

Bay Haven Charter Academy, Inc.  
(A Component Unit of Bay  
District Schools, Florida)

Financial and Compliance Report

June 30, 2008

Table of Contents

	Page
<b>Independent auditor's report</b>	1
<b>Management's discussion and analysis</b>	3
<b>Financial statements</b>	
Statement of net assets and governmental funds balance sheet	9
Statement of activities and governmental funds revenues, expenditures and changes in fund balance	10
Statement of revenues and expenditures – budget and actual - general fund	11
Notes to financial statements	12
<b>Supplementary information</b>	
Schedule of revenues and expenditures - general fund (management format)	22
<b>Reports In accordance with Government Auditing Standards</b>	
Report on internal control over financial reporting and on compliance and other matters based on an audit of financial statements performed in accordance with <i>Government Auditing         Standards</i>	23
Management letter required by chapter 10.850 of the Rules of the State of Florida Office of the Auditor General	25
Management's response to management comments	28

## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors  
Bay Haven Charter Academy, Inc.  
Panama City, Florida

We have audited the accompanying financial statements of the governmental activities and major fund of Bay Haven Charter Academy, Inc. (the "School"), a component unit of Bay District Schools, Florida as of June 30, 2008, 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 our 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 respective financial position of the governmental activities and the major fund of the Bay Haven Charter Academy, Inc. as of June 30, 2008 and the respective changes in financial position and the budgetary comparison for the year 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 31, 2008 on our consideration of Bay Haven Charter Academy, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's discussion and analysis on pages 3 through 8 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement

and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the School's basic financial statements. The supplementary information listed in the table of contents is presented for the purpose 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.

*Caru, Riggs & Ingram, L.L.C.*

October 31, 2008

## Management's Discussion and Analysis

Management's discussion and analysis provide an easily readable analysis of the School's financial activities. The analysis provides summary financial information for the School and should be read in conjunction with the School's financial statements.

### Financial Highlights

- Total assets of the School exceeded total liabilities by \$6,361,745 (net assets). Of this amount, \$3,313,161 is unrestricted net assets for governmental activities. Total net assets includes \$3,048,584 invested in capital assets (net of related debt) in the governmental activities.
- Total net assets increased by \$635,191.
- As of June 30, 2008, the general fund's unreserved fund balance was \$3,196,553 or 42% of total general fund expenditures.
- Governmental activities revenues increased to \$7,771,254 or 4%, while governmental activities expenditures increased 25% to \$7,620,633.

### Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the School's basic financial statements. The School's basic financial statements are comprised of three components: 1) *Government-wide financial statements*, 2) *Fund financial statements*, and 3) *Notes to basic financial statements*. The *government-wide financial statements* present an overall picture of the School's financial position and results of operations. The *fund financial statements* present financial information for the School's major funds. The *notes to basic financial statements* provide additional information concerning the School's finances that are not otherwise disclosed in the government-wide or fund financial statements.

### Government-wide Financial Statements

The *government-wide financial statements* include the *statement of net assets* and *statement of activities*. These statements are designed to provide readers with a broad overview of the School's financial position, in a manner similar to that of private-sector companies. Emphasis is placed on the net assets of governmental activities as well as the change in net assets. Governmental activities are the activities where most of the School's programs and services are reported including, but not limited to, instruction, operation and maintenance of plants and facilities, pupil transportation, extracurricular activities and other support services. The School does not have any business-type activities.

The *statement of net assets* presents information on all assets and liabilities of the School, with the difference between the two reported as *net assets*. Assets, liabilities and net assets are reported separately for governmental activities and business-type activities. Increases or decreases in net assets over time may serve as a useful indicator of the School's improving or declining financial position.

The *statement of activities* presents information on all revenues and expenditures of the School and the change in net assets for the fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenditures are reported in the statement of activities for some items that will only result in cash flows in future fiscal periods (e.g., uncollected fees).

### ***Fund Financial Statements***

A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific purposes or objectives. Individual funds have been established by the School to account for revenues that are restricted to certain uses, or to comply with legal requirements. The major categories of funds found in the School's *fund financial statements* include: governmental funds.

*Fund financial statements* provide financial information for the School's major fund and more detailed information about the School's activities. Governmental fund financial statements provide information on the *current* assets and liabilities of the funds, changes in *current* financial resources (revenues and expenditures), and *current* available resources.

*Fund financial statements* for all governmental funds include a balance sheet and a statement of revenues, expenditures, and changes in fund balances. The School's general fund includes a statement of revenues, expenditures, and changes in fund balances-budget and actual.

The *government-wide financial statements* and the *fund financial statements* provide different presentations of the School's financial position. Categorized by Governmental Activities and Component Units, the government-wide financial statements provide an overall picture of the School's financial standing. These statements, which are comparable to private-sector companies, provide a good understanding of the School's overall financial health and present the means used to pay for various activities, or functions provided by the School. All assets of the School, including buildings and land are reported in the statement of net assets, as well as all liabilities, including outstanding principal on bonds. The statement of activities includes depreciation on all long lived assets of the School. The *fund financial statements* provide a presentation of the School's major funds, along with a column for its component unit. In the case of governmental activities, outlays for long lived assets are reported as expenditures and long-term liabilities, such as revenue bonds, are not included in the fund financial statements. To facilitate a comparison between the *fund financial statements* and the *government-wide financial statements*, a reconciliation is provided.

*Notes to basic financial statements* provide additional detail concerning the financial activities and financial balances of the School. Additional information about the accounting practices of the School, investments of the School, and long-term debt are just a few of the items included in the notes to basic financial statements.

