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MIDDLE SCHOOL ADVOCATES, INC.
FINANCIAL AND COMPLIANCE AUDIT
TOGETHER WITH
INDEPENDENT AUDITORS' REPORT
FOR THE YEAR ENDED JUNE 30, 2004

Under provisions of state law, this report is a public document. A copy of the report has been submitted to the entity and other appropriate public officials. The report is available for public inspection at the Baton Rouge office of the Legislative Auditor and, where appropriate, at the office of the parish clerk of court.

Release Date 3-16-05

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Middle School Advocates, Inc.
New Orleans, Louisiana

We have audited the accompanying financial statements of the governmental activities, major fund, and the remaining fund information of **Middle School Advocates, Inc. (MSA)** (A Nonprofit Organization and a component unit of Orleans Parish School Board), as of and for the year ended June 30, 2004, which collectively comprise **MSA's** basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of **MSA's** management. Our responsibility is to express an 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, major fund, and the remaining fund information of **Middle School Advocates, Inc.**, as of June 30, 2004, 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.

INDEPENDENT AUDITORS' REPORT
(CONTINUED)

To the Board of Directors of
Middle School Advocates, Inc.
New Orleans, Louisiana
Page 2

In accordance with Government Auditing Standards, we have also issued our report dated December 17, 2004 on our consideration of MSA's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards, and should be read in conjunction with this report in considering the results of our audit.

The management's discussion and analysis on pages 3 to 11 and budgetary comparison information on page 33 are not a required part of the basic financial statements but are supplementary information required by Governmental Accounting Standards Board (GASB). 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.

Bruno & Tervalon LLP
BRUNO & TERVALON LLP
CERTIFIED PUBLIC ACCOUNTANTS

December 17, 2004

MIDDLE SCHOOL ADVOCATES, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2004

Middle School Advocate (MSA) management's discussion and analysis is intended to assist the reader in focusing on significant financial issues, provide an overview of the financial activity of **New Orleans Charter Middle School (the School)**, identify changes in **the School's** financial position and it's ability to address the next and subsequent year challenges. It also identifies any material deviations from the financial plan and identifies individual fund issues or concerns. This is a requirement of the Governmental Accounting Standards Board Statement No. 34 (GASB 34) "Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments" and is intended to provide the financial results for the fiscal year ended June 30, 2004. The following is an illustration on how these financial reports are presented.

MD&A
Management's Discussion and Analysis
(required and supplementary information)

Basic Financial Statements
Government-wide Financial Statements

Fund Financial Statements

Notes to the financial statements

Other required Supplementary Information
Required supplementary information
(other than MD&A expanded)

As indicated in the illustration, GASB 34 requires the presentation of two basic types of financial statements: Government Wide Financial Statements and Fund Financial Statements.

MIDDLE SCHOOL ADVOCATES, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2004

Government-Wide Financial Statements

The government-wide financial statements provide a perspective of **the School** as a whole. These statements use the full accrual basis of accounting similar to private sector companies. There are two government-wide statements: the Statement of Net Assets and the Statement of Activities.

The Statement of Net Assets combines and consolidates governmental funds' current financial resources (short-term spendable resources) with capital assets and long-term obligations, regardless if they are currently available or not.

Consistent with the full accrual basis method of accounting the Statement of Activities accounts for current year revenues and expenses regardless of when cash is received or paid. The intent of this statement is to summarize and simplify the user's analysis of the costs of various school services.

Fund Financial Statements

The fund statements are similar to financial presentations of typical governmental agencies, but the focus is on **the School's** Major Funds rather than fund types as in the past. The fund statements are reported using the modified accrual method of accounting. Under this basis of accounting, revenues are recorded when received except where they are measurable and available and therefore represent resources that may be appropriated. Expenditures are accounted for in the period that goods and services are used in school programs. In addition, capital asset purchases are expensed and not recorded as assets. Debt payments are recorded as expenditures in the current year and future debt obligations are not recorded.

Fund types include the General Fund and Fiduciary Fund. The General Fund is used primarily to account for the general education requirements of **the School**. Its revenues are derived from state and federal distributions and grants. The Fiduciary Fund accounts for assets held by **the School** in a trustee capacity as an agent for various student groups and parents.

MIDDLE SCHOOL ADVOCATES, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2004

	Summary of Net Assets			
Assets	<u>2004</u>	<u>2003</u>	<u>Change</u>	<u>%</u>
Current assets	\$ 1,349,116	\$ 1,782,459	\$ (433,343)	-24.31%
Capital assets	<u>930,498</u>	<u>877,661</u>	<u>52,837</u>	6.02%
 Total assets	 <u>\$ 2,279,614</u>	 <u>\$ 2,660,120</u>	 <u>\$ (380,506)</u>	 -14.30%
 Liabilities				
Current liabilities	\$ 183,422	\$ 177,881	\$ 5,541	3.12%
Long-term liabilities	<u>-</u>	<u>635,733</u>	<u>(635,733)</u>	-100.00%
 Total liabilities	 <u>183,422</u>	 <u>813,614</u>	 <u>(630,192)</u>	 -77.46%
 Net Assets				
Total capital assets, net of related debt	930,498	206,879	723,619	349.78%
Unrestricted	<u>1,165,694</u>	<u>1,639,627</u>	<u>(473,933)</u>	-28.90%
 Total net assets	 <u><u>2,096,192</u></u>	 <u><u>1,846,506</u></u>	 <u><u>249,686</u></u>	 13.52%

As indicated in the statement above, total net assets increased by \$249,686. This change results from a surplus of revenues over expenses in **the School's** operations for the fiscal year. As indicated, this net change represents a 13.52% increase over net assets in 2003.

Total liabilities decreased by \$630,192 or 77%. Long-term liabilities were reduced after the mortgage with Liberty Bank was paid in full. **The School** currently has no outstanding notes or mortgages payable.

MIDDLE SCHOOL ADVOCATES, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2004

