

**MANATEE SCHOOL OF
ARTS AND SCIENCES, INC.**

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

**FINANCIAL STATEMENTS
June 30, 2011**

CONTENTS

	<u>PAGE</u>
INDEPENDENT AUDITOR'S REPORT	1
MANAGEMENT'S DISCUSSION AND ANALYSIS.....	3
BASIC FINANCIAL STATEMENTS:	
Government-wide Financial Statements:	
Statement of Net Assets	10
Statement of Activities.....	11
Fund Financial Statements:	
Balance Sheet–General Fund.....	12
Reconciliation of the Balance Sheet–General Fund to the Statement of Net Assets	13
Statement of Revenues, Expenditures and Changes in Fund Balance– Budget and Actual of the General Fund	14
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balance–Budget and Actual of the General Fund to the Statement of Activities.....	15
NOTES TO BASIC FINANCIAL STATEMENTS	16
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 <i>GOVERNMENT AUDITING STANDARDS</i>	24
MANAGEMENT LETTER.....	26



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 major 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, 2011, which collectively comprise 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 opinions 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Charter School's internal control over financial reporting. Accordingly, we express no such opinion. An audit also 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 major fund of Manatee School of Arts and Sciences, Inc. as of June 30, 2011, and the respective changes in financial position and the 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 29, 2011, 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. 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 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.

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis on pages 3 through 9 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Mauldin & Jenkins, LLC

Bradenton, Florida
September 29, 2010

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, 2011

(Unaudited)

The following pages represent Management's Discussion and Analysis (MD&A) of Manatee School of Arts and Sciences, Inc. (the "Charter School"). It depicts and reviews the financial picture and activities as of June 30, 2011.

The intent of this MD&A is to present an assessment of the School's financial performance in an effort to more clearly demonstrate 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 Charter School as a whole, presenting both an aggregate view of the Charter School's finances and a longer-term view of those finances. The General Fund statements provide more detail. These statements show how services were financed in the short-term as well as what financial resources remain for future spending.

Financial Highlights

- **Net Assets** increased by \$79,734 from \$1,572,855 to \$1,652,589 for the year ended June 30, 2011.
- **Total Assets** increased by \$28,780 from \$2,425,411 to \$2,454,191 and is attributed to the following elements:

		<u>Increase (Decrease)</u>
Cash	\$	49,330
Due from primary government	(30,277)
Prepays		74,969
Accounts receivable	(22,709)
Capital assets, net of accumulated depreciation	(41,380)
Deferred charges	(1,153)

The increase in cash is due to conservative spending and an increase in our student enrollment over the previous school year. Due from primary government are amounts still due to the Charter School for capital outlay and IDEA funding from the School Board of Manatee County. It should be noted that when comparing the Charter School's fund balance from June 30, 2010 to June 30,

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, 2011

(Unaudited)

2011, there was an increase in the overall fund balance. Prepaids increased due to purchases of technology and curriculum for the 2012 fiscal year that were paid for in this fiscal year, but were not put into service. There was a decrease in capital assets and other assets due to depreciation and amortization expenses taken this year.

- **Total liabilities** decreased by \$50,954 from \$852,556 to \$801,602 due to the following items:

	Increase (Decrease)
Current portion of long-term debt	4,615
Accounts payable	13,554
Accrued payroll expenses	21,692
Other	2,034
Long-term debt	(92,849)

Total liabilities continue to decrease as we continue to pay down our mortgage debt. Accounts payable increased due to an outstanding invoice from Apple Education for our pilot program of I-Pads in the classroom. This invoice will be sent and paid in the next fiscal year. Accrued payroll increased due to an increase in salary levels, as one of our primary goals is to help keep staff consistent and motivated.

- **Total Revenues** increased by \$210,088 from \$1,527,874 to \$1,737,962. The increase is attributed to the following:

	Increase (Decrease)
Federal through local	\$ (11,996)
State through local	225,529
Fundraising and other	2,870
Investment income	(1,733)
Other income	1,158

The increase in revenue is due to the increase in our student enrollment over the previous school year. We had an uncharacteristically low FTE count in October 2009; however, in October 2010 and February 2011 our student enrollment count was in our normal range allowing us to increase our revenue. The continuing decrease in budgetary allocations from the State passed through to the local level and then through to the Charter School along with the class size amendment continues to remain a serious issue. Our student enrollment cannot go above 144 students in K-3 or 66 students in 4-8 in order to maintain compliance with the class size amendment.

