



**MARCO ISLAND CHARTER  
MIDDLE SCHOOL, INC.  
A CHARTER SCHOOL AND COMPONENT UNIT OF  
THE DISTRICT SCHOOL BOARD OF  
COLLIER COUNTY, FLORIDA**

**FINANCIAL STATEMENTS  
WITH INDEPENDENT AUDITOR'S REPORTS THEREON**

**JUNE 30, 2011**



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## MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the annual financial report of Marco Island Charter Middle School, Inc. (the "School") presents management's discussion and analysis of the School's financial performance during the fiscal year ended June 30, 2011. Please read it in conjunction with the School's financial statements, which follow this section.

### FINANCIAL HIGHLIGHTS

- The School's total net assets increased compared to the prior year.
- For the fiscal year ended June 30, 2011, the School's revenues exceeded expenses by \$54,626, which is an increase from the prior year when revenues exceeded expenses by \$8,118.
- Overall, revenues and other sources increased by approximately \$182,000, which was a 7% increase from the prior year.
- Total expenses increased by approximately \$135,000, which was a 5% increase from the prior year.

### OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts – management's discussion and analysis (this section), the basic financial statements and required supplementary information. The basic financial statements include two kinds of statements that present different views of the School:

- The first two statements are *government-wide financial statements* that provide both long-term and short-term information about the School's overall financial status.
- The remaining statements are *fund financial statements* that focus on individual parts of the School, reporting the School's operations in more detail than the government-wide statements.
  - The *governmental funds* financial statements tell how general school services were financed in the short term, as well as what remains for future spending.

The financial statements also include *notes* that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of *required supplementary information* that further explains and supports the information in the financial statements.

This document also includes the independent auditor's report on compliance and internal control required by *Government Auditing Standards*, as well as the management letter required by the Rules of the Auditor General, Chapter 10.850, *Audits of Charter Schools and Similar Entities*.

The following table summarizes the major features of the School's financial statements, including the portion of the School they cover and the types of information they contain. The remainder of this overview section of management's discussion and analysis explains the structure and contents of each of the statements.

|  | Fund Statements  |  |
|--|--|--|
|  | Government-wide Statements   | Governmental Funds   |
| Scope                                  | Entire School  | The activities of the School that are not proprietary or fiduciary   |
| Required financial statements          | Statement of net assets<br>Statement of activities                                     | Balance sheet, Statement of revenues, expenditures and changes in fund balances  |
| Accounting basis and measurement focus | Accrual accounting and economic resources focus  | Modified accrual accounting and current financial resources focus  |
| Type of asset/liability information    | All assets and liabilities, both financial and capital, and short-term and long-term   | Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets included  |
| Type of inflow/outflow information     | All revenues and expenses during the year, regardless of when cash is received or paid | Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and payment is due during the year or soon thereafter |

## Government-wide Financial Statements

The government-wide financial statements report information about the School as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the School's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities, regardless of when cash is received or paid.

The two government-wide financial statements report the School's net assets and how they have changed. Net assets – the difference between the School's assets and liabilities – is one way to measure the School's financial health or position. Over time, increases or decreases in the School's net assets are an indicator of whether its financial condition is improving or deteriorating, respectively. To assess the overall financial condition of the School, one needs to consider additional nonfinancial factors such as changes in the School's student base.

The government-wide financial statements of the School are generally divided into three categories:

- *Governmental activities* – most of the School's basic services are included here, such as instruction and school administration. Funds received through the Florida Education Finance Program ("FEFP") and state and federal grants finance most of these activities.
- *Business-type activities* – in certain instances, the School may charge fees to help it cover the costs of certain services it provides. The School currently has no business-type activities.
- *Component units* – there currently are no component units included within the reporting entity of the School.

## Fund Financial Statements

The fund financial statements provide more detailed information about the School's most significant funds, not the School as a whole. A fund is a self-balancing set of accounts which the School uses to keep track of specific sources of funding and spending for particular purposes. Some funds are required by state law, and the School may establish other funds to control and manage money for particular purposes, such as for federal grants.

The School has one type of fund:

- *Governmental funds* – most of the School's basic services are included in governmental funds, which focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps one determine whether there are more or fewer financial resources that can be spent in the near future to finance the School's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information on the subsequent page that explains the differences between them.

## FINANCIAL ANALYSIS OF THE SCHOOL AS A WHOLE

### Net Assets

The School's total net assets increased from fiscal years 2010 to 2011 (see table below).

|                               | <u>Governmental Activities</u> |                    | <u>Increase</u>   |
|-------------------------------|--------------------------------|--------------------|-------------------|
|                               | <u>2010</u>                    | <u>2011</u>        | <u>(Decrease)</u> |
| Current and other assets      | \$ 1,976,274                   | \$2,053,161        | 4%                |
| Capital assets, net           | 77,557                         | 52,222             | -33%              |
| Total assets                  | <u>2,053,831</u>               | <u>2,105,383</u>   | <u>3%</u>         |
| Current and other liabilities | <u>19,218</u>                  | <u>16,144</u>      | <u>-16%</u>       |
| Total liabilities             | <u>19,218</u>                  | <u>16,144</u>      | <u>-16%</u>       |
| Net assets:                   |                                |                    |                   |
| Invested in capital assets    | 77,557                         | 52,222             | -33%              |
| Restricted                    | 428,896                        | 497,865            | 16%               |
| Unrestricted                  | <u>1,528,160</u>               | <u>1,539,152</u>   | <u>1%</u>         |
| Total net assets              | <u>\$ 2,034,613</u>            | <u>\$2,089,239</u> | <u>3%</u>         |

Net capital assets decreased due to depreciation expense in excess of capital asset purchases. Current and other liabilities decreased due to the timing of payments at year-end. The fluctuation in total net assets from the prior fiscal year was due to the current year operating surplus.

