under charters of the sponsoring school district, the Sumter County District School Board (the District). The current charters may be renewed or extended pursuant to Section 228.056(9)(a). At the end of the terms of the charters, the District may choose not to renew them under grounds specified in the charters, in which case the District is required to notify the School in writing at least 90 days prior to the charter's expiration. Pursuant to Section 228.056(10)(e), Florida Statutes, the School's contract provides that in the event the School is dissolved or terminated, any unencumbered funds and all the School property purchased with public funds automatically revert to the District. During the term of the charter, the District may also terminate the charter if good cause is shown. The School is considered a component unit of the District.

Criteria for determining if other entities are potential component units of the School, which should be reported with the School's financial statements, are identified and described in the Governmental Accounting Standards Board (GASB), *Codification of Governmental Accounting and Financial Reporting Standards*. The application of these criteria provide for identification of any entities for which the School is financially accountable and other organizations for which the nature and significance of their relationship with the School are such that exclusion would cause the School's financial statements to be misleading or incomplete. Based on these criteria, no component units are included within the reporting entity of the School.

In June 1999, GASB unanimously approved Statement No. 34, *Basic Financial Statements— and Management's Discussion and Analysis—for State and Local Governments*. Certain of the significant changes in the statements relevant to the School include the following:

- The government-wide financial statements are prepared using full accrual accounting for all of the School's activities, including the capitalization and depreciation of fixed assets.

This and other changes are reflected in the accompanying financial statements (including notes to financial statements).

Basis of Presentation

The School's basic financial statements include both government-wide (reporting the School as a whole) and fund financial statements (reporting the major fund). The School's primary activities are classified as governmental activities.

NOTES TO FINANCIAL STATEMENTS
THE VILLAGES CHARTER SCHOOL, INC.
(A CHARTER SCHOOL AND COMPONENT UNIT OF THE SUMTER
COUNTY DISTRICT SCHOOL BOARD) - THE VILLAGES, FLORIDA
(Continued)

Note 1 - Summary of Significant Accounting Policies (Continued)

Basis of Presentation (Concluded)

In the government-wide statement of net assets, the governmental fund is reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables. The School's net assets are reported in two parts - invested in capital assets and unrestricted net assets.

The government-wide statement of activities reports both the gross and net cost of each of the School's functions. The statement of activities reduces gross expenses (including depreciation) by related program revenues, operating and capital grants. Program revenues must be directly associated with the function. Operating grants include operating - specific and discretionary (either operating or capital) grants while the capital grants column reflects capital - specific grants.

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

Basic Financial Statements - Fund Financial Statements

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

The following fund type is used by the School:

■ **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 following is a description of the governmental fund of the School:

- **General Fund** - is the general operating fund of the School. It is used to account for all financial resources.
- **Agency Funds** - to account for resources of the school internal funds which are used to administer monies collected for student athletic activities.

Basis of Accounting

Basis of accounting refers to when revenues or expenditures/expenses are recognized in the accounts and reported in the financial statements. It relates to the timing of the recognition, 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.

**NOTES TO FINANCIAL STATEMENTS
THE VILLAGES CHARTER SCHOOL, INC.
(A CHARTER SCHOOL AND COMPONENT UNIT OF THE SUMTER
COUNTY DISTRICT SCHOOL BOARD) - THE VILLAGES, FLORIDA
(Continued)**

Note 1 - Summary of Significant Accounting Policies (Continued)

Basis of Accounting (Concluded)

■ **Modified Accrual**

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

Cash and Cash Equivalents

Cash and cash equivalents are deposits held by a bank. All deposits are insured by Federal Depository Insurance Corporation (FDIC) up to \$100,000. As of June 30, 2007, the School had \$343,225 in deposits over the FDIC insured limits that are uncollateralized. The School has no formal policy in relation to deposits.

Capital Assets

Capital assets purchased or acquired with an original cost of \$2,000 or more are reported at historical cost or estimated historical cost. Contributed assets are reported at fair market value as of the date received. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Depreciation on all assets is provided over the following estimated useful lives:

Library Books	5 Years
Machinery and Equipment	5-15 Years
Improvements	39 Years

Revenue Sources

Revenues for current operations are received primarily from the District pursuant to the funding provisions included in the School's charter. In accordance with the funding provisions of the charter and Section 228.056(13), Florida Statutes, the School reports the number of full-time equivalent (FTE) students and related data to the District. Under the provisions of Section 236.081, Florida Statutes, the District 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 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 School during the designated FTE student survey periods. Additionally, during the 2006-2007 school year, the School received A+ funds under the Bush/Brogan A+ Plan for Education.

