

**CHARTER SCHOOL AT WATERSTONE, INC.**

(A COMPONENT UNIT OF THE SCHOOL  
BOARD OF MIAMI-DADE COUNTY, FLORIDA )

**BASIC FINANCIAL STATEMENTS  
AND ADDITIONAL INFORMATION**

June 30, 2007

CHARTER SCHOOL AT WATERSTONE, INC.  
BASIC FINANCIAL STATEMENTS AND ADDITIONAL INFORMATION  
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# The Charter School at Waterstone



855 Waterstone Way Homestead, Florida 33033 Phone: 305-248-6206 Fax: 305-248-6208

August 31, 2007

Ellen O. Wright  
Administrative Director  
Charter School Operations  
Miami-Dade County Public Schools  
2800 Biscayne Boulevard, Suite 900  
Miami, FL 33137

Subject: Annual Audit Report, FY 2007

Dear Ms. Wright:

Enclosed are six bound copies of the audit report as prepared by Keefe, McCullough & Company, located at 6550 North Federal Highway, Suite 410, Fort Lauderdale, Florida 33308. In addition, two Bound copies were sent to the Florida Auditor General's office today.

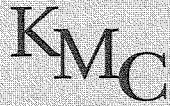
Please contact the Board's Representative, Mike Strader, at 954-461-6466 should you have any questions.

Thank you.

Sincerely,

Nathaniel Grasc  
Chairman

Cc. Mike Strader, Project Director  
Joy Scott, Principal



**KEEFE, McCULLOUGH & CO., LLP**  
**CERTIFIED PUBLIC ACCOUNTANTS**

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THOMAS T. CARPENTER, C.P.A.  
PAUL B. SNEIDER, C.P.A. (RETIRED)  
STEVEN H. WOODS, C.P.A.  
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**INDEPENDENT AUDITORS' REPORT**

To the Board of Directors  
Charter School at Waterstone, Inc.  
Homestead, Florida

We have audited the accompanying basic financial statements of the governmental activities and the General Fund of Charter School at Waterstone, Inc. (the "School") a component unit of The School Board of Miami-Dade County, Florida as of and for the years ended June 30, 2007 as listed in the Table of Contents. These financial statements are the responsibility of the School's management. Our responsibility is to express an opinion on these financial statements based on our audits.


We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Governmental 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 basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic 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 audits provide a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the School as of June 30, 2007, and the respective change in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued a report dated August 31, 2007 on our consideration of the School's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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 the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Charter School at Waterstone, Inc.

The management's discussion and analysis on pages 3 through 6 is not a required part of the basic financial statements but is supplementary information required by the accounting principles generally accepted in the United States of America. 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.

  
KEEFE, McCULLOUGH & CO., LLP

Fort Lauderdale, Florida  
August 31, 2007

**CHARTER SCHOOL AT WATERSTONE, INC.**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
June 30, 2007

Our discussion and analysis of Charter School at Waterstone, Inc.'s (the School) financial performance provides an overview of the School's financial activities for the year ended June 30, 2007 and 2006. Please read it in conjunction with the School's basic financial statements which immediately follow this discussion.

## **OVERVIEW OF THE FINANCIAL STATEMENTS**

This discussion and analysis is intended to serve as an introduction to the School's basic financial statements. The basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to basic financial statements. This report also contains other required supplementary information in addition to the basic financial statements themselves.

### Government-wide financial statements:

The government-wide financial statements, which consist of the following two statements, are designed to provide readers with a broad overview of the School's finances, in a manner similar to a private-sector business.

The statement of net assets presents information on all the School's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the School is improving or deteriorating.

The statement of activities presents information showing how the School's net assets changed during the year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

The government-wide financial statements can be found on pages 7 through 8 of this report.

### Fund financial statements:

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The School only has one category of funds - governmental funds.

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as balances of spendable resources available at the end of the year. Such information may be useful in evaluating the School's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the School's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and change in fund balance provide reconciliation to facilitate this comparison between governmental funds and governmental activities.

**CHARTER SCHOOL AT WATERSTONE, INC.**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
June 30, 2007

The School adopts an annual budget for its governmental fund. A budgetary comparison statement has been provided for the General Fund to demonstrate compliance with the budget.

The governmental fund financial statements and budget information can be found on pages 9-13 of this report.

