

SARASOTA SCHOOL OF ARTS AND SCIENCES, INC.

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

FINANCIAL STATEMENTS

June 30, 2011

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Sarasota School of Arts and Sciences, Inc.
Sarasota, Florida

We have audited the accompanying financial statements of the governmental activities and General Fund of Sarasota School of Arts and Sciences, Inc. (a Charter School and component unit of the School Board of Sarasota 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 the Charter School. 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, 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 General Fund of Sarasota School of Arts and Sciences, Inc. as of June 30, 2011, and the respective changes in financial position and budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 28, 2011, on our consideration of the Charter 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 Management's Discussion and Analysis on pages 3 through 5 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
November 28, 2011

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2011

(Unaudited)

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

The intent of this MD&A is to present a picture and assessment of the School's financial performance in an effort to more clearly demonstrate to readers the results of this year's financial operation. Readers should also review the basic financial statements and notes to enhance their understanding of Sarasota School of Arts and Sciences, Inc.'s financial performance.

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 Sarasota School of Arts and Sciences, Inc. as a financial whole, or as an entire operating entity.

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

Financial Highlights

	<u>FY 2009-2010</u>	<u>FY 2010-2011</u>	<u>\$ Change</u>	<u>% Change</u>
Total assets	\$ 14,502,476	14,538,025	35,549	0%

Total Assets increased by \$35,549 for the year ended June 30, 2011. This small increase was mainly attributed to our ongoing building project and no large expenditures were made.

	<u>FY 2009-2010</u>	<u>FY 2010-2011</u>	<u>\$ Change</u>	<u>% Change</u>
Total liabilities	\$ 11,472,623	11,647,392	174,769	2%

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THE SCHOOL BOARD OF SARASOTA COUNTY

MANAGEMENT’S DISCUSSION AND ANALYSIS

June 30, 2011

(Unaudited)

Total Liability increased by 2% for the year ended June 30, 2011. This increase was due to an accrued interest payable figure of \$356,681 associated with the new long-term debt.

	<u>FY 2009-2010</u>	<u>FY 2010-2011</u>	<u>\$ Change</u>	<u>% Change</u>
Total revenue	\$ 5,841,531	5,867,304	25,773	0%
Total expenses	5,354,182	6,006,524	652,342	12%

Total Revenue increased by \$25,773 for the year ended June 30, 2011. This increase was due to sustained student population and a small increase to State and local funding.

Total Expenses increased by \$652,342 for the year ended June 30, 2011. This increase was due to Sarasota County School Board’s “step” increase in salaries for all instructional staff, coupled with out of pocket expenses incurred for the building project.

The largest revenue source for Sarasota School of Arts and Sciences, Inc. is the Florida Education Finance Program (FEFP), which allocates funds based on the number and type of students enrolled in our school. Grants and fundraising account for the second largest source of revenue.

Capital Assets and Long-Term Debt Administration

Sarasota School of Arts and Sciences, Inc. has invested in a variety of capital assets including real property, building improvements, furniture, fixtures, and other equipment. Total capital assets at June 30, 2011, amount to \$8,422,291, net of accumulated depreciation.

Long-term debt at June 30, 2011, consisted of bonds payable and obligations under capital leases. The bonds had a year-end balance of \$11,010,350 and the capital lease obligations had a balance of \$50,497.

Economic Factors and Next Year's Budget

The viability, and the future goals of Sarasota School of Arts and Sciences, Inc., is based on the continuation of conservative, yet innovative and creative, financial management. This management style has allowed us to begin construction of our new educational facilities. This building project did not deter us from continuing to meet the academic needs of our student body as reflected in our “A” Grade earned from the Florida Department of Education, concurrently achieving Adequate Yearly Progress (AYP) as denoted in the Federal Legislation. With our

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MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2011

(Unaudited)

building project commencing in October 2010, we have had a multitude of unexpected “out of pocket” expenses, but have been able to maintain our savings account; with a year-end unrestricted cash amount of \$889,491. We were extremely pleased that we were able to maintain our BBB- rating from Standards and Poors.