## Change in Net Assets

The School's total revenues increased by 7% to \$2,880,273, and the total cost of all programs and services increased by 5% to \$2,825,647 (see table below).

|  | <b>Governmental Activities</b> |                  | <b>Increase</b>   |
|--|--------------------------------|------------------|-------------------|
|  | <b>2010</b>                    | <b>2011</b>      | <b>(Decrease)</b> |
| Revenues and other sources:                  |                                |                  |                   |
| State and local sources                      | \$ 2,426,060                   | \$ 2,546,917     | 5%                |
| Contributions and other revenue              | 272,243                        | 333,356          | 22%               |
| Total revenues and other sources             | <u>2,698,303</u>               | <u>2,880,273</u> | <u>7%</u>         |
| Expenses:                                    |                                |                  |                   |
| Instruction and instruction-related services | 1,691,063                      | 1,807,526        | 7%                |
| General administration                       | 47,867                         | 48,795           | 2%                |
| School administration                        | 659,247                        | 668,558          | 1%                |
| Pupil transportation services                | 43,479                         | 50,382           | 16%               |
| Operation and maintenance of plant           | 248,529                        | 250,386          | 1%                |
| Total expenses                               | <u>2,690,185</u>               | <u>2,825,647</u> | <u>5%</u>         |
| Change in net assets                         | <u>\$ 8,118</u>                | <u>\$ 54,626</u> | <u>573%</u>       |

Revenues from state and local sources constitute 88% of total revenues. FEFP funding revenue increased from the prior year amount due to the increase in student enrollment from 359 students in fiscal 2010 to 363 students in fiscal 2011, as well as the receipt of Education Job Funds in the current year. Contributions and other revenue increased due to insurance funds received in the current year.

School administration and instruction expenses increased from fiscal 2010 to fiscal 2011, primarily as a result of increases in salaries for teachers. Transportation expenses increased due to an increase in transportation billing from Collier County School Board, which was a direct result of the increase in fuel cost. Operation and maintenance of plant expenses increased due to depreciation expense associated with the land improvements.

## FINANCIAL ANALYSIS OF THE SCHOOL'S FUNDS

As the School completed the year, its governmental funds reported a combined fund balance of \$2,037,017, which was above the prior year. Both revenues and expenditures increased overall for the same reasons described above.

### General Fund Budgetary Highlights

Over the course of the year, the School did not revise its budget. Budget amendments, when necessary, generally fall into three categories:

- Amendments and supplemental appropriations approved shortly after the beginning of the year to reflect the actual beginning account balances.
- Changes made to account for variations in student enrollment.
- Increases in appropriations to prevent certain budget overruns.

Actual revenues were approximately \$244,000 above final budget amounts, primarily due to the State Fiscal Stabilization and Education Jobs Funds received. Actual expenditures were approximately \$126,000 above final budget amounts, primarily due to an employer HAS health insurance contribution to the employees and staff awards and bonuses. The School always makes a conscious effort to control expenses and remain within its operating budget.

## CAPITAL ASSETS

At the end of fiscal 2011, the School had invested \$281,792 in a broad range of capital assets, including land improvements, furniture, fixtures and equipment (see table below). This represents a net increase of \$3,427, or 1%, over last year. This increase is due to the additional capital assets purchased during fiscal 2011.

|                                   | <b>Governmental Activities</b> |                   | <b>Increase</b>   |
|-----------------------------------|--------------------------------|-------------------|-------------------|
|                                   | <b>2010</b>                    | <b>2011</b>       | <b>(Decrease)</b> |
| Land improvements                 | \$ 28,230                      | \$ 28,230         | 0%                |
| Furniture, fixtures and equipment | 250,135                        | 253,562           | 1%                |
| Total capital assets              | <u>\$ 278,365</u>              | <u>\$ 281,792</u> | <u>1%</u>         |

This year's major capital asset additions included the following:

- Instruments - \$3,427

There were no capital asset disposals in the current year.

## **ECONOMIC FACTORS AND NEXT YEAR'S BUDGET**

The following economic factors were taken into account when adopting the general fund budget for fiscal year 2012:

- Decrease in state funding per student.
- Decrease in retirement expenses as a result of the required employee contribution.
- Projected salary increases.

Amounts available for appropriation in the general fund are \$2,598,661, a decrease of less than 1% over the final 2011 budget of \$2,631,765. FEFP revenue (resulting from state budget cuts) is expected to lead this decrease.

Budget expenditures are expected to decrease to \$2,598,661, a decrease of less than 1% over the final 2011 budget of \$2,631,765. The largest increments are decreased employee retirement benefits, since teachers will be required to contribute to their own retirement; this is offset by budgeted increases in teacher salaries.

If these estimates are realized, the School's budgetary general fund balance is expected to remain unchanged by the close of fiscal 2012.

## **CONTACTING THE SCHOOL'S FINANCIAL MANAGEMENT**

This financial report is designed to provide interested parties with a general overview of the School's finances and to demonstrate the School's accountability for the money it receives. Should additional information be required, please contact the School's administrative offices at 1401 Trinidad Avenue, Marco Island, Florida 34145.