Changes in the School's Results of Operations

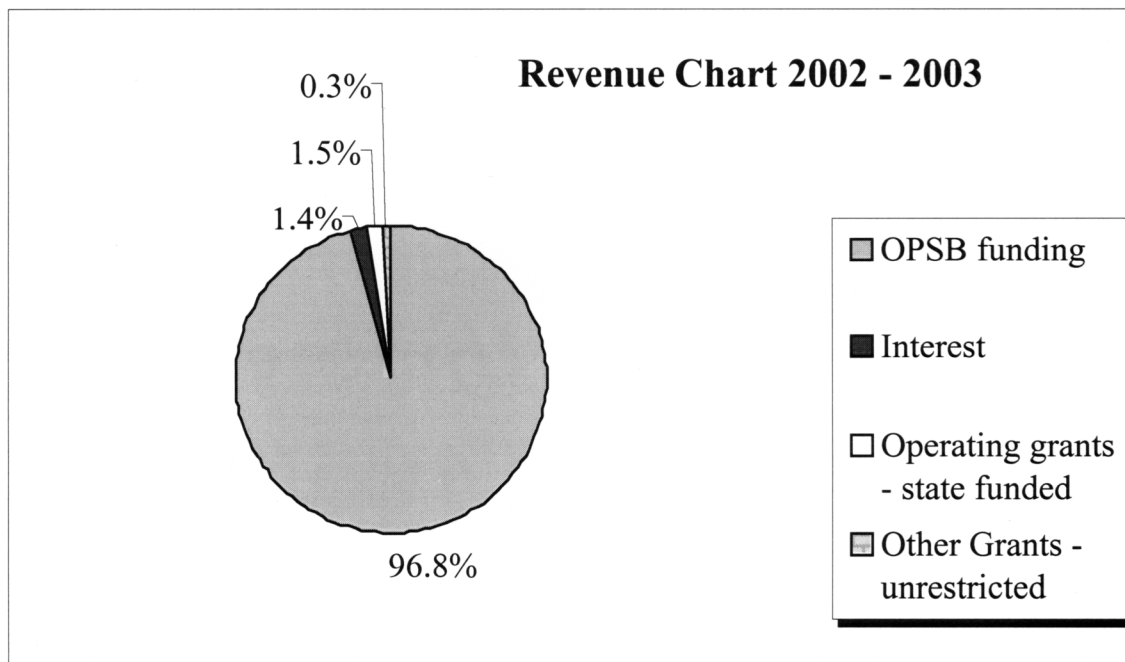
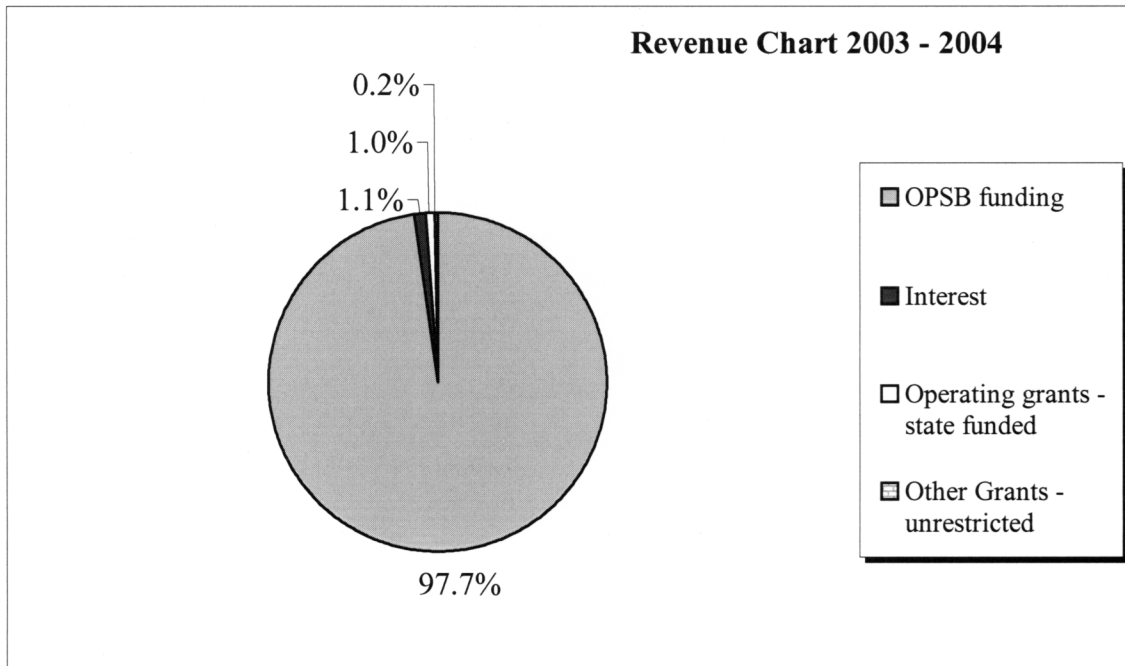
	<u>2004</u>	<u>2003</u>	<u>Change</u>	<u>%</u>
Program revenue				
Operating grants - state funded	\$ 21,902	\$ 31,548	\$ (9,646)	-31%
Total program revenue	<u>21,902</u>	<u>31,548</u>	<u>(9,646)</u>	-31%
General revenue				
OPSB funding	2,198,875	2,097,048	101,827	5%
Interest	24,937	30,380	(5,443)	-18%
Other Grants - unrestricted	4,500	6,388	(1,888)	-30%
Other Revenue	<u>-</u>	<u>411</u>	<u>(411)</u>	-100%
Total general revenues	<u>2,228,312</u>	<u>2,134,227</u>	<u>94,085</u>	4%
Total revenues	<u>2,250,214</u>	<u>2,165,775</u>	<u>84,439</u>	4%
Expenses				
Instruction	1,116,017	906,307	209,710	23%
Support services	852,781	930,749	(77,968)	-8%
Interest on long-term debt	12,788	47,923	(35,135)	-73%
Depreciation - unallocated	<u>18,942</u>	<u>18,158</u>	<u>784</u>	4%
Total expenses	<u>2,000,528</u>	<u>1,903,137</u>	<u>97,391</u>	5%
Change in net assets	<u>\$ 249,686</u>	<u>\$ 262,638</u>	<u>\$ (12,952)</u>	-5%

Changes in **the School's** revenues are reflected in the table above. Funding from Orleans Parish Schools increased by \$101,827. This is due to a change in funding from \$6,026 per student in 2003 to \$6,125 in 2004 and an increase in student enrollment from 348 to 359. Other grants in 2004 include Arts Council, a student literary program, and New Orleans Town Gardeners, which supplements the gardening elective program. State funded grants in 2003-04 included a Louisiana School Improvement grant and an additional charter school funding grant, which were not included in 2002-03. Overall revenues in 2004 increased by 4%, which is primarily due to the increase in per pupil revenue.

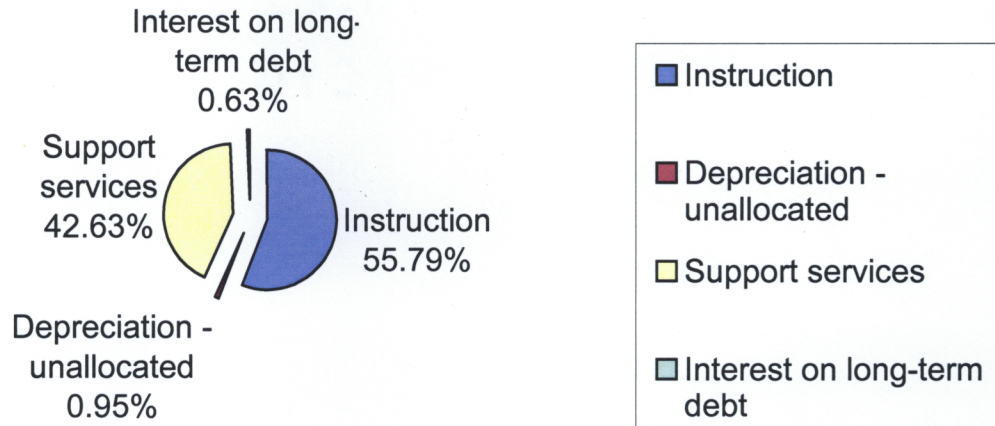
Instruction related expenses increased by 23% due mainly to an increase in the number of regular teaching positions. The increase in the number of teaching positions was necessary to accommodate the increase in student enrollment as well as the implementation of a specialized reading support curriculum. The decrease in interest on long-term debt was directly related to the payoff of the mortgage on the building. The overall decrease in the change in net assets from 2003 to 2004 relates to the increase in per pupil funding offset by the increase in instructional expense and the decrease in interest on long-term debt.

MIDDLE SCHOOL ADVOCATES, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2004

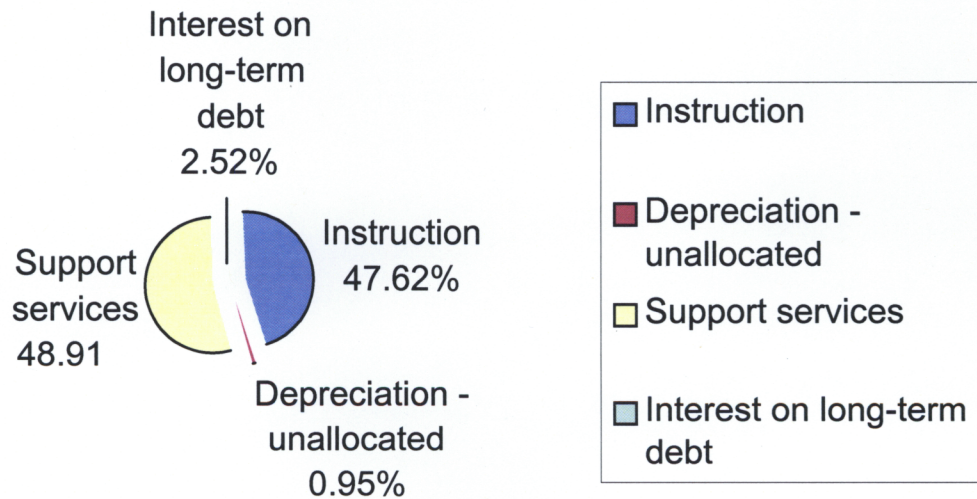
The following charts show detail revenues and expenditures as a percentage of current year totals. As indicated in the charts the composition of revenue sources and targets for expenditures changed only minimally from 2003 to 2004.



Expenditures 2003 - 2004



Expenditures 2002 - 2003



MIDDLE SCHOOL ADVOCATES, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2004

Minimum Foundation Program

A significant portion of state funding to **the School** is through the minimum foundation program (MFP). The MFP is funding from the state for each student and is established annually. **The School's** MFP funding is \$6,125 per student for the 2003-04 school year. This is an increase of 2% or \$99 over **the School's** 2002-03 MFP funding of \$6,026 per student. The number of students to be funded is calculated by the student enrollment count on October 1 of the current year. The total student enrollment for the 2003-04 school year was 359.

Capital Assets and Debt Administration

Capital Assets

At June 30, 2004, **the School** had \$999,929 invested in several classes of capital assets, including land, buildings, furniture and equipment. Improvements to existing buildings totaled \$58,692 in 2004. Fiscal years 2004 and 2003 are shown below: Accumulated depreciation increased significantly due to the first full year of building depreciation.