The goal for the 2011-2012 school year is to increase our average student population from 680 to 750. This growth in student population and the full time equivalent (FTE) revenue that it brings, along with the additional financial support of a continued portion of the District's 1.5 mil contribution to charter schools in the amount of \$308,850 (and a carry-forward balance of \$107,310 totaling \$416,160) will make up the projected income reduction per student from the state, and will allow us to meet our Debt Service Ratio without cutting into or diminishing any of our outstanding programs and curricula offered at the Sarasota School of Arts and Sciences, Inc. The aforementioned increase in revenue will also permit us to hire additional staff, where needed; enhance our special programs; furnish our new state of the art science labs, and supplement the project fund for our new building. All of the achievements discussed above, coupled with our successful financial management techniques, will ensure that Sarasota School of Arts and Sciences, Inc. continues to be Sarasota County's premier Charter School.

For further information contact:

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SARASOTA SCHOOL OF ARTS AND SCIENCES, INC.
A CHARTER SCHOOL AND COMPONENT UNIT OF
THE SCHOOL BOARD OF SARASOTA COUNTY
STATEMENT OF NET ASSETS
June 30, 2011

ASSETS		Governmental Activities
Current assets		
Cash	\$	889,491
Restricted cash		3,523,876
Accounts receivable		230,432
Prepaid expenses		78,390
Total current assets		4,722,189
Noncurrent assets		
Restricted cash		857,053
Capital assets, net of accumulated depreciation		8,422,291
Unamortized bond costs		423,145
Other assets		113,347
TOTAL ASSETS	\$	14,538,025
LIABILITIES AND NET ASSETS		
Current liabilities		
Accounts payable	\$	15,358
Accrued salaries payable		152,378
Accrued interest payable		356,681
Note payable		62,128
Current portion of capital leases payable		42,172
Total current liabilities		628,717
Noncurrent liabilities		
Bonds payable		11,010,350
Capital leases payable		8,325
Total liabilities		11,647,392
Net assets		
Invested in capital assets, net of related debt		473,479
Restricted		
Debt service		1,333,866
Renewal and replacement funds		55,030
Instructional materials		3,786
Capital projects		107,310
Unrestricted		917,162
Total net assets		2,890,633
TOTAL LIABILITIES AND NET ASSETS	\$	14,538,025

See accompanying notes.

SARASOTA SCHOOL OF ARTS AND SCIENCES, INC.
A CHARTER SCHOOL AND COMPONENT UNIT OF
THE SCHOOL BOARD OF SARASOTA COUNTY
STATEMENT OF ACTIVITIES
Year Ended June 30, 2011

	<u>Expenses</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Net (Expense) Revenue and Changes in Net Assets</u>
<u>Functions/Programs:</u>				
Governmental activities				
Instruction	\$ 3,480,465	38,142	--	(3,442,323)
Support services				
Pupil personnel services	36,196	--	--	(36,196)
Instructional media services	80,485	--	--	(80,485)
Instructional staff training	21,603	--	--	(21,603)
Board	25,586	--	--	(25,586)
General administration	111,572	--	--	(111,572)
School administration	730,453	--	--	(730,453)
Facilities, acquisition, and construction	--	--	42,000	42,000
Fiscal services	52,706	--	--	(52,706)
Pupil transportation services	82,394	--	--	(82,394)
Operation of plant	314,062	--	--	(314,062)
Maintenance of plant	335,508	--	--	(335,508)
Interest and fiscal charges on long-term debt	735,494	--	--	(735,494)
Total governmental activities	<u>\$ 6,006,524</u>	<u>38,142</u>	<u>42,000</u>	(5,926,382)
General revenues				
Local				5,751,067
Investment return				36,095
Total general revenues				<u>5,787,162</u>
Change in net assets				(139,220)
Net assets, July 1, 2010				<u>3,029,853</u>
Net assets, June 30, 2011				<u>\$ 2,890,633</u>

See accompanying notes.

