

**USF CHARTER SCHOOL, INC. CHARTER 6605 K-3
A CHARTER SCHOOL AND COMPONENT UNIT OF THE
SCHOOL DISTRICT OF HILLSBOROUGH COUNTY**

**FINANCIAL STATEMENTS, SUPPLEMENTARY INFORMATION,
AND REGULATORY REPORTS**

JUNE 30, 2007

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P. A.



CERTIFIED PUBLIC
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INDEPENDENT AUDITORS' REPORT ON BASIC FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION

To the Board of Directors
USF Charter School, Inc. Charter 6605 K-3,
a Charter School and Component Unit of
the School District of Hillsborough County
Tampa, Florida

We have audited the accompanying financial statements of the governmental activities and each major fund of USF Charter School, Inc. Charter 6605 K-3 ("the School"), a Charter School and Component Unit of the School District of Hillsborough County, as of June 30, 2007 and for the year then ended, which collectively comprise the School's basic financial statements as listed in the table of contents. These basic financial statements are the responsibility of the School's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and 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 respective financial position of the governmental activities and each major fund of the School as of June 30, 2007 and the respective changes in financial position, thereof 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 September 26, 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 grants.



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That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of the audit.

The accompanying required supplementary information, such as management's discussion and analysis on pages 3 through 7 and schedule of revenues, expenditures and changes – budget and actual for the General and Special Revenue Fund on pages 27 and 28 are not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. 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 as such, express no opinion on them.

Our audit was performed for the purpose of forming an opinion on the basic financial statements of the School taken as a whole. The accompanying Schedule of Revenues, Expenditures and Changes Budget and Actual – Capital Project Fund (page 29) and the Combined Statement of Net Assets and Combined Statement of Activities (pages 30 and 31) are presented for purposes of additional analysis and is not a required part of the basic financial statements. These supplementary 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.

Valiente Hernandez P.A.

CERTIFIED PUBLIC ACCOUNTANTS

Tampa, Florida
September 26, 2007

MANAGEMENT'S DISCUSSION AND ANALYSIS

**USF CHARTER SCHOOL, INC. CHARTER 6605 K-3
A CHARTER SCHOOL AND COMPONENT UNIT OF THE
SCHOOL DISTRICT OF HILLSBOROUGH COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2007**

USF Charter School, Inc. Charter 6605 K-3 ("the School"), a Charter School and component unit of the School District of Hillsborough County, has prepared the following Management Discussion and Analysis (MD&A) to provide the reader with highlights of various financial and non-financial events of the past year. In addition, the analysis will provide the reader with the following information:

- A brief discussion of the basic financial statements, including how they relate to each other and the significant differences in information they provide.
- Condensed current and prior year financial information and a comparative analysis to discuss the reason for significant changes and factors that significantly affected current year operations.
- A review and analysis of individual fund financial information, including the reasons for significant changes in fund balances or net assets.
- An analysis of significant variations between original and final budget amounts and the actual results.
- A description of currently known facts, decisions, or conditions that are expected to have a significant effect on the financial position or results of operations.

Because the information contained in the MD&A is intended to highlight significant transactions, events and conditions, it should be considered in conjunction with the School's basic financial statements found on pages 9 through 26.

BASIC FINANCIAL STATEMENTS – AN OVERVIEW:

The basic financial statements consist of three components:

1. Government-wide financial statements
2. Fund financial statements
3. Notes to basic financial statements

In addition, this report presents certain required supplementary information, which includes management's discussion and analysis.

Government-wide Financial Statements

The government-wide financial statements provide both short-term and long-term information about the School's overall financial condition in a manner similar to those of a private-sector business. The statements include a statement of net assets and a statement of activities that are designed to provide consolidated financial information about the School presented on the accrual basis of accounting.

**USF CHARTER SCHOOL, INC. CHARTER 6605 K-3
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SCHOOL DISTRICT OF HILLSBOROUGH COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2007**

BASIC FINANCIAL STATEMENTS – AN OVERVIEW (continued):

The statement of net assets provides information about the government's financial position, its net assets and liabilities, using an economic resources measurement focus. The difference between the assets and liabilities, the net assets, is a measure of the financial health of the School. The statement of activities presents information about the change in the School's net assets, the results of operations, during the fiscal year. An increase or decrease in net assets is an indication of whether the School's financial health is improving or deteriorating.

The government-wide statements present the School's activities in one category:

Government activities - This represents most of the School's services including its educational programs, which are basic and exceptional education. Support functions such as transportation, plant operation, and administration are also included. The state's education finance program provides most of the resources that support these activities.

Over the period of time, changes in the School's net assets are an indication of improving or deteriorating financial condition. This information should be evaluated in conjunction with other non-financial factors, such as changes in the School's capital assets. Particularly, during the fiscal year 2006, the School allocated part of its prepaid portion of the University of South Florida lease to Charter School 6627 Intermediate 4-5, thus reducing the School's prepaid lease account and creating a "due to" account from Charter School 6627.

Fund Financial Statements

Fund financial statements are one of the components of the basic financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The School uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements and prudent fiscal management. Law establishes certain funds while others are created by grant agreements, such as federal grants. Fund financial statements provide more detailed information about the School's financial activities, focusing on its most significant or "major" funds rather than fund types. This is in contrast to the entity-wide perspective contained in the government-wide statements.

All of the School's funds may be classified in one broad category:

Governmental Funds – Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, the government funds utilize a spendable financial resources measurement focus rather than the economic resources measurement focus found in the government-wide financial statements.

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**MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2007**

BASIC FINANCIAL STATEMENTS – AN OVERVIEW (continued):

This financial resources measurement focus allows the governmental fund statements to provide information on near-term inflows and outflows of spendable resources as well as balances of spendable resources available at the end of fiscal year. Accordingly, the governmental fund statement provides a detailed short-term view that may be used to evaluate the School's near-term financing requirements. This short-term view is useful when compared to the long-term view presented as governmental activities in the government-wide financial statements. To facilitate this comparison, both the governmental balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balance provide a reconciliation of governmental funds to governmental activities.

GOVERNMENT-WIDE FINANCIAL ANALYSIS:

The School's net assets as of June 30, 2007 and 2006 are as follows:

	Primary Government		
	Government Activities		
	2007	2006	Change
Current and other assets	\$ 1,055,598	\$ 950,808	\$ 104,790
Capital assets	203,638	39,189	164,449
Total assets	<u>1,259,236</u>	<u>989,997</u>	<u>269,239</u>
Total liabilities	<u>232,668</u>	<u>45,060</u>	<u>187,608</u>
Net assets:			
Invested in capital assets net of related debt, if any	16,972	39,189	(22,217)
Restricted	379,057	416,962	(37,905)
Unrestricted	630,539	488,786	141,753
Total net assets	<u>\$ 1,026,568</u>	<u>\$ 944,937</u>	<u>\$ 81,631</u>

Management Comments

- Total assets increased by \$269,239 due primarily to an increase in cash and in capital asset leasehold improvements.
- Total liabilities increased by \$187,608 due primarily to the recognition of a \$280,000 loan payable to the USF Foundation used in construction of the USF Patel Charter School facility. The loan balance has been allocated as \$186,666 and 93,334 to Charter 6605 K-3 and Charter 6627 Intermediate 4-5 respectively as of June 30, 2007.
- Net assets increased by \$81,631 in fiscal year 2007.

