MINGUS SPRINGS CHARTER SCHOOL, INC.

FINANCIAL STATEMENTS AND INDEPENDENT AUDITORS' REPORT

JUNE 30, 2009 AND 2008

MINGUS SPRINGS CHARTER SCHOOL, INC.
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John C. Todd II, P.C.
Certified Public Accountants

21630 North 19th Avenue
Suite B-5
Phoenix, Arizona 85027
Telephone: (623) 581-8117
Fax: (623) 581-8906
E-Mail: cpas@jctodd2cpa.com

Partners
John C. Todd II, CPA
Wayne M. Hunter, CPA

Independent Auditors' Report

Board of Directors
Mingus Springs Charter School, Inc.

We have audited the accompanying financial statements of Mingus Springs Charter School, Inc. (School) as of June 30, 2009 and 2008 and for the years then ended, as listed in the table of contents. These financial statements are the responsibility of the School's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits 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 the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to in the first paragraph, present fairly, in all material respects, the financial position of Mingus Springs Charter School, Inc. as of June 30, 2009 and 2008, and the changes in its net assets and its cash flows for the years 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 27, 2009, 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.

John C Todd II, P.C.

Phoenix, Arizona
August 27, 2009

MINGUS SPRINGS CHARTER SCHOOL, INC.
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2009 AND 2008

ASSETS	2009	2008
Current assets:		
Cash and cash equivalents, including restricted cash of $56,593 and $91,308, respectively	$ 177,643	228,497
Due from the State of Arizona	14,330	16,578
Total current assets	191,973	245,075
Property and equipment, at cost, partially pledged, net of accumulated depreciation and amortization of $435,446 and $367,259, respectively	953,884	990,049
Total assets	$ 1,145,857	1,235,124
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable and accrued expenses	$ 9,965	12,573
Due to student groups	4,699	4,699
Current portion of capital lease payable	10,302	-
Current portion of notes payable	46,556	43,637
Total current liabilities	71,522	60,909
Notes payable	755,288	802,005
Total liabilities	826,810	862,914
Net Assets:		
Unrestricted	319,047	372,210
Total net assets	319,047	372,210
Total liabilities and net assets	$ 1,145,857	1,235,124

See accompanying notes to financial statements.

MINGUS SPRINGS CHARTER SCHOOL, INC.
STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
YEARS ENDED JUNE 30, 2009 AND 2008

	2009	2008
Changes in unrestricted net assets:		
Revenues:		
Governmental	$ 1,207,652	1,271,998
Contributions	5,713	8,641
Interest	2,233	3,477
Other	19,704	18,388
Total unrestricted revenues	1,235,302	1,302,504
Expenses:		
Program services	1,122,224	1,113,389
Support services		
Management and general	166,241	155,778
Total expenses	1,288,465	1,269,167
Increase (decrease) in unrestricted net assets	(53,163)	33,337
Net assets, beginning of year	372,210	338,873
Net assets, end of year	$ 319,047	372,210

See accompanying notes to financial statements.

MINGUS SPRINGS CHARTER SCHOOL, INC.
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2009 AND 2008

	2009	2008
Cash flows from operating activities:		
Changes in net assets	$ (53,163)	33,337
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation and amortization	77,639	73,418
(Increase) decrease in due from the State of Arizona	2,248	15,187
Increase (decrease) in accounts payable and accrued expenses	(2,608)	(2,697)
Net cash provided by operating activities	24,116	119,245
Cash flows from investing activities:		
Purchase of property and equipment	(10,568)	(36,782)
Net cash provided (used) by investing activities	(10,568)	(36,782)
Cash flows from financing activities:		
Repayment of capital lease payable	(20,604)	(2,380)
Repayment of notes payable	(43,798)	(41,046)
Net cash provided (used) by investing activities	(64,402)	(43,426)
Net increase in cash and cash equivalents	(50,854)	39,037
Cash and cash equivalents, beginning of year	228,497	189,460
Cash and cash equivalents, end of year	$ 177,643	228,497
Supplemental data:		
Noncash capital and financing activities:		
Equipment acquired under capital lease	$ 30,906	-
Interest paid	53,479	49,175

See accompanying notes to financial statements.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Mingus Springs Charter School, Inc. (School) is a non-profit corporation established in the State of Arizona in 1995 to operate a charter school, which offers an alternate program for students through small, multi-age classes. The School operates under a Charter Contract with the Arizona State Board for Charter Schools, which mandates policy and operational guidelines. The School provides educational services to approximately 172 students in kindergarten through eighth grade in Chino Valley, Arizona, and is funded primarily through state equalization assistance.