Notes to basic financial statements:

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to basic financial statements can be found on pages 14-19 of this report.

**GOVERNMENT-WIDE FINANCIAL ANALYSIS**

As noted earlier, net assets may serve over time as a useful indicator of financial position. The following table reflects the condensed government-wide statement of net assets as of June 30, 2007 and 2006:

Charter School at Waterstone, Inc.'s Net Assets			
	June 30, <u>2007</u>	June 30, <u>2006</u>	<u>Variance</u>
CURRENT ASSETS	\$ 1,189,715	\$ 843,346	\$ 346,369
NONCURRENT ASSETS	<u>335,306</u>	<u>412,055</u>	<u>(76,749)</u>
Total assets	\$ <u>1,525,021</u>	\$ <u>1,255,401</u>	\$ <u>269,620</u>
CURRENT LIABILITIES	\$ 578,921	\$ 527,220	\$ 51,701
LONG-TERM LIABILITIES	<u>103,902</u>	<u>244,544</u>	<u>(140,642)</u>
Total liabilities	<u>682,823</u>	<u>771,764</u>	<u>(88,941)</u>
<b>NET ASSETS:</b>			
Invested in capital assets, net of related debt	90,753	43,180	47,573
Unrestricted	<u>751,445</u>	<u>440,457</u>	<u>310,988</u>
Total net assets	<u>842,198</u>	<u>483,637</u>	<u>358,561</u>
Total liabilities and net assets	\$ <u>1,525,021</u>	\$ <u>1,255,401</u>	\$ <u>269,620</u>

**CHARTER SCHOOL AT WATERSTONE, INC.**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
June 30, 2007

A portion of the School's net assets reflects its investment in capital assets, less any related outstanding debt used to acquire those assets. The School uses these capital assets to provide services to students; consequently, these assets are not available for future spending. Although the School's investment in its capital assets is reported net of related debt (if any), it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. Resources that are subject to external restrictions on how they may be used are classified as restricted assets. As of June 30, 2007, the School had no restricted assets. The remaining balance, unrestricted, may be used to meet the School's ongoing obligations.

The following table reflects the School's change in net assets for the years ended June 30, 2007 and 2006.

Charter School at Waterstone, Inc.'s  
Change in Net Assets

	<u>June 30,</u> <u>2007</u>	<u>June 30,</u> <u>2006</u>	<u>Variance</u>
<b>REVENUES:</b>			
General revenues	\$ 6,833,602	\$ 5,501,310	\$ 1,332,292
Program revenues:			
Charges for services	316,963	163,684	153,279
Operating grants and contributions	143,398	425,917	(282,519)
Capital grants and contributions	<u>292,728</u>	<u>447,362</u>	<u>(154,634)</u>
Total revenues	<u>7,586,691</u>	<u>6,538,273</u>	<u>1,048,418</u>
<b>EXPENSES:</b>			
Instructional services	3,402,990	2,747,220	655,770
Instructional support services	50,058	45,700	4,358
Instructional media services	7,643	4,140	3,503
Instructional curriculum development services	16,964	566	16,398
Instructional staff training services	400	16,277	(15,877)
Board administration	913,830	744,797	169,033
School administration	501,957	561,679	(59,722)
Facilities acquisition	1,200,000	1,011,817	188,183
Fiscal services	17,060	42,288	(25,228)
Food services	272,504	238,200	34,304
Pupil transportation services	194,516	149,378	45,138
Operation plant	481,428	383,460	97,968
Maintenance of plant	17,324	28,230	(10,906)
Community services	112,584	68,711	43,873
Interest expense	<u>38,872</u>	<u>12,038</u>	<u>26,834</u>
Total expenses	<u>7,228,130</u>	<u>6,054,501</u>	<u>1,173,629</u>
Change in net assets	358,561	483,772	(125,211)
NET ASSETS, beginning of year	<u>483,637</u>	<u>(135)</u>	<u>483,772</u>
NET ASSETS, end of year	<u>\$ 842,198</u>	<u>\$ 483,637</u>	<u>\$ 358,561</u>



**CHARTER SCHOOL AT WATERSTONE, INC.**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
June 30, 2007

**FINANCIAL ANALYSIS OF THE SCHOOL'S FUNDS**

As noted earlier, the School uses fund accounting to maintain control over resources that have been segregated for specific activities or objectives. The focus of the School's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the School's financing requirements. In particular, unreserved fund balance may serve as a useful measure of the School's net resources available for spending at the end of the fiscal year.