**USF CHARTER SCHOOL, INC. CHARTER 6605 K-3
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**MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2007**

GOVERNMENT-WIDE FINANCIAL ANALYSIS (continued):

The School's changes in net assets for the years ended June 30, 2007 and 2006 are as follows:

	Primary Government		
	Governmental Activities		
	2007	2006	Change
Revenues			
Program revenues:			
Categorical	\$ -	\$ 16,728	\$ (16,728)
Lunch money	3,340	3,718	(378)
Title I	80,043	69,010	11,033
	<u>83,383</u>	<u>89,456</u>	<u>(6,073)</u>
General Revenues:			
FEFP	825,599	770,244	55,355
Capital Outlay	95,265	54,618	40,647
Other	43,860	14,187	29,673
	<u>964,724</u>	<u>839,049</u>	<u>125,675</u>
Total Revenue	<u>1,048,107</u>	<u>928,505</u>	<u>119,602</u>
Program expenses:			
Charter school	<u>978,857</u>	<u>890,915</u>	<u>87,942</u>
Increase in net assets	<u>\$ 69,250</u>	<u>\$ 37,590</u>	<u>\$ 31,660</u>

Management Comments

Total change in net assets increased this year by \$49,735. This was partly due to an increase in the Florida Education Finance program (FEFP) and in capital outlay funds.

Total assets and liabilities increased primarily to the recognition of a \$280,000 loan payable to the USF Foundation, Inc. used in improvements to the School's of facilities. The loan balance is \$93,334 and \$186,666 to Charter 6627 Intermediate and Charter 6605 K-3, respectively as of June 30, 2007; the \$100,000 difference was paid on behalf of the School by a third party prior to June 30, 2006..

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**USF CHARTER SCHOOL, INC. CHARTER 6605 K-3
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**MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2007**

FINANCIAL ANALYSIS OF INDIVIDUAL FUNDS:

This section provides an analysis of the balances and transactions of individual funds, the reasons for significant changes in fund balances or fund net assets and whether there are any restrictions, commitments, or other limitations that could significantly affect the availability of fund resources for future use.

The General Fund balance increased by \$98,881 as follows:

Income	\$ 872,799
Expenditures	<u>773,918</u>
Excess of revenues over expenditures	98,881
Balance, July 1, 2006	<u>230,118</u>
Balance, June 30, 2007	<u><u>\$ 328,999</u></u>

Income

As mentioned in the Government-wide Analysis, income for the fiscal year ended June 30, 2007 was the result of an increase in FEFP funds.

Expenses

Expenses for 2007 compared with 2006, increased by \$49,482 principally due to an increase in school administration and operation of plant expenditures.

Capital Assets and Long-Term Debt

- There was \$6,444 in additions to capital assets.
- Depreciation of furniture and fixtures was \$41,042.
- There is no long-term debt issued as of June 30, 2007, however there was a promissory note with a balance of \$280,000, with an original balance of \$380,000 recognized by the School during fiscal year ended June 30, 2007. Note 6 to the notes to the financial statements further explains the recognition of this note.

BUDGET VARIANCE IN THE GENERAL FUND:

There was no significant variation between the final budget and actual amounts for revenues and expenditures.

SIGNIFICANT ECONOMIC FACTORS OR OTHER CONDITIONS:

None identified.

BASIC FINANCIAL STATEMENTS

**USF CHARTER SCHOOL, INC. CHARTER 6605 K-3
A CHARTER SCHOOL AND COMPONENT UNIT OF THE
SCHOOL DISTRICT OF HILLSBOROUGH COUNTY**

**STATEMENT OF NET ASSETS
AS OF JUNE 30, 2007**

	Primary Government	
	Governmental Activities	Totals
<u>ASSETS</u>		
Cash and cash equivalents	\$ 437,942	\$ 437,942
Prepaid lease (Notes 2 and 5)	379,057	379,057
Due from other agencies	8,487	8,487
Due from Charter 6627	227,683	227,683
Capital assets (Note 3)	203,638	203,638
Prepaid expenses and deposits	2,429	2,429
	<u>\$ 1,259,236</u>	<u>\$ 1,259,236</u>
 <u>LIABILITIES AND NET ASSETS</u>		
 LIABILITIES		
Accounts payable	\$ 11,793	\$ 11,793
Accrued expenses	34,209	34,209
Note payable to the USF Foundation Inc. (Note 6)	186,666	186,666
	<u>232,668</u>	<u>232,668</u>
 NET ASSETS		
Invested in capital assets, net of related debt, if any	16,972	16,972
Restricted for:		
Amortization of prepaid lease (Note 2)	379,057	379,057
Unrestricted	630,539	630,539
	<u>1,026,568</u>	<u>1,026,568</u>
	<u>\$ 1,259,236</u>	<u>\$ 1,259,236</u>

The notes to basic financial statements are an integral part of this statement.

**USF CHARTER SCHOOL, INC. CHARTER 6605 K-3
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**STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

FUNCTIONS	Program Revenues			Net (Expense) Revenue And Changes in Net Assets	
	Expenses	Charges for Services	Operating Grants and Contributions	Primary Government	
				Governmental Activities	Total
Governmental activities:					
Instruction	\$ 564,322	\$ -	\$ 80,043	\$ (484,279)	(484,279)
Board	8,500	-	-	(8,500)	(8,500)
School administration	121,439	-	-	(121,439)	(121,439)
School district administrative fee	49,505	-	-	(49,505)	(49,505)
Fiscal services	10,255	-	-	(10,255)	(10,255)
Food services	12,693	3,340	-	(9,353)	(9,353)
Pupil transportation services	869	-	-	(869)	(869)
Operation of plant	60,432	-	95,265	34,833	34,833
Facilities	50,626	-	-	(50,626)	(50,626)
Maintenance of plant	4,071	-	-	(4,071)	(4,071)
Prepaid rent amortization expense	37,905	-	-	(37,905)	(37,905)
Central services	554	-	-	(554)	(554)
Year book and dance	3,669	-	-	(3,669)	(3,669)
Interest payments	12,975	-	-	(12,975)	(12,975)
Unallocated depreciation expense	41,042	-	-	(41,042)	(41,042)
Total primary governmental activities	\$ 978,857	\$ 3,340	\$ 175,308	(800,209)	(800,209)
General revenues:					
Grants/contributions not restricted to specific programs				838,574	838,574
Investment earnings				8,866	8,866
Miscellaneous				22,019	22,019
Total general revenues, extraordinary items, and transfers				869,459	869,459
Change in net assets				69,250	69,250
Net Assets - July 1, 2006 as previously stated				944,937	944,937
Prior period adjustment (Note 9)				12,381	12,381
Net Assets - July 1, 2006 as restated				957,318	957,318
Net Assets - June 30, 2007				\$ 1,026,568	\$ 1,026,568

The notes to basic financial statements are an integral part of this statement.