NOTES TO FINANCIAL STATEMENTS
THE VILLAGES CHARTER SCHOOL, INC.
(A CHARTER SCHOOL AND COMPONENT UNIT OF THE SUMTER
COUNTY DISTRICT SCHOOL BOARD) - THE VILLAGES, FLORIDA
(Continued)

Note 1 - Summary of Significant Accounting Policies (Concluded)

Revenue Sources (Concluded)

Charter School Capital Outlay Funds are appropriated per Section 1013.62 (1), Florida Statutes for capital outlay purposes. The Commissioner of Education allocates the funds among eligible Charter Schools.

The School also receives grant revenues, tuition, after care fees, Voluntary Pre-kindergarten funding, contributions from the Villages, contributions from other fundraising sources and other miscellaneous items. There are no allocations of indirect expenses in the statement of activities.

Compensated Absences

The School has a policy to allow for paid days off (PDO) or compensated absences, however no employees have reached the eligibility requirements as of June 30, 2007, therefore, no compensated absences amounts have been recorded.

Note 2 - Capital Assets

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

	Primary Government			Ending Balance
	Beginning Balance	Increases	Decreases	
Governmental Activities				
Capital Assets Not Being Depreciated:				
Construction in Progress	\$ 159,945	\$ 217,358	\$ (377,303)	\$ 0
Capital Assets Being Depreciated:				
Furniture and Equipment	498,210	172,038	(9,197)	661,051
Buildings	48,154	377,303	0	425,457
Library Books	574,038	52,268	0	626,306
Leasehold Improvements	26,624	19,592	0	46,216
Vehicles	21,921	0	0	21,921
Infrastructure	3,876	0	0	3,876
Total Capital Assets Being Depreciated	1,172,823	621,201	(9,197)	1,784,827

NOTES TO FINANCIAL STATEMENTS
THE VILLAGES CHARTER SCHOOL, INC.
(A CHARTER SCHOOL AND COMPONENT UNIT OF THE SUMTER
COUNTY DISTRICT SCHOOL BOARD) - THE VILLAGES, FLORIDA
(Continued)

Note 2 - Capital Assets (Concluded)

	<u>Primary Government</u>			<u>Ending</u> <u>Balance</u>
	<u>Beginning</u> <u>Balance</u>	<u>Increases</u>	<u>Decreases</u>	
Governmental Activities (Concluded)				
Less Accumulated Depreciation for:				
Furniture and Equipment	\$ (412,568)	\$ (131,657)	\$ 7,556	\$ (536,669)
Buildings	(3,447)	(9,700)	0	(13,147)
Library Books	(509,665)	(72,630)	0	(582,295)
Leasehold Improvements	(1,722)	(1,336)	0	(3,058)
Vehicles	(19,599)	(1,238)	0	(20,837)
Infrastructure	(1,974)	(190)	0	(2,164)
(Total Accumulated Depreciation)	<u>(948,975)</u>	<u>(216,751)</u>	<u>7,556</u>	<u>(1,158,170)</u>
Total Capital Assets Being Depreciated, Net	<u>223,848</u>	<u>404,450</u>	<u>(1,641)</u>	<u>626,657</u>
Governmental Activities Capital Assets, Net	<u>\$ 383,793</u>	<u>\$ 621,808</u>	<u>\$ (378,944)</u>	<u>\$ 626,657</u>

Depreciation expense for the period was \$216,751, which is all shown as unallocated in the statement of activities.

Note 3 - Federal and State Taxes

During 1999, the School was incorporated as a Florida not-for-profit corporation. However, the School is subject to both state and federal income taxes. For the fiscal year ending June 30, 2007, the School owes \$26,397 for federal and state income taxes due.

Note 4 - Fund Balance Deficit

As of June 30, 2007, the fund balance in the general fund had a deficit of (\$522,939).

Note 5 - Related Party Transactions

During the year ended June 30, 2007, there were various transactions between the School and related parties. A listing of these transactions is as follows:

- The Holding Company of the Villages, Inc. (The Villages) (fka The Villages of Lake Sumter, Inc.), the incorporator of the School, leases the school building to the School. Rent expense paid under this agreement was \$1,539,770.

