

STATE OF NEW MEXICO
FRIENDS OF ANANSI CHARTER SCHOOL, INC.
COMPONENT OF
ANANSI CHARTER SCHOOL

COMPREHENSIVE FINANCIAL ANNUAL REPORT
AND
SUPPLEMENTAL INFORMATION
YEAR ENDED JUNE 30, 2009
WITH
REPORT OF CERTIFIED PUBLIC ACCOUNTANTS

 KEYSTONE ACCOUNTING, LLC
CERTIFIED PUBLIC ACCOUNTANTS

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INTRODUCTORY SECTION

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STATE OF NEW MEXICO
FRIENDS OF ANANSI CHARTER SCHOOL, INC.

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STATE OF NEW MEXICO
FRIENDS OF ANANSI CHARTER SCHOOL, INC.

OFFICIAL ROSTER
June 30, 2009

Board of Directors

Teresa Tomashot	President
Lucy Perera Adams	Vice President
Paige Gerling	Secretary
Karina Gersten	Treasurer
Lauren Bjorkman	Member

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FINANCIAL SECTION

FISCAL YEAR 2009

JULY 1, 2008 THROUGH JUNE 30, 2009

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INDEPENDENT AUDITORS' REPORT

Hector H. Balderas, State Auditor
And the Board of Directors of
Friends of Anansi Charter School, Inc.

We have audited the accompanying statement of financial position of the Friends of Anansi Charter School, Inc. (a non-profit organization)(a component of Anansi Charter School), as of and for the year ended June 30, 2009, and the related statement of activities and cash flows for the year then ended. These financial statements are the responsibility of the agency's management. Our responsibility is to express opinions on these financial statements based on our audit.

Except as discussed in the following paragraph, 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.

As discussed in Note III to the financial statements, management has not allocated certain capital assets in the financial statements and accordingly, has not recorded depreciation expense on those assets. Accounting principles generally accepted in the United States of America require that those capital assets be capitalized and depreciated, which would increase the assets, net assets, and expense of the financial statements.

In our opinion, because of the effects of the matter discussed in the preceding paragraph, the financial statements referred to above do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the Friends of Anansi Charter School, Inc, as of June 30, 2009, or the related statement of activities thereof for the year then ended.

In accordance with Government Auditing Standards, we have also issued our report dated May 7, 2010, on our consideration of the Friends of Anansi Charter School, Inc.'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 conjunction with this report in assessing the results of our audit.

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Hector H. Balderas, State Auditor
And the Board of Directors of
Friends of Anansi Charter School, Inc.

The Foundation has not presented the Management's Discussion and Analysis that accounting principles generally accepted in the United States has determined is necessary to supplement, although not a required part of, the basic financial statements.

Our audit was conducted for the purpose of forming opinions on the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A- 133, Audits of States, Local Governments, and Non-Profit Organizations, and is not a required part of the financial statements. The additional schedules listed as "other supplemental information" in the table of contents are presented for purposes of additional analysis and are not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Keystone Accounting, LLC

May 7, 2010

BASIC FINANCIAL STATEMENTS

STATE OF NEW MEXICO
FRIENDS OF ANANSI CHARTER SCHOOL

STATEMENT OF NET ASSETS
June 30, 2009

ASSETS

Current assets:

Cash and cash equivalents \$ 41,596

Noncurrent assets:

Capital assets:

Land -

Buildings 1,250,000

Construction in progress 300,541

Less: accumulated depreciation -

Total noncurrent assets 1,550,541

Total assets \$ 1,592,137

LIABILITIES

Current liabilities:

Construction payable \$ 119,619

Retainage payable 11,806

Accrued interest payable 39,736

Loans payable 5,906

Total current liabilities 177,067

Noncurrent liabilities:

Loans payable (less current portion) 1,794,094

Undistributed loan payable (380,732)

Total noncurrent liabilities 1,413,362

Total liabilities 1,590,429

NET ASSETS

Invested in capital assets, net of related debt 131,273

Unrestricted (129,565)