## **Report of Independent Auditors on Basic Financial Statements and Supplementary Information**

To the Board of Directors of Marco Island Charter Middle School, Inc., a Charter School and Component Unit of the District School Board of Collier County, Florida

We have audited the accompanying financial statements of the governmental activities and each major fund of Marco Island Charter Middle School, Inc. (the "School"), a charter school and component unit of the District School Board of Collier County, Florida, as of and for the year ended June 30, 2011, which collectively comprise the School's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the School's management. Our responsibility is to express 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 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 each major fund of Marco Island Charter Middle School, Inc. as of June 30, 2011, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 11, 2011 on our consideration of the School's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.



Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 1 through 7 and 26, respectively, 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.

*BKHM, P.A.*

Winter Park, Florida  
August 11, 2011

**MARCO ISLAND CHARTER MIDDLE SCHOOL, INC.  
A CHARTER SCHOOL AND COMPONENT UNIT OF  
THE DISTRICT SCHOOL BOARD OF COLLIER COUNTY, FLORIDA**

**STATEMENT OF NET ASSETS**

**JUNE 30, 2011**

|                                       | <u>Governmental<br/>Activities</u> |
|---------------------------------------|------------------------------------|
| <b>ASSETS</b>                         |                                    |
| Cash and cash equivalents             | \$ 1,269,171                       |
| Restricted cash                       | 429,072                            |
| Certificate of deposits               | 304,307                            |
| Other assets                          | 50,611                             |
| Capital assets:                       |                                    |
| Land improvements                     | 28,230                             |
| Furniture, fixtures and equipment     | 253,562                            |
| Less accumulated depreciation         | <u>(229,570)</u>                   |
| Total capital assets, net             | <u>52,222</u>                      |
| Total assets                          | <u><u>\$ 2,105,383</u></u>         |
| <b>LIABILITIES</b>                    |                                    |
| Accounts payable and accrued expenses | <u>\$ 16,144</u>                   |
| Total liabilities                     | <u>16,144</u>                      |
| <b>NET ASSETS</b>                     |                                    |
| Invested in capital assets            | 52,222                             |
| Restricted for:                       |                                    |
| Capital projects                      | 353,165                            |
| Employee health benefits              | 35,518                             |
| Instructional salaries                | 75,159                             |
| Purchase of instructional materials   | 34,023                             |
| Unrestricted                          | <u>1,539,152</u>                   |
| Total net assets                      | <u>2,089,239</u>                   |
| Total liabilities and net assets      | <u><u>\$ 2,105,383</u></u>         |

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

**MARCO ISLAND CHARTER MIDDLE SCHOOL, INC.  
A CHARTER SCHOOL AND COMPONENT UNIT OF  
THE DISTRICT SCHOOL BOARD OF COLLIER COUNTY, FLORIDA**

**STATEMENT OF ACTIVITIES**

**FOR THE YEAR ENDED JUNE 30, 2011**

|  | Program Revenues        |  |  |                            | Net (Expense) Revenue and<br>Changes in Net Assets |                    |
|--|-------------------------|--|--|----------------------------|--|--------------------|
| Expenses                                     | Charges for<br>Services | Operating<br>Grants and<br>Contributions | Capital<br>Grants and<br>Contributions | Governmental<br>Activities | Total  |                    |
| Governmental activities:                     |                         |  |  |                            |  |                    |
| Instruction and instruction-related services | \$ 1,807,526            | \$ -                                     | \$ -                                   | \$ -                       | \$ (1,807,526)                                     | \$ (1,807,526)     |
| General administration                       | 48,795                  | -  | -                                      | -                          | (48,795)   | (48,795)           |
| School administration                        | 668,558                 | -  | -                                      | -                          | (668,558)  | (668,558)          |
| Pupil transportation services                | 50,382                  | -  | -                                      | -                          | (50,382)   | (50,382)           |
| Operation and maintenance of plant           | 250,386                 | -  | -                                      | -                          | (250,386)  | (250,386)          |
| Total primary government                     | <u>\$ 2,825,647</u>     | <u>\$ -</u>                              | <u>\$ -</u>                            | <u>\$ -</u>                | <u>(2,825,647)</u>                                 | <u>(2,825,647)</u> |
| General revenues:                            |                         |  |  |                            |  |                    |
| State and local sources                      |                         |  |  | 2,546,917                  | 2,546,917  |                    |
| Contributions and other revenue              |                         |  |  | 333,356                    | 333,356  |                    |
| Total general revenues                       |                         |  |  | 2,880,273                  | 2,880,273  |                    |
| Change in net assets                         |                         |  |  | 54,626                     | 54,626   |                    |
| Net assets at beginning of year              |                         |  |  | 2,034,613                  | 2,034,613  |                    |
| Net assets at end of year                    |                         |  |  | <u>\$ 2,089,239</u>        | <u>\$ 2,089,239</u>                                |                    |

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

**MARCO ISLAND CHARTER MIDDLE SCHOOL, INC.  
A CHARTER SCHOOL AND COMPONENT UNIT OF  
THE DISTRICT SCHOOL BOARD OF COLLIER COUNTY, FLORIDA**