The General Fund is the chief operating fund of the School. At the end of year 2007, unreserved fund balance of the General Fund was \$ 586,156, an increase of \$ 145,699 from the prior year. The General Fund balance increased \$ 310,988 primarily due to higher revenues as a result from an increase in student enrollment of five percent.

**GENERAL FUND BUDGETARY HIGHLIGHTS**

Revenues were higher than budget because:

- The increase in per pupil (FEFP) funding was higher than expected.
- Federal grant funds, which were expected to be expended in the prior year were recorded in the current year.
- Activity in internal accounts was higher than anticipated.

Expenses were higher than budget because:

- Employee salary increases were higher than budgeted because the School matched a mid-year increase by MDCPS.
- Federal grant funds, which were expected to be expended in the prior year were recorded in the current year.
- Activity in internal accounts was higher than anticipated.

**CAPITAL ASSETS AND DEBT ADMINISTRATION**

The School's investment in capital assets as of June 30, 2007 amounts to \$ 335,306 net of accumulated depreciation. This investment in capital assets is composed of leasehold improvements, computers, and office equipment.

**ECONOMIC FACTORS AND NEXT YEAR'S BUDGET**

The School continues to receive its primary funding from FEFP. The School's enrollment remains at capacity. The School's ability to general internal funds continues to be strong.

**REQUESTS FOR INFORMATION**

The financial report is designated to provide a general overview of the School's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the School Financial Services; P. O. Box 250; Bonifay, FL 32425.

# BASIC FINANCIAL STATEMENTS

CHARTER SCHOOL AT WATERSTONE, INC.  
STATEMENT OF NET ASSETS  
June 30, 2007

A S S E T S

	<u>Governmental Activities</u>
<b>CURRENT ASSETS:</b>	
Cash	\$ 521,258
Investments	409,039
Accounts receivable	94,129
Prepaid expenses	<u>165,289</u>
Total current assets	<u>1,189,715</u>
<b>NONCURRENT ASSETS:</b>	
Capital assets, net	<u>335,306</u>
Total assets	<u>1,525,021</u>
<b>LIABILITIES AND NET ASSETS</b>	
<b>CURRENT LIABILITIES:</b>	
Accounts payable	24,552
Accrued payroll and payroll taxes	413,718
Capital lease payable	<u>140,651</u>
Total current liabilities	<u>578,921</u>
<b>LONG-TERM LIABILITIES:</b>	
Capital lease payable	<u>103,902</u>
Total liabilities	<u>682,823</u>
<b>NET ASSETS:</b>	
Invested in capital assets, net of related debt	90,753
Unrestricted	<u>751,445</u>
Total net assets	\$ <u><u>842,198</u></u>

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

CHARTER SCHOOL AT WATERSTONE, INC.  
STATEMENT OF ACTIVITIES  
For the Year Ended June 30, 2007

		Program Revenues			Governmental Activities Net Revenue (Expense) and Change in Net Assets
Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions		
<b>FUNCTIONS/PROGRAMS:</b>					
Governmental Activities:					
Instructional services	\$ 3,402,990	\$ 106,156	\$ 143,398	\$ --	\$ (3,153,436)
Instructional support services	50,058	2,744	--	--	(47,314)
Instructional media services	7,643	--	--	--	(7,643)
Instructional curriculum development services	16,964	--	--	--	(16,964)
Instructional staff training services	400	--	--	--	(400)
Board administration	913,830	--	--	--	(913,830)
School administration	501,957	--	--	--	(501,957)
Facilities acquisition	1,200,000	--	--	--	(1,200,000)
Fiscal services	17,060	--	--	--	(17,060)
Food services	272,504	79,894	--	--	(192,610)
Pupil transportation services	194,516	--	--	--	(194,516)
Operation plant	481,428	--	--	292,728	(188,700)
Maintenance of plant	17,324	--	--	--	(17,324)
Community services	112,584	128,169	--	--	15,585
Interest expense	38,872	--	--	--	(38,872)
 Total governmental activities	 \$ 7,228,130	 \$ 316,963	 \$ 143,398	 \$ 292,728	 (6,475,041)
 General revenues:					
FEFP					6,774,375
Florida Teachers' Lead Program					14,000
Fundraising					12,297
Interest					17,455
Other					15,475
Total general revenues					6,833,602
Change in net assets					358,561
Net assets, beginning of year					483,637
Net assets, end of year					\$ 842,198