The significant accounting policies followed are described below to enhance the usefulness of the financial statements to the reader.

Basis of Presentation – The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. Net assets and revenues, expenses, gains, and losses are classified based on the existence or absence of donor imposed restrictions. Accordingly, net assets of the School and changes therein are classified and reported as follows:

> Unrestricted net assets – Net assets that are not subject to donor-imposed stipulations.
>
> Temporarily restricted net assets – Net assets subject to donor-imposed stipulations that may or will be met, by actions of the School. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Cash and Cash Equivalents - For purposes of the statement of cash flows, all highly liquid investments with a maturity of three months or less when purchased are considered cash equivalents.

Property and Equipment – Land, buildings, and improvements with a cost of $3,000 or more and vehicles, furniture and equipment with both a cost of $300 or more and an estimated life of one year or more are capitalized. Assets are stated at cost or fair market value at date of gift if contributed. Donations of property and equipment are recorded as support at their estimated fair value. Such donations are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted support. Absent donor stipulations regarding how long those donated assets must be maintained, the School reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The School reclassifies temporarily restricted net assets to unrestricted net assets at that time. Depreciation of land improvements, buildings, furniture and equipment is provided on a straight-line basis over the estimated useful lives of the respective assets, ranging from 3 to 30 years.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Donated Services - Donated services are recognized only if the services received either create or enhance nonfinancial assets or require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. A number of volunteers have made contributions of their time to the School to help with programs, provide clerical support and general maintenance. The value of this contributed time is not reflected in the financial statements since it does not meet either of the recognition criteria.

Recognition of Donor Restricted Contributions - All donor-restricted support is reported as an increase in temporarily or permanently restricted net assets depending on the nature of the restriction. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

Concentration of Credit Risk - The School places its cash with high quality credit institutions. At times, such cash may be in excess of FDIC insurance limits.

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 of assets and liabilities and disclosure of certain contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Income Tax Status - The School is exempt from Federal and Arizona income taxes under section 501(c)(3) of the Internal Revenue Code, as amended. However, income from certain activities not directly related to the School's tax-exempt purpose may be subject to taxation as unrelated business income. For the years ended June 30, 2009 and 2008, all of the School's income was either from activities related to its exempt purpose or excludable from unrelated business income by the Internal Revenue Code. In addition, the School qualifies for the charitable contribution deduction under section 170(b)(1)(A) and has been classified as an organization other than a private foundation under section 509(a)(2).

Subsequent Events – The School has reviewed all subsequent events through August 27, 2009, which was the date the financial statements were available to be issued.

Prior Year Amounts - Certain prior year amounts have been reclassified to conform with current year presentations.

NOTE 2 - CASH AND CASH EQUIVALENTS

The School maintains all of its cash with two banks. The carrying amount of deposits at June 30, 2009 and 2008 was $177,643 and $228,497, respectively; the bank balances were $184,368 and $282,344, respectively. The bank balances are categorized as follows:

	2009	2008
Amount insured by Federal Deposit Insurance Corporation	$ 184,368	200,000
Uninsured	-	82,344
Total bank balances	$ 184,368	282,344

Restricted Cash – Monies received from the State Classroom Site Fund are restricted solely for use at school sites. Of the School's restricted cash of $56,593 and $91,308, respectively, as of June 30, 2009 and 2008, $0 and $664, respectively, was available for teacher base salary increases and employment related expenses, $8,341 and $12,164, respectively, was available for teacher compensation increases based on performance and employment related expenses, and $48,252 and $78,480, respectively, was available for maintenance and operation purposes including class size reduction, teacher compensation increases, AIMS intervention programs, teacher development, dropout prevention programs, and teacher liability insurance premiums.

