

MICANOPY MIDDLE
CHARTER SCHOOL

AUDIT REPORT

JUNE 30, 2006

**Audit Report
Micanopy Middle Charter School
June 30, 2006**

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Independent Auditors' Report

To the Board of Directors
Micanopy Middle Charter School

We have audited the accompanying financial statements of the governmental activities and each major fund of the Micanopy Middle Charter School (the "School"), a component unit of the Alachua County District School Board, as of and for the year ended June 30, 2006, 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 the School, as of June 30, 2006, 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 3, 2006 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.

Management's discussion and analysis and the budgetary comparison schedules listed in the table of contents as "required supplementary information" are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

August 3, 2006
Gainesville, Florida

MANAGEMENT'S DISCUSSION AND ANALYSIS

This discussion and analysis of the School's financial performance provides an overview of the School's financial activities for the fiscal year ended June 30, 2006. Please read it in conjunction with the School's financial statements, which follow this section.

The following are various financial highlights for fiscal year 2006:

- The School's overall net assets decreased \$67,133.
- Total ending unrestricted net assets were \$(34,396).
- The School had total expenses for the year of \$382,875, compared to revenues of \$315,742.

OVERVIEW OF THE BASIC FINANCIAL STATEMENTS

This annual report contains government-wide financial statements that report on the School's activities as a whole and fund financial statements that report on the School's individual funds.

Government-wide Financial Statements

The first financial statement is the Statement of Net Assets. This statement includes all of the School's assets and liabilities using the accrual basis of accounting. Accrual accounting is similar to the accounting used by most private-sector companies. All of the current year revenues and expenses are recorded, regardless of when cash is received or paid. Net assets – the difference between assets and liabilities – can be used to measure the School's financial position.

The second financial statement is the Statement of Activities. This statement is also shown using the accrual basis of accounting. It shows the increases and decreases in net assets during the fiscal year. Over time, the increases or decreases in net assets are useful indicators of whether the School's financial health is improving or deteriorating. However, other non-financial factors, such as enrollment levels or changes in state funding, must also be considered when assessing the overall health of the School.

In these statements, all of the School's activities are considered to be governmental activities. The School has no business-type activities, which are generally financed in whole or in part by fees charged to external parties for goods or services.

Fund Financial Statements

Following the government-wide financial statements are the fund financial statements. They provide more detailed information about the School's funds.

- Governmental funds – These funds are accounted for using modified accrual accounting. Modified accrual accounting focuses on available cash and other financial assets that can readily be converted to cash. This provides a shorter-term view of the governmental fund's financial position. A reconciliation is provided with these statements, which helps to explain the difference between the fund financial statements and the government-wide financial statements.

The School maintains three individual governmental funds. The General Fund, Special Revenue Fund, and Capital Projects Fund are all considered to be major funds and, accordingly, are separately displayed.

CONDENSED FINANCIAL INFORMATION

The following table presents condensed, government-wide comparative data about net assets and changes in net assets.

	Net Assets	
	2006 Governmental Activities	2005 Governmental Activities
Assets:		
Non-capital Assets	\$ 15,722	\$ 12,750
Capital Assets, Net	683,314	711,298
Total Assets	<u>699,036</u>	<u>724,048</u>
Liabilities:		
Current Liabilities	25,944	28,336
Long-Term Liabilities	427,650	383,137
Total Liabilities	<u>453,594</u>	<u>411,473</u>
Net Assets:		
Invested in Capital Assets, Net of Related Debt	279,838	312,832
Unrestricted	(34,396)	(257)
Total Net Assets	<u>\$ 245,442</u>	<u>\$ 312,575</u>

Change in Net Assets

Program Revenues:		
Charges for Services	\$ 8,030	\$ 18,759
Restricted Grants & Contributions	24,475	21,418
General Revenues:		
Start Up Grant	-	110,326
Florida Education Finance Program	263,344	216,957
Unrestricted Grants & Contributions	19,885	4,195
Unrestricted Investment Earnings	8	33
Total Revenues	<u>315,742</u>	<u>371,688</u>
Program Expenses:		
Instruction	128,799	133,619
Instructional Support Services	-	2,448
General Support	254,076	226,753
Total Expenses	<u>382,875</u>	<u>362,820</u>
Change in Net Assets	(67,133)	8,868
Beginning Net Assets	312,575	303,707
Ending Net Assets	<u>\$ 245,442</u>	<u>\$ 312,575</u>

OVERALL FINANCIAL POSITION AND RESULTS OF OPERATIONS

Governmental Activities

The governmental activities generated \$32,505 in program revenues and \$283,237 of general revenues, and incurred \$382,875 of program expenses. This resulted in a \$67,133 decrease in net assets.