SARASOTA SCHOOL OF ARTS AND SCIENCES, INC.
A CHARTER SCHOOL AND COMPONENT UNIT OF
THE SCHOOL BOARD OF SARASOTA COUNTY
BALANCE SHEET—GENERAL FUND
June 30, 2011

ASSETS	
Cash	\$ 889,491
Restricted cash	4,380,929
Accounts receivable	230,432
Prepaid expenditures	78,390
Other assets	<u>113,347</u>
TOTAL ASSETS	<u><u>\$ 5,692,589</u></u>
LIABILITIES AND FUND BALANCE	
Liabilities	
Accounts payable	\$ 15,358
Accrued salaries payable	152,378
Note payable	<u>62,128</u>
Total liabilities	229,864
Fund balance	
Nonspendable	
Prepaid Items	78,390
Restricted	
Instructional materials	3,786
Capital outlay	107,310
Renewal and replacement funds	55,030
Debt service	1,333,866
Unassigned	<u>3,884,343</u>
Total fund balance	<u>5,462,725</u>
TOTAL LIABILITIES AND FUND BALANCE	<u><u>\$ 5,692,589</u></u>

See accompanying notes.

SARASOTA SCHOOL OF ARTS AND SCIENCES, INC.
A CHARTER SCHOOL AND COMPONENT UNIT OF
THE SCHOOL BOARD OF SARASOTA COUNTY
RECONCILIATION OF THE BALANCE SHEET—GENERAL FUND
TO THE STATEMENT OF NET ASSETS
June 30, 2011

Total fund balance, Balance Sheet, General Fund	\$	5,462,725
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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.

Capital assets	10,099,345	
Less accumulated depreciation	<u>(1,677,054)</u>	8,422,291

Other noncurrent assets used in governmental activities are not financial resources and, therefore, not reported in the General Fund.

423,145

Noncurrent liabilities are not due and payable in the current period and, therefore, not reported in the General Fund.

Bonds payable	(11,010,350)	
Accrued interest payable	(356,681)	
Capital leases payable	<u>(50,497)</u>	<u>(11,417,528)</u>

Total net assets, Statement of Net Assets		\$ <u><u>2,890,633</u></u>
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SARASOTA SCHOOL OF ARTS AND SCIENCES, INC.
A CHARTER SCHOOL AND COMPONENT UNIT OF
THE SCHOOL BOARD OF SARASOTA COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE—
BUDGET AND ACTUAL—GENERAL FUND
Year Ended June 30, 2011

	Budgeted Amounts			Variance
	Original	Final	Actual	
Revenues				
Federal through local	\$ 238,800	238,800	231,463	(7,337)
State through local	3,854,550	3,854,550	3,955,006	100,456
Local	1,616,182	1,616,182	1,680,835	64,653
Total revenues	<u>5,709,532</u>	<u>5,709,532</u>	<u>5,867,304</u>	<u>157,772</u>
Expenditures				
Current				
Instruction	3,210,864	3,210,864	3,188,242	22,622
Pupil personnel services	36,039	36,039	36,196	(157)
Instructional media services	92,500	92,500	80,485	12,015
Instructional staff training	25,500	25,500	21,603	3,897
Board	3,500	3,500	14,579	(11,079)
General administration	98,406	98,406	98,258	148
School administration	835,815	835,815	711,371	124,444
Fiscal services	55,000	55,000	52,706	2,294
Pupil transportation services	147,500	147,500	82,394	65,106
Operation of plant	340,000	340,000	312,719	27,281
Maintenance of plant	263,037	263,037	334,838	(71,801)
Capital outlay	7,044,785	7,044,785	3,666,972	3,377,813
Debt service				
Principal	60,000	60,000	88,427	(28,427)
Interest and fiscal charges	417,626	417,626	363,200	54,426
Contingency	500,000	500,000	--	500,000
Total expenditures	<u>13,130,572</u>	<u>13,130,572</u>	<u>9,051,990</u>	<u>4,078,582</u>
Net change in fund balance	<u>(7,421,040)</u>	<u>(7,421,040)</u>	<u>(3,184,686)</u>	<u>4,236,354</u>
Fund balance, July 1, 2010	<u>8,647,411</u>	<u>8,647,411</u>	<u>8,647,411</u>	--
Fund balance, June 30, 2011	<u>\$ 1,226,371</u>	<u>1,226,371</u>	<u>5,462,725</u>	<u>4,236,354</u>

See accompanying notes.