**BALANCE SHEET - GOVERNMENTAL FUNDS**

**JUNE 30, 2011**

|   | <u>General<br/>Fund</u> | <u>Capital<br/>Projects<br/>Fund</u> | <u>Total<br/>Governmental<br/>Funds</u> |
|---|-------------------------|--------------------------------------|---|
| <b>ASSETS</b>                             |                         |                                      |   |
| Cash and cash equivalents                 | \$ 1,269,171            | \$ -                                 | \$ 1,269,171                            |
| Restricted cash (see Note 1)              | 181,272                 | 247,800                              | 429,072                                 |
| Certificates of deposit (see Note 1)      | 198,942                 | 105,365                              | 304,307                                 |
| Other assets                              | 50,611                  | -                                    | 50,611                                  |
|   | <u>\$ 1,699,996</u>     | <u>\$ 353,165</u>                    | <u>\$ 2,053,161</u>                     |
| <br><b>LIABILITIES AND FUND BALANCES</b>  |                         |                                      |   |
| Accounts payable and accrued expenditures | <u>\$ 16,144</u>        | <u>\$ -</u>                          | <u>\$ 16,144</u>                        |
|   | <u>16,144</u>           | <u>-</u>                             | <u>16,144</u>                           |
| <br>Fund balances:                        |                         |                                      |   |
| Nonspendable:                             |                         |                                      |   |
| Prepaid expenses                          | 30,070                  | -                                    | 30,070                                  |
| Assets held for sale                      | 20,000                  | -                                    | 20,000                                  |
| Restricted for:                           |                         |                                      |   |
| Capital projects                          | -                       | 353,165                              | 353,165                                 |
| Employee health benefits                  | 35,518                  | -                                    | 35,518                                  |
| Instructional salaries                    | 75,159                  | -                                    | 75,159                                  |
| Purchase of instructional materials       | 34,023                  | -                                    | 34,023                                  |
| Assigned to:                              |                         |                                      |   |
| School-based student activity groups      | 36,572                  | -                                    | 36,572                                  |
| Unassigned                                | <u>1,452,510</u>        | <u>-</u>                             | <u>1,452,510</u>                        |
|   | <u>1,683,852</u>        | <u>353,165</u>                       | <u>2,037,017</u>                        |
| Total fund balances                       | <u>1,683,852</u>        | <u>353,165</u>                       | <u>2,037,017</u>                        |
| Total liabilities and fund balances       | <u>\$ 1,699,996</u>     | <u>\$ 353,165</u>                    | <u>\$ 2,053,161</u>                     |

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

**MARCO ISLAND CHARTER MIDDLE SCHOOL, INC.  
A CHARTER SCHOOL AND COMPONENT UNIT OF  
THE DISTRICT SCHOOL BOARD OF COLLIER COUNTY, FLORIDA**

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET  
TO THE STATEMENT OF NET ASSETS**

**JUNE 30, 2011**

**Total fund balances - governmental funds** \$ 2,037,017

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

Capital assets used in governmental activities are not financial  
resources and, therefore, are not reported as assets in the  
governmental funds. The cost of the assets is \$281,792,  
and the accumulated depreciation is \$229,570.

52,222

**Total net assets - governmental activities** \$ 2,089,239

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

**MARCO ISLAND CHARTER MIDDLE SCHOOL, INC.  
A CHARTER SCHOOL AND COMPONENT UNIT OF  
THE DISTRICT SCHOOL BOARD OF COLLIER COUNTY, FLORIDA**

**STATEMENT OF REVENUES, EXPENDITURES, AND  
CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS**

**FOR THE YEAR ENDED JUNE 30, 2011**

|  | General<br>Fund             | Capital<br>Projects<br>Fund | Total<br>Governmental<br>Funds |
|--|-----------------------------|-----------------------------|--------------------------------|
|  | <u>                    </u> | <u>                    </u> | <u>                    </u>    |
| <b>REVENUES</b>                              |                             |                             |                                |
| State and local sources                      | \$ 2,546,917                | \$ -                        | \$ 2,546,917                   |
| Contributions and other revenue              | 329,156                     | 4,200                       | 333,356                        |
|  | <u>                    </u> | <u>                    </u> | <u>                    </u>    |
| Total revenues                               | <u>2,876,073</u>            | <u>4,200</u>                | <u>2,880,273</u>               |
| <b>EXPENDITURES</b>                          |                             |                             |                                |
| Current:                                     |                             |                             |                                |
| Instruction and instruction-related services | 1,787,689                   | 2,269                       | 1,789,958                      |
| General administration                       | 48,795                      | -                           | 48,795                         |
| School administration                        | 663,010                     | -                           | 663,010                        |
| Pupil transportation services                | 50,382                      | -                           | 50,382                         |
| Operation and maintenance of plant           | 206,023                     | 38,717                      | 244,740                        |
| Capital outlay                               | 1,500                       | 1,927                       | 3,427                          |
|  | <u>                    </u> | <u>                    </u> | <u>                    </u>    |
| Total expenditures                           | <u>2,757,399</u>            | <u>42,913</u>               | <u>2,800,312</u>               |
| Net changes in fund balances                 | 118,674                     | (38,713)                    | 79,961                         |
| Fund balances at beginning of year           | <u>1,565,178</u>            | <u>391,878</u>              | <u>1,957,056</u>               |
| Fund balances at end of year                 | <u>\$ 1,683,852</u>         | <u>\$ 353,165</u>           | <u>\$ 2,037,017</u>            |

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

**MARCO ISLAND CHARTER MIDDLE SCHOOL, INC.  
A CHARTER SCHOOL AND COMPONENT UNIT OF  
THE DISTRICT SCHOOL BOARD OF COLLIER COUNTY, FLORIDA**

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF ACTIVITIES**

**FOR THE YEAR ENDED JUNE 30, 2011**

|  |                  |
|--|------------------|
| <b>Net changes in fund balances - total governmental funds</b> | <b>\$ 79,961</b> |
|--|------------------|

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

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those capital assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation expense (\$28,762) exceeds capital outlays (\$3,427) in the current period.