THE SCHOOL'S INDIVIDUAL FUNDS

General Fund

The General Fund's fund balance decreased by \$27,210, to \$(22,971).

Special Revenue Fund

The Special Revenue Fund's fund balance had a deficit of \$4,496. There were no revenues or expenditures reported in this fund.

Capital Projects Fund

The Capital Projects Fund's fund balance was \$23,760. This was due to the receipt of net debt proceeds of approximately \$61,000.

BUDGETARY HIGHLIGHTS

There were no significant changes in the budget during the year. Actual expenditures exceeded the budget in the General Fund by \$69,158.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

Statement of Net Assets
June 30, 2006
Micanopy Middle Charter School

ASSETS

Cash and Cash Equivalents	\$	2,175
Accounts Receivable		706
Deposits		400
Debt Issuance Costs, Net of Accumulated Amortization of \$1,225		12,441
Capital Assets:		
Land		73,866
Depreciable Capital Assets, Net		609,448

TOTAL ASSETS 699,036

LIABILITIES

Accounts Payable		6,988
Noncurrent Liabilities:		
Due Within One Year		18,956
Due in More Than One Year		427,650

TOTAL LIABILITIES 453,594

NET ASSETS

Invested in Capital Assets, Net of Related Debt		279,838
Unrestricted		(34,396)

TOTAL NET ASSETS \$ 245,442

The accompanying "Notes to Financial Statements"
form an integral part of this statement.

Statement of Activities
For the Year Ended June 30, 2006
Micanopy Middle Charter School

	PROGRAM REVENUES				
<u>FUNCTIONS/PROGRAMS</u>	<u>EXPENSES</u>	<u>CHARGES FOR SERVICES</u>	<u>OPERATING GRANTS AND CONTRIBUTIONS</u>	<u>CAPITAL GRANTS AND CONTRIBUTIONS</u>	<u>NET (EXPENSE) REVENUE & CHANGES IN NET ASSETS</u>
Instruction	\$ 128,799	\$ 3,529	\$ -	\$ -	\$ (125,270)
General Support	220,181	4,501	-	24,475	(191,205)
Interest on Long-Term Debt	33,895	-	-	-	(33,895)
	<u>\$ 382,875</u>	<u>\$ 8,030</u>	<u>\$ -</u>	<u>\$ 24,475</u>	<u>(350,370)</u>
GENERAL REVENUES:					
					263,344
					19,885
					8
					<u>283,237</u>
					(67,133)
					312,575
					\$ 245,442

The accompanying "Notes to Financial Statements"
form an integral part of this statement.

Balance Sheet – Governmental Funds
June 30, 2006
Micanopy Middle Charter School

	<u>GENERAL</u> <u>FUND</u>	<u>SPECIAL</u> <u>REVENUE</u> <u>FUND</u>	<u>CAPITAL</u> <u>PROJECTS</u> <u>FUND</u>	<u>TOTAL</u> <u>GOVERNMENTAL</u> <u>FUNDS</u>
<u>ASSETS</u>				
Cash and Cash Equivalents	\$ 79	\$ 2,013	\$ 83	\$ 2,175
Accounts Receivable	706	-	-	706
Due from Other Funds	24,818	16,464	25,522	66,804
Deposits	<u>400</u>	<u>-</u>	<u>-</u>	<u>400</u>
TOTAL ASSETS	<u><u>\$ 26,003</u></u>	<u><u>\$18,477</u></u>	<u><u>\$ 25,605</u></u>	<u><u>\$ 70,085</u></u>
<u>LIABILITIES AND FUND BALANCES</u>				
<u>LIABILITIES</u>				
Accounts Payable	\$ 6,988	\$ -	\$ -	\$ 6,988
Due to Other Funds	<u>41,986</u>	<u>22,973</u>	<u>1,845</u>	<u>66,804</u>
TOTAL LIABILITIES	48,974	22,973	1,845	73,792
<u>FUND BALANCES</u>				
Unreserved	<u>(22,971)</u>	<u>(4,496)</u>	<u>23,760</u>	<u>(3,707)</u>
TOTAL LIABILITIES AND FUND BALANCES	<u><u>\$ 26,003</u></u>	<u><u>\$18,477</u></u>	<u><u>\$ 25,605</u></u>	<u><u>\$ 70,085</u></u>