Assets	2004	2003
Land	\$ 372,200	\$ 372,200
Buildings and additions	571,561	512,869
Furniture and equipment	<u>56,168</u>	<u>43,081</u>
Subtotal	999,929	928,150
Less accumulated depreciation	\$ <u>69,431</u>	\$ <u>32,331</u>
Net capital Assets	\$ <u>930,498</u>	\$ <u>895,819</u>

Debt

The School had no outstanding debt at June 30, 2004. The building mortgage with Liberty Bank was paid in full on October 6, 2003.

Original vs. Revised Budget

The Board of Directors of **MSA** adopts the operating budget of **the School** by May 1 of each year and sends the final adopted budget to Orleans Parish School Board within five days after its adoption.

For fiscal year 2003-04, the budget was amended in January, 2004. The General Fund budget for revenues was not affected by budget revisions. This was different than prior years because the final student enrollment count and the actual per pupil allocation were available at the time of preparation of the initial budget.

MIDDLE SCHOOL ADVOCATES, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2004

General Fund Revenues

Total revenues revised budget	\$2,218,033
Total revenues original budget	\$2,218,033

Increase in Revenue Budget

The School's actual general fund revenues of \$2,228,312 were greater than the revised budget by \$10,279 a variance of less than 1%. This variance was created by private grants and donations.

General fund expenditures

Total expenditures revised budget	\$2,009,476
Total expenditures original budget	\$2,024,224

Increase in Expenditure Budget

As indicated above, **the School's** original general fund expenditures budget of \$2,009,476 was less than the revised budget by \$14,748, a difference of less than 1%.

Economic Factors and Next Year's Budget

During the 2003-2004 fiscal year, **the School** worked with Concordia, LLC to develop a strategic plan to renovate and refurbish the physical plant. The Campus Master Plan for **New Orleans Charter Middle School** was created to help guide the institution in the development of facilities and open space for the future. It was designed to be a guide, specific enough to provide direction, yet flexible enough to meet the changing needs of the institution in years to come. The result of the planning process was a series of four flexible options, allowing **the School** to expand its operations either by continuing as a middle school, expanding its enrollment as a middle school or by converting to an elementary/middle school (K-8). The plan also includes central green space, a multi-use play field, a safe bus route, and improved parking. The timeline for construction ranges from a minimum of 12-15 months to modestly improve the campus, costing approximately 1.1 million dollars, to the extreme of 21-27 months to fully renovate the campus for grades K – 8 at an approximate cost of 3.8 million dollars. Funding for the process will utilize a combination of revenue sources including but not limited to prior year fund balance, current operating revenues and various fund-raising projects. Further details related to the master plan can be found by reviewing the document available upon request.

MIDDLE SCHOOL ADVOCATES, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2004

Contacting the School's Business Manager

This financial report is designed to provide citizens, taxpayers, customers, investors and creditors with a general overview of **the School's** finances and demonstrate **the School's** accountability for money it receives. If you have questions about this report or need additional information, contact Ms. Terri Vincent, Business Office at **New Orleans Charter Middle School**, 3801 Monroe Street, New Orleans, LA. 70118.

MIDDLE SCHOOL ADVOCATES, INC.
STATEMENT OF NET ASSETS
JUNE 30, 2004

	<u>Governmental Activities</u>
ASSETS	
Current Assets:	
Cash and cash equivalents	\$1,045,649
Grants receivable	3,507
Other receivables	11,314
Prepaid expenses	56,149
Due from OPSB (NOTE 6)	<u>232,497</u>
Total current assets	<u>1,349,116</u>
Noncurrent assets:	
Capital assets (NOTE 4)	999,929
Less accumulated depreciation (NOTE 4)	<u>(69,431)</u>
Total noncurrent assets	<u>930,498</u>
Total assets	<u>2,279,614</u>
LIABILITIES	
Current liabilities:	
Accounts payable	15,637
Accrued salaries and payroll liabilities	<u>167,785</u>
Total current liabilities	<u>183,422</u>
Total liabilities	<u>183,422</u>
NET ASSETS	
Invested in capital assets	930,498
Unrestricted	<u>1,165,694</u>
Total net assets	<u>\$2,096,192</u>

The accompanying notes are an integral part of these financial statements.

MIDDLE SCHOOL ADVOCATES, INC.
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2004

		<u>PROGRAM REVENUES</u>	<u>GOVERNMENTAL ACTIVITIES</u>
	<u>Expenses</u>	<u>Operating Grants</u>	<u>Net (Expense) Revenue and Changes in Net Assets</u>
FUNCTIONS/PROGRAMS			
Governmental Activities			
Instruction:			
Regular	\$1,025,487	\$21,902	\$(1,003,585)
Special	17,217	-0-	(17,217)
Support Services:			
Pupil	78,158	-0-	(78,158)
School administration	372,548	-0-	(372,548)
Business services	73,003	-0-	(73,003)
Plant	213,159	-0-	(213,159)
Student transportation	189,226	-0-	(189,226)
Interest on long-term debt	12,788	-0-	(12,788)
Depreciation - unallocated	<u>18,942</u>	<u>-0-</u>	<u>(18,942)</u>
Total governmental activities	<u>\$2,000,528</u>	<u>\$21,902</u>	<u>(1,978,626)</u>
General Revenues:			
OPSB funding			2,198,875
Interest			24,937
Grants			<u>4,500</u>
Total general revenues			<u>2,228,312</u>
Change in net assets			249,686
Net assets, beginning			<u>1,846,506</u>
Net assets, ending			<u>\$ 2,096,192</u>

The accompanying notes are an integral part of these financial statements.

MIDDLE SCHOOL ADVOCATES, INC.
BALANCE SHEET - GOVERNMENTAL FUND
JUNE 30, 2004

ASSETS

	<u>General Fund</u>
Cash and cash equivalents	\$1,045,649
Grants receivable	3,507
Other receivables	11,314
Prepaid expenses	56,149
Due from OPSB (NOTE 6)	<u>232,497</u>
 Total assets	 <u>\$1,349,116</u>

LIABILITIES AND FUND BALANCE

Liabilities:	
Accounts payable	\$ 15,637
Accrued salaries and payroll liabilities	<u>167,785</u>
 Total liabilities	 <u>183,422</u>
 Fund Balance:	
Undesignated	<u>1,165,694</u>
 Total fund balance	 <u>1,165,694</u>
 Total liabilities and fund balance	 <u>\$1,349,116</u>

The accompanying notes are an integral part of these financial statements.

MIDDLE SCHOOL ADVOCATES, INC.
RECONCILIATION OF THE BALANCE SHEET-
GOVERNMENTAL FUND TO THE STATEMENT OF NET ASSETS
JUNE 30, 2004

Total fund balance-Governmental Fund		\$1,165,694
Amounts reported for governmental activities in the Statement of Net Assets are different because: Capital assets used in governmental activities are not financial resources and therefore are not reported in the fund (NOTE 4):		
The cost of capital assets is	\$ 999,929	
Accumulated depreciation is	<u>(69,431)</u>	<u>930,498</u>
Net assets of governmental activities		<u>\$2,096,192</u>

The accompanying notes are an integral part of these financial statements.

MIDDLE SCHOOL ADVOCATES, INC.
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE-GOVERNMENTAL FUND
FOR THE YEAR ENDED JUNE 30, 2004

	<u>General Fund</u>
<u>REVENUES</u>	
From Local Sources:	
Private grants	\$ 4,500
Interest	<u>24,937</u>
Total revenues from local sources	<u>29,437</u>
From State Sources:	
OPSB funding	2,198,875
Grants	<u>21,902</u>
Total revenues from state sources	<u>2,220,777</u>
Total revenues	<u>2,250,214</u>
<u>EXPENDITURES</u>	
Instruction:	
Regular	1,025,487
Special	17,217
Support Services:	
Pupil	78,158
School administration	385,635
Business services	73,003
Plant	213,159
Student transportation	189,226
Debt service	683,059
Facility acquisition and construction	<u>58,692</u>
Total expenditures	<u>2,723,636</u>
Deficiency of revenues over expenditures	(473,422)
Fund balance, beginning	<u>1,639,116</u>
Fund balance, ending	<u>\$1,165,694</u>

The accompanying notes are an integral part of these financial statements.

MIDDLE SCHOOL ADVOCATES, INC.
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE - GOVERNMENTAL FUND TO THE
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2004

Total net change in fund balance - Governmental Fund \$(473,422)

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

The Governmental Fund reported capital outlays as
expenditures whereas in the Statement of Activities,
these costs are depreciated over their estimated lives:

Capital outlays	71,779
Depreciation expense	(18,942)

Repayment of note principal is an expenditure in the
governmental fund, but it reduces long-term liabilities
in the Statement of Net Assets and does not affect
the Statement of Activities

670,271

Change in net assets of governmental
activities

\$ 249,686

The accompanying notes are an integral part of these financial statements.