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

NOTES TO BASIC FINANCIAL STATEMENTS

NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity: Sarasota School of Arts and Sciences, Inc. (the “Charter School”) is a not-for-profit corporation formed on February 10, 1997, pursuant to Chapter 617, Florida Statutes, Florida Not-For-Profit Corporation Act. The governing body of the corporation is a Board of Directors of no less than seven members. The Charter School is dedicated to teaching principles of academic excellence and social responsibility to grades 6 – 8 through involvement of students, faculty, parents, mentors, and the community. The Charter School's curriculum emphasizes the arts and sciences encouraging students to learn, think, and explore by traditional and nontraditional means.

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 Sarasota County, Florida. The current charter is effective until June 30, 2013, and may be renewed by mutual agreement between the Charter School and the School Board. The Charter School is a component unit of the Sarasota County School Board.

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 Governmental Accounting Standards Board (GASB) Statement No. 14, as amended by 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 reported 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. This codification and subsequent GASB pronouncements are recognized as GAAP for state and local governments.

Government-wide and Fund Financial 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 governmental activities only. The Charter School has no business-type activities.

SARASOTA SCHOOL OF ARTS AND SCIENCES, INC.
A CHARTER SCHOOL AND COMPONENT UNIT OF
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NOTES TO BASIC FINANCIAL STATEMENTS

NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

The government-wide Statement of Activities demonstrates the degree to which the direct expenses of a given function (or segment) are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Unrestricted grants and contributions and other items not properly included among program revenues are reported instead as general revenues.

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

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

The only governmental fund utilized by the Charter School is the General Fund. The General Fund is the general operating fund of the Charter School and is used to account for all of its financial resources.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation: The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the School considers revenues to be available if they are collected within 60 days of the end of the current period. When grant terms provide that the

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NOTES TO BASIC FINANCIAL STATEMENTS

NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

expenditure of resources is the determining factor for eligibility for Federal, State and other grant resources, revenue is recognized at the time the expenditure is made. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Revenues for current operations received from the School Board of Sarasota County pursuant to the funding provisions included in the Charter School's charter are considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the Charter School.

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

Cash: The Charter School's cash consists of demand deposits with local financial institutions insured by Federal depository insurance and funds held in trust pursuant to a loan and trust agreement. The standard insurance amount is \$250,000 per depositor, per insured bank, for each account ownership category. At June 30, 2011, the Charter School had \$244,593 of uninsured cash balances.

Restricted Cash: At June 30, 2011, the Charter School reported restricted cash in the amount of \$4,380,929. These funds are restricted by a Loan and Trust Agreement with Sarasota County, Florida, related to the Educational Facilities Revenue Bonds, Series 2010, and are restricted for project related costs in the amount of \$2,992,035, bond reserves in the amount of \$857,053, renewal and replacement funds in the amount of \$55,030, and capitalized interest in the amount of \$476,811.

Capital Assets: Capital assets are capitalized 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 \$500 for capital asset additions. Capital assets are recorded in the entity-wide financial statements, but are not reported in the fund financial statements. All capital assets are depreciated using the straight-line method over their estimated useful lives. Useful lives vary from 10 to 40 years for buildings and improvements, 3 to 7 years for furniture, fixtures, and equipment, 5 years for motor vehicles, and 5 to 7 years for property under capital leases.

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."

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NOTES TO BASIC FINANCIAL STATEMENTS

NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.
- *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. 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 other funds should the Charter School establish other funds at a later time.

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

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NOTES TO BASIC FINANCIAL STATEMENTS

NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 Sarasota 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 full-time equivalent (FTE) students and related data to the Florida Department of Education (FDOE) for funding through the Florida Education Finance Program (FEFP). Funding for the Charter School is adjusted during the year to reflect the revised calculations by the FDOE under the Florida Education Finance Program and the actual weighted full-time equivalent students reported by the Charter School during the designated full-time equivalent 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 fund-raising activities, 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.