The accompanying "Notes to Financial Statements"
form an integral part of this statement.

Reconciliation of the Balance Sheet to the Statement of Net Assets
Governmental Funds
June 30, 2006
Micanopy Middle Charter School

FUND BALANCES – TOTAL GOVERNMENTAL FUNDS	\$ (3,707)
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not reported in the governmental funds.	
Capital Assets-Net	683,314
Long-term liabilities and related deferred charges are not reported in the governmental funds.	
Long-term liabilities	(446,606)
Debt Issuance Costs, Net	<u>12,441</u>
NET ASSETS OF GOVERNMENTAL ACTIVITES	<u>\$ 245,442</u>

The accompanying "Notes to Financial Statements"
form an integral part of this statement.

Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2006
Micanopy Middle Charter School

	GENERAL FUND	SPECIAL REVENUE FUND	CAPITAL PROJECTS FUND	TOTAL GOVERNMENTAL FUNDS
<u>REVENUES</u>				
Florida Education Finance Program	\$ 263,344	\$ -	\$ -	\$ 263,344
Public Education Capital Outlay	-	-	24,475	24,475
Gifts and Grants	11,431	-	-	11,431
Other Local Revenue	16,492	-	-	16,492
	<hr/>	<hr/>	<hr/>	<hr/>
TOTAL REVENUES	291,267	-	24,475	315,742
	<hr/>	<hr/>	<hr/>	<hr/>
<u>EXPENDITURES</u>				
Current:				
Instruction	128,799	-	-	128,799
General Support	189,678	-	-	189,678
Capital Outlay	-	-	14,960	14,960
Debt Service:	-	-	-	-
Principal	-	-	411,860	411,860
Interest	-	-	33,895	33,895
	<hr/>	<hr/>	<hr/>	<hr/>
TOTAL EXPENDITURES	318,477	-	460,715	779,192
	<hr/>	<hr/>	<hr/>	<hr/>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(27,210)	-	(436,240)	(463,450)
	<hr/>	<hr/>	<hr/>	<hr/>
<u>OTHER FINANCING SOURCES</u>				
Debt Proceeds	-	-	460,000	460,000
	<hr/>	<hr/>	<hr/>	<hr/>
NET CHANGE IN FUND BALANCES	(27,210)	-	23,760	(3,450)
	<hr/>	<hr/>	<hr/>	<hr/>
FUND BALANCES, July 1, 2005	4,239	(4,496)	-	(257)
	<hr/>	<hr/>	<hr/>	<hr/>
FUND BALANCES, June 30, 2006	<u>\$ (22,971)</u>	<u>\$ (4,496)</u>	<u>\$ 23,760</u>	<u>\$ (3,707)</u>

The accompanying "Notes to Financial Statements"
form an integral part of this statement.

**Reconciliation of the Statement of Revenues, Expenditures and Changes in
Fund Balances to the Statement of Activities – Governmental Funds
For the Year Ended June 30, 2006
Micanopy Middle Charter School**

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS	\$ (3,450)
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 assets is depreciated over their estimated useful lives.	
Expenditures for Capital Assets	1,594
Current Year Depreciation Expense	(29,578)
The issuance of long-term debt provides current financial resources for governmental funds, but does not effect net assets of governmental activities.	
Notes Payable Issued	(460,000)
Governmental funds report the effect of issuance costs when debt is first issued, whereas the amounts are deferred and amortized in the statement of activities.	
Debt Issuance Costs	13,666
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.	
Amortization of Debt Issuance Costs	(1,225)
Repayment of debt principal is an expenditure in the governmental funds, but the repayment does not effect net assets of governmental activities.	
Principal Payments	<u>411,860</u>
CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	<u><u>\$ (67,133)</u></u>

The accompanying "Notes to Financial Statements"
form an integral part of this statement.