Total net assets 1,708

Total liabilities and net assets \$ 1,592,137

**STATE OF NEW MEXICO
FRIENDS OF ANANSI CHARTER SCHOOL**

**STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN NET ASSETS
Year ended June 30, 2009**

Operating revenue:	
Fundraising	\$ 4,410
Donations	7,523
Rental activity	35,000
Other	<u>9,929</u>
Total operating revenue	<u>56,862</u>
 Operating expenses:	
Travel	4,794
Supplies	969
Repairs and maintenance	3,571
Insurance	7,289
Legal and professional	1,000
Miscellaneous	<u>5,808</u>
Total operating expenses	<u>23,431</u>
Operating income (loss)	<u>33,431</u>
 Non-Operating income (expenses):	
Interest income	19
Interest expense	<u>(39,736)</u>
Total nonoperating revenues (expenses)	<u>(39,717)</u>
Change in net assets	(6,286)
Net assets beginning of year	<u>7,994</u>
Net assets end of year	<u>\$ 1,708</u>

**STATE OF NEW MEXICO
FRIENDS OF ANANSI CHARTER SCHOOL**

**STATEMENT OF CASH FLOWS
Year ended June 30, 2009**

**CASH FLOWS FROM OPERATING
ACTIVITIES**

Cash received from customers	\$ 56,862
Cash payments for supplies and maintenance	<u>(23,431)</u>
 Net cash provided by operating activities	 <u>33,431</u>

**CASH FLOWS FROM CAPITAL AND RELATED
FINANCING ACTIVITIES**

Purchases of capital assets	(1,550,541)
Retainage payable	131,425
Proceeds on loan	<u>1,419,268</u>
 Net cash Provided by (used in) capital and related financing activities	 <u>152</u>

Net increase in cash and cash equivalents	33,602
Cash and cash equivalents at beginning of year	<u>7,994</u>
Cash and cash equivalents at end of year	<u>\$ 41,596</u>

**RECONCILIATION OF OPERATING INCOME
TO NET CASH PROVIDED (USED) BY
OPERATING ACTIVITIES**

Operating income	\$ 33,431
Adjustments to reconcile operating income to net cash provided (used) by operating activities:	
Depreciation expense	<u>-</u>
 Net cash provided by operating activities	 <u>\$ 33,431</u>

STATE OF NEW MEXICO
FRIENDS OF ANANSI CHARTER SCHOOL, INC.

Notes to the Financial Statements
June 30, 2009

I. SUMMARY OF ALL SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

Friends of Anansi Charter School, Inc. (Foundation) is a legally separate, tax exempt component of Anansi Charter School (School). The Foundation and is governed by an elected five-member board. The Board is the basic level of government, which has oversight responsibility and control over all activities related to the Foundation. The Foundation operates for the purpose of providing supporting funds to the Anansi Charter School. The Foundation received funds from renting facilities to the School, and donations and fund raising.

This summary of significant accounting policies is presented to assist in understanding the financial statements. The financial statements and notes are representations of the Foundation's management, which is responsible for their integrity and objectivity. These accounting policies conform to accounting principles generally accepted in the United States of America and have been consistently applied in the preparation of the financial statement.

The Foundation's financial statements include all entities over which the Board exercises oversight responsibility. Oversight responsibility includes such aspects as appointment of governing body members, the ability to significantly influence operations, and accountability for fiscal matters. Based upon the application of these criteria, one component unit and no fiduciary units were included in the financial statements.

The Foundation is reported as discretely presented component unit of Anansi Charter School as required in accordance with Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity* and GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units, an amendment of GASB Statement No. 14* Anansi Charter School's report can be obtained at:

Anansi Charter School
P.O. Box 1709
El Prado, NM 87529

The Friends of Anansi Charter School, Inc., New Mexico (Foundation) was incorporated, and it is administered by a manager, who is overseen by a local advisory board for the purpose of providing supporting funds to the Anansi Charter School. The reporting entity consists of the primary government, organizations for which the primary government is financially accountable, and other organizations for which the primary governments is financially accountable, and other organizations for which the nature and significance of their relationship with the primary government are such that exclusion could cause the Foundation's financial statements to be misleading or incomplete. The Foundation provides the usual municipal services with the exception of education, which administered by other governmental agencies.

As required by GAAP, these financial statements present the Foundation (primary government).

Depending upon the significance of the financial and operational relationships with various separate entities, the organizations are classified as blended or discrete component units.

STATE OF NEW MEXICO
FRIENDS OF ANANSI CHARTER SCHOOL, INC.

