

MANATEE SCHOOL OF  
ARTS AND SCIENCES, INC.

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

FINANCIAL STATEMENTS  
June 30, 2009

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## INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the governmental activities and the General Fund of Manatee School of Arts and Sciences, Inc. (a Charter School and component unit of the School Board of Manatee County) as of and for the year ended June 30, 2009, which collectively comprised the Charter School's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the management of Manatee School of Arts and Sciences, Inc. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the General Fund of Manatee School of Arts and Sciences, Inc. as of June 30, 2009, and the respective changes in financial position and budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 3, 2009, on our consideration of Manatee School of Arts and Sciences, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

*CPA Associates*

Bradenton, Florida  
September 3, 2009

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2009

(Unaudited)

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The following pages represent the Management's Discussion and Analysis (MD&A) of Manatee School of Arts and Sciences, Inc. (the School). It depicts and reviews the financial picture and activities as of June 30, 2009.

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

### Using the Financial Statements

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

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

### Financial Highlights

- **Net Assets** decreased by \$44,556 from \$1,478,451 to \$1,433,895 for the year ended June 30, 2009.
- **Total Assets** decreased by \$112,097 from \$2,504,555 to 2,392,458 and is attributed to the following elements.

	<u>Increase (Decrease)</u>
Cash	\$ ( 70,464)
Due from primary government	2,351
Prepaid expenses and other current assets	24,272
Capital assets, net of accumulated depreciation	( 67,102)
Other assets	( 1,154)

There was a decrease in cash. This decrease is due to forecasted expense of going forward funds from the previous year planned for the creation of a computer lab. The computer lab became necessary as the State trend is to move to computerized testing of elementary students. The School budgeted use of going forward funds, also, because of the budget cuts to education in the

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(Unaudited)

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State of Florida. These funds were accumulated from the past 12 years for circumstances such as the ones being faced during these economic times; such as state budget cuts, bank failures and the abundance of home foreclosures' being seen in Manatee County as well as other counties across the country. We have been able to continue our commitment to keeping a minimum of 10% or more of revenues in reserve. The cash balance going forward is \$482,083. The increase in due from primary government is due to June capital outlay funding received in the month of July 2009. There was a decrease of capital assets and other assets. This decrease is due to depreciation expenses taken this year.

- **Total Liabilities** decreased by \$67,541 from \$1,026,104 to \$958,563 due to the following items:

		<u>Increase (Decrease)</u>
Accrued payroll expenses	\$	15,376
Other	(	2,243)
Long-term debt	(	80,674)

Liabilities continue to decrease as we continue to pay down our mortgage debt.

- **Total Revenues** increased by \$968 from \$1,521,511 to 1,522,479. The increase is attributed to the following:

		<u>Increase (Decrease)</u>
Federal pass-through	\$	5,787
Local		7,274
Fundraising and contributions	(	10,527)
Investment income	(	1,566)

The increase in revenue is minimal due to the continuing decrease in budgetary allocations from the state passed through to the local level and then through to the School. Our student body could not go above 144 students in K-3 or 66 students in 4-8 in order to maintain compliance with the class size amendment. We expect that revenues for the next few years will continue to decline as budget cuts are passed through and until the economy rebounds. There has been a definite declining trend in fundraising as traditional fundraising reaches into the pockets of our families and friends who are struggling during these times of financial uncertainty.

The School did allocate going forward balances this year to create a computer lab and to turn our art and science building into four class rooms. This endeavor was implemented to allow for an

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increase in our student body to 250 and thereby bringing in more revenues to maintain current programming. It is important to this School's Board of Directors and Administration to continue to raise the level of income for our staff and create the most innovative education to meet the needs of our special students.

The largest revenue source for the Manatee School of Arts and Sciences, Inc. is the Florida Education Finance Program which allocates funds based on the number and type of student enrolled. Federal and private grants account for the second largest source of funds at our School. Grant writing has proven to be more difficult than in past years, as foundations are also feeling the consequences of the current economy. Fundraising is our primary source for maintenance and enhancement of our outdoor education programming.