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, 2011

(Unaudited)

We expect base 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 uncertainty. Fundraising decreased this year, however, fundraising over the past 14 years was saved and it is planned to use these funds for the purchase of computers, so that every student in our Charter School will have their own computer.

It should be noted the projections for the 2011-2012 school year is 225 students. However, we are already seeing a decline in that projection, as we did two years ago, and began school this year with 153 students. We are aggressively marketing the Charter School to bring our student enrollment to 2010-2011 level.

The Charter School purchased this year new technology for the 21st century student. Students will be equipped with their own computer and begin a reading curriculum that is digital for grades 1-5. Kindergarten will continue to start their education with books, but the Charter School does have a computer for each student in their classroom.

The largest revenue source for the Charter School is the Florida Educational Finance Program (FEFP) which allocates funds based on the number and type of student enrolled in our Charter School. Grants, both Federal and local, account for the second largest source of funds at our Charter School. Grant writing has proven to be more difficult than in past years as foundations are also feeling the consequences of the economy.

General Fund: Total expenditures increased by \$265,918 from \$1,416,617 to \$1,682,535 primarily due to the following:

	<u>Increase (Decrease)</u>
Instruction	\$ 219,774
Pupil personnel services	3,713
Board	413
General administration	8,486
School administration	19,952
Operation of plant	12,007
Maintenance of plant	6,856
Capital outlay	(3,447)
Debt service:	
Principal	3,358
Interest	(5,194)

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, 2011

(Unaudited)

Instruction expenditures increased due to salary increases for raises given in the 2010-2011 school year and no raises being given in the 2009-2010 fiscal year. The number of students increased as well and this required more staff to be hired. It should also be noted that the Charter School had some high level exceptional education students that required aids throughout the school day. While raises were given to the staff, retention bonuses were still not given as in prior years.

Pupil personnel services increased due to the hiring of a part time nurse to facilitate the review of health files, implement screenings, and provide administrative service between the Charter School and the School Board of Manatee County.

All other expenditures increased in accordance with the student enrollment returning to our normal range which requires more maintenance and operating expenditures. The capital outlay decreased due to fewer items being purchased. Interest expenditures decreased on our mortgage as the Charter School continues to pay down more of our principal balance.

General Fund Budget Comparison: The Charter School's budget is prepared in conformity with accounting principles generally accepted in the United States of America and according to Florida Law. During the school year the Charter School's Board of Directors, at the request of the Director of School Operations and Finance, revises its budget to adjust for changes in revenues or expenditures. This happens following the two FTE counts done in October and February of every school year. A statement showing the Charter School's original and final budget compared with actual operating results is presented in the basic financial statements.

The Charter School's year end results were comparable with the actual numbers. Revenues were higher by \$74,080 and expenditures were slightly higher by \$9,414.

Overall, budget guidelines were met. Our fund balance on July 1 2010, was \$570,974 and on June 30, 2011, the fund balance was \$605,007 increasing for the year by \$34,033. Revenues are forecasted conservatively and expenditures are projected to meet all possible expenses and special projects including capital projects.

Capital Assets and Long-Term Debt Administration

- **Capital Assets**

At June 30, 2011, the Charter School has a variety of capital assets including land, building, furniture, technology and other equipment. The total capital assets, \$1,683,077 is net of accumulated depreciation.

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, 2011

(Unaudited)

Below is a description of the Charter School's capital assets:

Land	\$	250,252
Building		1,878,475
Furniture, fixtures and equipment		423,304
Total		<u>2,552,031</u>
Less accumulated depreciation	(<u>868,954)</u>
	\$	<u>1,683,077</u>

During the current year depreciation was calculated for instruction, pupil personnel services, general administration, school administration, operation of plant, and maintenance of plant totaling \$80,889.