### **Financial Analysis of the School**

The following schedule provides a summary of the assets, liabilities and net assets of the School. At the end of the fiscal year 2008, the School is able to report positive balances in all categories of net assets, for the government as a whole.

**Net Assets  
Governmental Activities**

<i>June 30,</i>	<b>2008</b>	<b>2007</b>
Current and other assets	\$ 3,482,800	\$ 4,408,661
Capital assets (net)	15,583,316	13,084,349
<b>Total assets</b>	<b>19,066,116</b>	<b>17,493,010</b>
Current liabilities (payable from current assets)	169,639	274,692
Noncurrent liabilities	12,534,732	11,415,000
<b>Total liabilities</b>	<b>12,704,371</b>	<b>11,689,692</b>
Net assets invested in capital assets, net of related debt	3,048,584	1,669,349
Net assets – unrestricted	3,313,161	4,133,969
<b>Total net assets</b>	<b>\$ 6,361,745</b>	<b>\$ 5,803,318</b>

Investment in capital assets (e.g., land, buildings, and equipment), net of any related outstanding debt used to acquire those assets, represents the School's smallest portion of net assets (48%). These capital assets are used to provide services to citizens; consequently, these assets are not available for future spending. It should be noted, that although the School's investment in its capital assets is reported net of related debt, the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

The remaining balance of *unrestricted net assets* (\$3,313,161) may be used to help meet the government's ongoing obligations to citizens and creditors.

The following schedule provides a summary of the changes in net assets.

**Changes in Net Assets  
Governmental Activities**

<i>Year Ended June 30,</i>	<b>2008</b>	<b>2007</b>
<b>Revenues</b>		
Intergovernmental	\$ 7,065,214	\$ 6,945,233
Donations	9,506	47,000
Before and aftercare fees	258,649	242,962
Miscellaneous	437,885	269,418
<b>Total revenues</b>	<b>7,771,254</b>	<b>7,504,613</b>
<b>Expenses</b>		
Instructional		
Regular instruction	3,518,659	3,355,777
Exceptional instruction	117,420	122,994
Support services		
Pupil services	105,618	104,490
Instructional services	105,102	12,027
Aftercare programs	428,161	331,502
Administrative services	845,419	391,894
Plant operations and maintenance	926,864	754,979
Transportation	20,442	19,210
Other support services	630,843	546,178
Principal and interest	437,535	434,685
<b>Total expenses</b>	<b>7,136,063</b>	<b>6,073,736</b>
<b>Increase in net assets</b>	<b>\$ 635,191</b>	<b>\$ 1,430,877</b>

Governmental activities revenues exceeded expenses by \$635,191. Total revenues increased \$266,641 from the previous year. Revenues increased as a result of the addition of the middle school and the aftercare program has grown significantly. Total expenses increased \$1,062,327 from the previous year. Administrative services increased by \$453,525, instructional costs increased by \$162,882, plant operations and maintenance increased \$171,885, instructional services increased by \$93,075 and aftercare program expenses increased by \$96,659.

91% of the revenues for governmental activities were generated by intergovernmental receipts, while most of the governmental resources were expended for regular instruction (49%), plant operations and maintenance (13%), administrative services (12%), other support services (9%), and principal and interest (6%).

## Financial Analysis of the School's Funds

### Governmental Funds

#### General Fund

The main operating fund of the School is the general fund. As of June 30, 2008, total assets were \$3,366,192 and total liabilities were \$169,639. At the end of fiscal year 2008, unreserved fund balance of the general fund was \$3,196,553.

#### Capital Assets Activity

The following schedule provides a summary of the School's capital assets activity. The School's total investment in capital assets activities as of June 30, 2008, was \$15,583,316 (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements, machinery and equipment, and construction in progress.

The major capital asset event during the current fiscal year continues to be construction of buildings.

#### Capital Assets (net of depreciation) Governmental Activities

June 30,	2008	2007
Land	\$ 300,000	\$ 300,000
Construction in progress	330,166	44,316
Buildings	12,940,627	12,398,620
Improvements	250,383	29,105
Computers	132,973	86,372
Machinery and equipment	1,629,167	225,936
Total	\$ 15,583,316	\$ 13,084,349

Additional information on the School's capital assets can be found in Note 4 – Capital Assets, of the notes to the basic financial statements.

#### Debt Management

At the end of the current fiscal year, the School had total bond debt outstanding in the amount of \$11,190,000.

#### Outstanding Bond Debt Governmental Activities

June 30,	2008	2007
Revenue bonds	\$ 11,190,000	\$ 11,415,000

At the end of the current fiscal year, the School had total debt outstanding for a capital lease in the amount of \$1,344,732.

**Outstanding Bond Debt  
Governmental Activities**

June 30,	2008	2007
Capital lease payable	\$ 1,344,732	\$ -

More detail on the School’s liabilities is presented in note 5 of the notes to the basic financial statements.

**Economic Factors and Next Year’s Budget**

In setting the budget for FY 2008, the School considered a number of issues, among them:

- Anticipation of declining state revenue
- A level nondeclining projected student enrollment
- A significant current year and long-term rate cost increase in insurance costs
- Competition for quality teachers

**Contacting the School’s Finance Department**

This financial report is designed to provide a general overview of the Bay Haven Charter Academy, Inc.’s finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the Bay Haven Charter Academy, Inc.’s Finance Department, 2501 Hawks Landing Blvd, Panama City, Florida 32405. You may visit the School’s website at <http://bhca.ws>.