(25,335)

|  |                         |
|--|-------------------------|
| <b>Change in net assets of governmental activities</b> | <b>\$ <u>54,626</u></b> |
|--|-------------------------|

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

**MARCO ISLAND CHARTER MIDDLE SCHOOL, INC.  
A CHARTER SCHOOL AND COMPONENT UNIT OF  
THE DISTRICT SCHOOL BOARD OF COLLIER COUNTY, FLORIDA**

**NOTES TO FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED JUNE 30, 2011**

**1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Organization**

Marco Island Charter Middle School, Inc. (the "School") is a not-for-profit corporation organized pursuant to Chapter 617, Florida Statutes, the Florida Not For Profit Corporation Act and Section 1002.33, Florida Statutes. The governing body of the School is the not-for-profit corporation Board of Directors, which is composed of eight members.

The general operating authority of the School is contained in Section 1002.33, Florida Statutes. The School operates under a charter of the sponsoring school district, the District School Board of Collier County, Florida (the "School Board"). The current charter is effective until June 30, 2011 and was renewed by mutual written agreement between the School and the School Board until June 30, 2026. At the end of the term of the charter, the School Board may choose not to renew the charter under grounds specified in the charter. In this case, the School Board is required to notify the School in writing at least 90 days prior to the charter's expiration. During the term of the charter, the School Board may also terminate the charter if good cause is shown. In the event of termination of the charter, any property purchased by the School with public funds and any unencumbered public funds, except capital outlay funds, revert back to the School Board. Any unencumbered capital outlay funds revert back to the Florida Department of Education to be redistributed among eligible charter schools. The School is considered a component unit of the School Board and meets the definition of a governmental entity under the Governmental Accounting Standards Board's ("GASB") accounting guidance; therefore, for financial reporting purposes, the School is required to follow generally accepted accounting principles applicable to state and local governmental units.

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

**Recently adopted accounting pronouncements**

During fiscal year 2011, the School adopted guidance issued by the GASB that established fund balance classifications that comprise a hierarchy based primarily on the extent to which an entity is bound to observe constraints imposed upon the use of the resources reported in governmental funds. This guidance improves the usefulness of fund balance information by clarifying the definitions of existing governmental fund types and providing additional classifications of fund balance.

**MARCO ISLAND CHARTER MIDDLE SCHOOL, INC.  
A CHARTER SCHOOL AND COMPONENT UNIT OF  
THE DISTRICT SCHOOL BOARD OF COLLIER COUNTY, FLORIDA**

**NOTES TO FINANCIAL STATEMENTS  
(continued)**

**Basis of presentation**

The School's financial statements have been prepared in accordance with generally accepted accounting principles as prescribed by the GASB. Accordingly, both government-wide and fund financial statements are presented.

The government-wide financial statements report information about the School as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the School's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The government-wide financial statements of the School are generally divided into three categories:

- *Governmental activities* – most of the School's basic services are included here, such as instruction and school administration. Funds received through the Florida Education Finance Program ("FEFP") and state and federal grants finance most of these activities.
- *Business-type activities* – in certain instances, the School may charge fees to help it cover the costs of certain services it provides. The School currently has no business-type activities.
- *Component units* – there currently are no component units included within the reporting entity of the School.

The fund financial statements provide more detailed information about the School's most significant funds, not the School as a whole. A fund is an accounting entity having a self-balancing set of accounts for recording assets, liabilities, fund balance, revenues, expenditures and other financing sources and uses. Resources are allocated to and accounted for in individual funds based on the purposes for which they are to be spent and the means by which spending activities are controlled.

The funds in the financial statements of this report are as follows:

**Governmental Funds:**

- General Fund - to account for all financial resources not required to be accounted for in another fund.
- Capital Projects Fund - to account for all resources for the acquisition of capital items by the School purchased with capital outlay funds.

For purposes of these statements, the general and capital projects funds constitute major funds. There are no other governmental funds.

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**NOTES TO FINANCIAL STATEMENTS  
(continued)**

**Basis of accounting**

Basis of accounting refers to when revenues and expenses/expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

The government-wide financial statements are presented using the accrual basis of accounting and an economic resources focus. Under the accrual basis of accounting, revenues and expenses are recognized when they occur.

The modified accrual basis of accounting and current financial resources focus is followed by the governmental funds. Under the modified accrual basis, revenues are recognized when they become measurable and available. Available means collectible within the current period or soon enough thereafter to pay current liabilities. The School considers revenues to be available if they are collected within 60 days of the end of the fiscal year. Under the modified accrual basis of accounting, expenditures are generally recognized when the related fund liability is incurred. The principal exceptions to this general rule are: (1) interest on general long-term debt is recognized when due and (2) expenditures related to liabilities reported as general long-term debt are 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, purchased services and capital outlay).

**Deposits and investments**

Cash deposits are held by banks qualified as public depositories under Florida law. The School's deposits are insured by federal depository insurance and collateralized with securities held in Florida's multiple financial institution collateral pool under Chapter 280, Florida Statutes. In addition, the School has deposits in an institution that is not considered a qualified public depository. These funds are collateralized in excess of the federal depository insurance limits by pledged securities in the name of the School. The School's cash consists primarily of demand deposits and certificates of deposit with financial institutions.

Restricted cash in the statement of net assets includes \$247,800, \$34,023, \$75,159, \$35,518 and \$36,572 in funds to be used for lawful capital outlay expenditures, instructional materials, instructional salaries, employee health benefits and school based student activities, respectively. In addition, the certificates of deposit in the statement of net assets include \$105,365 that must be used for lawful capital outlay expenditures.

**MARCO ISLAND CHARTER MIDDLE SCHOOL, INC.  
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**NOTES TO FINANCIAL STATEMENTS  
(continued)**

**Capital assets and depreciation**

Expenditures for capital assets acquired for general School purposes are reported in the governmental fund that financed the acquisition. Purchased capital assets are reported at cost, net of accumulated depreciation, in the government-wide financial statements. Donated assets are recorded at fair value at the date of donation.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets, which range as follows:

|                                   | <u>Years</u> |
|-----------------------------------|--------------|
| Land improvements                 | 5            |
| Furniture, fixtures and equipment | 3 - 10       |

Information relative to changes in capital assets is described in Note 2.