MIDDLE SCHOOL ADVOCATES, INC.
STATEMENT OF FIDUCIARY NET ASSETS
JUNE 30, 2004

AGENCY FUND

ASSETS

Cash and cash equivalents	\$ 6,989
Enrichment and retreat fees receivable	<u>5,305</u>
	<u>\$12,294</u>

LIABILITIES

Due to student groups	<u>\$12,294</u>
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The accompanying notes are an integral part of these financial statements.

MIDDLE SCHOOL ADVOCATES, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2004

NOTE 1 - Introduction:

The Orleans Parish School Board (OPSB), authorized by the Charter School Demonstration Programs Law, granted a charter to **Middle School Advocates, Inc. (MSA)**, the sponsor, for the creation of the **New Orleans Charter Middle School (the School)**. **MSA** is a nonprofit organization organized under the laws of the State of Louisiana and is exempt from taxation under Section 501(c)(3) of the Internal Revenue Code. Although **the School** is the responsibility of **MSA**, it is recognized as a component unit of the OPSB. The charter is valid for an initial period of five (5) years commencing on July 1, 1998 and ended on June 30, 2003 and on May 12, 2003, OPSB approved the renewal of the Charter of **MSA** for a five year period, commencing July 1, 2003 and ending on June 30, 2008.

The School's primary role is to provide a high quality education for the students it serves by attending to the students' social and emotional development, thus providing a foundation for success in a challenging academic program. **The School** will also expose students to a range of experiences designed to develop them as individuals and to nurture a sense of membership in a school community where they feel supported and learn mutual responsibility. Student enrollment for the 2004 school year was 359.

NOTE 2 - Summary of Significant Accounting Policies:

A) Financial Reporting

MSA follows the provisions of GASB Statement No. 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments, as amended by GASB Statement No. 37 and No. 38, and applied those standards on a retroactive basis. GASB Statement No. 34 establishes standards for external financial reporting for state and local governments and requires that resources be classified for accounting and reporting purposes into the following three net asset categories:

MIDDLE SCHOOL ADVOCATES, INC.
NOTES TO THE FINANCIAL STATEMENTS, CONTINUED
JUNE 30, 2004

NOTE 2 - Summary of Significant Accounting Policies, Continued:

A) **Financial Reporting**, Continued

Invested in Capital Assets - consists of capital assets, net of accumulated depreciation.

Restricted Net Assets - result when constraints placed on net assets use are either externally imposed by creditors, grantors, contributions, and the like, or imposed by law through constitutional provisions or enabling legislation. At June 30, 2004, MSA had no restricted net assets.

Unrestricted Net Assets - consist of net assets which do not meet the definition of the two preceding categories. Unrestricted net assets often are designated to indicate that management does not consider them to be available for general operations. Unrestricted net assets often have constraints on resources which are imposed by management, but can be removed or modified.

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

MIDDLE SCHOOL ADVOCATES, INC.
NOTES TO THE FINANCIAL STATEMENTS, CONTINUED
JUNE 30, 2004

NOTE 2 - Summary of Significant Accounting Policies, Continued:

B) Reporting Entity

The School is a component unit of the Orleans Parish School Board, the reporting entity, as defined by the Governmental Accounting Standards Board pronouncement. The accompanying financial statements present information only on the funds and accounts groups maintained by **MSA** and do not present information on the Orleans Parish School Board, the general government services provided by that governmental unit, or the other governmental units that comprise the financial reporting entity.

C) Funds

MSA uses funds to maintain its financial records during the year. Fund accounting designed to demonstrate legal compliance and to aid management by segregating transactions related to certain **MSA** functions and activities. A fund is defined as a separate fiscal and accounting entity with a self-balancing set of accounts. Funds of **MSA** are classified into two categories: governmental and fiduciary, as follows:

Governmental Funds

Governmental funds account for all or most of **MSA's** general activities. These funds focus on the sources, uses, and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may be used. Current liabilities are assigned to the fund from which they will be paid. The difference between a governmental fund's assets and liabilities is reported as fund balance. In general, fund balance represents the accumulated expendable resources which may be used to finance future period programs or operations of **MSA**. The following is **MSA's** primary governmental fund:

MIDDLE SCHOOL ADVOCATES, INC.
NOTES TO THE FINANCIAL STATEMENTS, CONTINUED
JUNE 30, 2004

NOTE 2 - Summary of Significant Accounting Policies, Continued:

C) **Funds, Continued**

General Fund - the primary operating fund of MSA and it accounts for all financial resources, except those required to be accounted for in other funds. The General Fund is available for any purpose provided it is expended or transferred in accordance with state and federal laws and accounting to MSA policy.

Fiduciary Fund - Agency Fund

The agency fund accounts for assets held by MSA as an agent for various student groups and related activities. These funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. Consequently, the agency fund has no measurement focus, but does use the modified accrual basis of accounting.

D) **Measurement Focus/Basis of Accounting**

The Statement of Net Assets and the Statement of Activities display information about the reporting government as a whole. These statements include all the financial activities of MSA, except for the fiduciary fund. Fiduciary funds are reported only in the Statement of Fiduciary Net Assets at the fund financial statement level.

MIDDLE SCHOOL ADVOCATES, INC.
NOTES TO THE FINANCIAL STATEMENTS, CONTINUED
JUNE 30, 2004

NOTE 2 - Summary of Significant Accounting Policies, Continued:

D) Measurement Focus/Basis of Accounting, Continued

Government-Wide Financial Statements (GWFS)

The GWFS were prepared using the economic resources measurement focus and the accrual basis of accounting. Revenues, expenses, gains, losses, assets and liabilities resulting from exchange or exchange-like transactions are recognized when the exchange occurs (regardless of when cash is received or disbursed). Revenues, expenses, gains, losses, assets and liabilities resulting from nonexchange transactions are recognized in accordance with the requirements of GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*.

Fund Financial Statements FFS

Government funds are accounted for using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities are generally included on the balance sheet. The statement of revenues, expenditures, and changes in fund balance reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the governmental-wide statements and the statements for governmental funds are prepared. Governmental fund financial statements therefore include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

MIDDLE SCHOOL ADVOCATES, INC.
NOTES TO THE FINANCIAL STATEMENTS, CONTINUED
JUNE 30, 2004

NOTE 2 - Summary of Significant Accounting Policies, Continued:

D) Measurement Focus/Basis of Accounting, Continued

Fund Financial Statements (FFS), Continued

Fund financial statements report detailed information about **MSA**. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. At June 30, 2004, the general fund is the only major fund of **MSA**.

Governmental funds and the agency fund use the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e. when they become both measurable and available). Measurable means the amount of the transaction can be determined and available means collectible within the current period or soon enough thereafter to pay liabilities of the current period. **MSA** considers all revenues available if they are collected within 60 days after the fiscal year. Expenditures are recorded when the related fund liability is incurred, except for interest and principal payments on general long-term debt which is recognized when due, and certain compensated absences and claims and judgments which are recognized when the obligations are expected to be liquidated with expendable available financial resources. The governmental funds use the following practices in recording revenues and expenditures.

Revenues

OPSB funding (see NOTE 2(I)) is recorded when available and measurable. Expenditure driven federal and state grants are recorded when the reimbursable expenditures have been incurred. Substantially all other revenues are recorded when received.

MIDDLE SCHOOL ADVOCATES, INC.
NOTES TO THE FINANCIAL STATEMENTS, CONTINUED
JUNE 30, 2004

NOTE 2 - Summary of Significant Accounting Policies, Continued:

E) Budgetary Data

An annual budget is adopted on a basis consistent with accounting principles generally accepted in the United States of America for the governmental fund - general fund.

MSA uses the following budget practices:

1. The Director, in consultation with the staff, prepares **the School's** annual operating budget. The budget is based on the expected OPSB allocated revenues and other projected revenues for pupil expenditures.
2. The Director presents the budget to **MSA's** Finance Committee for review and revision.
3. The Director and members of the Finance Committee present the proposed budget at an open meeting of the full Board. The Director gives advance notice to the OPSB's Superintendent of this meeting and provides the OPSB's Superintendent with a copy of the proposed budget with that notice.
4. The Board of Directors adopts the operating budget by May 1 of each year.
5. The final adopted budget is sent to the OPSB within five (5) days after its adoption.