**USF CHARTER SCHOOL, INC. CHARTER 6605 K-3
A CHARTER SCHOOL AND COMPONENT UNIT OF THE
SCHOOL DISTRICT OF HILLSBOROUGH COUNTY**

**BALANCE SHEET – GOVERNMENTAL FUNDS
AS OF JUNE 30, 2007**

	General Fund	Public Education Capital Outlay (PECO)	Total Governmental Funds
<u>ASSETS:</u>			
Cash and cash equivalents	\$ 437,942	\$ -	\$ 437,942
Prepaid lease (Notes 2 and 5)		379,057	379,057
Due from other agencies	1,575	6,912	8,487
Due from Charter 6627	-	227,683	227,683
Due from other funds	-	65,774	65,774
	\$ 439,517	\$ 679,426	\$ 1,118,943
 <u>LIABILITIES AND FUND BALANCES</u>			
LIABILITIES			
Accounts payable	\$ 10,535	\$ 1,258	\$ 11,793
Due to other funds	65,774	-	65,774
Accrued expenses	34,209	-	34,209
	110,518	1,258	111,776
 FUND BALANCES (Note 6)			
Fund balances:			
Reserved	-	678,168	678,168
Unreserved	328,999	-	328,999
	328,999	678,168	1,007,167
Total fund balances	328,999	678,168	1,007,167
Total liabilities and fund balances	\$ 439,517	\$ 679,426	\$ 1,118,943

The notes to basic financial statements are an integral part of this statement.

**USF CHARTER SCHOOL, INC. CHARTER 6605 K-3
A CHARTER SCHOOL AND COMPONENT UNIT OF THE
SCHOOL DISTRICT OF HILLSBOROUGH COUNTY**

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
JUNE 30, 2007**

Total fund balances - Governmental funds	\$ 1,007,167
 Amounts reported for <i>governmental activities</i> in the statement of net assets are different because:	
Capital assets and deposits on utilities used in governmental activities are not financial resources and therefore are not reported in the funds.	206,067
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds.	<u>(186,666)</u>
Total net assets - Governmental activities	<u>\$ 1,026,568</u>

The notes to basic financial statements are an integral part of this statement.

**USF CHARTER SCHOOL, INC. CHARTER 6605 K-3
A CHARTER SCHOOL AND COMPONENT UNIT OF THE
SCHOOL DISTRICT OF HILLSBOROUGH COUNTY**

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES – GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

	General	Other Federal Programs	Public Education Capital Outlay (PECO)	Total Governmental Funds
Revenues:				
Federal through state	\$ -	\$ 80,043	\$ -	\$ 80,043
State sources	823,896	-	95,265	919,161
Contributions and grants	14,678	-	-	14,678
Interest income	8,866	-	-	8,866
Lunch money	3,340	-	-	3,340
Other	22,019	-	-	22,019
Total revenues	872,799	80,043	95,265	1,048,107
Expenditures:				
Current:				
Instruction	492,769	71,553	-	564,322
Board	8,500	-	-	8,500
School administration	121,439	-	-	121,439
School district administration fee	41,015	8,490	-	49,505
Fiscal services	10,255	-	-	10,255
Food services	12,693	-	-	12,693
Pupil transportation services	869	-	-	869
Operation of plant	60,432	-	-	60,432
Facilities	8,604	-	42,022	50,626
Maintenance of plant	144	-	3,927	4,071
Prepaid lease amortization	-	-	37,905	37,905
Central services	554	-	-	554
Year book and dance	3,669	-	-	3,669
Debt service:				
Interest payments	12,975	-	-	12,975
Capital outlay	-	-	6,444	6,444
Total expenditures	773,918	80,043	90,298	944,259
(Excess) of expenditures over revenues	98,881	-	4,967	103,848
Fund balance, beginning of the year	230,118	-	673,201	903,319
Fund balance, end of the year	\$ 328,999	\$ -	\$ 678,168	\$ 1,007,167

The notes to basic financial statements are an integral part of this statement.

**USF CHARTER SCHOOL, INC. CHARTER 6605 K-3
A CHARTER SCHOOL AND COMPONENT UNIT OF THE
SCHOOL DISTRICT OF HILLSBOROUGH COUNTY**

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

Net change in fund balances - Total Governmental funds \$ 103,848

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

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets are allocated over their estimated useful lives as depreciation expense. This is the amount of capital outlay additions and depreciation expense that exceeded capital outlay additions in the current period.

(34,598)

Change in net assets of Governmental activities

\$ 69,250

The notes to basic financial statements are an integral part of this statement.

NOTES TO BASIC FINANCIAL STATEMENTS

**USF CHARTER SCHOOL, INC. CHARTER 6605 K-3
A CHARTER SCHOOL AND COMPONENT UNIT OF THE
SCHOOL DISTRICT OF HILLSBOROUGH COUNTY**

**NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2007**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

USF Charter School, Inc., a/k/a USF/Patel Charter School, (herein referred to as “USF/Patel”) was organized by the University of South Florida (herein referred to as “USF”) for the purpose of identifying and implementing educational approaches designed to meet the needs of young children at risk of academic failure. This school was among the first charter schools established by a public university. At inception, Charter 6605 was granted for lower grades; subsequently, Charter 6627 was granted for grades 4 and 5. The mission of USF/Patel is to prepare students, in partnership with parents, to read, write, and speak with clarity and precision and to develop competencies in mathematics and other subject areas important to life-long learning.

USF/Patel incorporates diverse teaching and instructional methods, comprehensive curriculum, on-going assessment of student progress and parental outreach to accomplish its mission. USF/Patel reported, on average, an enrollment of 207 unweighted full-time students for the 2006-2007 fiscal year, of which Charter 6605 accounted for 139.5. During fiscal year 2006-2007, Charter 6627 accounted for 67.5 full-time equivalent students in its overall enrollment.

The accounting policies of USF/Patel, a component unit of the School District of Hillsborough County (herein referred to as “the District”), conform to accounting principles generally accepted in the United States of America as applicable to government units. Below is a summary of the more significant policies.

Reporting Entity

USF/Patel, a not-for-profit corporation organized pursuant to Chapter 617, Florida Statutes (FS), the Florida Not For Profit Corporation Act, and Chapter 1002, FS, Students and Parental Rights and Educational Choices, operates under two charters approved by its sponsor, the District. The reporting entity consists of one such charter, Charter 6605 Grades K – 3 (herein referred to as “the School”).

The School’s governing body is the not-for-profit corporation’s Board of Directors. The number of directors shall be not less than three or more than eleven and can be changed by the board so long as there are never less than three. For State of Florida reporting purposes, 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 basic financial statements are identified and described in the Governmental Accounting Standards Board of the Financial Accounting Foundation (GASB), the recognized authority for governmental accounting in the United States of America, Codification of Governmental Accounting and Financial Reporting Standards, Sections 2100 and 2600. The application of these criteria provide for identification of any entities for which the

USF CHARTER SCHOOL, INC. CHARTER 6605 K-3
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NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2007

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued):

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 general purpose financial statements to be misleading or incomplete. Based on these criteria, no component units are included within the reporting entity of the School.

The School is funded through a variety of sources, including the U.S. Department of Education, the Florida Department of Education through the District, and USF.