**Income taxes**

The School is an organization exempt from income taxation under Section 501(a) as an entity described in Section 501(c)(3) of the Internal Revenue Code of 1986, as amended. Accordingly, no provision for federal income taxes is included in the accompanying financial statements.

The School has adopted guidance related to accounting for uncertainty in income taxes, which prescribes a recognition threshold and measurement attribute for financial statement recognition and measurement of a tax position that an entity takes or expects to take in a tax return. This guidance is applicable to not-for-profit organizations that may be conducting unrelated business activities, which are potentially subject to income taxes, including state income taxes.

The School assesses its income tax positions, including its continuing tax status as a not-for-profit entity, and recognizes tax benefits only to the extent that the School believes it is "more likely than not" that its tax positions will be sustained upon an examination by the Internal Revenue Service ("IRS") or the applicable state taxing authority. Accordingly, there is no provision for federal income taxes in the School's financial statements, as the School believes all tax positions, including its continuing status as a not-for-profit entity, have a greater than 50% chance of realization in the event of an IRS audit. State income taxes, which may be due in certain jurisdictions, have been assessed following the same "more likely than not" measurement threshold. With few exceptions, the School is no longer subject to U.S. federal, state and local income tax examinations by tax authorities for years before 2007.

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**NOTES TO FINANCIAL STATEMENTS  
(continued)**

**Revenue sources**

Revenues for current operations are received primarily from the District School Board of Collier County, Florida pursuant to the funding provisions included in the School's charter. As such, the School's revenue stream is largely dependent upon the general state of the economy and the amounts allotted to the Florida Department of Education ("FDOE") by the state legislature. In accordance with the funding provisions of the charter and Section 1002.33(18), Florida Statutes, the School reports the number of full-time equivalent students and related data to the School Board.

Under the provisions of Section 1011.62, Florida Statutes, the School Board reports the number of full-time equivalent students and related data to the FDOE for funding through the FEFP. Funding for the School is adjusted during the year to reflect the revised calculations by the FDOE under the FEFP and the actual weighted full-time equivalent students reported by the School during the designated full-time equivalent student survey periods. The School Board receives a 2% administrative fee from the School, which is reflected as a general administration expense/expenditure in the accompanying statement of activities and statement of revenues, expenditures and changes in fund balances - governmental funds.

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

**Fund balance spending policy**

The School's adopted spending policy is to spend from restricted fund balance first, followed by committed, assigned, then the unassigned fund balance with the exception of instructional materials which are to be spent from the unassigned fund balance first, followed by committed fund balance. The governing board shall review the amounts in the fund balances in conjunction with the annual budget approval and make adjustments as necessary to meet expected cash flow needs. Most funds were designated for one purpose at the time of their creation. Therefore, expenditures made out of the fund will be allocated to the applicable fund balance classifications in the order of the aforementioned spending policy. If expenditures are incurred that meet the purpose of more than one fund they will be allocated to restricted fund balance first and then follow the order above. Funds can only be committed by formal action of the Board of Directors. The Board of Directors has delegated authority to assign funds to the Principal. There are no minimum fund balance requirements for any of the School's funds.

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**NOTES TO FINANCIAL STATEMENTS  
(continued)**

**Use of estimates**

In preparing the financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the balance sheet and affect revenues and expenses/expenditures for the period presented. Actual results could differ significantly from those estimates.

**Subsequent events**

The School has adopted guidance that requires the disclosure of the date through which an entity has evaluated subsequent events and the basis for that date (that is, whether that date represents the date the financial statements were issued or were available to be issued). The School has evaluated subsequent events through August 11, 2011, which is the date the financial statements were available to be issued.

**2 CHANGES IN CAPITAL ASSETS**

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

|   | <u>Beginning<br/>Balance</u> | <u>Increases</u>   | <u>Decreases</u> | <u>Ending<br/>Balance</u> |
|---|------------------------------|--------------------|------------------|---------------------------|
| Governmental activities:                    |                              |                    |                  |                           |
| Land improvements                           | \$ 28,230                    | \$ -               | \$ -             | \$ 28,230                 |
| Furniture, fixtures and equipment           | 250,135                      | 3,427              | -                | 253,562                   |
| Total capital assets at<br>historical cost  | <u>278,365</u>               | <u>3,427</u>       | <u>-</u>         | <u>281,792</u>            |
| Less accumulated depreciation for:          |                              |                    |                  |                           |
| Land improvements                           | (941)                        | (5,646)            | -                | (6,587)                   |
| Furniture, fixtures and equipment           | (199,867)                    | (23,116)           | -                | (222,983)                 |
| Total accumulated depreciation              | <u>(200,808)</u>             | <u>(28,762)</u>    | <u>-</u>         | <u>(229,570)</u>          |
| Governmental activities capital assets, net | <u>\$ 77,557</u>             | <u>\$ (25,335)</u> | <u>\$ -</u>      | <u>\$ 52,222</u>          |

**MARCO ISLAND CHARTER MIDDLE SCHOOL, INC.  
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**NOTES TO FINANCIAL STATEMENTS  
(continued)**

Depreciation expense was charged to functions as follows:

|  |                         |
|--|-------------------------|
| Governmental activities:                           |                         |
| Instruction and instruction-related services       | \$ 17,568               |
| School administration                              | 5,548                   |
| Operation of plant                                 | <u>5,646</u>            |
| Total governmental activities depreciation expense | <u><u>\$ 28,762</u></u> |

**3 SCHOOL FACILITY**

The School Board completed the construction of a permanent School facility as of June 30, 2007. The School received its certificate of occupancy on June 12, 2007 for the main building and on July 3, 2007 for the gymnasium. Along with the construction of the new facility, the School Board purchased the related capital assets, including but not limited to student desks, workstations, audio visual equipment and lockers, which will remain the property of the School Board.