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

CHARTER SCHOOL AT WATERSTONE, INC.  
 BALANCE SHEET - GOVERNMENTAL FUND  
 June 30, 2007

A S S E T S

		<u>General Fund</u>
ASSETS:		
Cash	\$	521,258
Investments		409,039
Accounts receivable		94,129
Prepaid expenses		<u>165,289</u>
Total assets	\$	<u><u>1,189,715</u></u>

L I A B I L I T I E S   A N D   F U N D   B A L A N C E

LIABILITIES:		
Accrued payroll and payroll taxes		413,718
Accounts payable		<u>24,552</u>
Total liabilities		<u>438,270</u>
FUND BALANCE:		
Reserved for prepaid expenses		165,289
Unreserved		<u>586,156</u>
Total fund balance		<u>751,445</u>
Total liabilities and fund balance	\$	<u><u>1,189,715</u></u>

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

**CHARTER SCHOOL AT WATERSTONE, INC.**  
**RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS**  
**TO THE STATEMENT OF NET ASSETS**  
 June 30, 2007

TOTAL FUND BALANCES OF GOVERNMENTAL FUNDS IN THE BALANCE SHEET, PAGE 9		\$ 751,445
<p>Amounts reported for governmental activities in the statement of net assets are different because:</p>		
<p>Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds</p>		
Governmental capital assets	523,275	
Less accumulated depreciation	<u>(187,969)</u>	335,306
<p>Certain liabilities are not due and payable in the current, period and, therefore, are not reported in the funds:</p>		
Capital lease payable		<u>(244,553)</u>
NET ASSETS OF GOVERNMENTAL ACTIVITIES, PAGE 7		\$ <u><u>842,198</u></u>

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

CHARTER SCHOOL AT WATERSTONE, INC.  
STATEMENT OF REVENUES, EXPENDITURES AND  
CHANGE IN BALANCE FUND - GOVERNMENTAL FUND  
For the Year Ended June 30, 2007

	<u>General Fund</u>
<b>REVENUES:</b>	
FEFP fees	\$ 6,774,375
Operating grants	436,426
Florida Teachers' Lead Program	14,000
Fundraising	12,297
School Lunch Program	79,894
Charge for services	237,069
Interest	17,455
Other	<u>15,175</u>
Total revenues	<u>7,586,691</u>
<b>EXPENDITURES:</b>	
Instructional services	3,326,241
Instructional support services	50,058
Instructional media services	7,643
Instructional curriculum development services	16,964
Instructional staff training services	400
Board administration	913,830
School administration	501,957
Facilities acquisition	1,200,000
Fiscal services	17,060
Food services	272,504
Pupil transportation services	194,516
Operation plant	481,428
Maintenance of plant	17,324
Community services	112,584
Principal expense	124,322
Interest expense	<u>38,872</u>
Total expenditures	<u>7,275,703</u>
Net change in fund balance	<u>310,988</u>
FUND BALANCE, July 1, 2006	<u>440,457</u>
FUND BALANCE, June 30, 2007	\$ <u><u>751,445</u></u>

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

**CHARTER SCHOOL AT WATERSTONE, INC.**  
**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND**  
**CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS**  
**TO THE STATEMENT OF ACTIVITIES**  
 For the Year Ended June 30, 2007

NET CHANGE IN FUND BALANCES - TOTAL  
 GOVERNMENTAL FUNDS, PAGE 11 \$ 310,988

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

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is depreciated over their estimated useful lives.

Expenditures for capital assets	71,848	
Less current year provision for depreciation	<u>(148,597)</u>	(76,749)

Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.