Allocation of Common Expenses

The School has specific revenues which are principally determined by a capitation arrangement (see "Revenue Sources" below and Note 4). Expenditures for capital outlays and those expenses that are specifically attributable to Grades K – 3 are recorded by the School. Expenses that affect both the School and Charter 6627 are allocated 2/3 to the School and 1/3 to Charter 6627 since the School operates four grades (K through 3) and Charter 6627 operates two grades (4 and 5). Expenses that are subject to allocation include, but are not limited to:

- Operations of plant
- Salaries and related expenses for the Principal, Office Manager, Art Instructor, Physical Education Instructor, ESE Instructor, and Custodian
- Maintenance of plant
- Rent—including amortization of the prepaid amount

The process of the allocation of common expenses takes places when the expenses are recorded based on a methodical and non-discriminatory basis.

Basis of Presentation

The School's basic financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America, and as prescribed by GASB, funds are reported on the modified accrual basis of accounting.

Government-wide Financial Statements

The government-wide financial statements provide both short-term and long-term information about the School's overall financial condition in a manner similar to those of a private-sector business. The statements include a statement of net assets and a statement of activities that are designed to provide consolidated financial information about the School presented on the accrual basis of accounting. The statement of net assets provides

**USF CHARTER SCHOOL, INC. CHARTER 6605 K-3
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**NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2007**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued):

information about the government's financial position, its assets and liabilities, using an economic resources measurement focus. The difference between the assets and liabilities, the net assets, is a measure of the financial health of the School. The statement of activities presents information about the change in the School's net assets, the results of operations, during the fiscal year. An increase or decrease in net assets is an indication of whether the School's financial health is improving or deteriorating.

The government-wide statements present the School's activities in one category:

- Governmental activities - This represents most of the School's services including its educational programs: basic and exceptional education. Support functions such as transportation and administration are also included. The state's education finance program provides most of the resources that support these activities.

Fund Financial Statements

Fund financial statements are one of the components of the basic financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The School uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements and prudent fiscal management. Certain funds are established by law while others are created by grant agreements, such as federal grants. Fund financial statements provide more detailed information about the School's financial activities, focusing on its most significant or "major" funds rather than fund types. The School considers all of its funds to be major funds, which is in contrast to the entity-wide perspective contained in the government-wide statements.

All of the School's funds may be classified in one broad category:

- Governmental Funds - Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, the governmental funds utilize a spendable financial resources measurement focus rather than the economic resources measurement focus found in the government-wide financial statements. This financial resources measurement focus allows the governmental fund statements to provide information on near-term inflows and outflows of spendable resources as well as balances of spendable resources available at the end of the fiscal year. Consequently, the governmental fund statements provide a detailed short-term view that may be used to evaluate the School's near-term financing requirements. This short-term view is useful when compared to the long-term view presented as

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NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2007

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued):

governmental activities in the government-wide financial statements. To facilitate this comparison, both the governmental balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation of governmental funds to governmental activities. The School considers revenues collected within 60 days from year end to be available for revenue recognition in the governmental fund financial statements.

Budgets and Budgetary 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 and benefits, purchased services, materials and supplies and capital outlay).

Revenue Sources

The general operating authority of the School is contained in Section 1002.33 (formerly Section 228.056), FS. As previously mentioned, the School operates under a charter sponsored by the District. The current term of Charter 6605 expires June 30, 2009, and may be renewed in increments of three years by mutual written agreement between the School and the District. At the end of the term of the charter, the District may choose not to renew the charter under grounds specified in the charter, in which case the District is required to notify the School in writing at least 90 days prior to the charter's expiration. During the term of the charter, the District may also terminate the charter if good cause is shown.

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 1002.33(17), FS, (formerly Section 228.056(14)), the School reports the number of full-time equivalent (FTE) students and related data to the District. Under the provisions of Section 1011.62 (formerly Section 236.081), FS, the District reports the number of full-time equivalent (FTE) students and related data to the Florida Department of Education (FDOE) for funding through the Florida Education Finance Program (FEFP). Funding for the School is adjusted during the year to reflect the revised calculations by the FDOE under the FEFP and the actual weighted FTE reported by the School during the designated FTE survey periods.

The basic amount of funding through the FEFP under Section 1011.62 (formerly Section 236.081), FS, is the product of the (1) unweighted FTE, multiplied by (2) the cost factor for each program, multiplied by (3) the base student allocation established by the legislature. For the 2006-2007 school year the school reported 139.5 unweighted FTE and 213.48 weighted FTE; weighted funding representing approximately 67% of the total funding.

**USF CHARTER SCHOOL, INC. CHARTER 6605 K-3
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NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2007**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued):

FEFP funding may also be adjusted as a result of subsequent FTE audits conducted by the Auditor General pursuant to Section 1010, FS, and Rule 6A-1.0453, Florida Administrative Code (FAC). Schools are required to maintain the following documentation for three years after the completion of an FTE audit.

- Attendance and membership documentation (Rule 6A-1.044, FAC)
- Teacher certificates and other certification documentation (Rule 6A-1.0503, FAC)
- Procedural safeguards for weighted programs (Rule 6A-6.03411, FAC)
- Evaluation and planning documents for weighted programs (Sections 1011.62(1)(e) FS, and Rule 6A-6.0341 1, FAC)

The School receives federal awards for the enhancement of various educational programs. This assistance is 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.

The School also receives state awards for capital outlay expenditures. The state grant award is based on an application submitted and approved by the state. Since a claim to the grant proceeds is based upon incurring eligible expenditures, activity is recorded in the Public Education Capital Outlay (PECO) Fund.

The School follows the policy of applying restricted resources prior to applying unrestricted resources when an expense is incurred for the purposes for which both restricted and unrestricted assets are available.

Under the terms of the various grants, any property, furnishings and equipment purchased with the District funds must be returned to the District if the contract for the School is terminated. If the charter expires and is not renewed or is terminated, any unencumbered funds from the School will revert to the District.

Cash and Cash Equivalents

All cash and cash investments are entirely collateralized by the financial institutions in which funds are held on deposit.

Cash and cash equivalents include demand deposits with banks and all highly liquid investments with maturities of one year or less. Cash equivalents are recorded at amortized cost, which approximates market value.

**USF CHARTER SCHOOL, INC. CHARTER 6605 K-3
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SCHOOL DISTRICT OF HILLSBOROUGH COUNTY
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2007**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued):

Amounts Due From or To Other Government Entities

The amounts due from primary governments, if any, represent amounts due from the District. Management has determined that the receivables are fully collectible; therefore, no allowance for uncollectible accounts is considered necessary at June 30, 2007

General Capital Assets and Depreciation

Expenditures for general capital assets acquired for general purposes of the School are reported in the Governmental Funds that financed the acquisition; whereas, the general capital assets so acquired are capitalized (recorded) at cost in the Statement of Net Assets. Expenditures for repairs and maintenance are expensed in the period incurred. Expenditures for furniture, fixtures or equipment that significantly add to productive capacity of the School are capitalized. Donated assets, if any, are recorded at fair market value at the date of donation. The depreciation of general capital assets is not recorded in the School's Governmental Funds. Depreciation is recorded as an expense in the Statement of Activities. Depreciation is provided over estimated useful lives (five to 10 years for furniture, fixtures and equipment) utilizing the straight-line method.

Income Taxes

The School is a not-for-profit organization exempt from income taxes under the provisions of Section 501(c)(3) of the Internal Revenue Code; therefore, no provision for income taxes has been made in these basic financial statements. The School has also been classified as an entity that is not a private foundation with the meaning of Section 509(a).