Notes to Financial Statements
June 30, 2006
Micanopy Middle Charter School

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of Micanopy Middle Charter School (the “School”) conform to generally accepted accounting principles as applicable to governments. The following is a summary of the more significant policies.

Reporting Entity

Micanopy Middle Charter School, Inc. 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 not-for-profit corporation began conducting business as the Micanopy Middle Charter School in the 2003 fiscal year. The governing body of the School is the not-for-profit corporation’s Board of Directors which is composed of five 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 Alachua County District School Board (the “District”). The current charter is effective until June 30, 2012, and may be renewed every 10 years provided that a program review demonstrates that certain criteria addressed in Section 1002.33(7), Florida Statutes, have been successfully accomplished. At the end of the term of the charter, the District may choose not to renew the charter under grounds specified in the charter, in which case the District is required to notify the School in writing at least 90 days prior to the charter’s expiration. Pursuant to Section 1002.33(8)(e), Florida Statutes, the charter school contract provides that in the event the School is dissolved or terminated, any unencumbered funds and all School property purchased with public funds automatically revert to the District. During the term of the charter, the District may also terminate the charter if good cause is shown. The School is considered a component unit of the District.

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 Governmental Accounting Standards Board’s (GASB) *Codification of Governmental Accounting and Financial Reporting Standards*, Sections 2100 and 2600. The application of these criteria provide 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.

Reporting Model

The School follows GASB Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*.

Notes to Financial Statements
June 30, 2006
Micanopy Middle Charter School

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Government-wide Financial Statements

The government-wide financial statements (the Statement of Net Assets and the Statement of Activities) report information on all of the activities of the School. Governmental activities are reported separately from business-type activities, which rely on fees charged to external parties as their primary revenues. The School has no business-type activities.

Any internal interfund activity has been eliminated from the government-wide financial statements.

The Statement of Net Assets reports the School's financial position as of the end of the fiscal year. In this statement, the School's net assets are reported in three categories: invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets.

The Statement of Activities is displayed using a net-cost format and reports the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include 1) charges for services that are directly related to a given function and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements

The financial transactions of the School are reported in individual funds in the fund financial statements. The governmental fund statements include reconciliations with brief explanations to better identify the relationship between the government-wide statements and the statements for the governmental funds.

The following funds are used by the School:

GOVERNMENTAL FUNDS

General Fund – the General Fund is the general operating fund of the School. It is used to account for all financial resources, except those associated with grants that are restricted to specified uses.

Special Revenue Fund – the Special Revenue Fund is used to account for financial resources associated with grants that are restricted to operational uses.

Capital Projects Fund – the Capital Projects Fund is used to account for financial resources associated with grants that are restricted to capital uses.

Notes to Financial Statements
June 30, 2006
Micanopy Middle Charter School

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

In the accompanying fund financial statements, the General Fund, Special Revenue Fund and Capital Projects Fund are all considered to be major funds and, therefore, are separately displayed. The School has no nonmajor funds.

Measurement Focus and Basis of Accounting

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 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 fiscal period. Expenditures generally are recorded when the related fund liability is incurred. However, debt service expenditures are recorded only when payment is due.

Most revenues are considered to be susceptible to accrual and have been recognized in the current fiscal period. Certain other revenue items are considered to be measurable and available only when cash is received.

Cash and Cash Equivalents

The School deposits its temporarily idle resources in financial institutions. At times, such deposits may be in excess of the Federal Deposit Insurance Corporation (FDIC) insurance limit. At June 30, 2006, deposits did not exceed FDIC insurance limits.

Debt Issuance Costs

In the government-wide financial statements, debt issuance costs are capitalized and amortized over the life of the debt.

Capital Assets and Depreciation

Capital assets are defined by the School as assets with an initial, individual cost of \$500 or more and an estimated useful life of more than one year. These assets are recorded at historical cost. Donated capital assets are recorded at estimated fair value at the date of donation.