Notes to the Financial Statements
June 30, 2009

I. SUMMARY OF ALL SIGNIFICANT ACCOUNTING POLICIES (continued)

A. Reporting Entity (continued)

1. Blended Component Units.

Legally separate component units for which the Foundation is financially accountable are blended with the primary government because they are, in substance, part of the government's operations. Blended means the data from these units are combined with data of the primary government. The Foundation had no blended component units during the fiscal year ended June 30, 2009.

2. Discretely Presented Component Units.

The financial data of component units are reported in separate columns to emphasize that they are legally separate from the Foundation. The Foundation had no discrete component units during the fiscal year ended June 30, 2009.

3. Related Organizations.

The Foundation appoints members to the boards, but the Foundation's accountability for the organizations does not extend beyond making these appointments and there is no fiscal dependency of these organizations on the Foundation.

B. Financial statement presentation

The Foundation has adopted Statement of Financial Accounting Standards (SFAS) No. 117, Financial Statements of Not-for-Profit Organizations. Under SFAS No. 117, the School is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. In addition, the Foundation is required to present a statement of cash flows.

C. Cash and equivalents

For purposes of the statement of cash flows, the Foundation considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

D. Use of Estimates

The preparation of financial statements in conformity with principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

STATE OF NEW MEXICO
FRIENDS OF ANANSI CHARTER SCHOOL, INC.

Notes to the Financial Statements
June 30, 2009

I. SUMMARY OF ALL SIGNIFICANT ACCOUNTING POLICIES (continued)

E. Property and equipment

Property and equipment is recorded at cost. Donations of property and equipment are recorded as unrestricted support at their estimated value. Depreciation of property and equipment is provided over the estimated useful lives of the respective assets on a straight-line basis. Improvements are capitalized, while expenditures for maintenance and repairs are charged to expenses as incurred. Upon disposal of depreciable property, the appropriate property accounts are reduced by the related costs and accumulated depreciation. The resulting gains and losses are reflected in the statement of activities.

F. Long-term liabilities

The Foundation borrowed long-term financing for the purpose of financing a portion of the facilities for the Anansi Charter School. Funding to service the debt is provided by rent charges for the facilities.

G. Income taxes

The Foundation is a tax exempt organization under Section 501(c)(3) of the Code.

H. Restricted cash

Restricted cash reported on the statement of net assets re contributions made for specific purposes. The money is earmarked for such purposes and should be spent accordingly.

II. DETAILED NOTES ON ALL FUNDS

A. Cash and Temporary Investments

At June 30, 2009, the carrying amount of the Foundation's deposits was \$41,596 and the bank balance was \$103,090 with the difference consisting of outstanding checks. Of this balance \$103,090 was covered by federal depository insurance. The USDA escrow is with a federal agency. The Foundation was not required to have pledged collateral at June 30, 2009.

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a bank failure, the Foundations deposits may not be returned to it. As of June 30, 2009, none of the School's bank balance of \$103,090 was exposed to custodial risk as follows:

STATE OF NEW MEXICO
FRIENDS OF ANANSI CHARTER SCHOOL, INC.

Notes to the Financial Statements
June 30, 2009

II. DETAILED NOTES ON ALL FUNDS (continued)

A. Cash and Temporary Investments (continued)

Uninsured and uncollateralized	\$ -
Uninsured and collateral held by pledging bank's trust dept not in the District's name	-
	-
Total uninsured	-
Insured (FDIC)	103,090
	103,090
Total deposits	\$ 103,090

The collateral pledged is listed on Page 19 of this report. The types of collateral allowed are limited to direct obligations of the United States Government and all bonds issued by any agency, district or political subdivision of the State of New Mexico.

According to the Federal Deposit Insurance Authority, public unit deposits are funds owned by the schools. Time deposits, savings deposits and interest bearing "Now" accounts of a public unit in an institution in the same state will be insured up to \$250,000 in aggregate and separate from the \$250,000 coverage for public unit demand deposits at the same institution.

III. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2009, was as follows:

	July 1, 2008	Additions	Deletions	June 30, 2009
Capital assets not being depreciated:				
Construction in progress	\$ -	\$ 300,541	\$ -	\$ 300,541
Capital assets being depreciated:				
Buildings and improvements	-	1,250,000	-	1,250,000
Less accumulated depreciation for:				
Buildings and improvements	-	-	-	-
Total capital assets being depreciated, net	-	1,250,000	-	1,250,000
Capital Assets, net	\$ -	\$ 1,550,541	\$ -	\$ 1,550,541

Construction commitments

The Foundation is involved in construction projects to update and expand the buildings of Anansi Charter School. Interest on construction loans is not capitalized. In the process of updating the facilities for Anansi Charter School, there is an agreement that Taos Municipal Schools will receive funds from Public School Capital Outlay Committee (PSCOC) to bring modular classrooms on to the Anansi Charter School campus for additional classroom space.