Interfund Balances

The School pools all of its available cash in a general fund account and utilizes interfund receivables and payables to record the activity in all other funds. All interfund balances are expected to be repaid within one year of the financial statement date.

Use of Estimates

The preparation of basic financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the basic financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**USF CHARTER SCHOOL, INC. CHARTER 6605 K-3
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**NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2007**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued):

Deposits and investments

Cash deposits are held by banks qualified as public depositories under Florida law. All deposits are insured by Federal depository insurance and collateralized with securities held in Florida's multiple financial institution collateral pool as required by Chapter 280, Florida Statutes.

Investments consist of amounts placed in the State Board of Administrative for participation in the Local Government Surplus Funds Trust Fund investment pool created by Section 218.405, Florida Statutes. The District's investments in the Local Government Surplus Funds Trust Fund, a Securities and Exchange Commission Rule 2a7-like external investment pool, are reported at fair value which is amortized cost.

Concentration of Revenue Sources

Approximately 97% of the School's revenue is derived from grants from the federal government passed through the State of Florida Department of Education (which is renewed annually) and state and local funds passed through the District (which is renewable every five years). The current level of the School's operations and program services may be impacted or segments discontinued if funding is not renewed.

Reclassifications

Certain 2006 items may have been reclassified to conform to the 2007 financial statement presentation.

NOTE 2 – PREPAID LEASE:

The presentation of a prepaid lease in the accompanying financial statements represents the unamortized portion of prepaid rent paid to USF as consideration for occupancy of the School's premises at 11801 Bull Run Drive, Tampa, Hillsborough County, Florida. This prepaid item, originally \$796,017, is being amortized over 168 months from the effective date of the rental lease period, July 1, 2003. Total rent is described in Note 5; the following is a summary of the unamortized lease amount.

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**NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2007**

NOTE 2 – PREPAID LEASE (continued):

	Charter 6605 Grades K - 3	Charter 6627 Grades 4 - 5	Total
Unamortized balance at June 30, 2006	\$ 416,962	\$ 208,481	\$ 625,443
Amortization, fiscal year ended June 30, 2007	37,905	18,953	56,858
Unamortized balance at June 30, 2007	<u>\$ 379,057</u>	<u>\$ 189,528</u>	<u>\$ 568,585</u>

NOTE 3 – CAPITAL ASSETS:

The following table shows the activity in the capital assets category during the fiscal year ended June 30, 2007:

	Balance June 30, 2006	Additions	Deletions	Balance June 30, 2007
Capital assets, not being depreciated:				
Construction in progress	\$ -	\$ 6,444	\$ -	\$ 6,444
Total capital assets, not being depreciated	<u>-</u>	<u>6,444</u>	<u>-</u>	<u>6,444</u>
Capital assets, being depreciated:				
Furniture and fixtures	192,788	-	-	192,788
Leasehold improvements	253,333	-	-	253,333
Total capital assets	446,121	-	-	446,121
Less: Accumulated depreciation	207,885	41,042	-	248,927
Total capital assets, being depreciated net	<u>238,236</u>	<u>(41,042)</u>	<u>-</u>	<u>197,194</u>
Governmental activities capital assets, net	<u>\$ 238,236</u>	<u>\$ (34,598)</u>	<u>\$ -</u>	<u>\$ 203,638</u>

Depreciation expense is \$41,042 for the year ended June 30, 2007.

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**NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2007**

NOTE 4 – SCHEDULE OF FEDERAL, STATE AND LOCAL REVENUE SOURCES:

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

<u>SOURCES</u>	<u>General Fund</u>	<u>Federal Programs and Capital Outlay</u>	<u>Total</u>
Federal sources passed through School District of Hillsborough County:			
Title 1	\$ -	\$ 80,043	\$ 80,043
Total federal sources	<u>\$ -</u>	<u>\$ 80,043</u>	<u>\$ 80,043</u>
State and local sources passed through School District of Hillsborough County:			
Florida Education Finance Program (FEFP)	\$ 670,061	\$ -	\$ 670,061
Instruction materials	13,060	-	13,060
SAI categorical	29,293	-	29,293
Class size reduction	106,199	-	106,199
Summer reading	2,533	-	2,533
Teacher lead	2,750	-	2,750
Capital outlay	-	95,265	95,265
Total state and local sources	<u>823,896</u>	<u>95,265</u>	<u>919,161</u>
Total governmental revenue sources	<u>\$ 823,896</u>	<u>\$ 175,308</u>	<u>\$ 999,204</u>

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**USF CHARTER SCHOOL, INC. CHARTER 6605 K-3
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NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2007

NOTE 5 – OPERATING LEASES:

Real Estate:

USF/Patel, as Lessee, has entered into a lease agreement, signed August 2005, with USF, as Lessor, retroactive to July 1, 2003, for the occupancy of its facilities at 11801 Bull Run Drive, Tampa, Florida under the following conditions:

- Term of lease – 14 years from July 1, 2003 to June 30, 2017 (168 months)
- Prepaid lease – \$796,017 to be amortized over the life of the lease (168 months)
- Additional cash payments-
 - Rent for the period July 1, 2003 to June 30, 2005, \$113,740
 - Rent for the period July 1, 2005 to August 31, 2005, \$15,287
 - Rent for the period September 1, 2005 and June 30, 2017, \$6,421 per month
- Any extension of the said lease, beginning July 1, 2017, will be at fair market value.

As previously explained, effective July 1, 2005, USF/Patel operates under two charters, Charter 6605, which covers the operation of Grades K – 3 and represents the continuing operation of the entity from inception through June 30, 2005. As of July 1, 2005, USF/Patel allocated the prepaid lease outstanding (\$682,301) among the two charters proportionally to the number of grades operated by each. Charter 6605 K – 3 was allocated 2/3 of that amount, or \$454,867. During fiscal year ended June 30, 2007, Charter 6605 K – 3 was charged 2/3 of the rent, consisting of amortization of the prepaid rent of \$ 37,905 and cash of \$50,626, for a total of \$88,531. Future rents as agreed to in the lease agreement are as follows:

For the fiscal years ended June 30,	Amortization of Prepaid Rent		Cash Portion		Total
	Charter 6605 Grades K - 3	Charter 6627 Grades 4 - 5	Charter 6605 Grades K - 3	Charter 6627 Grades 4 - 5	
2008	\$ 37,905	\$ 18,953	\$ 51,369	\$ 25,685	\$ 133,912
2009	37,905	18,953	51,369	25,685	133,912
20010	37,905	18,953	51,369	25,685	133,912
2011	37,905	18,953	51,369	25,685	133,912
2012	37,905	18,953	51,369	25,685	133,912
Thereafter	189,534	94,763	256,849	128,421	669,567
Totals	\$ 379,059	\$ 189,528	\$ 513,694	\$ 256,846	\$ 1,339,127

**USF CHARTER SCHOOL, INC. CHARTER 6605 K-3
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**NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2007**

NOTE 5 – OPERATING LEASES (continued):

Tangible Personal Property:

As of June 30, 2007, the USF/Patel has a non-cancelable operating lease agreement for two copiers at the rate of \$665 per month for 48 months. Prior to August 2004, copiers were leased from Zeno Leasing at \$516 per month for 36 months. In August 2004, the School entered into a new lease agreement with Lanier Worldwide beginning October 2004 for two copiers replacing those previously leased from Zeno Leasing. Thus, the original lease with Zeno Leasing was bought out by Lanier Worldwide. The total lease expense amounted to \$11,283 for the year ended June 30, 2007, of which \$6,669 has been allocated to the School.