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

NOTES TO BASIC FINANCIAL STATEMENTS

NOTE B: CAPITAL ASSETS

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

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
<u>Governmental activities:</u>				
Capital assets, not being depreciated				
Land	\$ 35,625	42,000	--	77,625
Construction in progress	251,613	3,459,001	--	3,710,614
Total capital assets not being depreciated	<u>287,238</u>	<u>3,501,001</u>	<u>--</u>	<u>3,788,239</u>
Capital assets, being depreciated				
Building and improvements	4,798,532	22,725	16,166	4,805,091
Leasehold improvements	75,350	31,723	--	107,073
Furniture, fixtures and equipment	618,802	111,523	20,122	710,203
Motor vehicles	156,574	--	--	156,574
Property under capital leases	532,165	--	--	532,165
Total capital assets being depreciated	<u>6,181,423</u>	<u>165,971</u>	<u>36,288</u>	<u>6,311,106</u>
Less accumulated depreciation for				
Building and improvements	650,111	129,692	4,550	775,253
Leasehold improvements	--	20,380	--	20,380
Furniture, fixtures and equipment	430,427	59,111	18,541	470,997
Motor vehicles	42,765	30,638	--	73,403
Property under capital leases	252,400	84,621	--	337,021
Total accumulated depreciation	<u>1,375,703</u>	<u>324,442</u>	<u>23,091</u>	<u>1,677,054</u>
Total capital assets being depreciated, net	<u>4,805,720</u>	<u>(158,471)</u>	<u>13,197</u>	<u>4,634,052</u>
Capital assets, net	<u>\$ 5,092,958</u>	<u>3,342,530</u>	<u>13,197</u>	<u>8,422,291</u>

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

NOTES TO BASIC FINANCIAL STATEMENTS

NOTE B: CAPITAL ASSETS (CONTINUED)

Depreciation expense in the amount of \$324,442 for the year ended June 30, 2011, was allocated to the following governmental functions:

Instruction	\$ 279,026
Board	11,007
General administration	13,314
School administration	19,082
Operation of plant	1,342
Maintenance of plant	671
	\$ 324,442

NOTE C: SHORT-TERM DEBT

In June 2011, the Charter School signed an agreement to finance their property insurance premiums for fiscal year 2011-2012. The total premiums for this policy are \$77,607 and the Charter School made a down payment of \$15,479. Therefore, the remaining balance of \$62,128 has been recorded as a short-term note payable. The policy will be paid over 10 months starting July 27, 2011 at an interest rate of 4.85%. The entire policy is recorded as a prepaid expense/expenditure.

NOTE D: LONG-TERM DEBT

Long-term debt activity for the year ended June 30, 2011, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<u>Governmental activities:</u>					
Bonds payable	\$ 11,040,000	--	--	11,040,000	--
Less discount	(30,672)	--	1,022	(29,650)	--
	11,009,328	--	1,022	11,010,350	--
Capital leases payable	138,924	--	(88,427)	50,497	42,172
	\$ 11,148,252	--	(87,405)	11,060,847	42,172

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

NOTES TO BASIC FINANCIAL STATEMENTS

NOTE D: LONG-TERM DEBT (CONTINUED)

The Charter School executed a Loan and Trust Agreement with Sarasota County, Florida, for the issuance of \$11,040,000 in Educational Facilities Revenue Bonds dated June 28, 2010. Pursuant to this agreement, the proceeds of the bond are to be used to: (1) refinance certain obligations of the Charter School, which has resulted in the current refunding of the outstanding Sarasota County, Florida Industrial Development Revenue Bond, Series 2004; (2) refinance other indebtedness of the Charter School; (3) finance the construction of certain educational facilities; (4) fund a debt service reserve; (5) fund capitalized interest for a period of one year after their issuance; (6) pay a termination fee on an interest rate swap related to the refunded bond; and (7) pay the costs of issuance.

The issue consists of \$1,000,000 of term bonds due July 1, 2017, with an interest rate of 5.20%, \$3,505,000 of term bonds due July 1, 2030, with an interest rate of 6.75%, and \$6,535,000 of term bonds due July 1, 2040, with an interest rate of 6.50%. All three series of term bonds are subject to mandatory sinking fund redemption on July 1 of each year as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 120,000	713,215	833,215
2013	125,000	703,873	828,873
2014	135,000	697,113	832,113
2015	140,000	389,963	529,963
2016	150,000	682,423	832,423
2017-2021	890,000	3,269,220	4,159,220
2022-2026	1,230,000	2,921,050	4,151,050
2027-2031	1,715,000	2,428,469	4,143,469
2032-2037	2,960,000	2,008,500	4,968,500
2038-2040	1,975,000	510,088	2,485,088
2041	1,600,000	52,000	1,652,000
	<u>\$ 11,040,000</u>	<u>14,375,914</u>	<u>25,415,914</u>

As security for the obligation to make all payments due, and to perform all obligations, the Charter School grants a security interest of its revenues, deposit accounts, goods, equipment, inventory, fixtures, accessions and investment property.