MIDDLE SCHOOL ADVOCATES, INC.
NOTES TO THE FINANCIAL STATEMENTS, CONTINUED
JUNE 30, 2004

NOTE 2 - Summary of Significant Accounting Policies, Continued:

E) Budgetary Data, Continued

6. The Director is authorized to reallocate budgeted items within line items, but may not increase the total amount authorized. If, during the course of the fiscal year, it becomes evident that the estimated revenues, expenditures or beginning fund balance may vary five (5) percent or more from the amount originally budgeted, then the Director shall inform MSA's Board of such variance. Based on the information submitted, the Board of Directors of MSA will adopt an amended budget and will seek ways to generate additional revenues for **the School**, if necessary.
7. All appropriations lapse at fiscal year end.

F) Cash and Cash Equivalents

Cash includes the amounts in demand deposits and interest-bearing demand deposits. Cash equivalents include amounts in time deposits with original maturities of ninety (90) days or less.

G) Capital Assets

Capital assets are capitalized at historical cost or estimated cost if historical cost is not available. Donated assets are recorded as capital assets at their estimated fair market value at the date of donation. MSA maintains a threshold level of \$300 or more for capitalizing capital assets.

MIDDLE SCHOOL ADVOCATES, INC.
NOTES TO THE FINANCIAL STATEMENTS, CONTINUED
JUNE 30, 2004

NOTE 2 - Summary of Significant Accounting Policies, Continued:

G) Capital Assets, Continued

Capital assets are recorded in the GWFS, but are not reported in the FFS. Since surplus assets are sold for an immaterial amount when declared as no longer needed for public school purposes by MSA, no salvage value is taken into consideration for depreciation purposes. All capital assets, other than land, are depreciated using the straight-line method over the following useful lives:

<u>Description</u>	<u>Estimate Useful Lives</u>
Buildings and building improvements	10 - 50 years
Furniture and equipment	5 - 7 years

H) Compensated Absences

Vacation Leave

Vacation for full-time staff is accrued on a monthly basis. Staff receives two (2) weeks annual vacation for the first five (5) years of employment. After five (5) years, staff receives three (3) weeks of vacation. After eleven (11) years, staff receives four (4) weeks of vacation.

Staff members may carryover and accumulate vacation up to twenty (20) days. Vacation over 20 days will not accumulate and staff members will not be paid for these days if they are not used in the year they are earned. Upon leaving the employ of MSA, staff members will be paid for accumulated and unused vacation days up to twenty (20) days.

MIDDLE SCHOOL ADVOCATES, INC.
NOTES TO THE FINANCIAL STATEMENTS, CONTINUED
JUNE 30, 2004

NOTE 2 - Summary of Significant Accounting Policies, Continued:

H) Compensated Absences, Continued

Paid Leave

Employees utilize earned or accrued leave in the event of their own illness, a family illness, bereavement, or for personal business. Such paid leave may be used for the purpose of visiting doctors, dentists or other recognized practitioners. Employees may also use paid leave for the above reasons when it relates to immediate family members only. Unused paid leave can be carried over and accumulated up to 180 hours (30) days; however, MSA will not pay the employee for accrued and unused paid leave upon termination from employment.

I) Funding Sources

OPSB Funding

Subject to the provisions contained in the charter, MSA receives funding from the Orleans Parish School Board in an amount for each pupil based on the average daily membership in the School that is equal to the average current operating expenditure per pupil received by OPSB pursuant to the most recent legislatively approved Minimum Foundation Program formula, including appropriate weighted favors, and from other revenue sources expended by OPSB on schools of the same grades within its system.

Other Funding

Other revenues received by MSA consist of contributions, and private and public grants.

MIDDLE SCHOOL ADVOCATES, INC.
NOTES TO THE FINANCIAL STATEMENTS, CONTINUED
JUNE 30, 2004

NOTE 2 - Summary of Significant Accounting Policies, Continued:

J) Use of 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 the reported amounts of assets and liabilities and disclosures of 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.

K) Assets Purchased with Public Funds

If the charter agreement of **the School** is revoked or **the School** otherwise ceases to operate, all assets purchased with any public funds become the property of the OPSB.

NOTE 3 - Concentration of Credit Risk:

MSA maintains its cash and cash equivalents accounts with a bank located in Louisiana. The total cash balances are insured by Federal deposit insurance up to \$100,000 and secured with \$1,408,217 of pledged securities held by a custodial bank in the name of the fiscal agent bank.

MIDDLE SCHOOL ADVOCATES, INC.
NOTES TO THE FINANCIAL STATEMENTS, CONTINUED
JUNE 30, 2004

NOTE 4 - Capital Assets:

Capital assets and depreciation activity as of and for the year ended June 30, 2004 is as follows:

	<u>Balance</u> <u>July 1, 2003</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2004</u>
<u>Assets</u>				
Land	\$372,200	\$ -0-	\$-0-	\$372,200
Building	512,869	-0-	-0-	512,869
Construction in progress	-0-	28,302	-0-	28,302
Building improvements	-0-	30,390	-0-	30,390
Furniture and equipment-OPSB	6,983	-0-	-0-	6,983
Furniture and equipment-MSA	<u>36,098</u>	<u>13,087</u>	<u>-0-</u>	<u>49,185</u>
Sub-total	<u>928,150</u>	<u>71,779</u>	<u>-0-</u>	<u>999,929</u>
 Accumulated depreciation				
Building	10,257	10,258	-0-	20,515
Building improvements	-0-	2,287	-0-	2,287
Furniture and equipment-OPSB	6,983	-0-	-0-	6,983
Furniture and equipment-MSA	<u>33,249</u>	<u>6,397</u>	<u>-0-</u>	<u>39,646</u>
Sub-total	<u>50,489</u>	<u>18,942</u>	<u>-0-</u>	<u>69,431</u>
Net capital assets	<u>\$877,661</u>	<u>\$ 52,837</u>	<u>\$-0-</u>	<u>\$930,498</u>

MIDDLE SCHOOL ADVOCATES, INC.
NOTES TO THE FINANCIAL STATEMENTS, CONTINUED
JUNE 30, 2004

NOTE 5 - Pension Plan:

MSA has a 403(b) deferred compensation plan covering substantially all employees. Covered employees may elect to contribute up to 14% of their salaries. **MSA** elects to contribute 6% of covered employees' salaries as pension contributions. **MSA's** contributions were \$50,251 for the 2004 fiscal year.

NOTE 6 - Due from OPSB:

At June 30, 2004, amounts due from Orleans Parish School Board (OPSB) consist of the following amounts:

Due from OPSB for per pupil funding	\$ 366,479
Due to OPSB for reimbursed expenditures	<u>(133,982)</u>
Net due from OPSB	<u>\$ 232,497</u>

NOTE 7 - Risk Management:

MSA is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; employee health; and natural disasters for which **MSA** carries commercial insurance.

MIDDLE SCHOOL ADVOCATES, INC.
NOTES TO THE FINANCIAL STATEMENTS, CONTINUED
JUNE 30, 2004

NOTE 8 - Long-Term Obligation:

The following is a summary of the long-term obligation transactions for the year ended June 30, 2004:

	<u>Note Payable</u>
Long-term obligation at July 1, 2003	\$ 670,271
Additions	-0-
Deductions	<u>(670,271)</u>
Long-term obligation at June 30, 2004	\$ <u>-0-</u>

SUPPLEMENTARY INFORMATION

MIDDLE SCHOOL ADVOCATES, INC.
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2004

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget Positive(Negative)</u>
	<u>Original</u>	<u>Final</u>		
<u>REVENUES</u>				
From Local Sources:				
Private grants	\$ 4,650	\$ 4,650	\$ 4,500	\$ (150)
Interest	<u>40,000</u>	<u>40,000</u>	<u>24,937</u>	<u>(15,063)</u>
Total revenues from local sources	<u>44,650</u>	<u>44,650</u>	<u>29,437</u>	<u>(15,213)</u>
From State Sources:				
OPSB funding	2,157,308	2,157,308	2,198,875	41,567
Grants	<u>16,075</u>	<u>16,075</u>	<u>21,902</u>	<u>5,827</u>
Total revenues from state sources	<u>2,173,383</u>	<u>2,173,383</u>	<u>2,220,777</u>	<u>47,394</u>
Total revenues	<u>2,218,033</u>	<u>2,218,033</u>	<u>2,250,214</u>	<u>32,181</u>
<u>EXPENSES</u>				
Instruction:				
Regular	1,067,583	1,040,873	1,025,437	15,386
Special	18,368	15,701	17,217	(1,516)
Support Services:				
Pupil	80,970	97,124	78,158	18,966
School administration	354,808	355,633	372,548	(16,915)
Business services	62,177	69,667	73,003	(3,336)
Plant	231,185	221,350	213,159	8,191
Student transportation	196,339	196,339	189,226	7,113
Interest on long-term debt	12,789	12,789	12,788	1
Depreciation - unallocated	<u>-0-</u>	<u>-0-</u>	<u>18,942</u>	<u>(18,942)</u>
Total expenses	<u>2,024,224</u>	<u>2,009,476</u>	<u>2,000,528</u>	<u>8,948</u>
Excess of revenues over expenses	193,809	208,557	249,686	41,129
Net assets, beginning	<u>1,846,506</u>	<u>1,846,506</u>	<u>1,846,506</u>	<u>-0-</u>
Net assets, ending	<u>\$2,040,315</u>	<u>\$2,055,063</u>	<u>\$2,096,192</u>	<u>\$ 41,129</u>

See Independent Auditors' Report on Required Supplementary Information.