- **Long-Term Debt**

At June 30, 2011, the Charter School had an outstanding mortgage loan for Phase 1 of \$503,335. 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, 2011, the Charter School had another outstanding mortgage loan of \$136,776. This long-term debt is a 15 year mortgage at a 6.75% interest rate and is due to mature July 31, 2019. The Charter School incurred interest expenses of \$35,249 for this fiscal year.

Economic Factors and Next Year's Budget

The financial success of the Charter School rests with the continuation of conservative financial management as well as meeting the academic needs of its student body and personnel needs of the Charter School. It is felt by this administration that the continued success of the student body remains with creating a demand for the school's program, and maintaining a motivated and consistent staff is the best way to create an environment where children can learn. Staff members from fiscal year 2011 are returning for the next school year, with average length of service being eight years.

The 2010-2011 school year was a difficult one academically for our student body and for the first time in 14 years we did not see the success in our student's progress as in previous years. During the year, we examined the students' academic data to determine what changes needed to be made. Several factors were brought to light:

1. Our student body is changing from a majority of intact families to one of families with one adult at home, and that adult is not always the parent.

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, 2011

(Unaudited)

2. We are finding a larger percentage of our students are coming to our school with Intellectual Quotients well below a low to average range requiring one on one education, if not a life skill education.
3. The students' learning styles may not be met with our existing reading curriculum since our students are considered technology natives rather than book and workbook driven.

Researching different curriculums, technology vs. no technology, were reviewed. After considerable research it became clear that e-readers and the use of computers are essential to meet students' needs. A decision was made to purchase (for the 2012 fiscal year) a laptop for each student. It can be used as an e-reader and an interactive white board, as well as coordinating with the McGraw Hill Lead 21 Curriculum. The Lead 21 Curriculum also has a science component in all grade levels.

We also took a look at our new Math Curriculum–Singapore Math and felt there is a learning curve that may account for the decline in our math scores. For the coming year, we added the technology component and more staff training for this curriculum.

It will be required for charter schools to meet certain goals regarding class size by the school year 2012. Class sizes in kindergarten through third grade must be at 18 while fourth through eighth grade must be no more than 22 students. The Charter School did meet class size amendment for the 2010-2011 school year. It is important to note that classes that are comprised of multiple grades 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 2014, Charter Schools will be measured at the classroom level.

The Class Size Amendment has been one of the most challenging pieces of legislation for the Charter School. FEFP funding is based on the number and types of students. With less students there is less funding. Space restrictions force our Charter School to grow to a student body of no more than 232 to be in compliance with the class size amendment. In the year 2012, the class size will be measured at the class room level for Manatee County; however, charter schools will still be measured at the school level. It has always been a goal to accept any student who wishes to attend our Charter School. The Class Size Amendment Legislation will restrict students from entering our Charter School and the Charter School will have to build a waiting list and implement a lottery as space becomes available.

Communication with parents and families is ongoing. We meet with families as often as necessary. We do not wait for conference days or report cards. We continue to use our gogekos.com website for parents to see their children's progress, grades, lesson plans, and

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, 2011

(Unaudited)

learning goals. The Charter School also maintains msasgeckos.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 new reading curriculum will also allow parents to see teacher planning calendars so they are aware of what their students are doing in reading each day.

The results of conservative fiscal management over our fourteen years of operation have enabled the Charter School to maintain a positive 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 Charter School also maintains a reserve to continue the Charter School contribution to participants in the retirement plan. The Charter School makes a matching contribution to all staff who participates according to the guidelines of the plan. Presently our reserve exceeds our goals and it is planned for use in bringing our teaching into the 21st century. The Charter School administrators expect progress of our students with the additional cutting edge technology.

There is no doubt that funding is an issue for schools in our country and in Manatee County. The jobless rate in Manatee County has continued to rise, foreclosure has continued to rise and families are moving. We began our 2011-2012 school year with a much lower student population than is characteristic for the Charter School. This will definitely play a role in our revenues and expenditures. Fortunately, our fund balance is over \$600,000 and will cover shortfalls we may encounter. We are actively marketing the Charter School; however, we realize it may take showing the success of our students with the new curriculum to raise our student numbers again. Two diligent goals remain this year:

- Increase the success of our students which will increase interest by the students and parents of Manatee County; and
- Maintain our financial health by continuing conservative fiscal management.