Bay Haven Charter Academy, Inc.  
Statement of Net Assets and  
Governmental Funds Balance Sheet  
June 30, 2008

	<u>General Fund</u>	<u>Adjustments (Note 2)</u>	<u>Statement of Net Assets</u>	<u>Component Units</u>
<b>Assets</b>				
Cash and cash equivalents	\$2,161,105	\$ -	\$ 2,161,105	\$ 21,347
Accounts receivable, net	500,958	-	500,958	-
Prepaid expenses	704,129	-	704,129	-
Other assets	-	116,608	116,608	-
Capital assets, net	-	15,583,316	15,583,316	-
Total assets	<u>\$3,366,192</u>	<u>15,699,924</u>	<u>19,066,116</u>	<u>21,347</u>
<b>Liabilities</b>				
Accounts payable and accrued expenses	\$ 137,354	-	137,354	-
Accrued salaries and benefits	32,285	-	32,285	-
Long-term liabilities				
Due within one year				
Capital lease current portion	-	45,525	45,525	-
Revenue bonds current portion	-	240,000	240,000	-
Due in more than one year				
Capital lease long-term portion	-	1,299,207	1,299,207	-
Revenue bonds long-term portion	-	10,950,000	10,950,000	-
Total liabilities	<u>169,639</u>	<u>12,534,732</u>	<u>12,704,371</u>	<u>-</u>
<b>Fund balance/ net assets</b>				
Unreserved fund balance	<u>3,196,553</u>	<u>(3,196,553)</u>	<u>-</u>	<u>-</u>
Total liabilities and fund balance	<u>\$3,366,192</u>			
<b>Net Assets</b>				
Invested in capital assets, net of related debt		3,048,584	3,048,584	-
Unrestricted		<u>3,313,161</u>	<u>3,313,161</u>	<u>21,347</u>
Total net assets		<u>\$ 6,361,745</u>	<u>\$ 6,361,745</u>	<u>\$ 21,347</u>

The accompanying notes are an integral part of these financial statements

Bay Haven Charter Academy, Inc.  
Statement of Activities and Governmental Funds Revenues,  
Expenditures and Changes in Fund Balance  
Year Ended June 30, 2008

	<u>General Fund</u>	<u>Adjustments (Note 2)</u>	<u>Statement of Activities</u>	<u>Component Units</u>
<b>Revenues</b>				
Intergovernmental	\$ 7,065,214	\$ -	\$ 7,065,214	\$ -
Donations	9,506	-	9,506	1,405
Before and aftercare fees	258,649	-	258,649	-
Miscellaneous	437,885	-	437,885	516
Total revenues	<u>7,771,254</u>	<u>-</u>	<u>7,771,254</u>	<u>1,921</u>
<b>Expenditures</b>				
Instructional				
Regular instruction	3,518,659	-	3,518,659	-
Exceptional instruction	117,420	-	117,420	-
Support services				
Pupil services	105,618	-	105,618	-
Instructional services	105,102	-	105,102	-
Aftercare programs	428,161	-	428,161	-
Administrative services	845,419	-	845,419	-
Plant operations and maintenance	932,298	(5,434)	926,864	160
Transportation	20,442	-	20,442	-
Other support services	120,859	509,984	630,843	-
Capital outlay				
Site, building and equipment	721,241	(721,241)	-	-
Debt service				
Principal and interest	705,414	(267,879)	437,535	-
Total expenditures	<u>7,620,633</u>	<u>(484,570)</u>	<u>7,136,063</u>	<u>160</u>
<b>Excess of revenues over expenditures/ change in net assets</b>	<u>150,621</u>	<u>484,570</u>	<u>635,191</u>	<u>1,761</u>
<b>Fund balance/net assets</b>				
<b>Beginning of year</b>	4,012,141	1,791,177	5,803,318	19,586
<b>Prior period adjustment</b>	(966,209)	889,445	(76,764)	-
<b>Beginning of year as restated</b>	<u>3,045,932</u>	<u>2,680,622</u>	<u>5,726,554</u>	<u>19,586</u>
<b>End of year</b>	<u>\$ 3,196,553</u>	<u>\$ 3,165,192</u>	<u>\$ 6,361,745</u>	<u>\$ 21,347</u>

The accompanying notes are an integral part of these financial statements

Bay Haven Charter Academy, Inc.  
Statement of Revenues and Expenditures -  
Budget and Actual - General Fund  
Year Ended June 30, 2008

	<u>Original and Final Budgeted Amounts</u>	<u>Actual Amounts</u>	<u>Variance with Final Budget- Positive (Negative)</u>
<b>Revenues</b>			
Intergovernmental	\$ 6,683,587	\$ 7,065,214	\$ 381,627
Donations	-	9,506	9,506
Before and aftercare fees	195,000	258,649	63,649
Miscellaneous	100,000	437,885	337,885
Total revenues	<u>6,978,587</u>	<u>7,771,254</u>	<u>792,667</u>
<b>Expenditures</b>			
Instructional			
Regular instruction	3,328,065	3,518,659	(190,594)
Exceptional instruction	147,312	117,420	29,892
Support services			
Pupil services	99,863	105,618	(5,755)
Instructional services	27,642	105,102	(77,460)
Aftercare programs	147,139	428,161	(281,022)
Administrative services	776,800	845,419	(68,619)
Plant operations and maintenance	823,742	932,298	(108,556)
Transportation	20,000	20,442	(442)
Other support services	142,088	120,859	21,229
Capital outlay			
Site, building and equipment	35,000	721,241	(686,241)
Debt service			
Principal and interest	739,970	705,414	34,556
Total expenditures	<u>6,287,621</u>	<u>7,620,633</u>	<u>(1,333,012)</u>
<b>Excess of revenues over expenditures</b>	<u>\$ 690,966</u>	<u>\$ 150,621</u>	<u>\$ (540,345)</u>