- **General Fund: Total expenditures** increased by \$56,018 from \$1,504,286 to \$1,560,304 primarily due to the following:

	<u>Increase (Decrease)</u>
Instruction	\$ 14,848
Pupil personnel services	( 26)
Board	15,633
General administration	( 5,363)
School administration	12,213
Operation of plant	10,452
Maintenance of plant	( 340)
Capital outlay	8,602
Debt service:	
Principal	4,115
Interest	( 4,116)

Instruction increased due to increase in salaries. Extra staff was again provided this year to provide intensive remediation. Board expenses increased due to the IRS regulation changes requiring all 501(c)(3) organizations to file Form 990. In previous years public schools were exempt from this requirement. Another factor increasing Board expenses are legal fees required to draft new policies for the School's staff handbook. Operation of Plant increased due to an increase in insurance and utilities. There was also installation of carpet when converting the art lab and science lab into classrooms. Capital outlay expense increased as changes were made to the School facility during this school year. School Administration increased due to salary increases.

- **General Fund Budget Comparison:** The Manatee School of Arts and Sciences, Inc.'s budget is prepared according to generally accepted accounting principles and according

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to Florida law. During the school year, the School's Board of Directors at the request of the Director of School Operations and Finance revises its budget to adjust for changes in revenues or expenditures. This happens following the two full time equivalent counts done in October and February of every school year. A statement showing the School's original and final budget compared with actual operating results is presented in the financial statements.

The Manatee School of Arts and Sciences, Inc.'s year end results were in line with the budget coming in under slightly in expenses. Revenues were lower in Federal pass through and in local. It was slightly above forecast in fundraising, but compared to prior years it was down. Investment income decreased; representing the current trend of our economy. Income decreases while expenses continue to rise. The disparity between the two is being met by going forward balances and unrestricted reserves.

Overall, budget guidelines were met. Our fund balance on July 1, 2008, was \$539,057 and on June 30, 2009, the fund balance was \$482,083 decreasing for the year by \$56,974. Please note the budget comparison does not include reserves that were budgeted for expenses that are unforeseen. Revenues are forecasted conservatively and expenditures are projected to meet all possible expenses and special projects.

### Capital Asset and Long Term Debt Administration

- **Capital Assets**

At June 30, 2009, the School was invested in a variety of capital assets including land, building, furniture, technology and other equipment. The total capital assets, \$1,758,109 is net of accumulated depreciation.

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

Land	\$	250,252
Facility		1,878,475
Furniture and equipment		375,636
Total		<u>2,504,363</u>
Less accumulated depreciation	(	<u>746,254</u> )
	\$	<u><u>1,758,109</u></u>

\$35,556 in furniture, fixtures and equipment was capitalized in the current year while \$15,166 was disposed. During the current year depreciation was calculated for instruction, school

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(Unaudited)

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administration, maintenance of plant, operation of plant, general administration and pupil personnel services totaling \$101,976. Accumulated depreciation totaled \$746,254.

### **Long Term Debt**

At June 30, 2009, the Manatee School of Arts and Sciences, Inc. had an outstanding loan for Phase 1 of \$653,771. This long term debt is a 15 year mortgage at a 4.75% interest rate and is due to mature in January 2017. Payments are made monthly. Also, at June 30, 2009, the Manatee School of Arts and Sciences, Inc. had an outstanding second loan of \$159,449. This long term debt is a 15 fifteen year mortgage at a 6.75% interest rate and is due to mature July 31, 2019. Payments are debited from our account on a monthly basis.

Manatee School of Arts and Sciences, Inc. incurred interest expenses of \$44,644.

### **Economic Factors and Next Year's Budget**

The financial success of the Manatee School of Arts and Sciences, Inc. rests with the continuation of conservative financial management as well as meeting the academic needs of its student body and personnel needs of its staff. It is felt by this administration that the continued success of the student body continues to create a demand for the School's program and maintaining a consistent staff is the best way to create an environment where children can learn. All staff members from the fiscal year 2009 are returning for the following school year and the average length of service for the staff at Manatee School of Arts and Sciences, Inc. is now seven years. Staff continues their education and extensive brain research strategies are intertwined into each lesson. Students learning styles drives the lesson planning.