The Charter School continues to plan for budget decreases and the decline in pass through revenues. There is savings set aside to continue to fund the necessary programming and staffing planned to see us through this particularly difficult coming year. Innovative student education and one-on-one attention will continue. Staff is highly motivated and happy at the Charter School. We are a team that will work together to see the academic and financial success of Manatee School of Arts and Sciences, Inc. continue.

Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Manatee School of Arts and Sciences, Inc., 3700 32nd Street West, Bradenton, Florida 34205 or by calling 941-755-5012.

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, 2011

	Governmental Activities
ASSETS	
Current assets	
Cash	\$ 617,053
Due from primary government	13,921
Prepaid items	135,524
Total current assets	766,498
Noncurrent assets	
Capital assets, net of accumulated depreciation	1,683,077
Deferred charges	4,616
TOTAL ASSETS	\$ 2,454,191
LIABILITIES AND NET ASSETS	
Current liabilities	
Current portion of long-term debt	\$ 94,279
Accounts payable	13,554
Accrued expenses	
Payroll	141,250
Other	6,687
Total current liabilities	255,770
Noncurrent liabilities	
Long-term debt	545,832
Total liabilities	801,602
Net assets	
Invested in capital assets, net of related debt	1,042,966
Unrestricted	609,623
Total net assets	1,652,589
TOTAL LIABILITIES AND NET ASSETS	\$ 2,454,191

See accompanying notes to financial statements.

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, 2011

	Expenses	Program Revenues Operating Grants and Contributions	Net (Expense) Revenue and Changes in Net Assets
Functions/programs			
Governmental activities			
Instruction	\$ 1,071,857	27,294	(1,044,563)
Support services			
Pupil personnel services	4,018	--	(4,018)
Board	22,191	--	(22,191)
General administration	74,567	--	(74,567)
School administration	276,537	--	(276,537)
Operation of plant	97,763	--	(97,763)
Maintenance of plant	53,499	--	(53,499)
Fundraising	21,394	28,742	7,348
Interest on long-term debt	35,249	--	(35,249)
Amortization expense	1,153	--	(1,153)
	<u>\$ 1,658,228</u>	<u>56,036</u>	<u>(1,602,192)</u>
 Total governmental activities	<u>\$ 1,658,228</u>	<u>56,036</u>	<u>(1,602,192)</u>
 General revenues			
Local			1,680,241
Unrestricted investment income			527
Other income			1,158
			<u>1,681,926</u>
 Total general revenues			<u>1,681,926</u>
 Change in net assets			79,734
 Net assets, July 1, 2010			<u>1,572,855</u>
 Net assets, June 30, 2011			<u>\$ 1,652,589</u>

See accompanying notes to financial statements.

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, 2011

ASSETS	
Cash	\$ 617,053
Due from primary government	13,921
Prepaid items	<u>135,524</u>
TOTAL ASSETS	<u><u>\$ 766,498</u></u>
LIABILITIES AND FUND BALANCE	
Liabilities	
Accounts payable	\$ 13,554
Accrued expenses	
Payroll	141,250
Other	<u>6,687</u>
Total liabilities	161,491
Fund balance	
Nonspendable	
Prepaid items	135,524
Restricted	
Capital outlay	5,156
Unassigned	<u>464,327</u>
Total fund balance	<u>605,007</u>
TOTAL LIABILITIES AND FUND BALANCE	<u><u>\$ 766,498</u></u>

See accompanying notes to financial statements.

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

RECONCILIATION OF THE BALANCE SHEET—GENERAL FUND
TO THE STATEMENT OF NET ASSETS

June 30, 2011

Total fund balance per the Balance Sheet—General Fund	\$	605,007
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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. The cost of the capital assets are \$2,552,031 less accumulated depreciation of \$868,954.		1,683,077
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Other assets used in governmental activities are not financial resources and, therefore, not reported in the General Fund.		4,616
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Long-term debt, mortgage payables, are not due and payable in the current period and, therefore, not reported in the General Fund.	(<u>640,111)</u>
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Net assets of governmental activities	\$	<u><u>1,652,589</u></u>
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See accompanying notes to financial statements.