**STATE OF NEW MEXICO
FRIENDS OF ANANSI CHARTER SCHOOL, INC.**

Notes to the Financial Statements
June 30, 2009

IV. LOANS PAYABLE

A. Long-Term Debt

Note payable

The Foundation has a loan payable to the USDA in the amount of \$1,800,000. The Foundation used \$1,250,000 of the loan to purchase school facilities for Anansi Charter School. One of the previous owners is the executive director of Anansi Charter School.

	Original Amount	Balance due	Current Balance
Note issued from USDA for the Anansi Charter School. The interest rate is from 4.375% annually. Interest only payment due on January 2010, and monthly principal and interest payments in the amount of \$8,028 starting February 2010. The note matures on January 2050.	<u>\$ 1,800,000</u>	<u>\$ 1,800,000</u>	<u>\$ 5,906</u>

Balances shown for bonds and notes do not include unamortized premiums or deferred amounts on refinancing.

Annual debt service requirements to maturity for long-term debt are as follows:

Year Ending			Total
<u>June 30.</u>	<u>Principal</u>	<u>Interest</u>	<u>Requirements</u>
2010	\$ 5,906	\$ 99,304	\$ 105,210
2011	17,529	78,807	96,336
2012	18,312	78,024	96,336
2013	19,129	77,207	96,336
2014	19,983	76,353	96,336
Thereafter	<u>1,719,141</u>	<u>1,679,049</u>	<u>3,398,190</u>
Total	<u>\$ 1,800,000</u>	<u>\$ 2,088,744</u>	<u>\$ 3,888,744</u>

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OTHER SUPPLEMENTAL INFORMATION

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STATE OF NEW MEXICO
FRIENDS OF ANANSI CHARTER SCHOOL

SCHEDULE OF PLEDGED COLLATERAL

June 30, 2009

	First Community <u>Bank</u>
Cash on deposit	\$ 103,090
Less FDIC Coverage	<u>(103,090)</u>
Total uninsured funds	<u>\$ -</u>

<u>Account Name</u>	<u>Account Type</u>	<u>Bank Name</u>	<u>Bank Amount</u>
Operating	Checking	First Community Bank	\$ 1,930
Savings	Savings	First Community Bank	39,584
Construction	Checking	First Community Bank	<u>61,576</u>
Total			<u>\$ 103,090</u>

Adjustments to cash:	
Bank Balance	\$ 103,090
Reconciling items	<u>(61,494)</u>
Total adjusted cash	<u>\$ 41,596</u>

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SINGLE AUDIT SECTION

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**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**

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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

Hector H. Balderas, State Auditor
and the Board of Directors
Friends of Anansi Charter School, Inc.

We have audited the accompanying statement of financial position of the Friends of Anansi Charter School, Inc. (a non-profit organization)(a component of Anansi Charter School), as of and for the year ended June 30, 2009, and the related statement of activities and cash flows for the year then ended, and have issued our report thereon dated May 7, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Friends of Anansi Charter School, Inc.'s internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Friends of Anansi Charter School, Inc.'s internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Friends of Anansi Charter School, Inc.'s internal control over financial reporting.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A *control deficiency* 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 misstatements on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the Friends of Anansi Charter School, Inc.'s internal control. We considered the deficiencies described in the accompanying schedule of finding and questioned costs to be significant deficiencies in internal control over financial reporting FACS 2009 – 1 through FACS 2009 – 6 and FACS 2009 – 8

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Friends of Anansi Charter School, Inc.'s internal control.

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Hector H. Balderas, State Auditor
and the Board of Directors
Friends of Anansi Charter School, Inc.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies or material weaknesses. However, of the significant deficiencies described above, we considered findings FACS 2009 – 3 through FACS 2009 – 5 and FACS 2009 – 8 to be material weaknesses.

Compliance and other matters

As part of obtaining reasonable assurance about whether Friends of Anansi Charter School, Inc.'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 eight instances of noncompliance or other matters that are required to be reported under Government Auditing Standards, which are described in the accompanying schedule of findings and questioned costs as findings FACS 2009 – 1 through FACS 2009 – 8.