The accompanying notes are an integral part of these financial statements

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

***Nature of operations***

Bay Haven Charter Academy, Inc. (the "School"), a component unit of Bay District Schools, was organized in April 2001 as a Florida nonprofit corporation. The School was granted a charter from Bay District Schools (the "District") to operate a public school, grades kindergarten through 8<sup>th</sup> within the school district. The District has the option to terminate the Charter before its expiration based on circumstances, as defined in the agreement.

***Financial reporting entity***

Accounting principles generally accepted in the United States of America require that the reporting entity include (1) the primary government, (2) organizations for which the primary government is financially accountable and (3) other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. The School is considered a component unit of the District.

***Component unit – Bay Haven Charter Academy Foundation***

This report includes financial statements of the funds required to account for those financial activities which are related to the School and are controlled by or dependent upon the School's Board of Directors. The School has one component unit as defined by GASB Statement No. 14, *The Financial Reporting Entity* or in publications cited in the State of Florida, Office of the Auditor General Rules, Rule 10.553, which is required to be included in these financial statements. A component unit is an entity for which the School is considered to be financially accountable and is included in the School's reporting entity because of the significance of its operational or financial relationships with the School. A primary government is financially accountable for the organizations that make up its legal entity. It is also financially accountable for legally separate organizations if its officials appoint a voting majority of an organization's governing body and either it is able to impose its will on that organization or there is a potential for the organization to provide specific financial benefits to, or to impose specific financial burdens on, the primary government. The primary government may also be financially accountable for governmental organizations that are fiscally dependent on it.

The Bay Haven Charter Academy Foundation (the "Foundation") was formed as an educational support organization to solicit tax deductible contributions for construction of the School building and subsequent capital outlay projects for Bay Haven Charter Academy, Inc. The Foundation is operated solely for the benefit of the School. The Foundation is presented as a governmental fund type with fiscal year end of June 30.

Due to the nature and significance of the Foundation's relationship with the School, exclusion of the Foundation's financial operations would render the School's financial statements incomplete or misleading. The Foundation is disclosed using the discrete presentation method to emphasize that it is a legally separate entity from the School.

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

***Basis of presentation***

Based on the guidance provided in the American Institute of Certified Public Accountants, *Audit and Accounting Guide - Not-for-Profit Organizations*, and the provision of Section 228.056(10), Florida Statutes, an individual charter school established as a separate legal entity (e.g., organized as a separate nonprofit organization) generally is a governmental organization for financial reporting purposes. The accompanying financial statements of the School have been prepared in conformity with accounting principles generally accepted in the United States of America ("GAAP") as prescribed by the Governmental Accounting Standards Board ("GASB"). GASB is the accepted standard setting body for governmental accounting and financial reporting.

The external statements are prepared from accounts of the School that are organized and operated on the basis of funds. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts.

Governmental funds are used to account for the School's general government activities, including the collection and disbursement of specific or legally restricted monies, the acquisition and construction of capital assets and the servicing of general long-term debt.

The School's governmental fund is its general fund, which is the School's primary operating fund. The general fund accounts for all financial activities of the School, and is included in the preparation of the entity-wide financial statements and the fund financial statements.

***Measurement Focus and Basis of Accounting***

The basic financial statements of the School are composed of the following:

- Government-wide financial statements
- Fund financial statements
- Notes to the financial statements

***Government-wide Financial Statements***

Government-wide financial statements display information about the reporting government as a whole, except for its fiduciary activities. These statements include separate columns for the governmental and business-type activities of the primary government. Government activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely, to a significant extent, on fees and charges for support. The School has no business-type activities.

Government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and agency fund financial statements. Under the accrual basis of accounting, revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place. Revenues, expenses, gains, losses, assets and liabilities resulting from nonexchange transactions are recognized in accordance with the requirements of GASB Statement 33 - *Accounting and Financial Reporting for Nonexchange Transactions*.

Notes to Financial Statements

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

Amounts paid to acquire capital assets are capitalized as assets in the government-wide financial statements, rather than reported as expenditures. Proceeds of long-term debt are recorded as liabilities in the government-wide financial statements, rather than as other financial sources. Amounts paid to reduce long-term indebtedness of the reporting government are reported as reductions of the related liabilities, rather than as expenditures.

Grants, entitlements, and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The statement of activities demonstrates the degree to which the direct expenses of a given function, segment or program are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Indirect expenses not allocated to functions are reported separately. Interest on general long-term debt is considered such an indirect expense. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and entitlement revenues that are restricted to meeting the operational or capital requirements of a particular function or segment. Other items not reported as program revenues are reported as general revenues.

The School applies eligible expenses against restricted resources before use of unrestricted resources.

***Fund Financial Statements***

Governmental fund types use the flow of current financial resources measurement focus and the modified accrual basis of accounting. Current financial resources measurement focus generally means that only current assets and current liabilities are included in the balance sheet. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., when they are "measurable and available"). "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to pay liabilities of the current period.