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

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

Fiscal Year Ended June 30, 2011

	Budget		Actual	Variance
	Original	Final		
Revenues				
Federal through local	\$ 20,000	30,000	27,294	(2,706)
State through local	1,658,903	1,604,988	1,680,241	75,253
Fundraising and other	9,500	7,500	7,348	(152)
Investment income	--	--	527	527
Other income	--	--	1,158	1,158
Total revenues	<u>1,688,403</u>	<u>1,642,488</u>	<u>1,716,568</u>	<u>74,080</u>
Expenditures				
Current				
Instruction	1,059,309	1,054,289	1,002,849	51,440
Pupil personnel services	200	6,500	3,857	2,643
Board	54,100	30,100	22,191	7,909
General administration	82,143	78,249	73,757	4,492
School administration	215,731	227,493	270,067	(42,574)
Operation of plant	95,800	95,100	94,370	730
Maintenance of plant	55,225	51,390	49,859	1,531
Capital outlay	--	--	42,102	(42,102)
Debt service				
Principal	71,500	71,500	88,234	(16,734)
Interest	58,500	58,500	35,249	23,251
Total expenditures	<u>1,692,508</u>	<u>1,673,121</u>	<u>1,682,535</u>	<u>(9,414)</u>
Net change in fund balance	(4,105)	(30,633)	34,033	64,666
Fund balance, July 1, 2010	<u>570,974</u>	<u>570,974</u>	<u>570,974</u>	<u>--</u>
Fund balance, June 30, 2011	<u><u>\$ 566,869</u></u>	<u><u>540,341</u></u>	<u><u>605,007</u></u>	<u><u>64,666</u></u>

See accompanying notes to financial statements.

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

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE–BUDGET AND ACTUAL OF THE GENERAL FUND
TO THE STATEMENT OF ACTIVITIES
Fiscal Year Ended June 30, 2011

Net change in fund balance (actual) per the Statement of Revenues, Expenditures and Changes in Fund Balance–Budget and Actual of the General Fund	\$ 34,033
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 (\$80,889) exceeded capital outlay expenditures (\$39,761) in the current period.	(41,128)
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.	(1,153)
Loss on disposal of capital assets	(252)
Principal payments on the mortgage are expenditures in the General Fund, but reduce long-term debt in the Statement of Net Assets.	<u>88,234</u>
Change in net assets of governmental activities	<u>\$ 79,734</u>

See accompanying notes to financial statements.

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

NOTES TO BASIC FINANCIAL STATEMENTS

NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity: Manatee School of Arts and Sciences, Inc. (the “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, 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. 39. 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 required to be 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, 2009. 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 resources basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The Charter School's net assets are reported in three parts (as applicable), invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets.

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

NOTES TO BASIC FINANCIAL STATEMENTS

NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

Budgetary Basis Accounting: Budgets are presented on the modified accrual basis of accounting. During the fiscal year, expenditures were controlled at the function level.

Cash: The Charter School's cash consists of demand deposits with a financial institution which are insured by Federal depository insurance. At June 30, 2011, the carrying amount of the Charter School's deposits was \$617,053 and the bank balance was \$622,143 of which \$562,825 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 are 39 years for the building and 3 to 15 years for furniture, fixtures and equipment.

Fund Equity: Fund equity at the governmental fund financial reporting level is classified as "fund balance." Fund equity for all other reporting is classified as "net assets."