The Foundation's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the Foundation's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, others within the Friends of Anansi Charter School, Inc., the State Auditor, the New Mexico Legislature, New Mexico Public Education Department, and applicable federal grantors, and is not intended to be and should not be used by anyone other than these specified parties.

Keystone Accounting, LLC

May 7, 2010

**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH
MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN
ACCORDANCE WITH OMB CIRCULAR A-133**

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REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Hector H. Balderas, State Auditor
Members of the Friends of Anansi Charter School, Inc. Commissioners

Compliance

We have audited the compliance of Friends of Anansi Charter School, Inc. with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2009. Friends of Anansi Charter School, Inc.'s major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Friends of Anansi Charter School, Inc.'s management. Our responsibility is to express an opinion on Friends of Anansi Charter School, Inc.'s compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Friends of Anansi Charter School, Inc.'s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Friends of Anansi Charter School, Inc.'s compliance with those requirements.

Except for the compliance requirement listed in the accompanying schedule of findings and questioned costs as items FACS 2009 – 9 and FACS 2009 – 10, in our opinion Friends of Anansi Charter School, Inc. complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2009.

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Hector H. Balderas, State Auditor
Members of the Friends of Anansi Charter School, Inc. Commissioners

Internal Control Over Compliance

The management of Friends of Anansi Charter School, Inc. is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Friends of Anansi Charter School, Inc.'s internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing an opinion on compliance and not for the purpose of expressing an opinion on the effectiveness of Friends of Anansi Charter School, Inc.'s internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Friends of Anansi Charter School, Inc.'s internal control over compliance.

A control deficiency in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

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

The Foundation's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the Foundation's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the New Mexico State Auditor, New Mexico State Department of Finance and Administration – Local Government, New Mexico State Legislature, Management, others within the organization and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Keystone Accounting, LLC

May 7, 2010

STATE OF NEW MEXICO
FRIENDS OF ANANSI CHARTER SCHOOL, INC.

SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
Year Ended June 30, 2009

A. PRIOR YEAR AUDIT FINDINGS

No Audit Findings to report.

STATE OF NEW MEXICO
FRIENDS OF ANANSI

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2009

A. SUMMARY OF AUDIT RESULTS

1. The auditors' report expresses a adverse opinion on the financial statements of Friends of Anansi Charter School, Inc.
2. Eight significant deficiencies disclosed during the audit of the financial statements are reported in the 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. Four of the deficiencies are reported as material weaknesses.
3. Four instances of noncompliance material to the financial statements of Friends of Anansi Charter School, Inc., which would be required to be required in accordance with Government Auditing Standards, were disclosed during the audit.
4. Two significant deficiencies disclosed during the audit of the major federal award programs is reported in the Report on Compliance with Requirements Applicable to Each Major Program on Internal Control Over Compliance in Accordance with OMB Circular A-133.
5. The auditors' report on compliance for the major federal award programs for Friends of Anansi Charter School, Inc. expresses a qualified opinion.
6. There are no audit findings that are required to be reported in accordance with section 510 (a) of OMB Circular A-133.
7. The programs tested as major programs were Community Facilities Loans and Grants CFDA # 10.766.
8. The threshold for distinguishing between Types A and B programs was \$300,000.
9. Friends of Anansi Charter School, Inc. was determined not to be a low-risk auditee.

STATE OF NEW MEXICO
FRIENDS OF ANANSI

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2009

B. FINDINGS—FINANCIAL STATEMENTS AUDIT

FACS 2009 – 1 PREPARATION OF FINANCIAL STATEMENTS

Condition: The financial statements were prepared by the auditor.

Criteria: As per SAS 112, management is required to have an internal control system of financial reporting including the preparation of the financial statements.

Effect of condition: Management's ability to ascertain the accuracy and completeness of the financial statements has been diminished.

Cause: Management does not have internal controls in place that are necessary for the preparation of the financial statements.

Recommendation: Management should develop a plan and system of controls that enable them to review the accuracy and completeness of the financial statements.

Management's Response: The Friends of Anansi Charter School will present a plan to its board members for the preparation and review of its financial statements in future fiscal years.