NOTES TO FINANCIAL STATEMENTS
THE VILLAGES CHARTER SCHOOL, INC.
(A CHARTER SCHOOL AND COMPONENT UNIT OF THE SUMTER
COUNTY DISTRICT SCHOOL BOARD) - THE VILLAGES, FLORIDA
(Continued)

Note 5 - Related Party Transactions (Concluded)

- The Villages made contributions to the School for operations in the amount of \$997,108. The School has an economic dependency upon the Villages for the operations of the School.
- The Villages made contributions to the School in accordance with its lease agreement with Sumter County School Board in the amount of \$1,618,262. The School was assigned the proceeds from the lease agreement.
- The Villages provides accounting and administrative services to the School, which amounted to \$163,800 for 2007.

Note 6 - Operating Lease

The School leases the early childhood centers, elementary, middle, and high school buildings under a noncancellable operating lease agreement with The Villages of Lake Sumter, Inc., a related party. The lease has a 60-month term agreement that is structured based upon the receipt of the School's capital outlay funds provided by the District. Operating lease expenditures were \$1,539,770 for the year ending June 30, 2007.

Note 7 - Defined Contribution Plan

The School provides a defined contribution plan administered by Wachovia Bank. The name of the plan is The Villages Charter School, Inc. Employees Savings Plan, which qualifies as a 401(k) plan under the Internal Revenue Code.

The plan document allows employees to contribute up to 10% of their total salary for the fiscal year. The School is required to match 100% of the first 3% of the employee's contribution. Employees have 100% vesting in the plan for their portion of contributions, but must follow a graduated vesting schedule for the employers matching contributions. Total contributions made by the employer were \$161,148 for 2007.

Note 8 - Risk Management Programs

General liability insurance is being provided through purchased commercial insurance. The school provides employee health insurance through a self-insurance program. Claims in excess of \$30,000 per employee are covered by purchased reinsurance. All claims submitted are processed by a third party administrator and are paid directly. Settled claims resulting from these risks have not exceeded commercial coverage in the last three years. The following is a two-year summary of claims incurred and paid:

NOTES TO FINANCIAL STATEMENTS
THE VILLAGES CHARTER SCHOOL, INC.
(A CHARTER SCHOOL AND COMPONENT UNIT OF THE SUMTER
COUNTY DISTRICT SCHOOL BOARD) - THE VILLAGES, FLORIDA
(Concluded)

Note 8 - Risk Management Programs (Concluded)

<u>Year</u>	<u>Claims Payable Beginning of Year</u>	<u>Claims Incurred</u>	<u>Claims Paid</u>	<u>Claims Payable End of Year</u>
2006	\$ 47,531	\$ 921,509	\$ (881,182)	\$ 87,858
2007	87,858	972,679	(982,412)	78,125

Note 9 - Sumter County School Board Lease Agreement with The Villages of Lake Sumter, Inc.

Pursuant to a lease agreement between The Villages of Lake Sumter, Inc. and the Sumter County School Board (SCSB), the School has been named as the assignee and joins in the terms of this agreement. The effective date of the agreement is July 1, 2006 ending July 1, 2018, the ending date of all the School charter contracts with the Sumter County School Board.

Under the terms of the agreement, the SCSB pays The Villages of Lake Sumter, Inc. annual rent for all school buildings constructed after July 1, 2006. That rent shall be a percentage of the Two Mill Tax Base (which is 95% of the taxable value of real property located within the Villages) multiplied by the millage rate assessed under Florida Statutes Section 1011.71(2) for that lease year as described in the lease agreement. The amount received will then be disbursed the School as assignee and recorded as a contribution from The Villages of Lake Sumter, Inc.

Additionally, the School agrees to waive its right to receive Sparsity funding, Supplemental Academic Instruction funding, Discretionary Lottery Dollars funding, Basic Discretionary Millage funding, and Supplemental Millage funding in any lease year that the SCSB pays to the Villages additional rent. This additional rent is also assigned to the School and equates to the amount of the waived funding.

Note 10 - Subsequent Events

The operating deficit in the financial statements was funded subsequent to year end through contributions from The Villages.

As of July 1, 2007, the School amended their elementary school charter to include the middle and high school. The previous charters for the middle and high school were terminated at June 30, 2007. Therefore, there will only be one charter between Sumter County School Board and the School.