Land and construction-in-progress are not depreciated. Depreciable capital assets are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Furniture, Fixtures and Equipment	5-10
Buildings	30
Improvements	5-15

Notes to Financial Statements
June 30, 2006
Micanopy Middle Charter School

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Revenue Sources

Revenues for current operations are received primarily from the District pursuant to the funding provisions included in the School's charter. In accordance with the funding provisions of the charter and Florida Statutes, the School reports the number of full-time equivalent (FTE) students and related data to the District. Under the provisions of Florida Statutes, the District 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. Funding for the 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 School during the designated full-time equivalent student survey periods.

The School also receives other financial assistance. This assistance is generally based on applications submitted to and approved by the granting agency.

Compensated Absences

The School pays for employees' unused sick time at the end of the school year. No vacation time is accrued. Therefore, there is no compensated absence liability at year end.

Long-term Liabilities

All long-term debt and other long-term obligations are reported in the government-wide financial statements.

In the fund financial statements, long-term liabilities are not reported in the governmental funds because governmental funds use the current financial resources measurement focus.

Net Assets

Net assets represent the difference between assets and liabilities and are reported in three categories as hereafter described. Net assets *invested in capital assets, net of related debt*, represent capital assets, net of accumulated depreciation and any outstanding debt related to those assets. Net assets are reported as *restricted* when there are legal limitations imposed on their use by legislation, or external restrictions imposed by other governments, creditors, or grantors. *Unrestricted* net assets are net assets that do not meet the definitions of the classifications previously described.

When both restricted and unrestricted resources are available for use, it is the School's policy to use restricted resources first, and then unrestricted resources as they are needed.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make various estimates. Actual results could differ from those estimates.

Notes to Financial Statements
June 30, 2006
Micanopy Middle Charter School

NOTE 2 – CAPITAL ASSETS AND DEPRECIATION

Capital asset activity for the year ended June 30, 2006 was as follows:

	Balance July 1, 2005	Additions	Deletions	Balance June 30, 2006
Capital Assets:				
Land	\$ 73,866	\$ -	\$ -	\$ 73,866
Buildings	589,973	-	-	589,973
Improvements	39,016	-	-	39,016
Furniture, Fixtures and Equipment	36,158	1,594	-	37,752
Total	<u>739,013</u>	<u>1,594</u>	<u>-</u>	<u>740,607</u>
Accumulated Depreciation:				
Buildings	19,666	19,666	-	39,332
Improvements	2,149	2,601	-	4,750
Furniture, Fixtures and Equipment	5,900	7,311	-	13,211
Total	<u>27,715</u>	<u>29,578</u>	<u>-</u>	<u>57,293</u>
Net Capital Assets	<u>\$711,298</u>	<u>\$ (27,984)</u>	<u>\$ -</u>	<u>\$683,314</u>

Depreciation was charged to functions/programs as follows:

General Support	\$ 24,786
Instruction	4,792
Total	<u>\$ 29,578</u>

NOTE 3 – LONG-TERM LIABILITIES

At year end, the School's long-term liabilities consist of a note payable to a financial institution, bearing 7.25 percent interest. The note is secured by a mortgage on the real property.

A summary of changes in long-term liabilities follows:

	Balance July 1, 2005	Additions	Deletions	Balance June 30, 2006	Due Within One Year
Notes Payable	<u>\$ 398,466</u>	<u>\$ 460,000</u>	<u>\$ 411,860</u>	<u>\$ 446,606</u>	<u>\$ 18,956</u>

Notes to Financial Statements
June 30, 2006
Micanopy Middle Charter School

NOTE 3 – LONG-TERM LIABILITIES

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 18,956	\$ 31,757	\$ 50,713
2008	20,377	30,336	50,713
2009	21,905	28,809	50,714
2010	23,547	27,167	50,714
2011	25,311	25,402	50,713
2012-2016	<u>336,510</u>	<u>83,737</u>	<u>420,247</u>
Total	<u>\$ 446,606</u>	<u>\$ 227,208</u>	<u>\$ 673,814</u>

NOTE 4 – CURRENT DEBT REFUNDING

On August 15, 2005, the School issued a \$460,000 promissory note with an interest rate of 7.25 percent to current refund \$398,466 of outstanding notes payable with an interest rate of 6.75 percent. The refunding was undertaken to restructure the payments and to provide additional financial resources of \$43,130. The current refunding resulted in no difference between the reacquisition price and the net carrying amount of the old debt. The transaction resulted in an economic loss of \$184,583 and in increase of \$317,613 in future debt service payments.