It will be required for charter schools to meet certain goals regarding class size by the school year 2011. Class sizes in kindergarten through third grade must be at 18 while fourth through eighth grade must be no more than 22 students. The School did meet the class size amendment requirements for the 2008-2009 school year. It is important to note that multi-graded classes are measured at the grade level comprising the majority in that classroom. For example, if a class has 10 third graders and 11 fourth graders, the State will measure the class size for that classroom as if it was a fourth grade classroom, and vice versa if the class had 11 third graders and 10 fourth graders, the class size would be measured by third grade standards. By the year 2011, charter schools will be measured at the classroom level. In order to increase revenues, and grow our student body we redesigned the current configuration moving all fourth and fifth graders into our second building on campus which allows us to add one more 4/5 grade class and 2 more K-3 classes.

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MANATEE SCHOOL OF ARTS AND SCIENCES, INC.  
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MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2009

(Unaudited)

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The 2008-2009 school year began with a student body of 210 which was the projected goal. The year ended with 210 students attending. Our FTE funding was based on 210. Our goal for the next year is to maintain at least 210 students, using reserves to maintain that number of students, and beginning to grow to 250 students, allowing for a stabilization of reserves and meeting expenses with operating revenues alone.

Communication with parents and families is ongoing. We have monthly conference days and if those can't be met, conferences are scheduled during the school day. We continue to use our [gogeckos.com](http://gogeckos.com) web site for parents to see their children's progress, grades, lesson plans, and learning goals. The School also maintains [gogeckos.org](http://gogeckos.org) as a communication tool for teachers and families about homework, school events, policies and weekly letters from the principal. Many teachers and students create and maintain a classroom website as part of their curriculum.

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

The economy and state of affairs in our country, let alone the state of Florida and Manatee County, is troublesome and continues to be a major source of concern with regard to the funding of charter schools and education as a whole. While President Obama is in favor of charter schools and has created stimulus funds to construct more charter schools, there are no stimulus funds at this time, to maintain operating funds at levels of a few years ago. It is imperative that the Department of Education and the State of Florida look into reducing restrictions on current and maintained revenues so funds can be moved into areas of need.

The School continues to plan for budget decreases, population decreases and the decline in real estate. There is a reserve set aside to continue to fund the necessary programming and staffing planned to see us through the troubled times while attempting to not affect our students or staff in a negative way. Purchasing of equipment and supplies will slow, as well as the overuse of miscellaneous resources. Innovative student education and one on one attention will continue. Salary increases are not planned for the coming fiscal year unless our student body and revenues increase. Staff is highly motivated and there continue to be happy teachers at our School. We are a team that will work together to see the academic and financial success of the School continue.

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

STATEMENT OF NET ASSETS  
June 30, 2009

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ASSETS

Current assets	
Cash	\$ 592,651
Due from primary government	9,164
Prepaid expenses and other current assets	<u>25,611</u>
Total current assets	627,426
Noncurrent assets	
Capital assets, net of accumulated depreciation	1,758,109
Other assets	<u>6,923</u>
<b>TOTAL ASSETS</b>	<b><u><u>\$ 2,392,458</u></u></b>

LIABILITIES AND NET ASSETS

Current liabilities	
Current portion of long-term debt	\$ 85,279
Accrued expenses	
Payroll	138,544
Other	<u>6,799</u>
Total current liabilities	230,622
Noncurrent liabilities	
Long-term debt	<u>727,941</u>
Total liabilities	958,563
Net assets	
Investment in capital assets, net of related debt	944,889
Unrestricted	<u>489,006</u>
Total net assets	<u><u>1,433,895</u></u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b><u><u>\$ 2,392,458</u></u></b>

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See accompanying notes.