Title to the school building and facilities remains with the School Board. No rental or leasing fee is being charged by the School Board to the School. Administrators of the School and School Board believe that considerable uncertainty exists regarding the valuation of facilities utilized by the School. Consequently, the financial statements reflect no such charges of expense.

In management's opinion, the value of facilities utilized by the School is significant; therefore, any substantial changes in this arrangement with the School Board could have a material effect on the School's operations.

**4 RISK MANAGEMENT PROGRAM**

Workers' compensation coverage, health and hospitalization, general liability, professional liability and property coverages are being provided through purchased commercial insurance with minimum deductibles for each line of coverage. Settled claims resulting from these risks have not exceeded commercial coverage.

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**NOTES TO FINANCIAL STATEMENTS  
(continued)**

**5 SCHEDULE OF STATE AND LOCAL REVENUE SOURCES**

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

|   |                            |
|---|----------------------------|
| District School Board of Collier County, Florida: |                            |
| Florida Education Finance Program                 | \$ 1,391,303               |
| Discretionary millage funds                       | 363,397                    |
| Class size reduction                              | 347,120                    |
| State fiscal stabilization fund entitlement       | 117,520                    |
| ESE guaranteed allocation                         | 104,944                    |
| Education Jobs Fund                               | 75,159                     |
| Supplemental academic instruction                 | 71,874                     |
| Instructional materials                           | 28,520                     |
| "A" school recognition                            | 26,925                     |
| Summer reading programs                           | 8,000                      |
| Safe schools                                      | 5,926                      |
| Teacher lead                                      | 4,875                      |
| Discretionary lottery funds                       | <u>1,354</u>               |
| Total   | <u><u>\$ 2,546,917</u></u> |

The administration fee paid to the School Board during the year ended June 30, 2011 totaled approximately \$49,000, which is reflected as general administration expense/expenditure in the accompanying statement of activities and statement of revenues, expenditures and changes in fund balances - governmental funds.

**6 COMMITMENTS AND CONTINGENT LIABILITIES**

**Grants**

The School participates in state and federal grant programs, which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the School has not complied with the rules and regulations governing the grants, refunds of any money received may be required and the collectibility of any related receivable as of June 30, 2011 may be impaired.

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**NOTES TO FINANCIAL STATEMENTS  
(continued)**

In the opinion of the School, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying financial statements for such contingencies.

**Legal matters**

In the normal course of conducting its operations, the School occasionally becomes party to various legal actions and proceedings. In the opinion of management, the ultimate resolution of such legal matters will not have a significant adverse effect on the accompanying financial statements.

**7 RETIREMENT PROGRAM**

**Defined benefit plan**

All regular employees of the School are covered by the Florida Retirement System ("FRS"). The FRS is primarily a State-administered, cost-sharing, multiple-employer, defined benefit retirement plan ("Plan"). Plan provisions are established by Chapters 121 and 122, Florida Statutes; Chapter 112, Part IV, Florida Statutes; Chapter 238, Florida Statutes; and Florida Retirement System Rules, Chapter 60S, Florida Administrative Code, wherein eligibility, contributions and benefits are defined and described in detail. Essentially all regular employees of participating employers are eligible and must enroll as members of the FRS. Benefits in the Plan vest at six years of service. The Plan also includes an early retirement provision, but imposes a penalty for each year a member retires before the specified retirement age. The Plan provides retirement, disability and death benefits and annual cost-of-living adjustments, as well as supplements for certain employees to cover social security benefits lost by virtue of retirement system membership.

A Deferred Retirement Option Program ("DROP") subject to provisions of Section 121.091, Florida Statutes, permits employees eligible for normal retirement under the Plan to defer receipt of monthly benefit payments while continuing employment with a FRS employer. An employee may participate in the DROP for a period not to exceed 60 months after electing to participate. During the period of DROP participation, deferred monthly benefits are held in the FRS Trust and accrue interest. The School had no DROP participants during fiscal 2011.

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**NOTES TO FINANCIAL STATEMENTS  
(continued)**

**Funding policy**

The contribution rates for members are established, and may be amended, by the State of Florida. During the 2011 fiscal year, contribution rates were as follows:

| <u>Class or Plan</u>                          | <u>Percent of Gross Salary</u> |                     |
|---|--------------------------------|---------------------|
|   | <u>Employee</u>                | <u>Employer (A)</u> |
| Florida Retirement System, Regular            | 0%                             | 10.77%              |
| Florida Retirement System, Reemployed Retiree | (B)                            | (B)                 |

- (A) Employer rates include 1.11% for the post-employment health insurance supplement and 0.03% for administrative costs of the Public Employee Optional Retirement Program.
- (B) Contribution rates are dependent upon the retirement class in which reemployed.

The School's liability for participation in the Plan is limited to the payment of the required contribution at the rates and frequencies established by law on future payrolls of the School. The School's contribution to the Plan for the year ended June 30, 2011 totaled \$169,779, which was equal to the required contributions for the fiscal year. Effective July 1, 2011, employees will be required to contribute 3% to the Plan and the employer contribution will be reduced accordingly.