NOTE 5 – INTERFUND BALANCES

	<u>Due To</u>			<u>Total</u>
	<u>General Fund</u>	<u>Special Revenue Fund</u>	<u>Capital Projects Fund</u>	
<u>Due From</u>				
General Fund	\$ -	\$ 16,464	\$ 25,522	\$ 41,986
Special Revenue Fund	22,973	-	-	22,973
Capital Projects Fund	<u>1,845</u>	<u>-</u>	<u>-</u>	<u>1,845</u>
Total	<u>\$ 24,818</u>	<u>\$ 16,464</u>	<u>\$ 25,522</u>	<u>\$ 66,804</u>

The interfund balances resulted from the normal course of operations and are expected to be paid within one year.

Notes to Financial Statements
June 30, 2006
Micanopy Middle Charter School

NOTE 6 – RISK MANAGEMENT

The School is exposed to various risks of loss, including general liability, personal injury, workers' compensation, and errors and omissions. To manage its risks, the School has purchased commercial insurance. Settled claims resulting from these risks have not exceeded commercial coverage.

NOTE 7 – GOING CONCERN

The School's financial condition continued to deteriorate during the year. In the General Fund, expenditures exceeded revenues by \$27,210, which caused a deficit fund balance of \$22,971 at June 30, 2006.

The School incurred a loss from operations totaling \$67,133. As of June 30, 2006, the School's current liabilities exceeded its current assets by \$3,707 and its total unrestricted assets were (\$34,396).

These factors raise substantial doubt about the School's ability to continue as a going concern. Management has instituted a cost reduction program that included a freeze on hiring new personnel and has not provided any teacher raises for the year. The School will also control expenditures and refrain from making any large purchases. In addition, the School's enrollment increased to 70 which will provide additional funding of approximately \$150,000 in the 2006-07 fiscal year. During the 2006-07 fiscal year, the school will be receiving Title I funds of approximately \$27,000 and additional capital outlay monies. Management believes these factors will contribute toward achieving financial stability. The accompanying financial statements do not include any adjustments that might be necessary if the School is unable to continue as a going concern.

REQUIRED SUPPLEMENTARY INFORMATION

**Budgetary Comparison Schedule – General Fund
For the Year Ended June 30, 2006
Micanopy Middle Charter School**

	<u>BUDGETED AMOUNTS</u>		ACTUAL	VARIANCE
	<u>ORIGINAL</u>	<u>FINAL</u>	<u>AMOUNTS</u>	WITH FINAL BUDGET
<u>REVENUES</u>				
Florida Education Finance Program	\$ 225,975	\$ 225,975	\$ 263,344	\$ 37,369
Gifts and Grants	-	-	11,431	11,431
Other Local Revenue	20,880	20,880	16,492	(4,388)
TOTAL REVENUES	<u>246,855</u>	<u>246,855</u>	<u>291,267</u>	<u>44,412</u>
<u>EXPENDITURES</u>				
Current:				
Instruction	161,273	161,273	128,799	32,474
General Support	88,046	88,046	189,678	(101,632)
TOTAL EXPENDITURES	<u>249,319</u>	<u>249,319</u>	<u>318,477</u>	<u>(69,158)</u>
EXCESS OF REVENUES UNDER EXPENDITURES	(2,464)	(2,464)	(27,210)	(24,746)
FUND BALANCES, July 1, 2005	<u>-</u>	<u>-</u>	<u>4,239</u>	<u>4,239</u>
FUND BALANCES, June 30, 2006	<u>\$ (2,464)</u>	<u>\$ (2,464)</u>	<u>\$ (22,971)</u>	<u>\$ (20,507)</u>

Note to Schedule:

The budget is prepared on a basis that does not differ materially from generally accepted accounting principles. Its preparation, adoption, and amendment is governed by the Board of Directors. The fund is the legal level of control.