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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE
AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS

To the Board of Directors of
Middle School Advocates, Inc.
New Orleans, Louisiana

We have audited the financial statements of **Middle School Advocates, Inc. (MSA) (A Nonprofit Organization)** as of and for the year ended June 30, 2004, and have issued our report thereon dated December 17, 2004. 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.

Compliance

As part of obtaining reasonable assurance about whether **MSA's** financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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 that are required to be reported under *Government Auditing Standards*. However, we noted an immaterial instance of noncompliance that we have reported to management of **MSA** in a separate letter dated December 17, 2004.

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE
AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS
(CONTINUED)

Internal Control Over Financial Reporting

In planning and performing our audit, we considered MSA's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a 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 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. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the Board of Directors, management, the Orleans Parish School Board and the Louisiana Legislative Auditor and is not intended to be and should not be used by anyone other than these specified parties. Under Louisiana Revised Statute 24:513, this report is distributed by the Legislative Auditor as a public document.

Bruno & Tervalon LLP
BRUNO & TERVALON LLP
CERTIFIED PUBLIC ACCOUNTANTS

December 17, 2004

MIDDLE SCHOOL ADVOCATES, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2004

I. SUMMARY OF AUDITORS' RESULTS

- A. The type of report issued on the financial statements:
unqualified opinion
- B. Reportable conditions in internal control were disclosed by the audit of the financial statements: **none reported** material weaknesses: **no**
- C. Noncompliance which is material to the financial statements: **no**
- D. Reportable conditions in internal control over major programs: **not applicable** material weaknesses: **not applicable**
- E. The type of report issued on compliance for major programs: **not applicable**
- F. Any audit findings which are required to be reported under section 510(a) of OMB Circular A-133: **not applicable**
- G. Major programs: **not applicable**
- H. Dollar threshold used to distinguish between Type A and Type B programs: **not applicable**
- I. Auditee qualified used to distinguish between Type A and Type B programs: **not applicable**
- J. Management letter issued: **yes**

MIDDLE SCHOOL ADVOCATES, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS, CONTINUED
FOR THE YEAR ENDED JUNE 30, 2004

**II. FINDINGS RELATING TO THE FINANCIAL STATEMENTS REPORTED
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

No matters reported.

III. FINDINGS AND QUESTIONED COSTS RELATED TO FEDERAL AWARDS

Not applicable.

**MIDDLE SCHOOL ADVOCATES, INC.
SCHEDULE OF PRIOR YEAR FINDINGS
FOR THE YEAR ENDED JUNE 30, 2004**

I - Internal Control and Compliance Material to the Financial Statements.

No findings were reported.

II - Internal Control and Compliance Material to Federal Awards

Not applicable.

III - Management Letter

See status of prior year findings in management letter dated December 17, 2004.

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MIDDLE SCHOOL ADVOCATES, INC.
INDEPENDENT ACCOUNTANTS' REPORT
ON
APPLYING AGREED-UPON PROCEDURES
FOR THE YEAR ENDED JUNE 30, 2004

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**INDEPENDENT ACCOUNTANTS' REPORT
ON
APPLYING AGREED-UPON PROCEDURES**

To the Board of Directors
Middle School Advocates, Inc.

We have performed the procedures included in the *Louisiana Governmental Audit Guide* and enumerated below, which were engaged to by the management of **Middle School Advocates, Inc.** and the Legislative Auditor, State of Louisiana, solely to assist users in evaluating management's assertions about the accompanying performance and statistical data and to determine whether the specified schedules are free of obvious errors and omissions as provided by the Board of Elementary and Secondary Education (BESE). This agreed-upon procedures engagement was performed in accordance with standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of the specified users of the report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

BACKGROUND

The Orleans Parish School Board (OPSB), authorized by the Charter School Demonstration Programs Law, granted a charter to **Middle School Advocates, Inc. (MSA)**, the sponsor, for the creation of the **New Orleans Charter Middle School (the School)**. MSA is a nonprofit organization organized under the laws of the State of Louisiana and is exempt from taxation under Section 501(c)(3) of the Internal Revenue Code. Although, **the School** is the responsibility of **MSA**, it is recognized as a component unit of the OPSB. The charter is valid for an initial period of five (5) years commencing on July 1, 1998 and ended on June 30, 2003 and on May 12, 2003, OPSB approved the renewal of the Charter of **MSA** for a five year period, commencing July 1, 2003 and ending on June 30, 2008.

**INDEPENDENT ACCOUNTANTS' REPORT
ON
APPLYING AGREED-UPON PROCEDURES
(CONTINUED)**

PROCEDURES AND FINDINGS

Our procedures and findings relate to the accompanying schedules and are as follows:

***General Fund Instructional and Support Expenditures
and Certain Local Revenue Sources (SCHEDULE I)***

1. We selected a random sample of 25 transactions and reviewed supporting documentation to determine if the sampled expenditures/revenues are classified correctly and are reported in the proper amounts for each of the following reported on the schedule:
 - Total General Fund Instructional Expenditures;
 - Total General Fund Equipment Expenditures;
 - Total Local Taxation Revenue;
 - Total Local Earnings on Investment in Real Property;
 - Total State Revenue in Lieu of Taxes;
 - Nonpublic Textbook Revenue; and
 - Nonpublic Transportation Revenue.

No differences noted.

Education Levels of Public School Staff (SCHEDULE II)

2. We reconciled the total number of full-time classroom teachers per the schedule "Experience of Public Principals and Full-time Classroom Teachers" (SCHEDULE IV) to the combined total number of full-time classroom teachers per this schedule and to MSA's supporting payroll records of October 1, 2003.

No differences noted.

**INDEPENDENT ACCOUNTANTS' REPORT
ON
APPLYING AGREED-UPON PROCEDURES
(CONTINUED)**

PROCEDURES AND FINDINGS, CONTINUED

Education Levels of Public School Staff (SCHEDULE II), Continued

3. We reconciled the combined total of principals and assistant principals per the schedule "Experience of Public Principals and Full-time Classroom Teachers" (SCHEDULE IV) to the combined total of principals and assistant principals per this schedule.

No differences noted.

4. We obtained a list of full-time teachers, the principal, and the assistant principal by classification as of October 1, 2003 and as reported on the schedule. We traced all 15 teachers to their respective personnel file and determine if their education level was properly classified on the schedule.

No differences noted.

This schedule was changed to reflect the actual numbers and percentage of certificated and uncertificated full-time classroom teachers.

Number and Type of Public Schools (SCHEDULE III)

5. Because MSA only sponsored a middle school, we did not obtain a list of schools by type as reported on the schedule. Also, we did not compare the list to the schools and grade levels as reported on the Title 1 Grants to Local Educational Agencies (CFDA 84.010) application and/or the National School Lunch Program (CFDA 10.555) application.

**INDEPENDENT ACCOUNTANTS' REPORT
ON
APPLYING AGREED-UPON PROCEDURES
(CONTINUED)**

PROCEDURES AND FINDINGS, CONTINUED

Experience of Public Principals and Full-time Classroom Teachers (SCHEDULE IV)

6. We obtained a list of full-time teachers, the principal, and the assistant principal by classification as of October 1, 2003 and as reported on the schedule and traced the same sample used in procedure 4 to the individual's personnel file and determined if the individual's experience was properly classified on the schedule.

No differences noted.

This schedule was changed to reflect the actual number of full-time classroom teachers.

Public Staff Data (SCHEDULE V)

7. We obtained a list of all classroom teachers including their base salary, extra compensation, and ROTC or rehired retiree status as well as full-time equivalent as reported on the schedule and traced all 18 teachers to the individual's personnel file and determined if the individual's salary, extra compensation, and full-time equivalents were properly included on the schedule.

No differences noted.

8. For all 18 teachers, we recalculated the average salaries and full-time equivalents reported in the schedule.

No differences noted.

This schedule was changed to reflect the average classroom teachers' salary, based on the total number of teachers.