The School considers grants, entitlements and other revenues available if collected within 60 days after year-end. Grants, entitlements and interest are all considered to be susceptible to accrual and are recognized as revenues of the fiscal year. All other revenue items are considered to be measurable and available only when cash is received by the School.

Expenditures are recorded when the related fund liability is incurred, except for unmatured principle and interest on general long-term debt which is recognized when due.

***Cash and cash equivalents***

The School considers all demand accounts and money market funds which are not subjected to withdrawal restrictions to be cash and cash equivalents.

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

***Capital assets***

Capital assets are recorded as expenditures in the general fund at the time of purchase, and are capitalized at historical cost in the statement of net assets. Capital assets are defined typically as assets with an initial, individual cost of \$750 or more and an estimated useful life of more than one operating cycle. Donated assets are recorded at estimated fair market value on the date received. Estimated useful life is management's estimate of how long the assets are expected to meet service demands, and ranges typically from five to ten years. Capitalized leased assets are amortized over their estimated useful lives. Amortization expense on capitalized leased assets is included with depreciation expense on owned assets.

***Amortization***

Bond finance costs are being amortized over the life of the bond using the straight-line method.

***Revenue recognition***

Student funding is provided by the State of Florida through the District. Such funding is recorded as intergovernmental revenue and is net of a 5% administration fee retained by the District. This funding is received on a pro-rata basis over the ten-month period that School is in session and is adjusted for changes in full-time equivalent ("FTE") student population.

***Income taxes***

The School is a nonprofit corporation whose revenue is derived primarily from other governmental entities. The School is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. Accordingly, no provision for income taxes has been made in these financial statements. The School has no unrelated business income for the year ended June 30, 2008.

***Use of estimates***

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from these estimates.

***Capital lease obligations***

Obligations arising from capital leases are reported as liabilities.

***Net assets***

Net assets are classified in two categories. The general meaning of each is as follows:

Notes to Financial Statements

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

Invested in capital assets, net of related debt - represents the difference between the cost of capital assets, less accumulated depreciation reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets.

Unrestricted - indicates that portion of net assets that is available for future periods.

***Budget***

An operating budget is adopted and maintained by the governing board for the School pursuant to the requirements of Florida Statutes. The budget is adopted using the same basis of accounting that is used in the preparation of the fund financial statements.

**NOTE 2 - RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS**

The following is an explanation of differences between the general fund balance sheet and statement of net assets.

The total fund balance of Bay Haven Charter Academy, Inc.'s governmental general fund (\$3,196,533) differs from the net assets of governmental activities (\$6,361,745) reported in the statement of net assets and governmental fund balance sheet. This difference results primarily from the long-term economic focus of the statement of net assets versus the current financial resources focus of the governmental fund balance sheet.

***Bond issue costs***

Long-term assets related to the issuance of bonds are not reported as fund assets. All assets are reported in the statement of net assets.

Bonds issue costs, net	<u>\$116,608</u>
------------------------	------------------

***Capital related items***

When capital assets (property, leasehold improvements and equipment) that are to be used in governmental activities are purchased or constructed, the costs of those assets are reported as expenditures in governmental funds. However, the statement of net assets included those capital assets of the School as a whole.

Cost of capital assets	\$ 16,791,234
Accumulated depreciation	(1,207,918)
Total capital assets	<u>\$ 15,583,316</u>

***Long-term debt***

Long-term liabilities applicable to the School's governmental activities are not reported as fund liabilities. All liabilities are reported in the statement of net assets.

Notes to Financial Statements

**NOTE 2 - RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS (CONTINUED)**

Bonds payable	\$ 11,190,000
Capital lease payable	1,344,732
Total long-term liabilities	<u>\$ 12,534,732</u>

The following is an explanation of differences between the governmental funds statement of revenues, expenditures and changes in fund balance and the government-wide statement of activities.

The governmental funds statement of revenues, expenditures and changes in fund balance includes a reconciliation between net changes in fund balance - total governmental funds and changes in net assets of governmental activities as reported in the government-wide statement of activities. One element of that reconciliation explains, "governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of these assets are allocated over their estimated useful lives and reported as depreciation expense." The details of this difference are as follows:

Capital outlay	\$ 721,241
Depreciation expense	<u>(504,764)</u>
Net adjustment to increase net change in fund balance - total governmental funds to arrive at changes in net assets of governmental activities	<u>\$ 216,477</u>

Another element of that reconciliation states, "the issuance of long-term debt (i.e., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities." The details of this difference are as follows:

Principal payments	<u>\$ 267,879</u>
--------------------	-------------------

Another element of that reconciliation states, "some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds." The details of this \$5,220 difference are as follows:

Amortization of bond issuance costs	<u>\$ 5,220</u>
-------------------------------------	-----------------

**NOTE 3 - CASH AND CASH EQUIVALENTS**

The School's cash and cash equivalents include cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

The School does not have an investment policy and there were no investments at June 30, 2008.

Notes to Financial Statements

**NOTE 3 - CASH AND CASH EQUIVALENTS (CONTINUED)**

***Interest Rate Risks***

At June 30, 2008, the School did not hold any investments that were considered to be an interest rate risk.

***Credit Risks***

At June 30, 2008, the School did not hold any investments that were considered to be a credit risk.

***Custodial Risks***

The School has cash deposits with financial institutions that are neither insured nor collateralized for any amounts over the Federal Deposit Insurance Corporation limit of \$100,000. At June 30, 2008, the amount of uninsured cash balances was \$2,198,549. On October 10, 2008, the insurance limit was increased to \$250,000.