**Budgetary Comparison Schedule – Special Revenue Fund
For the Year Ended June 30, 2006
Micanopy Middle Charter School**

	<u>BUDGETED AMOUNTS</u>		<u>ACTUAL AMOUNTS</u>	VARIANCE
	<u>ORIGINAL</u>	<u>FINAL</u>		WITH FINAL BUDGET
<u>REVENUES</u>	\$ -	\$ -	\$ -	\$ -
<u>EXPENDITURES</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
EXCESS OF REVENUES UNDER EXPENDITURES	-	-	-	-
FUND BALANCES, July 1, 2005	<u>(4,496)</u>	<u>(4,496)</u>	<u>(4,496)</u>	<u>-</u>
FUND BALANCES, June 30, 2006	<u><u>\$ (4,496)</u></u>	<u><u>\$ (4,496)</u></u>	<u><u>\$ (4,496)</u></u>	<u><u>\$ -</u></u>

Note to Schedule:

The budget is prepared on a basis that does not differ materially from generally accepted accounting principles. Its preparation, adoption, and amendment is governed by the Board of Directors. The fund is the legal level of control.

**ADDITIONAL ELEMENTS REQUIRED BY THE
RULES OF THE AUDITOR GENERAL**

Management Letter

To the Board of Directors
Micanopy Middle Charter School

We have audited the financial statements of the Micanopy Middle Charter School (the "School"), as of and for the fiscal year ended June 30, 2006, and have issued our report thereon dated August 3, 2006. We have also issued our report on internal control over financial reporting and on compliance and other matters. That report should be considered in conjunction with this management letter.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Additionally, our audit was conducted in accordance with the provisions of Chapter 10.850, Rules of the Auditor General, which govern the conduct of charter school audits performed in the State of Florida and require that certain items be addressed in this letter.

Prior Audit Findings

The Rules of the Auditor General require that we comment as to whether corrective actions have been taken to address significant findings and recommendations made in the preceding annual financial audit report. Corrective action has been taken on all prior year findings.

Financial Condition

As required by the Rules of the Auditor General, the scope of our audit included a review of the provisions of Section 218.503, Florida Statutes, "Determination of Financial Emergency". In connection with our audit, we determined that the School met one of the conditions described in Section 218.503(1), Florida Statutes. As of June 30, 2006, the school had deficit balances in the General Fund fund balance, Special Revenue Fund fund balance, and unrestricted net assets for which sufficient resources of the school are not available to cover the reported deficits.

Other Matters

Our audit did not reveal any other matters that we are required to include in this management letter.

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

To the Board of Directors
Micanopy Middle Charter School

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Thank you and your staff for the cooperation and courtesies extended to us during the course of the audit. Please let us know if you have any questions or comments concerning this letter, our accompanying reports, or other matters.

August 3, 2006
Gainesville, Florida

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters

To the Board of Directors
Micanopy Middle Charter School

We have audited the financial statements of the governmental activities and each major fund of the Micanopy Middle Charter School (the "School") as of and for the year ended June 30, 2006, and have issued our report thereon dated August 3, 2006. 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 in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the School's ability to initiate, record, process, and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described in the accompanying Schedule of Findings as item 06-1.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable condition noted above is a material weakness.

Compliance and Other Matters

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

To the Board of Directors
Micanopy Middle Charter School

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

August 3, 2006
Gainesville, Florida

Schedule of Findings
For the Year Ended June 30, 2006
Micanopy Middle Charter School

06-1 *Condition* — The School's financial condition deteriorated during the year. In the General Fund, actual expenditures exceeded the budget by \$69,158, and fund balance decreased by \$27,210. On a full-accrual basis, net assets decreased by \$67,133. At June 30, 2006, the School had deficit balances in the General Fund fund balance, Special Revenue Fund fund balance, and unrestricted net assets.

Recommendation — The School should closely monitor its financial condition and should improve its internal controls relative to budgetary compliance. The School should establish procedures to ensure that the budget is amended during the year for unanticipated revenues and expenditures. The budget to actual position should be reviewed periodically to reduce the likelihood of incurring expenditures in excess of budgeted amounts.