Future minimum lease payments under this lease are as follows:

For the fiscal years ended June 30,	Charter 6605 Grades K - 3	Charter 6627 Grades 4 - 5	Total
2008	\$ 5,345	\$ 2,632	\$ 7,977
2009	1,720	860	2,580
2010 and thereafter	-	-	-
Totals	<u>\$ 7,065</u>	<u>\$ 3,492</u>	<u>\$ 10,557</u>

NOTE 6 – DUE TO THE USF FOUNDATION, INC.:

During the fiscal year ended June 30, 2007 the School recognized an outstanding loan balance of \$280,000 on an original loan of \$380,000 dated June 2004. The promissory note is an interest only note with an interest rate of 4.5%, due June 2009. The loan represents funds borrowed from the USF Foundation, Inc. and used in improvements to the School's facilities. The loan balance as June 30, 2007 is \$186,666 and \$93,334 for Charter 6605 K-3 and Charter 6627 Intermediate 4-5, respectively. This obligation was acknowledged by the School's board of directors, and the related leasehold improvements are being amortized over a period of 14 years from June 2004. See Note 9- Prior Period Adjustment in relation with this note.

NOTE 7 – PENSION PLAN AND COMPENSATED ABSENCES:

USF/Patel adopted a defined contribution Savings Incentive Match Plan for Employees (SIMPLE) retirement program during 2000. All employees earning \$5,000 or more during any year are eligible to participate in the program. Contributions to the plan by USF/Patel for the year ended June 30, 2007 were \$8,633, of which \$5,758 was allocated to the School (Charter

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**NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2007**

NOTE 7 – PENSION PLAN AND COMPENSATED ABSENCES (continued):

6605 K – 3), computed at 3% on wages paid to each participating employee or 100% match of employee contributions (whichever was lower). USF/Patel (therefore, the School) has no liability for the administration or payment of benefits of the plan and, accordingly, the present value of the related vested benefits is not reflected in these financial statements. The rate of contribution is set annually by USF/Patel's Board of Directors.

An accrual for compensated absences has not been made in these financial statements because the School does not have a policy to pay accrued leave to employees when they terminate employment. The amount of any other accrual for compensated absences is not considered material at June 30, 2007.

NOTE 8 – RELATED PARTY TRANSACTIONS:

USF/Patel was created as a Direct Support Organization (DSO) of USF pursuant to Section 1004.8, FS. USF/Patel's governing board, comprised of USF academic officers in the roles of Chairperson, Vice Chairperson, Secretary, and Treasurer, has reporting responsibilities to the USF Board of Trustees.

During the fiscal year ended June 30, 2007, USF was paid \$132,912 for current rent, of which the School's share was \$88,531, based on the terms of a lease, with an effective date of July 1, 2003, for the premises utilized by all grades K through 5. The terms of said lease were negotiated in behalf of USF/Patel by board members that are employed by USF. These terms, including annual rent of \$5.82 per square foot, are deemed by management to have been negotiated in an arms-length manner and to be advantageous to USF/Patel, and consequently to the School.

NOTE 9 – PRIOR PERIOD ADJUSTMENT:

During the year ended June 30, 2007, the School recognized a loan payable to the USF Foundation in the amount of \$280,000 with an original amount of \$380,000; the \$100,000 difference was paid on behalf of the School by a third party prior to June 30, 2006. The loan was recognized as of June 30, 2004 when the loan was originally issued. The correction of this condition falls under the category of "correction of an error in previously issued financial statements" following Opinion No. 20, Accounting Changes, of the Accounting Principles Board of the American Institute of Certified Public Accountants, which was reaffirmed by SFAS No. 154, Accounting Changes and Error Corrections – a replacement of APB Opinion No. 20 and FASB Statement No.3. This liability should have been included in the previously reported correction of accounting errors as shown in the financial statements as of June 30, 2006. The current correction has the following effect:

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**NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2007**

NOTE 9 – PRIOR PERIOD ADJUSTMENT:

	Charter 6605 Grades K-3	Charter 6627 Grades 4-5	TOTAL
Leasehold improvement	\$ 253,333	\$ 126,667	\$ 380,000
Accumulated depreciation	\$ (54,286)	\$ (27,143)	\$ (81,429)
Note payable to the USF Foundation	\$ (186,667)	\$ (93,333)	\$ (280,000)
Adjustment to beginning net assets	\$ (12,381)	\$ (6,190)	\$ (18,571)

See Note 6, Due To The USF Foundation, Inc. in relation with this note.

NOTE 10 – TOTAL COLUMNS ON COMBINED STATEMENTS:

Data in columns designated as *total* do not present financial position or results of operations in conformity with generally accepted accounting principles. Neither is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

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REQUIRED SUPPLEMENTARY INFORMATION

**USF CHARTER SCHOOL, INC. CHARTER 6605 K-3
A CHARTER SCHOOL AND COMPONENT UNIT OF THE
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**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
BUDGET AND ACTUAL – GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

	Original Budget	Amended (Final) Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues:				
Intergovernmental				
Federal through state	\$ -	\$ -	\$ -	\$ -
State through local	746,954	746,954	823,896	76,942
Contributions and grants	-	-	14,678	14,678
Interest income	-	-	8,866	8,866
Lunch money	3,400	3,400	3,340	(60)
Field trips	-	-	-	-
Miscellaneous	29,828	29,398	22,019	(7,379)
Total revenues	780,182	779,752	872,799	93,047
Expenditures:				
Current:				
Instruction	496,956	496,956	492,769	4,187
Board	8,500	8,500	8,500	-
School administration	126,120	126,120	121,439	4,681
School district administration fee	-	-	41,015	(41,015)
Fiscal services	18,000	18,000	10,255	7,745
Food services	15,000	15,000	12,693	2,307
Pupil transportation services	1,000	1,000	869	131
Operation of plant	63,093	63,093	60,432	2,661
Maintenance of plant	13,000	13,000	144	12,856
Facilities	9,000	9,000	8,604	396
Central services	700	700	554	146
Year book and dance	-	-	3,669	(3,669)
Debt service:				
Interest payments	-	-	12,975	(12,975)
Capital outlay	-	-	-	-
Total expenditures	751,369	751,369	773,918	(22,549)
(Excess) deficiency of expenditures over (under) revenues	\$ 28,813	\$ 28,383	\$ 98,881	\$ 115,596
Fund balance (deficits), beginning of the year			230,118	
Fund balance (deficits), end of the year			\$ 328,999	

See Independent Auditors' Report on Basic Financial Statements and Supplementary Information.