At June 30, 2008, the School did not hold any investments that were considered to be a custodial risk.

***Concentration of Credit Risk***

As June 30, 2008, the School did not hold any investments that were considered to be a concentration of credit risk.

**NOTE 4 - CAPITAL ASSETS**

Capital assets balances and activity for the year ended June 30, 2008 are as follows:

	Balance June 30, 2007	Additions	Deletions/ Adjustments	Balance June 30, 2008
Buildings	\$ 12,716,534	\$ 6,200	\$ 912,250	\$ 13,634,984
Furniture, fixtures and equipment	333,529	111,292	1,453,613	1,898,434
Computers	277,412	90,122	-	367,534
Improvements other than buildings	32,339	227,777	-	260,116
Land	300,000	-	-	300,000
Construction in process	44,316	285,850	-	330,166
Total capital assets	<u>13,704,130</u>	<u>721,241</u>	<u>2,365,863</u>	<u>16,791,234</u>
Less accumulated depreciation:				
Buildings	(317,913)	(341,340)	(22,806)	(682,059)
Furniture, fixtures and equipment	(130,751)	(106,092)	(61,024)	(297,867)
Computers	(167,883)	(50,833)	457	(218,259)
Improvements other than buildings	(3,234)	(6,499)	-	(9,733)
Total accumulated depreciation	<u>(619,781)</u>	<u>(504,764)</u>	<u>(83,373)</u>	<u>(1,207,918)</u>
Capital assets, net of depreciation	<u>\$ 13,084,349</u>	<u>\$ 216,477</u>	<u>\$ 2,282,490</u>	<u>\$ 15,583,316</u>

The cost of capital assets acquired under capital leases is \$1,598,430, less accumulated depreciation of \$193,422, for a net carrying value of \$1,405,008 at June 30, 2008.

Depreciation expense of \$504,764 was charged to governmental activities in support services.

# Bay Haven Charter Academy, Inc.

## Notes to Financial Statements

### NOTE 5 - LONG-TERM DEBT

On July 1, 2004, Bay County issued \$11,600,000 Educational Facilities Revenue Bonds, series 2004 for Bay Haven Charter Academy, Inc. The bonds were issued for the purpose of: (i) paying the costs to acquire and construct a school facility and (ii) paying the costs and expenses related to the issuance of the bonds. This debt is expected to be repaid over a period of 23 years. The bonds will initially bear interest at the Weekly Rate, and at a forecasted average interest rate of 4.5%.

Debt service requirements to maturity on revenue bonds payable at June 30, 2008 are as follows:

Years ending June 30,	Principal	Interest	Total
2009	\$ 240,000	\$ 503,550	\$ 743,550
2010	250,000	492,750	742,750
2011	418,953	481,500	900,453
2012	438,200	462,647	900,847
2013	458,330	442,928	901,258
2014-2018	2,627,511	1,885,653	4,513,164
2019-2023	3,289,107	1,237,591	4,526,698
2024-2026	3,467,899	415,116	3,883,015
<b>Total</b>	<b>\$ 11,190,000</b>	<b>\$ 5,921,735</b>	<b>\$ 17,111,735</b>

On December 3, 2004, the School entered into a capital lease with Geo-Energy for a geothermal heating and air unit. The payments began on October 1, 2005 with monthly payment due in the amount of \$10,414 for 240 months which includes interest of 6%.

Debt service requirements for the capital lease at June 30, 2008 are as follows:

Years ending June 30,	Principal	Interest	Total
2009	\$ 45,525	\$ 79,445	\$ 124,970
2010	48,332	76,638	124,970
2011	51,313	73,657	124,970
2012	54,478	70,492	124,970
2013	57,838	67,132	124,970
2014-2018	347,306	277,539	624,845
2019-2023	468,466	156,382	624,848
2024-2026	271,473	20,124	291,597
<b>Total</b>	<b>\$ 1,344,731</b>	<b>\$ 821,409</b>	<b>\$ 2,166,140</b>

The School has an unsecured line of credit totaling \$500,000. The agreement requires that monthly interest payments are made on the outstanding balance at a variable rate of .5% above lender's prime. The outstanding principle is to be paid in full on April 1, 2009. The amount outstanding at September 30, 2008 was \$0.

Notes to Financial Statements

**NOTE 6 - ACCRUED COMPENSATED ABSENCES**

The School's policy is to grant paid absences for vacation and sick leave. Employees should use vacation time in the benefit period in which it is earned. With supervisor approval, an employee may roll over vacation time to the next benefit period. Rolled over vacation must be used within the first thirty days of the new benefit period. Upon termination of employment, employees are eligible to receive pay for accrued unused vacation time. If an employee took more vacation time than they had accrued at the time of termination, the difference is taken out of their final paycheck. When compensatory time is granted, it must be used within sixty days of when it had been earned or it is forfeited. Compensatory time expires at the end of the year and cannot be carried over. School employees may "buy back" unused sick/personal days at a rate of \$90 per day. Upon termination, any time not used will be forfeited.

**NOTE 7 - DEFINED CONTRIBUTION RETIREMENT PLAN**

Beginning July 1, 2007, employees of Bay Haven Charter Academy, Inc. participate in a defined contribution plan sponsored by the School. Employees who have reached 21 years of age and completed two months of service are eligible to participate. Participants may contribute from 1% to 100% of earnings, up to the annual dollar limit prescribed by law. The School provides a discretionary match of 50% up to the first 6% of deferred compensation. Matching contributions for the year ended June 30, 2008 were \$192,028.