The bonds contain certain restrictions and covenants. At June 30, 2011, the school was in compliance with the debt covenants.

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

NOTES TO BASIC FINANCIAL STATEMENTS

NOTE E: CAPITAL LEASES

The Charter School leases a copier under a capital lease agreement. The lease began in September 2006 and expires in September 2011. The lease includes monthly payments of \$2,591, and a bargain purchase option at the end of the lease term.

The Charter School leases computer equipment under a capital lease agreement. The lease began in July 2009 and expires in July 2011. The lease includes monthly payments of \$2,467, and a bargain purchase option at the end of the lease term.

The Charter School leases a bus under a capital lease agreement. The lease began in September 2009 and expires in September 2012. The lease includes monthly payments of \$2,804.

Future minimum lease payments under these capital leases are as follows:

<u>Year Ending June 30</u>	
2012	\$ 42,172
2013	8,325
Total minimum lease payments	<u>50,497</u>
Less: amount representing interest	<u>(1,810)</u>
Present value of minimum lease payments	<u>\$ 48,687</u>

NOTE F: RETIREMENT PLAN

The Charter School sponsors a defined contribution pension plan that covers all full-time employees that have met certain age and service requirements. The School's contributions to the plan are 9% of eligible employees' wages. Employees are vested in the plan according to a schedule. For the year ended June 30, 2011, the School's retirement plan contributions were \$208,376.

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

NOTES TO BASIC FINANCIAL STATEMENTS

NOTE G: LOCAL REVENUE SOURCES

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

Source	Amount
Federal through local	
IDEA grant	\$ 96,000
Education Jobs grant	135,463
Subtotal	231,463
State through local	
Base funding (less administrative fee)	2,610,121
Reading instruction	26,332
School Recognition funds	50,325
Classroom for Kids	622,557
Discretionary lottery	2,429
Instructional materials	51,673
Other miscellaneous state revenue	363,655
Charter school capital outlay	227,914
Subtotal	3,955,006
Local	
Discretionary local effort	494,225
Referendum millage allocation	660,729
Local capital outlay millage funds	367,712
Grants/donations/fundraising	116,736
Other miscellaneous revenue	41,433
Subtotal	1,680,835
Total	\$ 5,867,304

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

NOTES TO BASIC FINANCIAL STATEMENTS

NOTE H: OPERATING LEASE

The Charter School entered into an operating lease on March 1, 2010, for real property located at 1391 Boulevard of the Arts, Sarasota, Florida. This operating lease is for a one year term and is renewable on a month to month basis thereafter. Monthly lease payments are \$5,542. Rent expense during the year was \$66,504.

NOTE I: CONSTRUCTION COMMITMENT

During March 2010, the Charter School entered into an agreement with a contractor for the demolition of existing school structures, and the architectural, engineering, and construction services to build a new three story building and freestanding gym and sports facilities. The total amount of the contract is \$6,500,000 with \$350,000 for design/pre-construction work and \$6,150,000 for the construction of the buildings. Costs incurred to date in the amount of \$3,710,614 have been recorded in construction in progress.

NOTE J: SUBSEQUENT EVENTS

The Charter School has evaluated all subsequent events through November 28, 2011, the date the financial statements were available to be issued. On July 18, 2011 the Charter School entered into an amendment for the construction agreement dated March 30, 2010. The agreement increases the contract from \$6,500,000 to \$7,093,485 which was due to issues the contractor encountered during the installation of the air conditioning. The agreement also grants an absolute credit to the School to apply against a rain tank change order in the amount of \$20,485. The agreement also grants a conditional credit to the school in the amount of \$15,985 if, and only if, a temporary certificate of occupancy is not issued for the three story main structure by August 15, 2011. The project completion date has been extended to March 31, 2012.