NOTE 3 - PROPERTY AND EQUIPMENT

A summary of property and equipment as of June 30, 2009 and 2008 follows:

	2009	2008
Land and improvements	$ 163,128	155,678
Buildings and improvements	916,520	916,520
Furniture and equipment	309,682	285,110
	1,389,330	1,357,308
Accumulated depreciation and amortization	435,446	367,259
	$ 953,884	990,049

Depreciation and amortization expense totaled $77,639 and $73,418, respectively, for the years ended June 30, 2009 and 2008.

NOTE 4 - CAPITAL LEASE PAYABLE

The School has acquired equipment under the provisions of a long-term lease agreement classified as capital lease. Accordingly, the original cost of the asset as of June 30, 2009, totaling $30,906 less $6,181 of accumulated depreciation, has been capitalized. The future minimum lease payments under the capital lease, together with the present value of the net minimum lease payments as of June 30, 2009, were as follows:

Year ending June 30:	
2010	$ 11,902
Total minimum lease payments	11,902
Less amount representing interest	1,600
Present value of net minimum capital lease payments	$ 10,302

Interest expense associated with the capital lease totaled $3,202 for the year ended June 30, 2009.

NOTE 5 – NOTES PAYABLE

	2009	2008
6% note payable to a limited liability company in monthly installments of $6,627, including interest, through January 20, 2024; secured by a deed of trust on real property; restricts prepayment prior to August 1, 2010	$ 768,915	801,244
7.75% note payable to a financial institution in monthly installments of $1,213, including interest, through December 5, 2011; secured by a vehicle	32,929	44,398
	801,844	845,642
Less current portion	46,556	43,637
	$ 755,288	802,005

NOTE 5 – NOTES PAYABLE (CONT'D)

Interest expense associated with the notes payable totaled $50,277 and $49,073, respectively, for the years ended June 30, 2009 and 2008.

Maturities of the notes payable are as follows:

Year ending June 30:	
2010	$ 46,556
2011	49,672
2012	45,605
2013	40,869
2014	43,390
Thereafter	575,752
	$ 801,844

NOTE 6 - COMMITMENTS AND CONTINGENT LIABILITIES

Operating Leases - The School leases equipment under the provisions of long-term lease agreements classified as operating leases. Future minimum lease payments under the operating leases are as follows:

Year ending June 30:	
2010	$ 3,587
2011	2,411
2012	2,411
2013	1,808
Total lease commitments	$ 10,217

Rental expense under the lease for the years ended June 30, 2009 and 2008 totaled $5,412 and $3,329, respectively.

Litigation - The School is contingently liable for claims and judgments resulting from lawsuits incidental to normal operations. In the opinion of the School's management, adverse decisions that might result, to the extent not covered by insurance, would not have a material effect on the financial statements. No provision has been made in the financial statements for possible losses of this nature.

NOTE 6 - COMMITMENTS AND CONTINGENT LIABILITIES (CONT'D)

Compliance - The School's compliance with certain laws and regulations is subject to review by its Sponsor. Although such reviews could result in a reduction of state equalization assistance, any required reductions are not expected to be significant.

NOTE 7 - RETIREMENT PLAN

Plan Description - Permanent full-time and certain part-time employees of the School participate in a cost-sharing, multiple-employer defined benefit pension plan administered by the Arizona State Retirement System. Benefits are established by state statute and generally provide retirement, death, long-term disability, survivor, and health insurance premium benefits. The System is governed by the Arizona State Retirement System Board according to the provisions of A.R.S. Title 38, Chapter 5, Article 2.

The System issues a comprehensive annual financial report that includes financial statements and required supplementary information. The most recent report may be obtained by writing the System, 3300 North Central Avenue, PO Box 33910, Phoenix, AZ 85067-3910 or by calling (602) 240-2001 or (800) 621-3778.

Funding Policy - The Arizona State Legislature establishes and may amend active plan members' and the School's contribution rate. Active plan members and the School were each required by statute to contribute at the actuarially determined rate of 9.45 percent (8.95 percent retirement and 0.50 percent long-term disability) for the year ended June 30, 2009, 9.60 percent (9.10 percent retirement and 0.50 percent long-term disability) for the year ended June 30, 2008, and 9.10 percent (8.60 percent retirement and 0.50 percent long-term disability) for the year ended June 30, 2007 of the members' annual covered payroll. The School's contributions to the System for the years ended June 30, 2009, 2008 and 2007 were $62,662, $63,582, and $59,572, respectively, which were equal to the required contributions for each year.