SUPPLEMENTAL INFORMATION

**SCHEDULE OF REVENUES AND EXPENDITURES BY
CHARTERED SCHOOLS AND LEARNING CENTERS
FOR THE YEAR ENDED JUNE 30, 2007
THE VILLAGES CHARTER SCHOOL, INC.
(A CHARTER SCHOOL AND COMPONENT UNIT OF THE SUMTER
COUNTY DISTRICT SCHOOL BOARD) - THE VILLAGES, FLORIDA**

	<u>Elementary School</u>	<u>Middle School</u>	<u>High School</u>	<u>Learning Centers</u>	<u>Buffalo Adventures</u>	<u>Total</u>
Revenues						
State - Through the Sumter County District School Board:						
Florida Education Finance Program	\$ 3,729,144	\$ 2,065,535	\$ 2,302,389			\$ 8,097,068
Charter School Capital Outlay Funding	732,022	351,660	456,088			1,539,770
"A" School Fees	77,890	44,050	43,030			164,970
Advanced Placement			14,718			14,718
Local:						0
Grants and Contracts			133,095			133,095
Contributions	878,166	767,180	1,428,901	\$ 31,144		3,105,391
Voluntary Pre-kindergarten				193,403		193,403
Child Care and Other Fees				383,557	\$ 681,076	1,064,633
Lifelong Tuition Fees				930,313		930,313
Miscellaneous	216,380	130,527	274,527	76,306	2,829	700,569 *
Total Revenues	<u>5,633,602</u>	<u>3,358,952</u>	<u>4,652,748</u>	<u>1,614,723</u>	<u>683,905</u>	<u>15,943,930</u>
Expenditures						
Current:						
Instruction	2,768,946	1,775,692	2,400,463	349,096		7,294,197
Instructional Support Service	278,544	186,518	298,296	1,196		764,554
General Support Services	1,974,852	1,208,434	1,881,093	1,217,313		6,281,692 *
Maintenance of Plant	157,436	144,104	356,392			657,932
Community Services					683,905	683,905 *
Capital Outlay	44,241	50,539	358,833	7,644		461,257
(Total Expenditures)	<u>(5,224,019)</u>	<u>(3,365,287)</u>	<u>(5,295,077)</u>	<u>(1,575,249)</u>	<u>(683,905)</u>	<u>(16,143,537)</u>
Revenues Over (Under) Expenditures	<u>\$ 409,583</u>	<u>\$ (6,335)</u>	<u>\$ (642,329)</u>	<u>\$ 39,474</u>	<u>\$ 0</u>	<u>\$ (199,607)</u>

* Amounts include inter school rent and miscellaneous charges/fees in the amount of \$337,145 that has been eliminated in the governmental fund statement of revenues, expenses, and changes in fund balance.

Note: The Learning Centers include the Early Childhood Center and Life Long Learning College. Buffalo Adventures is the after school program that includes extra curricular activities.

**ADDITIONAL ELEMENTS OF REPORT PREPARED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*
AND THE *RULES OF THE AUDITOR GENERAL***

**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
The Villages Charter School, Inc.
The Villages, Florida

We have audited the basic financial statements of The Villages Charter School, Inc. (the School) as of and for the year ended June 30, 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 School's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the 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 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 School'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 School's financial statements that is more than inconsequential will not be prevented or detected by the School's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the School's internal control.

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 internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we would consider to be a material weakness, as defined above.

Certified Public Accountants

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MEMBER OF AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS PRIVATE COMPANIES AND S.E.C. PRACTICE SECTIONS

Board of Directors
The Villages Charter School, Inc.
The Villages, Florida

**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*
(Concluded)**

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*.

We noted certain matters that we reported to management of the School, in a separate letter dated October 25, 2007.

This report is intended solely for the information and use of the management of the School and appropriate audit agencies, and is not intended to be and should not be used by anyone other than these specified parties.

Purvis, Gray and Company, LLP

October 25, 2007
Ocala, Florida

MANAGEMENT LETTER

Board of Directors
The Villages Charter School, Inc.
The Villages, Florida

We have audited the financial statements of The Villages Charter School, Inc. (the School) as of and for the year ended June 30, 2007, and have issued our report thereon dated October 25, 2007.

We have issued our independent auditors' report on internal control over financial reporting and on compliance and other matters dated October 25, 2007. Disclosures in that report, if any, should be considered in conjunction with this management letter.

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. Additionally, our audit was conducted in accordance with the provisions of Chapter 10.850, *Rules of the Auditor General*, which govern the conduct of charter school audits performed in the State of Florida and require that certain items be addressed in this letter.