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

STATEMENT OF ACTIVITIES  
Fiscal Year Ended June 30, 2009

	Expenses	Operating Grants and Contributions	Net (Expense) Revenue and Changes in Net Assets
Instruction	\$ 1,021,614	24,599	( 997,015)
Support services			
Pupil personnel services	298	--	( 298)
Board	42,475	--	( 42,475)
General administration	65,217	--	( 65,217)
School administration	219,432	--	( 219,432)
Operation of plant	88,755	--	( 88,755)
Maintenance of plant	64,297	--	( 64,297)
Fundraising	19,149	31,681	12,532
Interest expense	44,644	--	( 44,644)
Amortization expense	1,154	--	( 1,154)
	<u>\$ 1,567,035</u>	<u>56,280</u>	( 1,510,755)
General revenues			
			1,461,821
			4,378
			1,466,199
			( 44,556)
			1,478,451
			\$ 1,433,895

See accompanying notes.

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

BALANCE SHEET - GENERAL FUND

June 30, 2009

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ASSETS	
Cash	\$ 592,651
Due from primary government	9,164
Prepaid expenses and other current assets	<u>25,611</u>
TOTAL ASSETS	<u><u>\$ 627,426</u></u>
LIABILITIES AND FUND BALANCE	
Liabilities	
Accrued expenses	
Payroll	\$ 138,544
Other	<u>6,799</u>
Total liabilities	145,343
Fund balance	
Undesignated	<u>482,083</u>
Total fund balance	<u>482,083</u>
TOTAL LIABILITIES AND FUND BALANCE	<u><u>\$ 627,426</u></u>

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See accompanying notes.

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

June 30, 2009

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Total fund balance per the Balance Sheet - General Fund	\$	482,083
Amounts reported in the Statement of Net Assets are different because		
Capital assets used in governmental activities are not financial resources and, therefore, not reported in the General Fund.		1,758,109
Other assets used in governmental activities are not financial resources and, therefore, not reported in the General Fund.		6,923
Long-term debt is not due and payable in the current period and, therefore, not reported in the General Fund		<u>( 813,220)</u>
Total net assets per the Statement of Net Assets	\$	<u><u>1,433,895</u></u>

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See accompanying notes.

MANATEE SCHOOL OF ARTS AND SCIENCES, INC.  
A CHARTER SCHOOL AND COMPONENT UNIT OF  
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STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -  
BUDGET AND ACTUAL OF THE GENERAL FUND  
Fiscal Year Ended June 30, 2009

	<u>Budgeted Amounts (Unaudited)</u>			
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	<u>Variance</u>
<b>Revenues</b>				
Intergovernmental				
Federal pass-through	\$ 16,600	24,695	24,600	( 95)
Local	1,505,532	1,522,673	1,461,821	( 60,852)
Fundraising and other	25,500	12,500	12,531	31
Investment income	--	--	4,378	4,378
Total revenues	<u>1,547,632</u>	<u>1,559,868</u>	<u>1,503,330</u>	<u>( 56,538)</u>
<b>Expenditures</b>				
Current - Education				
Instruction	981,678	959,956	934,253	25,703
Pupil personnel services	200	200	94	106
Board	23,700	49,100	42,475	6,625
General administration	71,790	75,087	64,197	10,890
School administration	213,139	213,139	211,276	1,863
Operation of plant	84,900	94,100	87,427	6,673
Maintenance of plant	46,225	55,025	59,708	( 4,683)
Capital outlay	--	--	35,556	( 35,556)
Debt service				
Principal	69,300	69,300	80,674	( 11,374)
Interest	56,700	56,700	44,644	12,056
Total expenditures	<u>1,547,632</u>	<u>1,572,607</u>	<u>1,560,304</u>	<u>12,303</u>
Net change in fund balance	--	( 12,739)	( 56,974)	( 44,235)
Fund balance, July 1, 2008	<u>539,057</u>	<u>539,057</u>	<u>539,057</u>	<u>--</u>
Fund balance, June 30, 2009	<u>\$ 539,057</u>	<u>526,318</u>	<u>482,083</u>	<u>( 44,235)</u>

Note: The Board of Directors of the School has approved, through the budgetary process, the use of prior year fund balances carried forward for unforeseen expenses, capital outlay, and to maintain school programming in light of State budget cuts in the appropriation of revenues.