**A CHARTER SCHOOL AND COMPONENT UNIT OF THE
SCHOOL DISTRICT OF HILLSBOROUGH COUNTY
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
BUDGET AND ACTUAL – SPECIAL REVENUE FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

	<u>Original Budget</u>	<u>Amended (Final) Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
Revenues:				
Intergovernmental				
Federal through state	\$ 68,250	\$ 65,813	\$ 80,043	\$ 14,230
State through local	-	-	-	-
Contributions and grants	-	-	-	-
Interest income	-	-	-	-
Lunch money	-	-	-	-
Field trips	-	-	-	-
Miscellaneous	-	-	-	-
Total revenues	<u>68,250</u>	<u>65,813</u>	<u>80,043</u>	<u>14,230</u>
Expenditures:				
Current:				
Instruction	68,250	68,250	71,553	(3,303)
Board	-	-	-	-
School administration	-	-	8,490	(8,490)
School district administration fee	-	-	-	-
Fiscal services	-	-	-	-
Food services	-	-	-	-
Pupil transportation services	-	-	-	-
Operation of plant	-	-	-	-
Maintenance of plant	-	-	-	-
Facilities	-	-	-	-
Central services	-	-	-	-
Year book and dance	-	-	-	-
Capital outlay	-	-	-	-
Total expenditures	<u>68,250</u>	<u>68,250</u>	<u>80,043</u>	<u>(11,793)</u>
(Excess) deficiency of expenditures over (under) revenues	<u>\$ -</u>	<u>\$ (2,437)</u>	<u>\$ -</u>	<u>\$ 2,437</u>
Fund balance (deficits), beginning of the year			<u>-</u>	
Fund balance (deficits), end of the year			<u>\$ -</u>	

OTHER SUPPLEMENTARY INFORMATION

**A CHARTER SCHOOL AND COMPONENT UNIT OF THE
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SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
BUDGET AND ACTUAL – CAPITAL PROJECT FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

	<u>Capital Projects</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original Budget</u>	<u>Amended (Final) Budget</u>		
Revenues:				
Intergovernmental				
Federal through state	\$ -	\$ -	\$ -	\$ -
State through local	54,880	52,920	95,265	42,345
Contributions and grants	-	-	-	-
Interest income	-	-	-	-
Lunch money	-	-	-	-
Field trips	-	-	-	-
Miscellaneous	-	-	-	-
Total revenues	<u>54,880</u>	<u>52,920</u>	<u>95,265</u>	<u>42,345</u>
Expenditures:				
Current:				
Instruction	-	-	-	-
Board	-	-	-	-
School administration	-	-	-	-
School district administration fee	-	-	-	-
Fiscal services	-	-	-	-
Food services	-	-	-	-
Pupil transportation services	-	-	-	-
Operation of plant	-	-	42,022	(42,022)
Maintenance of plant	-	-	3,927	(3,927)
Facilities	56,300	56,300	37,905	18,395
Central services	-	-	-	-
Year book and dance	-	-	-	-
Capital outlay	-	-	6,444	(6,444)
Total expenditures	<u>56,300</u>	<u>56,300</u>	<u>90,298</u>	<u>(33,998)</u>
(Excess) deficiency of expenditures over (under) revenues	<u>\$ (1,420)</u>	<u>\$ (3,380)</u>	<u>\$ 4,967</u>	<u>\$ 8,347</u>
Fund balance (deficits), beginning of the year			<u>673,201</u>	
Fund balance (deficits), end of the year			<u>\$ 678,168</u>	

**USF CHARTER SCHOOL, INC.
A CHARTER SCHOOL AND COMPONENT UNIT OF THE
SCHOOL DISTRICT OF HILLSBOROUGH COUNTY**

**COMBINED STATEMENT OF NET ASSETS
FOR CHARTER 6605 K – 3 AND CHARTER 6627 4 – 5
AS OF JUNE 30, 2007**

	<u>Primary Government</u>
<u>ASSETS</u>	
Cash and cash equivalents	\$ 514,069
Amounts due from other agencies	13,218
Prepaid lease (Notes 2 and 5)	568,585
Capital assets (Note 3)	394,904
Due from Charter 6627	227,683
Prepaid expenses and deposits	2,429
	<u>1,720,888</u>
Total assets	<u>\$ 1,720,888</u>
<u>LIABILITIES AND NET ASSETS</u>	
LIABILITIES	
Accounts payable	18,090
Accrued expenses	51,311
Due to Charter 6605	227,683
Note payable	280,000
	<u>577,084</u>
Total liabilities	<u>577,084</u>
NET ASSETS	
Invested in capital assets, net of related debt, if any	114,904
Restricted for:	
Amortization of prepaid lease (Note 2)	568,585
Unrestricted	460,315
	<u>1,143,804</u>
Total net assets	<u>1,143,804</u>
Total liabilities and net assets	<u>\$ 1,720,888</u>

See Independent Auditors' Report on Basic Financial Statements and Supplementary Information.

**USF CHARTER SCHOOL, INC.
A CHARTER SCHOOL AND COMPONENT UNIT OF THE
SCHOOL DISTRICT OF HILLSBOROUGH COUNTY**

**COMBINED STATEMENT OF ACTIVITIES
FOR CHARTER 6605 K - 3 AND CHARTER 6627 4 - 5
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

	Program Revenues		Operating Grants and Contributions	Total	Net (Expense) Revenue and Changes in Net Assets
FUNCTIONS	Expenses	Charges for Services	Operating Grants and Contributions	Total	Total
Governmental activities:					
Instruction	\$ 862,720	-	\$ 170,704	\$ (692,016)	\$ (692,016)
Instructional staff training	2,059	-	-	(2,059)	(2,059)
Board	12,750	-	-	(12,750)	(12,750)
School administration	196,638	-	-	(196,638)	(196,638)
School district administrative fee	72,374	-	-	(72,374)	(72,374)
Fiscal services	19,940	-	-	(19,940)	(19,940)
Food services	19,366	4,656	-	(14,710)	(14,710)
Pupil transportation services	869	-	-	(869)	(869)
Operation of plant	173,646	-	141,536	(32,110)	(32,110)
Maintenance of plant	11,245	-	-	(11,245)	(11,245)
Prepaid rent amortization expense	56,858	-	-	(56,858)	(56,858)
Central services	827	-	-	(827)	(827)
Year book and dance	5,547	-	-	(5,547)	(5,547)
Interest payments	19,463	-	-	(19,463)	(19,463)
Unallocated depreciation expense	75,635	-	-	(75,635)	(75,635)
Total governmental activities	\$ 1,529,937	\$ 4,656	\$ 312,240	(1,213,041)	(1,213,041)
General revenues:					
Grants/contributions not restricted to specific programs				1,241,191	1,241,191
Investment earnings				17,732	17,732
Miscellaneous				23,853	23,853
Total general revenues, extraordinary items, and transfers				1,282,776	1,282,776
Change in net assets				69,735	69,735
Net Assets - July 1, 2006 as previously stated				1,055,498	1,055,498
Prior period adjustment				18,571	18,571
Net Assets - July 1, 2006 as restated				1,074,069	1,074,069
Net Assets - June 30, 2007				\$ 1,143,804	\$ 1,143,804

See Independent Auditors' Report on Basic Financial Statements and Supplementary Information.

REGULATORY REPORTS



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

To the Board of Directors
USF Charter School, Inc. Charter 6605 K-3,
a Charter School and Component Unit of
the School District of Hillsborough County
Tampa, Florida

We have audited the basic financial statements of the USF Charter School, Inc., a/k/a Patel/USF Charter School, Charter 6605 K – 3 (herein referred to as “the School”), a Charter School and component unit of the School District of Hillsborough County, Florida, as of June 30, 2007 and for the year then ended and have issued our report thereon dated September 26, 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 as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the School’s internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the School’s internal control financial reporting.