Fund Balance: Generally, fund balance represents the difference between the assets and liabilities under the current financial resources measurement focus of accounting. In the fund financial statements, governmental funds report fund balance classifications that comprise a hierarchy based primarily on the extent to which the Charter School is bound to honor constraints on the specific purposes for which amounts in those funds can be spent. Fund balances are classified as follows:

- *Nonspendable:* Fund balances are reported as nonspendable when amounts cannot be spent because they are either (a) not in spendable form (i.e., items that are not expected to be converted to cash) or (b) legally or contractually required to be maintained intact.
- *Restricted:* Fund balances are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Charter School or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

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

NOTES TO BASIC FINANCIAL STATEMENTS

NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

- *Committed:* Fund balances are reported as committed when they can be used only for specific purposes pursuant to constraints imposed by formal action of the Board of Directors through the adoption of a resolution. Only the Board of Directors may modify or rescind the commitment.
- *Assigned:* Fund balances are reported as assigned when amounts are constrained by the Charter School's intent to be used for specific purposes, but are neither restricted nor committed. Currently there is no one authorized to assign fund balances.
- *Unassigned:* Fund balances are reported as unassigned as the residual amount when the balances do not meet any of the above criterion. The Charter School reports positive unassigned fund balance only in the General Fund. Negative unassigned fund balances may be reported in all funds.

Flow Assumptions: When both restricted and unrestricted amounts of fund balance are available for use for expenditures incurred, it is the Charter School's policy to use restricted amounts first and then unrestricted amounts as they are needed. For unrestricted amounts of fund balance, it is the Charter School's policy to use fund balance in the following order:

- Committed
- Assigned
- Unassigned

Net Assets: Net assets represent the difference between assets and liabilities in reporting which utilizes the economic resources measurement focus. Net assets invested in capital assets, net of related debt, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used (i.e., the amount that the Charter School has spent) for the acquisition, construction or improvement of those assets. Net assets are reported as restricted using the same definition as used for restricted fund balance as described in the section above. All other net assets are reported as unrestricted.

The Charter School applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

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

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

NOTES TO BASIC FINANCIAL STATEMENTS

NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

Additional revenues are derived from various fundraising activities (which are presented net of related fundraising expenses of \$21,394), 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 and IDEA funding in the amount of \$5,156 and \$8,765, respectively, was due from the School Board of Manatee County at June 30, 2011.

NOTE C: CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2011, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
Governmental Activities				
Capital assets, not being depreciated:				
Land	\$ 250,252	--	--	250,252
Total capital assets not being depreciated	<u>250,252</u>	<u>--</u>	<u>--</u>	<u>250,252</u>
Capital assets, being depreciated:				
Building	1,878,475	--	--	1,878,475
Furniture, fixtures and equipment	421,186	39,761	37,643	423,304
Total capital assets being depreciated	<u>2,299,661</u>	<u>39,761</u>	<u>37,643</u>	<u>2,301,779</u>
Less accumulated depreciation for:				
Building	(494,541)	(48,166)	--	(542,707)
Furniture, fixtures and equipment	(330,915)	(32,723)	37,391	(326,247)
Total accumulated depreciation	<u>(825,456)</u>	<u>(80,889)</u>	<u>37,391</u>	<u>(868,954)</u>
Governmental Activities capital assets, net	<u>\$ 1,724,457</u>	<u>(41,128)</u>	<u>252</u>	<u>1,683,077</u>

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

NOTES TO BASIC FINANCIAL STATEMENTS

NOTE C: CAPITAL ASSETS (CONTINUED)

Depreciation expense in the amount of \$80,889 for the year ended June 30, 2011, was allocated to the following governmental functions:

Instruction	\$	68,756
Pupil personnel services		162
General administration		809
School administration		6,470
Operation of plant		1,052
Maintenance of plant		3,640
	\$	80,889

NOTE D: LONG-TERM DEBT

Debt activity for the year ended June 30, 2011, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Governmental activities:					
Mortgage Payable, Phase 1	\$ 580,360	--	(77,025)	503,335	80,997
Mortgage Payable, Phase 2	147,985	--	(11,209)	136,776	13,282
	\$ 728,345	--	(88,234)	640,111	94,279

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.

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.

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

NOTES TO BASIC FINANCIAL STATEMENTS

NOTE D: LONG-TERM DEBT (CONTINUED)

On July 31, 2004, Bank of America and Manatee School of Arts and Sciences agreed to modify the original agreement. The Modification Agreement states that the Charter School will pay one monthly interest payment, beginning July 31, 2004, with interest calculated at one percentage point over the index rate; 179 monthly consecutive principal and interest payments of \$1,835, 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.