**NOTE 8 - COMMITMENTS**

The School has contracted with School Financial Services to provide accounting services. The fee charged by School Financial Services is 1% of net FEFP Revenue. As of July 16, 2007, the School contracted with AES Human Resource Solutions to fulfill the payroll and human services functions for the School. This contract ended during the year and, as of June 30, 2008, School Financial Services prepares the School's payroll for a fee of 1.25% of gross payroll. The School no longer hires an outside company to perform the human services function.

**NOTE 9 - CAPITAL APPROPRIATIONS FUNDING**

The Florida Department of Education has approved a Charter School Capital Outlay ("CSCO") award for the School. In each year that funds are appropriated by the State for charter school capital outlay purposes, those funds are allocated among eligible charter schools. The funds for the School's allocation are transferred to the School once a CSCO Plan has been provided to and approved by the sponsoring district. For the year ended June 30, 2008, the School's CSCO award totaled \$688,653. CSCO funds of \$688,653 have been recognized in the accompanying statement of revenues, expenditures and changes in fund balance that relate to various capital expenditures, repairs and maintenance. If the CSCO funds are used to acquire tangible property assets, Bay District Schools has a reversionary interest in those assets. In the event of nonrenewal, termination, or breach of the Charter School Agreement, ownership of the assets would revert to the District.

Notes to Financial Statements

**NOTE 10 - RISK FINANCING**

The School is exposed to various risks of loss related to torts, thefts of, or damage to, and destruction of assets and natural disasters. The School has obtained property insurance from commercial companies. There have been no claims in excess of insurance coverage limits during the past three years ended June 30, 2008.

**NOTE 11 - BUDGETARY DATA**

The School had actual expenditures that exceeded budgeted amounts for the year ended June 30, 2008. The School received unanticipated revenues. The additional revenues were spent and construction was started on the gym locker rooms. The net result, however, was an excess of revenue over expenditures.

**NOTE 12 - BEGINNING FUND BALANCE/ NET ASSETS RESTATEMENT**

Beginning fund balance and net assets were restated due to an accrual of prepaid interest that should have been used to offset accounts payable for building construction in the prior year. The effect of the restatement is a decrease in beginning fund balance and a reduction in the prepaid expenses asset. In the government-wide statement of net assets, this resulted in an increase in buildings and accumulated depreciation and a decrease in net assets.

Bay Haven Charter Academy, Inc.  
Schedule of Revenues and Expenditures  
General Fund (Management Format)  
Year Ended June 30, 2008

	<u>Account</u>						<u>Total</u>
<b>Revenues</b>							
State sources	3300						\$7,065,214
Local sources	3400						706,040
Total revenues							<u>7,771,254</u>
		<u>Purchased Services</u>	<u>Energy Services</u>	<u>Materials &amp; Supplies</u>	<u>600 Capital Outlay</u>	<u>700 Other Expenses</u>	
<b>Expenditures</b>							
Instruction	5000	\$ 3,396,790	\$ -	\$ 239,289	\$ -	\$ -	3,636,079
Pupil personal	6100	105,618	-	-	-	-	105,618
Instructional							
media services	6200	1,014	-	-	-	-	1,014
Instruction and							
curriculum	6300	97,632	-	-	-	-	97,632
Instruction staff							
services	6400	7,470	-	-	-	-	7,470
School	7300	777,473	-	-	-	-	777,473
Fiscal services	7500	67,946	-	-	-	-	67,946
Central services	7700	119,845	-	-	-	-	119,845
Pupil transportation	7800	20,442	-	-	-	-	20,442
Operation of plant	7900	754,064	121,714	27,551	-	-	903,329
Maintenance of plant	8100	28,969	-	-	-	-	28,969
Aftercare	7400	428,161	-	-	-	-	428,161
Capital outlay							
Other capital	9300	-	-	-	721,241	-	721,241
Debt service	9200						
Redemption of							
principal	710	-	-	-	-	267,879	267,879
Interest	720	-	-	-	-	437,535	437,535
Total		<u>\$ 5,805,424</u>	<u>\$ 121,714</u>	<u>\$ 266,840</u>	<u>\$ 721,241</u>	<u>\$ 705,414</u>	<u>7,620,633</u>
<b>Excess of revenues over expenditures</b>							<u>\$ 150,621</u>

See independent auditor's report

**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***

To the Board of Directors  
Bay Haven Charter Academy, Inc.  
Panama City, Florida

We have audited the financial statements of Bay Haven Charter Academy, Inc., a component unit of Bay District Schools, as of and for the year ended June 30, 2008 and have issued our report thereon dated October 31, 2008. 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 Bay Haven Charter Academy, Inc.'s internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Bay Haven Charter Academy, Inc.'s internal control over financial reporting. Accordingly we do not express an opinion on the effectiveness of Bay Haven Charter Academy, Inc.'s internal control over financial reporting.

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

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 Bay Haven Charter Academy, Inc.'s ability to initiate, authorize, record, process, or report financial data reliably in accordance with the generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of Bay Haven Charter Academy, Inc.'s financial statements that is more than inconsequential will not be prevented or detected by Bay Haven Charter Academy, Inc.'s internal control. We consider the following findings to be significant deficiencies in internal control over financial reporting.

08-1 Significant adjustments to the financial records were made in order for the financial statements to conform to generally accepted accounting principles.