**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
Sarasota School of Arts and Sciences, Inc.
Sarasota, Florida

We have audited the financial statements of the governmental activities and General Fund of Sarasota School of Arts and Sciences, Inc., (a Charter School and component unit of the School Board of Sarasota County, Florida) as of and for the year ended June 30, 2011, which collectively comprise the Charter School's basic financial statements and have issued our report thereon dated November 28, 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

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 a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Charter School'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. However, as reported as Finding 11-01 in the Management Letter under the heading *Current Year Findings and Recommendations*, we identified a certain deficiency in internal control over financial reporting that we consider to be a material weakness.

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 is required to be reported under Government Auditing Standards.

The Charter School's response to the finding identified in the Management Letter is provided on page 29. We did not audit the Charter School's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Board of Directors, management and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Mauldin & Jenkins, LLC

Bradenton, Florida
November 28, 2011

MANAGEMENT LETTER

Board of Directors
Sarasota School of Arts and Sciences, Inc.
Sarasota, Florida

We have audited the financial statements of Sarasota School of Arts and Sciences, Inc. (a Charter School and component unit of the School Board of Sarasota County, Florida) as of and for the year ended June 30, 2011, and have issued our report thereon dated November 28, 2011.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards* issued by the Comptroller General of the United States. We have issued our Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*. Disclosures in that report, dated November 28, 2011, should be considered in conjunction with this management letter.

Additionally, our audit was conducted in accordance with the provisions of Chapter 10.850, Rules of the Auditor General, which governs the conduct of charter school 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. Matters required to be disclosed are reported in the *Summary Schedule of Prior Audit Findings*.
- Section 10.854(1)(e)2., Rules of the Auditor General, requires a statement be included as to whether or not the Charter 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 Charter School did not meet any of the conditions described in Section 218.503(1), Florida Statutes.
- Section 10.854(1)(e)3., Rules of the Auditor General, requires that we address in the management letter recommendations to improve financial management. Matters required to be disclosed are reported under the heading *Current Year Findings and 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 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 charter school to be disclosed in the management letter. The official name of the charter school is Sarasota School of Arts and Sciences, Inc.
- 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 Charter 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 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 the Board of Directors and management, and the State of Florida Office of the Auditor General, and is not intended to be and should not be used by anyone other than these specified parties.

Mauldin & Jenkins, LLC

Bradenton, Florida
November 28, 2011

Current Year Findings and Recommendations

11-01 Audit Adjustments

The Charter School is responsible for accurate financial reporting which includes detecting and preventing misstatements in the financial statements, as well as within the underlying records. Our audit revealed several misstatements related to the following: (1) the accrual of instructional material and capital outlay revenue; (2) the recording of debt transactions; and (3) the accrual of expenses. This was also reported in the prior year management letter.

Although the Charter School relies on the independent auditor for the fair presentation of the financial statements, the auditor cannot be a part of the client's internal control system. Therefore, based on the amount of adjustments made as a result of the audit, the Charter School has a material weakness regarding the fairness of financial reporting.

Therefore, we recommend that the Charter School implement procedures to ensure all revenues and expenses are properly recorded in the correct period to improve the fairness of the financial information.

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

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Audit Finding	Title/ Program	Brief Description	Status	Comments
2010 Management Letter 10-01	Financial Statements	The Charter School is responsible for accurate financial reporting which includes detecting and preventing misstatements in the financial statements, as well as within the underlying records. Our audit revealed several misstatements, including a prior period adjustment, related to the following: (1) the accrual of instructional material and capital outlay revenue; (2) the recording of debt transactions; and (3) the accrual of expenses.	Not Corrected	See Finding 11-01 in the Current Year Findings and Recommendations



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November 28, 2011

Auditor General
Local Government Audits/342
Claude Pepper Building, Room 401
111 West Madison Street
Tallahassee, Florida 32399-1450

In response to the finding noted in the Management Letter of our audit for the year ended June 30, 2011, Sarasota School of Arts and Sciences, will implement the following procedures:

Upon receipt of the monthly financials from our outside accountant, Sarasota School of Arts and Sciences, along with our Board of Directors, will perform a review of the transactions recorded for revenues and expenses and all transactions associated with our new bond debt service. Our Comptroller and outside accountant will confer throughout the year to maintain accurate accrual and receivable account balances. All amounts will be verified to insure that they have been properly recorded which will improve the accuracy of our financial statements.

Sincerely,

A handwritten signature in cursive script that reads "Marilyn Highland".

Marilyn Highland
Principal