STATE OF NEW MEXICO
FRIENDS OF ANANSI

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2009

B. FINDINGS—FINANCIAL STATEMENTS AUDIT (continued)

FACS 2009 – 2 LATE AUDIT REPORT

Condition: The New Mexico State Auditor required the audit to be completed and submitted to his office by November 15, 2009. The filing date of the completed annual audit is subsequent to the required due date.

Criteria: According to the State of New Mexico, Office of the State Auditor publication 2 NMAC 2.2 Requirements for Contracting and Conducting Audits of Agencies, Section 9.1, the filing date for audit reports for Foundation is November 15th following the end of the fiscal year.

Effect of condition: The Foundation is not in compliance with NMAC 2.2.2.9A(1), the effect is that the State is not getting timely information for budgeting.

Cause: The Foundation began contracting for the Audit of the fiscal year ended June 30, 2009 in March of 2009, and the contracting was finalized the end of July of 2009.

Recommendation: The contracting for audit services should be initiated and completed in a time that allows for the audit to be completed by the required due date.

Management's Response: The Friends of Anansi Charter School will work with the Anansi Charter School and the Taos Municipal School District to ensure that any information required for next year's audit is provided timely and in coordination with the time schedule agreed upon by the auditor and the district.

STATE OF NEW MEXICO
FRIENDS OF ANANSI

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2009

B. FINDINGS—FINANCIAL STATEMENTS AUDIT (continued)

FACS 2009 – 3 CASH RECONCILIATION

Condition: One of the four accounts was completely missing from the reconciliation. – the escrow account with the USDA office. The known and recorded bank accounts were not being reconciled to the general ledger. The general ledger was out of balance by \$24,451 which was adjusted into the general fund.

Criteria: As per 6.10.2 NMAC, it is the duty of every Foundation that receives or disburses public money to maintain a cash record in which is entered daily, in detail, all items of receipts and disbursements of public money. The cash record shall be balanced daily so as to show the balance of public money on hand at the close of each day's business.

Effect of condition: The Foundation cannot effectively manage money or budget if they are unaware of available funds.

Cause: The accounting system did not have a record of all cash accounts. As a result, the Foundation did not have all public monies accounted for and reconciled in accordance with 6.10.2 NMAC. Current administration was not aware of the existence of the bond escrow accounts. Additionally, a bank account previously thought to have been closed was still being used by the sheriff's office.

Recommendation: The Foundation needs to maintain awareness of cash accounts associated with debt and bond issues. The Foundation should ascertain that the bank accounts ordered to be closed are in fact closed by confirmation from the bank or receipt of a closing statement. All cash accounts need to be reconciled to the general ledger within five days of receipt of the bank or escrow statement.

Management's Response: The Foundation has requested a proposal for financial services in order to address its ongoing need for financial services for the remainder of the current fiscal year and going forward into next fiscal year.

STATE OF NEW MEXICO
FRIENDS OF ANANSI

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2009

B. FINDINGS—FINANCIAL STATEMENTS AUDIT (continued)

FACS 2009 – 4 GENERAL LEDGER RECONCILIATION

Condition: Accounts in the general ledger were not reconciled, and included multiple errors, which allows no assurance that the accounting is correct.

Criteria: As per 6.10.2 NMAC, it is the duty of every Foundation that receives or disburses public money to maintain a cash record in which is entered daily, in detail, all items of receipts and disbursements of public money. The general ledger should be reconciled and reviewed timely for proper reporting to oversight agencies.

Effect of condition: The Foundation cannot effectively report to oversight agencies without properly recording and reconciling the general ledger.

Cause: General ledger accounts should be reviewed and reconciled to insure that the accounts are accurate. Operations proceeded without the review of the general ledger to insure that the accounts were posted correctly and the risk of material misstatement in the financial data was heightened

Recommendation: Policies should be implemented to insure that the accounts are reconciled and reviewed on a regular basis.

Management's Response: The Foundation has requested a proposal for financial services in order to address its ongoing need for financial services for the remainder of the current fiscal year and going forward into next fiscal year.

STATE OF NEW MEXICO
FRIENDS OF ANANSI

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2009

B. FINDINGS—FINANCIAL STATEMENTS AUDIT (continued)

FACS 2009 – 5 CAPITAL ASSET LIST AND DEPRECIATION SCHEDULE

Condition: The capital asset schedule and depreciation schedule was not complete and accurate at the time of the audit.

Criteria: Section 12-6-10 NMSA 1978 requires each agency to have a complete and accurate capital asset list, and GASB 34 requires the agency to have a complete depreciation schedule.