**Defined contribution plan**

Effective July 1, 2002, the Public Employee Optional Retirement Program ("PEORP") was implemented as a defined contribution plan alternative available to all FRS members in lieu of the defined benefit plan. Employer contributions are defined by law, but the ultimate benefit depends in part on the performance of investment funds. The PEORP is funded by employer contributions that are based on salary and membership class (i.e.: regular class, reemployed retiree, etc.). Contributions are directed to individual member accounts, and the individual members allocate contributions and account balances among various approved investment choices. The School had no PEORP participants during fiscal 2011.

**Pension reporting**

The financial statements and other supplemental information of the FRS are included in the comprehensive annual financial report of the State of Florida, which may be obtained by contacting the Florida Department of Financial Services in Tallahassee, Florida. Also, an annual report on the FRS, which includes its financial statements, required supplemental information, actuarial report and other relevant information, may be obtained from the State of Florida, Division of Retirement in Tallahassee, Florida.

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**REQUIRED SUPPLEMENTARY INFORMATION**

**BUDGETARY COMPARISON SCHEDULE - GENERAL FUND**

**FOR THE YEAR ENDED JUNE 30, 2011**

|  | Budgeted Amounts           |                            | Actual                     | Positive<br>(Negative)   |
|--|----------------------------|----------------------------|----------------------------|--------------------------|
|  | Original                   | Final                      |                            |                          |
| <b>REVENUES</b>                              |                            |                            |                            |                          |
| State and local sources                      | \$ 2,374,206               | \$ 2,374,206               | \$ 2,546,917               | \$ 172,711               |
| Contributions and other revenue              | 257,559                    | 257,559                    | 329,156                    | 71,597                   |
| Total revenues                               | <u>2,631,765</u>           | <u>2,631,765</u>           | <u>2,876,073</u>           | <u>244,308</u>           |
| <b>EXPENDITURES</b>                          |                            |                            |                            |                          |
| Current:                                     |                            |                            |                            |                          |
| Instruction and instruction-related services | 1,765,643                  | 1,765,643                  | 1,787,689                  | (22,046)                 |
| General administration                       | 47,484                     | 47,484                     | 48,795                     | (1,311)                  |
| School administration                        | 564,302                    | 564,302                    | 663,010                    | (98,708)                 |
| Pupil transportation services                | 50,000                     | 50,000                     | 50,382                     | (382)                    |
| Operation and maintenance of plant           | 204,336                    | 204,336                    | 206,023                    | (1,687)                  |
| Capital outlay                               | -                          | -                          | 1,500                      | (1,500)                  |
| Total expenditures                           | <u>2,631,765</u>           | <u>2,631,765</u>           | <u>2,757,399</u>           | <u>(125,634)</u>         |
| Net changes in fund balance                  | -                          | -                          | 118,674                    | 118,674                  |
| Fund balance at beginning of year            | <u>1,565,178</u>           | <u>1,565,178</u>           | <u>1,565,178</u>           | -                        |
| Fund balance at end of year                  | <u><u>\$ 1,565,178</u></u> | <u><u>\$ 1,565,178</u></u> | <u><u>\$ 1,683,852</u></u> | <u><u>\$ 118,674</u></u> |

See report of independent auditors.



**Report of Independent Auditors on Internal Control Over Financial Reporting  
and on Compliance and Other Matters Based on an Audit of Financial Statements  
Performed in Accordance with *Government Auditing Standards***

To the Board of Directors of Marco Island Charter Middle School, Inc., a Charter School  
and Component Unit of the District School Board of Collier County, Florida

We have audited the financial statements of the governmental activities and each major fund of Marco Island Charter Middle School, Inc. (the "School"), a charter school and component unit of the District School Board of Collier County, Florida, as of and for the year ended June 30, 2011, which collectively comprise the School's basic financial statements and have issued our report thereon dated August 11, 2011. 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 opinions 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.

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 a 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 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 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 management of the School, the District School Board of Collier County, Florida, the Florida Department of Education and the Florida Auditor General and is not intended to be and should not be used by anyone other than these specified parties.

*BKHM, P.A.*

Winter Park, Florida  
August 11, 2011

**ADDITIONAL INFORMATION REQUIRED BY  
RULES OF THE AUDITOR GENERAL,  
CHAPTER 10.850, *AUDITS OF CHARTER SCHOOLS  
AND SIMILAR ENTITIES***



To the Board of Directors of Marco Island Charter Middle School, Inc., a Charter School and Component Unit of the District School Board of Collier County, Florida

We have audited the financial statements of the governmental activities and each major fund of Marco Island Charter Middle School, Inc. (the "School") as of and for the year ended June 30, 2011, and have issued our report thereon dated August 11, 2011.

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. Disclosures in that report, which is dated August 11, 2011, 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:

- 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 and recommendations in the preceding annual financial audit report.
- 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 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 Marco Island Charter Middle School, 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 met. During the course of our audit, nothing came to our attention to indicate that the School had met any of the conditions described in Section 218.503(1), Florida Statutes (“the conditions”). However, in planning and performing our audit, we considered whether the School had met any of the conditions as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion as to whether the School had met any of the conditions. Accordingly, we do not express an opinion as to whether the School had met any of the conditions.
- Pursuant to Sections 10.854(1)(e)7.a. and 10.855(10), Rules of the Auditor General, we applied financial condition assessment procedures as of June 30, 2011, which included calculation and analysis of certain financial indicators we considered relevant to the School. Our financial condition assessment procedures did not include the use of benchmarks. It is management’s responsibility to monitor the School’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 management.

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

*BKHM, P.A.*

Winter Park, Florida  
August 11, 2011