MANATEE SCHOOL OF ARTS AND SCIENCES, INC.  
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RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND  
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL OF THE GENERAL FUND  
TO THE STATEMENT OF ACTIVITIES  
Fiscal Year Ended June 30, 2009

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Net change in fund balance (actual) per the Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual of the General Fund	\$ ( 56,974)
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Amounts reported in the Statement of Activities are different because

The General Fund reports capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation expense exceeded capital outlay expenditures in the current period.	( 66,420)
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The General Fund reports loan fees as expenditures. However, in the Statement of Activities, those loan fees represent an asset that can be allocated over the term of the corresponding loan as amortization expense. This is the amortization expense in the current period.	( 1,154)
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Loss on disposal of capital assets	( 682)
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Principal payments on the mortgage are expenditures in the General Fund, but reduce long-term liabilities in the Statement of Net Assets.	<u>80,674</u>
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Change in net assets per the Statement of Activities	<u><u>\$ ( 44,556)</u></u>
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MANATEE SCHOOL OF ARTS AND SCIENCES, INC.  
A CHARTER SCHOOL AND COMPONENT UNIT OF  
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NOTES TO FINANCIAL STATEMENTS

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NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

Basis of Presentation: The basic financial statements of the Charter School have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The GASB has issued a codification of governmental accounting and financial reporting standards dated June 30, 2008. This codification and subsequent GASB pronouncements are recognized as GAAP for state and local governments.

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

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

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NOTES TO FINANCIAL STATEMENTS

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NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

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

Basic Financial Statements – Fund Financial Statements

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

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

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

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

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

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

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

NOTES TO FINANCIAL STATEMENTS

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NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

terms provide that the expenditure of resources is the prime factor for determining eligibility for Federal, State and other grant resources, revenue is recognized at the time the expenditure is made. Expenditures are generally recognized under the modified accrual basis of accounting when the related liability is incurred. The exceptions to this general rule is that principal and interest on general obligation long-term debt, if any, is recognized when due.

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

Cash: The Charter School's cash consists of demand deposits with a financial institution which are insured by Federal depository insurance. At June 30, 2009, the carrying amount of the Charter School's deposits was \$592,651 and the bank balance was \$593,599 of which \$444,882 was covered by FDIC insurance.

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

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

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

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

NOTES TO FINANCIAL STATEMENTS

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NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Additional revenues are derived from various fundraising activities (which are presented net of related fundraising expenses of \$19,149, contributions and interest earned.

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

NOTE B: DUE FROM PRIMARY GOVERNMENT

Capital outlay funding in the amount of \$8,620 was due from the School Board of Manatee County at June 30, 2009. Other receivables of \$544 are also due.

NOTE C: CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2009, was as follows:

	Balance 07-01-08	Additions	Dispositions/ Adjustments	Balance 06-30-09
Land	\$ 250,252	--	--	250,252
Building	1,878,475	--	--	1,878,475
Furniture, fixtures and equipment	355,246	35,556	15,166	375,636
	<u>\$ 2,483,973</u>	<u>35,556</u>	<u>15,166</u>	2,504,363
Less accumulated depreciation				<u>746,254</u>
				<u>\$ 1,758,109</u>

Depreciation expense in the amount of \$101,976 for the year ended June 30, 2009, was allocated to the following governmental functions:

Instruction	\$ 86,679
School administration	8,158
Maintenance of plant	4,589
Operation of plant	1,326
General administration	1,020
Pupil personnel services	204
	<u>\$ 101,976</u>

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

NOTES TO FINANCIAL STATEMENTS

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NOTE D: LONG-TERM DEBT

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

The annual interest rate of the note is 4.75%. Payments of principal and interest are due monthly in the amount of \$8,608. The final maturity date of the note is January 26, 2017. The balance outstanding at year-end is \$653,771.