Effect of condition: The Foundation is in violation of 12-6-10 NMSA 1978 and without proper record keeping and monitoring the Foundation could be at risk of misappropriation of capital assets.

Cause: The Foundation does not have an inventory of capital assets and depreciation.

Recommendation: The Foundation should update the capital assets and take a physical inventory every two years.

Management's Response: The Foundation is currently preparing an updated capital assets inventory and will prepare a policy addressing the need for an annual physical inventory to address this issue.

STATE OF NEW MEXICO
FRIENDS OF ANANSI

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2009

B. FINDINGS—FINANCIAL STATEMENTS AUDIT (continued)

FACS 2009 – 6 PRENUMBERED RECEIPTS WERE NOT USED

Condition: The Foundation did not use pre-numbered receipts in numerical order thereby limiting the level of internal control over cash receipts.

Criteria: A system of internal controls designed to prevent and/or detect errors or violations of state and federal law is required as per 1978 NMSA 6-5-2, 6-NMAC-2.2.1.11 and 6-NMAC-2.2.1.14.

Effect of condition: The Foundation's internal controls over cash receipts were limited in its ability to prevent and/or detect errors or violations of law due to the improper use of pre-numbered documents.

Cause: The Foundation is not controlling the issuance and collection of pre-numbered receipt books.

Recommendation: The administration office should control the issue and collection of pre-numbered receipt books to ensure that they are used in numerical order and are reviewed for any missing or suspicious receipts.

Management's response: The Foundation will prepare a policy addressing the need for stricter controls over the custody, use and review of pre-numbered receipts.

STATE OF NEW MEXICO
FRIENDS OF ANANSI

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2009

B. FINDINGS—FINANCIAL STATEMENTS AUDIT (continued)

FACS 2009 – 7 BOARD MEMBER MISSING FROM EXIT CONFERENCE

Condition: There was not a member of the Board of Directors present at the exit conference for the audit report.

Criteria: SAO Rule 2.2.2.10 J states that a member of the governing body shall be present at the exit conference.

Effect of condition: Friends of Anansi Charter School, Inc. is in violation of SAO Rule 2.2.2.10 J which requires a member of the governing body to be present at the exit conference.

Cause: There was not a member of the governing body present at the exit conference.

Recommendation: There should be a member of the governing body present at the exit conference.

Management response: No response.

STATE OF NEW MEXICO
FRIENDS OF ANANSI

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2009

B. FINDINGS—FINANCIAL STATEMENTS AUDIT (continued)

FACS 2009 – 8 SELL OF LAND TO A RELATED PARTY WITH A CAPITAL GAIN

Condition: Friends of Anansi Charter School, Inc purchased the land and building from a party which included the Executive Director of Anansi Charter School.

Criteria: 22-21-1 NMSA 1978 states that no related party shall receive any commission or profit from the sale or instructional material, furniture, and equipment etc.

Effect of condition: Friends of Anansi Charter School is in violation of 22-21-1 NMAC 1978.

Cause: Friends of Anansi Charter School purchased the property with the Charter School from a party which included the Executive Director of Anansi Charter School for \$1,200,000.

Recommendation: The foundation should not purchase property from a related party.

Management response: No response

STATE OF NEW MEXICO
FRIENDS OF ANANSI

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2009

C. FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL PROGRAM AUDIT

UNITED STATES DEPARTMENT OF AGRICULTURE
Community Facilities Loans and Grants CFDA # 10.766

FACS 2009 – 9 LATE FILING OF FEDERAL CLEARING HOUSE REPORTING

Condition: The June 30, 2009 audit report and data collection form were sent to the Federal Clearing House after the due date of either 30 days after the date of the audit report or nine months after the year end.

Criteria: The Federal Clearing House requires that the audit report be filed either one month after the date of the audit report release, or nine months after the year end.

Effect of condition: The report was not available for the filing of the Federal Clearing House report on a timely basis.

Cause: Information required to complete the audit was not available from the Foundation.

Recommendation: We recommend that all information be made available to the auditor on a timely basis.

Management's response: The Foundation has requested a proposal for financial services in order to address its ongoing need for financial services for the remainder of the current fiscal year and going forward into next fiscal year. The Foundation will work closely with the school administration to ensure that all future information required by the auditors is provided in a timely manner.