The *Rules of the Auditor General* [Section 10.854(1)(d)1.] require that a statement is made as to whether corrective actions have been taken to address significant findings and recommendations made in the preceding annual financial audit report (see management letter comments dated October 25, 2007).

The *Rules of the Auditor General* [Section 10.854(1)(d)2.] require that a statement as to whether the charter school has met one or more of the conditions described in Section 218.503 (1), Florida Statutes, and identification of the specific condition(s) met [see also Rule 10.857 (1).] (see management letter comments dated October 25, 2007).

The *Rules of the Auditor General* [Section 10.854(1)(d)3.] require that recommendations to improve present financial management, accounting procedures, and internal controls communicated. No recommendations were communicated to management that were required to be presented in a management letter comments.

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Board of Directors
The Villages Charter School, Inc.
The Villages, Florida

MANAGEMENT LETTER
(Concluded)

The *Rules of the Auditor General* [Section 10.854 (1)(d)4.a, b and c] require that a statement is made concerning matters that are not clearly inconsequential considering both quantitative and qualitative factors, including the following: Violations of laws, rules, regulations, contracts, and grant agreements or abuse that: (1) have occurred, or are likely to have occurred; (2) were discovered within the scope of the financial audit; and (3) may or may not have materially affected the financial statements, improper expenditures discovered within the scope of the financial audit which may or may not materially affect the financial statements and any deficiencies in internal control that are not reportable conditions, including, but not limited to: improper or inadequate accounting procedures (e.g., the omission of required disclosures from the annual financial statements and failures to properly record financial transactions. There were no such matters that occurred in the current year audit.

The *Rules of the Auditor General* [Section 10.854(1)(d)6.] require that the name or official title of the School be stated (see note 1 in the audit report).

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

Purvis, Gray and Company, LLP

October 25, 2007
Ocala, Florida

MANAGEMENT LETTER COMMENTS

Board of Directors
The Villages Charter School, Inc.
The Villages, Florida

During the course of our audit, the following items came to our attention. These items involve primarily operational matters, which, if improved, will result in more efficient and effective operations.

Prior and Current Year Comment

- **Funding Deficit (Addressing the Rules of the Auditor General [Section 10.854(1)(d)(2)])**
The Villages Charter School, Inc. (the School) has met one of the conditions described in Section 218.503(1), Florida Statutes, dealing with financial emergencies. The condition met is that the School has had and currently has a total fund balance deficit.

Since the inception of the School, its incorporator, the Holding Company of The Villages (the Villages) has contributed funds sufficient to pay all remaining expenditures of the School not otherwise covered by funding from the Sumter County School Board and other miscellaneous sources. As indicated in note 11 to the financial statements, the Villages funded the June 30, 2007, operating deficit subsequent to year end.

We recommend that the Villages develop a written agreement with the School formalizing their intent to financially supplement the School's operations. This will ensure financial viability and satisfy the requirements that would indicate that although the School has a fund balance deficit, they also have resources available to cover reported deficits through a written contractual agreement with the Villages.

The management letter comments are intended solely for the information and use of the School's management, the State of Florida, and other governmental agencies, and are not intended to be and should not be used by anyone other than these specified parties.

We would like to take this opportunity to express our appreciation for the courtesies which have been extended to our staff. If you have any questions or comments about the contents of this letter, or the information accompanying this letter, please do not hesitate to contact us.

October 25, 2007
Ocala, Florida

Purvis, Gray and Company, LLP

Certified Public Accountants

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The Villages® Charter School, Inc.

October 25, 2007

Board of Directors
The Villages Charter School, Inc.
The Villages, Florida


The audit of The Villages Charter School, Inc. ("Charter School") financial statements for the year ended June 30, 2007 has been completed. In conjunction with the audited financial statements, Purvis, Gray & Company, Certified Public Accountants has issued a management letter dated October 25, 2007.

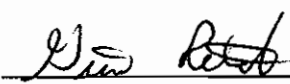
The purpose of this letter is to respond to the comment listed in the management letter.

Funding Deficit

Although the Charter School has a deficit fund balance at June 30, 2007, the Charter School has proven resources to supplement the deficit. The Villages is the creator of the Charter School and has proven every year that they are willing to supplement the Charter School on an as needed basis and will continue to do so.

Very truly yours,



Dr. Randy G. McDaniel, Director of Education

Gina Ritch, CPA, Director of Accounting and Finance