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

On July 31, 2004, the Bank of America and Manatee School of Arts and Sciences have agreed to modify the original agreement. The Modification Agreement states that the school will pay one monthly interest payment, beginning July 31, 2004, with interest calculated at one percentage point over index rate; 179 monthly consecutive principal and interest payments of \$1,835.41, beginning August 31, 2004, with interest calculated on the unpaid principal balances at an interest rate of 6.75% per annum; and one principal and interest payment on July 31, 2019, with interest calculated on the unpaid balance at an interest rate of 6.75% per annum. At year-end the balance for Phase 2 construction is \$159,449.

The principal and interest payments due in the years subsequent to June 30, 2009, are as follows:

	Principal	Interest
2010	\$ 85,279	40,039
2011	89,664	35,655
2012	94,279	31,040
2013	99,136	26,183
2014	104,248	21,070
2015-2019	340,614	32,984
	\$ 813,220	186,971

In connection with the mortgage loans held at Bank of America, the Charter School incurred interest expense in the amount of \$44,644.

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

NOTES TO FINANCIAL STATEMENTS

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NOTE E: SCHEDULE OF LOCAL REVENUE SOURCES

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

<u>Sources</u>	<u>Amounts</u>
School Board of Manatee County	
Discretionary	\$ 1,347,834
Capital outlay funding	113,987
Subtotal	<u>1,461,821</u>
Other grants	24,600
Donations and contributions	4,518
Fundraising and field trips-net of related expenses	<u>8,013</u>
Total	<u><u>\$ 1,498,952</u></u>

NOTE F: RISK MANAGEMENT PROGRAMS

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

NOTE G: RETIREMENT PLAN

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

NOTE H: SUBSEQUENT EVENTS

The School has evaluated all subsequent events through September 3, 2009, the date the financial statements were issued, and no material subsequent events had occurred which would have a material impact on the Company's financial statements.



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

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

We have audited the financial statements of the Manatee School of Arts and Sciences, Inc. (the "School") as of and for the year ended June 30, 2009, and have issued our report thereon dated September 3, 2009. 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 over financial reporting.

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

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

The Manatee School of Arts and Sciences, Inc. is responsible for preparing the School's financial statements, including footnote disclosures, in accordance with accounting principles generally accepted in the United States of America. These statements are submitted to oversight entities, such as the School Board of Manatee County and the Auditor General of the state of Florida. However, while the person responsible for the accounting and reporting function adequately processes, records, and summarizes the transactions of the School, we do not believe this person has the complete skills and knowledge to adequately prepare these required statements. These statements were drafted with the assistance of CPA Associates.

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

### **Compliance and Other Matters**

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

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

We noted one additional matter that was reported, in the management letter dated September 3, 2009, required by the Florida Auditor General. See the following pages.

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

*CPA Associates*

Bradenton, Florida  
September 3, 2009



## MANAGEMENT LETTER

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

We have audited the financial statements of the Manatee School of Arts and Sciences, Inc. as of and for the year ended June 30, 2009, and have issued our report thereon dated September 3, 2009.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. We have issued our Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*. Disclosures in this report, which are dated September 3, 2009, should be considered in conjunction with this management letter.

Additionally, our audit was conducted in accordance with Chapter 10.850, Rules of the Auditor General, which governs the conduct of charter school and similar entity audits performed in the State of Florida. This letter includes the following information, which is not included in the aforementioned auditor's reports or schedules.

As required by the Rules of the Auditor General (Section 10.854(1)(e)1.), we are to disclose whether or not corrective actions have been taken to address findings and recommendations made in the preceding annual financial audit report. The same significant deficiency/material weakness related to financial reporting was noted again in the current fiscal year.

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

As required by the Rules of the Auditor General (Section 10.854(1)(e)3.), we are to disclose any recommendations to improve financial management. We have identified a significant deficiency as a material weakness in the Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With Government Auditing Standards.

As required by the Rules of the Auditor General (Section 10.854(1)(e)4.), we are to disclose 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. We noted no matters of this type that need to be disclosed.