**INDEPENDENT ACCOUNTANTS' REPORT
ON
APPLYING AGREED-UPON PROCEDURES
(CONTINUED)**

PROCEDURES AND FINDINGS, CONTINUED

Class Size Characteristics (SCHEDULE VI)

9. We obtained a list of classes and class size for MSA's Charter Middle School as reported on the schedule. We then traced a random sample of 10 classes to the October 1, 2003 roll books for those classes and determined if the class was properly classified on the schedule.

No differences noted.

This schedule was changed to reflect the actual class size ranges.

**Louisiana Educational Assessment Program (LEAP) for
the 21st Century (SCHEDULE VII)**

10. We obtained test scores as provided by the testing authority and reconciled scores as reported by the testing authority to scores reported in the schedule by MSA. Since the Charter School is a middle school type, only the 8th grade level was reported in the schedule.

No differences noted.

The Graduation Exit Exam for the 21st Century (SCHEDULE VIII)

11. Because this schedule does not apply to a middle school, we did not obtain test scores as provided by the testing authority and reconciled scores as reported by the testing authority to scores reported in the schedule by MSA.

**INDEPENDENT ACCOUNTANTS' REPORT
ON
APPLYING AGREED-UPON PROCEDURES
(CONTINUED)**

PROCEDURES AND FINDINGS, CONTINUED

The Iowa Tests (SCHEDULE IX)

12. We obtained test scores as provided by the testing authority and reconciled scores as reported by the testing authority to scores reported in the schedule by MSA.

No differences noted.

We were not engaged to, and did not, perform an examination, the objective of which would be the expression of an opinion on management's assertions. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the use of management of MSA, the Louisiana Department of Education, the Louisiana Legislature, and the Legislative Auditor, State of Louisiana, and should not be used by those who have not agreed to the procedures and taken responsibility for the sufficiency of the procedures for their purposes. Under Louisiana Revised Statute 24:513, this report is distributed by the Legislative Auditor as a public document.

Bruno & Tervalon LLP
BRUNO & TERVALON LLP
CERTIFIED PUBLIC ACCOUNTANTS

December 17, 2004

MIDDLE SCHOOL ADVOCATES, INC.
SCHEDULES REQUIRED BY STATE LAW
(R.S. 24:514 - PERFORMANCE AND STATISTICAL DATA)
AS OF AND FOR THE YEAR ENDED JUNE 30, 2004

SCHEDULE I - General Fund Instructional and Support Expenditures and Certain Local Revenue Sources

This schedule includes general fund instructional and equipment expenditures. It also contains local taxation revenue, earnings on investments, revenue in lieu of taxes, and nonpublic textbook and transportation revenue. This data is used either in the Minimum Foundation Program (MFP) formula or is presented annually in the MFP 70% Expenditure Requirement Report.

SCHEDULE II - Education Levels of Public School Staff

This schedule includes the certificated and uncertificated number and percentage of full-time classroom teachers and the number and percentage of principals and assistant principals with less than a Bachelor's Master's; Master's +30; Specialist in Education; and Ph.D. or Ed.D. degrees. This data is currently reported to the Legislature in the Annual Financial and Statistical Report (AFSR).

SCHEDULE III - Number and Type of Public Schools

This schedule includes the number of elementary, middle/junior high, secondary and combination schools in operation during the fiscal year. This data is currently reported to the Legislature in the AFSR.

SCHEDULE IV - Experience of Public Teachers and Full-time Classroom Teachers

This schedule includes the number of years of experience in teaching for assistant principals, principals, and full-time classroom teachers. This data is currently reported to the Legislature in the AFSR.

MIDDLE SCHOOL ADVOCATES, INC.
SCHEDULES REQUIRED BY STATE LAW
(R.S. 24:514 - PERFORMANCE AND STATISTICAL DATA), CONTINUED
AS OF AND FOR THE YEAR ENDED JUNE 30, 2004

SCHEDULE V - Public School Staff Data

This schedule includes average classroom teachers salary using full-time equivalents, including and excluding ROTC and rehired retiree teachers. This data is currently reported to the Legislature in the AFSR.

SCHEDULE VI - Class Size Characteristics

This schedule includes the percent and number of classes with student enrollment in the following ranges: 1-20; 21-26; 27-33; and 34+students. This data is currently reported to the Legislature in the Annual School Report (ASR).

SCHEDULE VII - Louisiana Educational Assessment Program (LEAP)

This schedule represents student performance testing data and includes summary scores by district for grades 4 and 8 in each category tested. Scores are reported as Advanced, Proficient, Basic, Approaching Basic, and Unsatisfactory. This schedule includes three years of data.

SCHEDULE VIII - The Graduation Exit Exam

This schedule represents student performance testing data and includes summary scores by district for grades 10 and 11 in each category tested. Scores are reported as Advanced, Proficient, Basic, Approaching Basic, and Unsatisfactory. This schedule includes three years of data.

SCHEDULE IX - The IOWA Tests

This schedule represents student performance testing data and includes a summary score for grades 3, 5, 6, 7 and 9 for each district. The summary score reported is the National Percentile Rank showing relative position or rank as compared to a large, representative sample of students in the same grade from the entire nation. This schedule includes three years of data.

NEW ORLEANS CHARTER MIDDLE SCHOOL
New Orleans, Louisiana

Schedule I

**General Fund Instructional and Support Expenditures
and Certain Local Revenue Sources
For the Year Ended June 30, 2004**

General Fund Instructional and Equipment Expenditures

General Fund Instructional Expenditures:

Teacher and Student Interaction Activities:

Classroom Teacher Salaries	\$	767,435	
Other Instructional Staff Activities		29,092	
Employee Benefits		177,500	
Purchased Professional and Technical Services		-	
Instructional Materials and Supplies		43,800	
Instructional Equipment		7,661	
		<hr/>	
Total Teacher and Student Interaction Activities	\$		1,025,487

Other Instructional Activities			17,217
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Pupil Support Activities		78,158	
Less: Equipment for Pupil Support Activities		-	
		<hr/>	
Net Pupil Support Activities			78,158

Instructional Staff Services		-	
Less: Equipment for Instructional Staff Services		-	
		<hr/>	
Net Instructional Staff Services			-

Total General Fund Instructional Expenditures	\$		<u>1,120,862</u>
---	----	--	------------------

Total General Fund Equipment Expenditures	\$		<u>-</u>
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Certain Local Revenue Sources

Local Taxation Revenue:

Constitutional Ad Valorem Taxes	\$	-	
Renewable Ad Valorem Tax		-	
Debt Service Ad Valorem Tax		-	
Up to 1% of Collections by the Sheriff on Taxes Other than School Taxes		-	
Sales and Use Taxes		-	
		<hr/>	
Total Local Taxation Revenue	\$		<u>-</u>

Local Earnings on Investment in Real Property:	\$	-	
Earnings from 16th Section Property		-	
Earnings from Other Real Property		-	
		<hr/>	
Total Local Earnings on Investment in Real Property	\$		<u>-</u>

State Revenue in Lieu of Taxes:			
Revenue Sharing - Constitutional Tax	\$	-	
Revenue Sharing - Other Taxes		-	
Revenue Sharing - Excess Portion		-	
Other Revenue in Lieu of Taxes		-	
		<hr/>	
Total State Revenue in Lieu of Taxes	\$		<u>-</u>

Nonpublic Textbook Revenue			-
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Nonpublic Transportation Revenue	\$		<u>-</u>
----------------------------------	----	--	----------

See accompanying independent accountants' report on applying agreed-upon procedures.

Education Levels of Public School Staff
 As of October 1, 2003

Category	Full-time Classroom Teachers				Principals & Assistant Principals			
	Certificated		Uncertificated		Certificated		Uncertificated	
	Number	Percent	Number	Percent	Number	Percent	Number	Percent
Less than a Bachelor's Degree								
Bachelor's Degree	6	55%	6	86%				
Master's Degree	4	36%	1	14%			1	50%
Master's Degree +30	1	9%						
Specialist in Education								
Ph.D. or Ed.D.							1	50%
Total	11	100%	7	100%			2	100%

NEW ORLEANS CHARTER MIDDLE SCHOOL
New Orleans, Louisiana

Schedule III

Number and Type of Public Schools
For the Year Ended June 30, 2004

Type	Number
Elementary	
Middle/Jr. High	1
Secondary	
Combination	
Total	1

Note: Schools opened or closed during the fiscal year are included in this schedule.

NEW ORLEANS CHARTER MIDDLE SCHOOL
New Orleans, Louisiana

Schedule IV

Experience of Public Principals and Full-time Classroom Teachers
As of October 1, 2003

	0 - 1 Yr.	2 - 3 Yrs.	4 - 10 Yrs.	11 - 14 Yrs.	15 - 19 Yrs.	20 - 24 Yrs.	25+ yrs.	Total
Assistant Principals			1					1
Principals			1					1
Classroom Teachers	3	1	13				1	18
Total	3	1	15				1	20

Public School Staff Data
For the Year Ended June 30, 2004

	All Classroom Teachers	Classroom Teachers Excluding ROTC and Rehired Retirees
Average Classroom Teachers' Salary Excluding Extra Compensation	33,448.69	33,448.69

Note: Figures reported include all sources of funding (i.e., federal, state, and local) but exclude employee benefits. Generally, retired teachers rehired to teach receive less compensation than non-retired teachers and ROTC teachers receive more compensation.