STATE OF NEW MEXICO
FRIENDS OF ANANSI

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2009

C. FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL PROGRAM AUDIT

UNITED STATES DEPARTMENT OF AGRICULTURE
Community Facilities Loans and Grants CFDA # 10.766

FACS 2009 – 10 THE RESERVE FOR THE USDA LOAN IS DELENQUENT

Condition: The Foundation has a USDA loan with a reserve funding requirement in the amount of at least one-tenth of one yearly loan payment until one yearly loan installment is reached. The reserve needs to be set aside into a separate account. The reserve is unfunded by \$4,817.

Criteria: In accordance with the USDA Application for Federal Assistance the Foundation needs to set up a reserve account.

Effect of condition: The Foundation's is out of compliance with the USDA reserve requirements..

Cause: The Foundation was not aware of the reserve requirements.

Recommendation: The Foundation should fund the loan reserve account.

Management's response: The Foundation began making monthly installments on its USDA loan in February 2010. The reference to a yearly loan payment and corresponding reserve amount would be based on the interest due in January 2010 (the first annual payment) which was \$62,826.95. One tenth of the loan payment of interest only is \$6,282.69 which for six months equals \$37,696.14 (6 x \$6,282.69). The balance in the Foundation savings account, which was set up as the "Reserve" account, had a balance of \$39,584.48 on June 30, 2009. The Foundation will seek clarification from the USDA regarding any future reserve requirements to ensure that it maintains the loan reserve account at the required level.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

STATE OF NEW MEXICO
FRIENDS OF ANANSI CHARTER SCHOOL

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
June 30, 2009

<u>Federal Grantor/Pass - Through Grantor/Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Entity Identifying Number</u>	<u>Federal Expenditures</u>
<u>U.S. Department of Agriculture:</u>			
Rural Community Facilities Loans and Grants	10.766	N/A	<u>\$ 1,550,541</u>

See accompanying notes to the
Schedule of Expenditures of Federal Awards.

**STATE OF NEW MEXICO
FRIENDS OF ANANSI**

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2009**

1. Scope of audit pursuant to OMB Circular A-133

All federal grant operations of Friends of Anansi Charter School, Inc. (the “Foundation”) are included in the scope of the Office of management and Budget (“OMB”) Circular A-133 audit (the “Single Audit”). The Single Audit was performed in accordance with the provisions of the OMB Circular Compliance Supplement (Revised March, 2009), the “Compliance Supplement”. Compliance testing of all requirements, as described in the Compliance Supplement, was performed for all the grants programs noted below. These programs represent all federal award programs and other grants with fiscal 2009 cash and noncash expenditures to ensure coverage of at least 50% (high-risk auditee) of federally granted funds. Actual coverage is approximately one hundred percent (100%) of total cash and noncash federal award program expenditures. There were not any noncash expenditures the Foundation received.

<u>Major Federal Award Program Description</u>	<u>Fiscal 2009 Expenditures</u>
Cash assistance:	
Rural Community Facilities Loans and Grants	<u>\$ 1,550,541</u>

The Community Facilities Loans and Grants CFDA #10.766 were determined to be high-risk type A programs for the 2009 audit. The U.S. Department of Agriculture is the Foundation’s oversight agency for the Single Audit.

2. Summary of significant policies

Basis of presentation

The accompanying Schedule of Expenditures of Federal Awards includes all federal grants to the Foundation that had activity during the fiscal year ended June 30, 2009. This schedule has been prepared on the accrual basis except depreciation costs have been deducted and any costs incurred to purchase fixed assets have been added to the balances. Grant revenues are recorded for financial reporting when the Foundation has met the qualifications for the respective grant.

3. Audits performed by other entities

There were no audits performed by other organizations of the Foundation federal grant programs for the year ended June 30, 2009.

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REQUIRED DISCLOSURES

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STATE OF NEW MEXICO
FRIENDS OF ANANSI CHARTER SCHOOL, INC.

REQUIRED DISCLOSURES
Year Ended June 30, 2009

The financial statements were prepared by the independent public accountant.

An exit conference was held May 13, 2010 during which the audit findings were discussed. The exit conference was attended by the following individuals:

FRIENDS OF ANANSI CHARTER SCHOOL, INC.

None

ANANSI CHARTER SCHOOL

Michele Hunt Director

KEYSTONE ACCOUNTING, LLC

Phil Rasband, C.P.A. Partner