A control deficiency exists when the design or operations 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 consequential 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 result 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 internal control over financial reporting was for 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 weakness. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weakness, as define above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the School's basic 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 that are required to be reported herein under *Government Auditing Standards*.

This report is intended solely for the information and use of the Board of Directors of USF Charter School, Inc. Charter 6605 K-3, management, federal awarding agencies, state funding agencies, and the School District of Hillsborough County, Florida, and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.



CERTIFIED PUBLIC ACCOUNTANTS

Tampa, Florida
September 26, 2007

**USF CHARTER SCHOOL, INC. CHARTER 6605 K-3
A CHARTER SCHOOL AND COMPONENT UNIT OF THE
SCHOOL DISTRICT OF HILLSBOROUGH COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2007**

SECTION I - SUMMARY OF AUDITORS' RESULTS:

<u>Financial Statements</u>	<u>Results</u>
Type of auditors' report issued:	Unqualified (Clean)
Internal control over financial reporting:	
Material weakness(es) identified?	No
Significant deficiency(ies) identified not considered to be a material weakness(es)?	No
Noncompliance material to financial statements noted?	No

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“MANAGEMENT LETTER”
BASED ON RULE 10.854(1)(d) OF THE
AUDITOR GENERAL OF THE STATE OF FLORIDA

To the Board of Directors
USF Charter School, Inc. Charter 6605 K-3,
a Charter School and a Component Unit
of the School District of Hillsborough County, Florida
Tampa, Florida

We have audited the basic financial statements of USF Charter School, Inc., a/k/a USF/Patel Charter School Charter 6605 K – 3 (“the School”), a Charter School and Component Unit of the School District of Hillsborough County, Florida, as of and for the year ended June 30, 2006, and have issued our report thereon dated September 26, 2007.

We have also issued our Independent Auditors’ Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Basic Financial Statements Performed in Accordance with *Government Auditing Standards* dated September 26, 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 *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 governs the conduct of charter school audits performed in the State of Florida and require that certain items be addressed in this letter.

Management fully cooperated with our audit team and we had no disagreements concerning accounting or auditing procedures. We were provided access to all records, documents and other supporting data that we requested, and no restrictions were imposed on the method or extent of our work.

AUDITOR GENERAL REQUIRED COMMENTS/DISCLOSURES:

This letter must be prepared and included as a part of each financial audit report pursuant to Section 218.39(4), Florida Statutes, and Rule 10.856(2). The Management Letter shall include, but not be limited to:

The Rules of the Auditor General (Section 10.854(1)(d)1.) require a statement as to whether corrective actions have been taken to address significant findings and recommendations made in the preceding annual financial audit report. There were findings reported in the preceding annual financial report, but none remain outstanding.

The Rules of the Auditor General (Section 10.854(1)(d)2.) require recommendations to improve present financial accounting procedures, and internal controls. All recommendations addressed in the preceding annual financial audit report have been followed.

The Rules of the Auditor General (Section 10.854(1)(d)3.,4.) require matters that are not clearly inconsequential considering both quantitative and qualitative factors, including the following:

- a. Violations of laws, rules, regulations, contracts, and grant agreements or abuse that have occurred, or are likely to have occurred, were discovered within the scope of the financial audit and may or may not have materially affected the financial statements.
- b. Improper expenditures discovered within the scope of the financial audit which may or may not materially affect the financial statements.
- c. Deficiencies in internal control that are not reportable conditions, including, but not limited to the following:
 - Improper or inadequate accounting procedures (e.g., the omission of required disclosures from the annual financial statements).
 - Failure to properly record financial transactions.

Our consideration of the internal control structure would not necessarily disclose all matters that might be reportable conditions following *Government Auditing Standards*. However, our report under those standards show reportable conditions that should be read in conjunction with the conditions described in the following paragraphs. The items described in Exhibit A to the Management Letter were not considered to be reportable conditions under *Government Auditing Standards*, however we believe that following our recommendations will improve the School's internal control. These items were brought to the attention of School representatives during our work; this letter evidences such communication.

The Rules of the Auditor General (Section 10.854(1)(d)5.) also require that the name or official title of the charter school be disclosed in the Management Letter, unless disclosed in the notes to the financial statements. The name of the School is shown throughout the report and in the notes to basic financial statements. The School's financial statements are included in the financial statements of the School District of Hillsborough County as a Component Unit.

Section 218.503(2) states that a local governmental entity shall notify the Governor and the Legislative Auditing Committee when one or more of the conditions specified in Section 218.503(1) have occurred or will occur if action is not taken to assist the local governmental entity.

Management of the School has determined that the School is not in a state of financial emergency under Section 218.503(1). In connection with our audit of the financial statements of the School, the results of our tests did not indicate that the School is in a state of financial emergency as a consequence of the conditions in Section 218.503(1). However, our audit does not provide a legal determination on the School's compliance with this requirement.

Our comments and/or recommendations mentioned above have been discussed with the appropriate members of management and we would be pleased to review these matters in further detail at your convenience. Our comments are described in the accompanying Exhibit A to this Management Letter.

This Management Letter is intended solely for the information and use of the Board of Directors, management, the Auditor General of the State of Florida and the School District of Hillsborough County, Florida, and is not intended to be and should not be used by anyone other than those specified parties. However, this report is a matter of public record and its distribution is not limited.

We would like to thank the staff and management for their support and assistance during our engagement and we look forward to continuing our working relationship in the future.

Valiente Hernandez P.A.

CERTIFIED PUBLIC ACCOUNTANTS

Tampa, Florida
September 26, 2007

USF CHARTER SCHOOL, INC. CHARTER 6605 K-3
A CHARTER SCHOOL AND COMPONENT UNIT OF THE
SCHOOL DISTRICT OF HILLSBOROUGH COUNTY

“MANAGEMENT LETTER”
EXHIBIT A

CURRENT STATUS ON PRIOR YEAR RECOMMENDATIONS:

Observation 2006.01:

Condition:

During our testing of payroll, we noted that one personnel file out of our sample of five was missing certain documentation required for payroll files.

Recommendation:

While management has taken steps to ensure that current personnel files have standard checklists of required payroll information, we recommend that the School update all files with standard checklists to ensure that all personnel files maintain the required payroll information.

Management’s Response:

We accept the recommendation and to remedy the situation, the checklist being used will continued to be used; however, it will be reviewed quarterly to ensure all required payroll documents are on file for each employee.

Status as of June 30, 2007

The condition has been cleared.

Observation 2006.02:

Condition:

It was noted during our audit that the School’s title has several variations that it is associated with. For example, a vendor invoice was addressed to “University Charter School” and correspondence with Hillsborough County Public Schools lists the School’s title as “USF Charter School @ MOSI”.

**USF CHARTER SCHOOL, INC. CHARTER 6605 K-3
A CHARTER SCHOOL AND COMPONENT UNIT OF THE
SCHOOL DISTRICT OF HILLSBOROUGH COUNTY**

**“MANAGEMENT LETTER”
EXHIBIT A**

Recommendation:

We recommend that the School update its title with its vendors and others that it has correspondence and contact with.

Management’s Response:

We accept the recommendation and will implement appropriate steps to address the issue.

Status as of June 30, 2007

Condition cleared, the School has decided to register only one fictitious name, USF Patel Charter School.

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