The principal and interest payments due in the years subsequent to June 30, 2011, are as follows:

	Principal	Interest
2012	\$ 94,279	31,040
2013	99,136	26,183
2014	104,248	21,070
2015	109,630	15,689
2016	115,295	10,024
2017-2019	117,523	7,271
	\$ 640,111	111,277

In connection with the mortgage loans held at Bank of America, the Charter School incurred interest expense in the amount of \$35,249 for the year ended June 30, 2011.

NOTE E: SCHEDULE OF REVENUE SOURCES

The following is a schedule of revenue sources and amounts:

Sources	Amounts
School Board of Manatee County	
Discretionary	\$ 1,593,710
Capital outlay funding	86,531
Subtotal	1,680,241
Other grants	27,294
Other miscellaneous income	1,158
Fundraising and field trips, net of related	7,348
Investment income	527
Total	\$ 1,716,568

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

NOTES TO BASIC FINANCIAL STATEMENTS

NOTE F: RISK MANAGEMENT PROGRAMS

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

NOTE G: RETIREMENT PLAN

The Charter 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 Charter 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 Charter School has evaluated all subsequent events through September 29, 2010, the date the financial statements were available to be issued, and no material subsequent events had occurred which would have a material impact on the Charter School'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 Manatee School of Arts and Sciences, Inc. (the "Charter School") as of and for the year ended June 30, 2011, and have issued our report thereon dated September 29, 2010. 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

Management of the Charter School is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Charter 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 Charter School's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Charter School's internal control over financial reporting.

A deficiency in internal control 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 and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Charter 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*.

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.

Mauldin & Jenkins, LLC

Bradenton, Florida
September 29, 2010

MANAGEMENT LETTER

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

We have audited the financial statements of Manatee School of Arts and Sciences, Inc. as of and for the year ended June 30, 2011, and have issued our report thereon dated September 29, 2010.

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 Compliance and Other Matters. Disclosures in this report, which are dated September 29, 2010, 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 schools 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 schedule:

- Section 10.854(1)(e)1., Rules of the Auditor General, requires that we determine whether or not corrective actions have been taken to address findings and recommendations made in the preceding annual financial audit report. There were no findings in the prior year audit.
- Section 10.854(1)(e)3., Rules of the Auditor General, requires that we address in the management letter any recommendations to improve financial management. In connection with our audit, we did not have any such recommendations.
- Section 10.854(1)(e)4., Rules of the Auditor General, requires that we address violations of provisions of contracts or grant agreements, or abuse, that have occurred or are likely to have occurred, that have an effect on the financial statements that is less than material but more than inconsequential. In connection with our audit, we did not have any such findings.
- Section 10.854(1)(e)5., Rules of the Auditor General, provides that the auditor may, based on professional judgment, report the following matters that have an inconsequential effect on the financial statements considering both quantitative and qualitative factors: (1) violations of provisions of contracts or grant agreements, fraud, illegal acts, or abuse, and (2) deficiencies in internal control that are not significant deficiencies. In connection with our audit, we did not have any such findings.

- Section 10.854(1)(e)6, Rules of the Auditor General, requires the name or official title of the school. The official title of the school is Manatee School of Arts and Sciences, Inc.
- Section 10.854(1)(e)2., Rules of the Auditor General, requires a statement be included as to whether or not the school has met one or more of the conditions described in Section 218.503(1), Florida Statutes, and identification of the specific condition(s) met. In connection with our audit, we determined that the Manatee School of Arts and Sciences, Inc. did not meet any of the conditions described in Section 218.503(1), Florida Statutes.
- Pursuant to Sections 10.854(1)(e)7.a. and 10.855(10), Rules of the Auditor General, 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.

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 management, and the Florida Auditor General, and is not intended to be and should not be used by anyone other than these specified parties.

Mauldin & Jenkins, LLC

Bradenton, Florida
September 29, 2010