08-2 Inadequate design of internal control over the preparation of the financial statements being audited gives rise to a significant deficiency in 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 by Bay Haven Charter Academy, Inc.'s internal control. Our consideration of 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. However, we believe that neither of the significant deficiencies described above is a material weakness.

Bay Haven Charter Academy, Inc.'s responses to the findings identified in our audit are described in the accompanying Management's Response Letter. We did not audit the Bay Haven Charter Academy, Inc.'s responses and, accordingly, we express no opinion on them.

#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether Bay Haven Charter Academy, Inc.'s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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

*Carr, Riggs & Ingram, L.L.C.*

October 31, 2008

**MANAGEMENT LETTER REQUIRED BY CHAPTER 10.850 OF THE RULES OF THE STATE OF FLORIDA OFFICE OF THE AUDITOR GENERAL**

To the Board of Directors  
Bay Haven Charter Academy, Inc.  
Panama City, Florida

We have audited the financial statements of Bay Haven Charter Academy, Inc. (the "School"), a component unit of Bay District Schools, Florida as of June 30, 2008, and have issued our report thereon dated October 31, 2008.

We have issued our 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* dated October 31, 2008. Disclosures in that report 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, the provisions of Chapter 10.850, Rules of the Auditor General govern the conduct of charter school audits performed in the State of Florida and require that certain items be addressed in this letter. Those items, which are listed in Section 10.854, are as follows:

1. A statement as to whether corrective actions have been taken to address significant findings and recommendations made in the preceding annual financial report.

There were no findings or recommendations made in the preceding annual financial report.

2. As required by the Rules of the Auditor General [Section 10.554(1)(h)6.(a)], a statement must be included as to whether or not the local government entity has met one or more of the conditions described in Section 218.503(1), Florida Statutes.

In connection with our audit, we determined that the School did not meet any of the conditions described by Section 218.503(1), Florida Statutes.

3. Recommendations to improve present financial management, accounting procedures, and internal controls. See findings 07-1 and 07-2 in the report on internal control over financial reporting and on compliance and other matters based on an audit of financial statements performed in accordance with *Government Auditing Standards*.

4. Violations of laws, rules, regulations, contracts and grant agreements or abuse that have occurred, or are likely to have occurred that have an effect on the determination of financial statement amounts that is less than material but more than inconsequential.

There were no matters as described

5. For matters that are inconsequential to the determination of financial statement amounts considering both quantitative and qualitative factors, the following may be reported based on professional judgment:
  - a. Violations of laws, rules, regulations, contracts and grant agreements or abuse that have occurred, or are likely to have occurred.
  - b. Improper expenditures or illegal acts that would have an immaterial effect on the financial statements.
  - c. Control deficiencies that are not significant deficiencies including but not limited to:
    1. Improper or inadequate accounting procedures (e.g., the omission of required disclosures from the annual financial statements).
    2. Failures to properly record financial transactions.
    3. Inaccuracies, shortages, defalcations and instances of fraud discovered by, or that come to the attention of, the auditor.

There were no matters as described.

6. The name or official title of the entity.

This information is disclosed in the accompanying financial statements.

7. For charter schools only:
  - a. A statement that the auditor applied financial condition assessment procedures pursuant to Rule 10.855(10).
  - b. If deteriorating financial conditions are noted, a statement that the charter school's financial condition is deteriorating and a description of conditions causing the auditor to make this conclusion. If the auditor has reported that the charter school has met one or more of the financial emergency conditions specified in Section 218.503(1), Florida Statutes (Sec. (1)(e)2. above), this statement shall indicate whether such financial emergency condition resulted from a deteriorating financial condition. Findings regarding deteriorating financial condition shall be prepared in accordance with Rule 10.856(3)(c).

Financial condition assessment procedures were applied pursuant to Rule 10.855(10) and no deteriorating financial conditions were noted.

This management letter is intended solely for the use and information of Bay Haven Charter Academy, Inc.'s management, the Board of Directors, the State of Florida Office of the Auditor General, Bay District Schools and grantor agencies and is not intended to be and should not be used by anyone other than these specified parties.

*Carr, Riggs & Ingram, L.L.C.*

October 31, 2008



## BAY HAVEN CHARTER ACADEMY

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Judi Moore, Assistant Principal

Dr. Tim Kitts, Principal

Meredith Higgins, Assistant Principal

October 31, 2008

Auditor General's Office  
Claude Pepper Building, Room 412E  
111 West Madison Street  
Tallahassee, Florida 32399-1450

Re: Management letter rebuttal required by Sections 10-807(1) and 10.857(2), Rules of the Auditor General

### Status of Prior Year Comments

See current year recommendations.

### Response to Current Year Recommendations

08-1 (Prior year 07-1) Significant adjustments to the financial records were made in order for the financial statements to conform to generally accepted accounting principles.

Response: We realize that ideally our internal control system should be designed in a manner that ensures the accuracy of the financial statements and that the Auditors should not have to recommend journal entries to see that they conform to generally accepted accounting principles. We have changed management companies and expect that in the future internal staff and the management company will be working together to ensure our financial statements conform to generally accepted accounting principles.

08-02 (Prior year 07-2) Inadequate design of internal control over the preparation of the financial statements being audited gives rise to a significant deficiency in internal control.

Response: Our Auditors assist us with the preparation of our financial statements. We don't feel that in the near future the benefits derived from investing in the resources necessary for us to prepare our own financial statements would outweigh the cost of those resources.

Should you need any further information or have any questions regarding this letter, we will be happy to provide any further information you require .

Very truly yours,

Timothy Kitts