Class Size Characteristics
As of October 1, 2003

School Type	Class Size Range							
	1 - 20		21 - 26		27 - 33		34+	
	Percent	Number	Percent	Number	Percent	Number	Percent	Number
Elementary								
Elementary Activity Classes								
Middle/Jr. High			38%	5	62%	8		
Middle/Jr. High Activity Classes								
High								
High Activity Classes								
Combination								
Combination Activity Classes								

Note: The Board of Elementary and Secondary Education has set specific limits on the maximum size of classes at various grade levels. The maximum enrollment in grades K-3 is 26 students and maximum enrollment in grades 4-12 is 33 students.

Louisiana Educational Assessment Program (LEAP) for the 21st Century
For the Year Ended June 30, 2004

District Achievement Level Results	English Language Arts						Mathematics					
	2004		2003		2002		2004		2003		2002	
Students	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent
Grade 8												
Advanced			1	1.1%								
Mastery	4	4.0%	6	5.4%	5	4.2%	8	7.0%	9	8.2%	2	1.7%
Basic	33	31.0%	37	33.6%	34	28.3%	60	56.0%	48	43.6%	47	39.2%
Approaching Basic	51	47.0%	54	49.0%	70	58.3%	20	19.0%	31	28.2%	46	38.3%
Unsatisfactory	19	18.0%	12	10.9%	11	9.2%	19	18.0%	22	20.0%	25	20.8%
Total	107	100.0%	110	100.0%	120	100.0%	107	100.0%	110	100.0%	120	100.0%

District Achievement Level Results	Science						Social Studies					
	2004		2003		2002		2004		2003		2002	
Students	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent
Grade 8												
Advanced												
Mastery	4	3.7%	3	2.7%	2	1.7%	4	4.0%	2	1.8%	2	1.7%
Basic	21	19.6%	21	19.1%	34	28.3%	47	44.0%	32	29.1%	50	41.7%
Approaching Basic	43	40.1%	59	53.6%	57	47.5%	38	35.0%	48	43.6%	46	38.3%
Unsatisfactory	39	36.6%	27	24.6%	27	22.5%	18	17.0%	28	25.5%	22	18.3%
Total	107	100.0%	110	100.0%	120	100.0%	107	100.0%	110	100.0%	120	100.0%

See accompanying independent accountants' report on applying agreed-upon procedures.

NEW ORLEANS CHARTER MIDDLE SCHOOL
 New Orleans, Louisiana

Schedule VIII

The Graduate Exit Exam for the 21st Century
For the Year Ended June 30, 2004

District Achievement Level Results	English Language Arts						Mathematics					
	2004		2003		2002		2004		2003		2002	
Students	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent
Grade 10												
Advanced												
Proficient												
Basic												
Approaching Basic												
Unsatisfactory												
Total												

District Achievement Level Results	Science						Social Studies					
	2004		2003		2002		2004		2003		2002	
Students	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent
Grade 11												
Advanced												
Proficient												
Basic												
Approaching Basic												
Unsatisfactory												
Total												

This schedule does not apply to **MSA** because the grade level of the school is 6th through 8th.

The IOWA Tests
For the Year Ended June 30, 2004

	Composite		
	2004	2003	2002
Test of Basic Skills (ITBS)			
Grade 3			
Grade 5			
Grade 6	33	24	36
Grade 7	36	32	32
Tests of Educational Development (ITED)			
Grade 9			

Scores are reported by National Percentile Rank. A student's National Percentile Rank shows the student's relative position or rank as compared to a large, representative sample of students in the same grade from the entire nation.



Member
American Institute of
Certified Public Accountants
Society of Louisiana
Certified Public Accountants

RECEIVED
LEGISLATIVE AUDITOR
05 JAN -7 AM 11:31

Michael B. Bruno, CPA
Alcide J. Tervalon, Jr., CPA
Waldo J. Moret, Jr., CPA
Paul K. Andoh, Sr., CPA

INDEPENDENT AUDITORS' COMMENT TO MANAGEMENT

To the Board of Directors of the
Middle School Advocates, Inc.
New Orleans, Louisiana

We have audited the financial statements of **Middle School Advocates, Inc. (MSA)** for the year ended June 30, 2004 and have issued our report thereon dated December 17, 2004.

In planning and performing our audit of the financial statements of **MSA** for the year ended June 30, 2004, we considered **MSA's** internal control in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on internal control.

However, during our audit we became aware of a matter that is an opportunity for strengthening internal controls and operating efficiency. The comment that accompanies this letter summarizes our finding and recommendation regarding this matter. This letter does not affect our report dated December 17, 2004 on the financial statements of **MSA**.

We will review the status of this comment during our next audit engagement. We have already discussed this comment and recommendation with various personnel of **MSA**, and we will be pleased to discuss it in further detail at your convenience, to perform any additional study of this matter to assist you in implementing the recommendation.

**INDEPENDENT AUDITORS' COMMENT TO MANAGEMENT
CURRENT YEAR COMMENT**

04-01 Instructional Staff

Louisiana Revised Statute (LRS) 17:3991(C)(1)(c)(6)(a) states that a charter school shall employ teachers certified by the state board or the French Ministry of Education for at least seventy-five (75%) of the instructional staff employed by the charter school.

We noted during our audit that only 61% of the instructional staff of **MSA** was certified teachers by the state board or the French Ministry of Education. Therefore, **MSA** has not complied with LRS 17:3991(C)(1)(c)(6)(a) for the year ended June 30, 2004.

We recommend that **MSA** take the necessary steps to ensure that at least 75% of the instructional, staff are certified teachers, as required by state law.

PRIOR YEAR MANAGEMENT LETTER COMMENTS

03-01 Instructional Staff

We recommended that **MSA** take the necessary steps to ensure that at least 75% of the instructional staff are certified teachers, as required by state law.

Current Status

Unresolved. See current year management comemnt 04-01.

**INDEPENDENT AUDITORS' COMMENT TO MANAGEMENT
(CONTINUED)**

This report is intended solely for the use of Board of Directors, management, the Orleans Parish School Board and the Louisiana Legislative Auditor and is not intended to be and should not be used by anyone other than these specified parties. Under Louisiana Revised Statute 24:513, this report is distributed by the Legislative Auditor as a public document.

Bruno & Tervalon LLP
BRUNO & TERVALON LLP
CERTIFIED PUBLIC ACCOUNTANTS

December 17, 2004

New Orleans Charter Middle School

January 3, 2005

Mr. Michael Bruno
Bruno & Tervalon
Certified Public Accountants
4298 Elysian Fields Avenue
New Orleans, LA 70122

RECEIVED
LEGISLATIVE AUDITOR
05 JAN -7 AM 11:38

Dear Mr. Bruno:

This letter is in response to the management letter received from your firm as a result of the 2003-2004 school year financial audit.

Louisiana Revised Statute (LRS) 17:3991 © (1) © (6) (a) states that a charter school shall employ teachers certified by the state board or the French Ministry of Education for at least seventy-five (75%) of the instructional staff employed by the charter school.

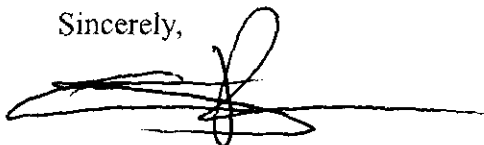
For the year ended June 30, 2004, 61% of the instructional staff was certified in the manner stated above. However, every effort was made to achieve the required objective. In addition to the 11 of 18 teachers who were certified, two teachers held temporary teaching certificates, with minimal requirements remaining for full certification. A third teacher held a Practitioner's License. The combination of certified teachers and teachers with authority from the state to teach, equaled 77.78%.

Each year, we have the opportunity to hire both certified teachers and teachers in various stages of attaining certification. When we identify individuals who are not yet certified, but whose credentials and other personal and professional characteristics are consistent with what we look for in a good teacher, we have been willing to hire them, while they work toward certification.

We understand the importance of meeting the state requirement, but face the real dilemma of sometimes having to choose between a certified, but not well-qualified teacher, versus a person not yet certified, who is working toward that goal, and who would be a great addition to the staff.

We are committed to hiring a qualified staff of teachers and achieving the state objective.

Sincerely,



Dr. Anthony Recasner
Director