As required by the Rules of the Auditor General (Section 10.854(1)(e)5.), provides that the auditor may, based on professional judgment, report the following matters that are inconsequential to the determination of financial statement amounts, considering both quantitative and qualitative factors: (1) violations of laws, rules, regulations, contracts, and grant agreements or abuse that have occurred, or are likely to have occurred and (2) control deficiencies that are not significant deficiencies, including, but not limited to: (a) improper or inadequate accounting procedures (such as the omission of required disclosures from the annual financial statements), (b) failure to properly record financial transactions, and (c) inaccuracies, shortages, defalcations, and instances of fraud discovered by, or that come to the attention of, the auditor. We noted the following item:

#### Current Year Finding

During the audit, we noted instances of the pre-signing of checks before the processing and review of vendor invoices or other supporting documentation, by the School Administrator/Principal. This was done only during periods of vacation and family emergency. However, this practice eliminates the oversight control for cash disbursements/expenses provided prior to the payment of bills by the Director of School Operations and Finance, and opens the possibility of errors, miscodings, possible thefts, or other problems. We recommend that the pre-signing of checks be discontinued. If necessary, the School should consider adding another authorized check signer to the account to perform these necessary functions during times of emergency.

As required by the Rules of the Auditor General (Section 10.854(1)(d)6.), the name or official title of the charter school is the Manatee School of Arts and Sciences, Inc., which has been disclosed in the notes to financial statements.

As required by the Rules of the Auditor General (Sections 10.854(1)(3)7.a. and 10.855(10)), we applied financial condition assessment procedures. It is management's responsibility to monitor the Manatee School of Arts and Sciences, Inc.'s financial condition, and our financial condition assessment was based in part on representations made by management and the review of financial information provided by same. We noted no findings in this regard.

Pursuant to Chapter 119, Florida Statutes, this management letter is a public record and its distribution is not limited. Auditing standards generally accepted in the United States of America require us to indicate that this letter is intended solely for the information and use of the audit committee, management, and the Auditor General of the State of Florida and is not intended to be and should not be used by anyone other than these specified parties.

*CPA Associates*

Bradenton, Florida  
September 3, 2009



# Manatee School of Arts and Sciences, Inc.

The first charter elementary school in Manatee County

3700 32<sup>nd</sup> Street West  
Bradenton, FL 34205  
Phone: 941-755-5012

September 3, 2009

Response to Deficiency's noted

It is understood that this deficiency is noted in response to legislation authorizing new internal control procedures now included 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. It is also understood that these changes to auditing standards are a direct response to misappropriation of funds noted in large public companies and the mishandling of generally accepted accounting principles that are appearing in today's news.

While one can understand the need for such legislation in companies as large as Enron (for example) it is not considered appropriate, by the school's management, for a small educational institution such as Manatee School of Arts and Sciences, Inc. (MSAS) serving 210 students with a staff of twenty four. MSAS has been operating successfully for 12 years without any deficiency or material weaknesses. All draft financial statements produced by accepted accounting software is sent monthly to the charter school's authorizer; The School Board of Manatee County. The monthly draft financial statements are reported to the school's Board of Directors, and on a yearly basis the audited Financial Statements are presented to the School Board of Manatee County in a public forum as part of its annual report presentation. Every November following the end of the fiscal year those audited financial statements are also sent to the Auditor General.

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

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

The pre-signing of checks occurred during family emergency and periods of vacation when those eligible to be a signer on the checks were away. Any pre-signed checks were locked away in the school safe. Checks are in no way processed in this manner to eliminate oversight or control for cash disbursements. Both the Principal and the Director discuss what bills may come in that is customary and what bills are not customary monthly expenses. Anything not previously discussed is set aside until both administrators can review those items.

At the same time Administration accepts responsibility and understands that there are inherent risks in the pre-signing of checks; such as possible theft. This process will be discontinued and an alternative method of signatures over periods of vacation and times of emergency will be put into place.

Mrs. Fran Rosenbluth  
Director of School Operations and Finance  
Manatee School of Arts and Sciences, Inc.