Principal repayment		<u>124,322</u>
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CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES, PAGE 8 \$ 358,561

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



**CHARTER SCHOOL AT WATERSTONE, INC.**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND**  
**BALANCE - BUDGET AND ACTUAL - GENERAL FUND**  
For the Year Ended June 30, 2007

	<u>Original and Final Budget</u>	<u>Actual</u>	<u>Variance</u>
<b>REVENUES:</b>			
FEFP fees	\$ 6,666,972	\$ 6,774,375	\$ 107,403
Operating grants	364,001	436,426	72,425
Florida Teachers' Lead Program	4,738	14,000	9,262
Fundraising	--	12,297	12,297
School Lunch Program	62,114	79,894	17,780
Charge for services	159,359	237,069	77,710
Interest	--	17,455	17,455
Other	<u>12,643</u>	<u>15,175</u>	<u>2,532</u>
<b>Total revenues</b>	<u>7,269,827</u>	<u>7,586,691</u>	<u>316,864</u>
<b>EXPENDITURES:</b>			
Instructional services	2,969,606	3,326,241	(356,635)
Instructional support services	46,541	50,058	(3,517)
Instructional media services	--	7,643	(7,643)
Instructional curriculum development services	618	16,964	(16,346)
Instructional staff training services	2,342	400	1,942
Board administration	977,178	913,830	63,348
School administration	399,295	501,957	(102,662)
Facilities acquisition	1,200,000	1,200,000	--
Fiscal services	13,375	17,060	(3,685)
Food services	236,831	272,504	(35,673)
Pupil transportation services	251,181	194,516	56,665
Operation plant	328,154	481,428	(153,274)
Maintenance of plant	47,616	17,324	30,292
Community services	103,478	112,584	(9,106)
Principal payment	--	124,322	(124,322)
Interest expense	<u>--</u>	<u>38,872</u>	<u>(38,872)</u>
<b>Total expenditures</b>	<u>6,576,215</u>	<u>7,275,703</u>	<u>(699,488)</u>
<b>Net change in fund balance</b>	<u>693,612</u>	<u>310,988</u>	<u>(382,624)</u>
<b>FUND BALANCE, July 1, 2006</b>	<u>469,092</u>	<u>440,457</u>	<u>(28,635)</u>
<b>FUND BALANCE, June 30, 2007</b>	<u>\$ 1,162,704</u>	<u>\$ 751,445</u>	<u>\$ (411,259)</u>

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

CHARTER SCHOOL AT WATERSTONE, INC.  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2007

NOTE 1 - ORGANIZATION AND OPERATIONS

The Charter School at Waterstone, Inc. (the "School"), a component unit of the School Board of Miami-Dade County, Florida, is established as a charter school for students from kindergarten to eighth grade in Miami-Dade County. As of June 30, 2007, approximately 1,144 students were enrolled in the School. The School is funded primarily through the School Board of Miami-Dade County. The entity was organized in February 2004 as a Florida nonprofit corporation. The School was granted a charter from the School Board of Miami-Dade County to operate a public elementary school within the School District. The School Board may terminate the charter before its expiration date based on various circumstances as defined in the charter agreement.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting entity:

The School operates under a charter granted by the sponsoring School District, the Miami-Dade County Public School District (the Sponsor). The current charter is effective until June 30, 2012, and may be renewed for up to an additional 15 years by mutual written agreement between the School and the Sponsor. At the end of the term of the charter, the District may choose not to renew the charter under grounds specified in the charter, in which case the District is required to notify the School in writing at least ninety days prior to the charter's expiration. During the term of the charter, the District may also terminate the charter if good cause is shown. Charter School at Waterstone, Inc. is considered a component unit of the Miami-Dade County Public School District.

The School may also be financially accountable if an organization is fiscally dependent on the School regardless of whether the organization has a separately elected governing board, a governing board appointed by another government, or a jointly approved board. In addition, component units can be other organizations for which the nature and significance of their relationship with the School are such that exclusion would cause the reporting entity's basic financial statements to be misleading or incomplete.

As a result of evaluating the above criteria, management has determined that no component units exist for which the School is financially accountable, which would require inclusion in the School's basic financial statements.

Basis of presentation:

Based on the guidance provided in the American Institute of Certified Public Accountants Audit and Accounting guide - Not-for-Profit Organizations and provisions of Florida Statutes the School is presented as a governmental organization for financial statement reporting purposes.

Government-wide basic statements:

The School's basic financial statements include both government-wide (reporting the School as a whole) and fund financial statements (reporting the School's major fund). Both the government-wide and fund basic financial statements categorize primary activities as either governmental or business-type. All of the School's activities are classified as governmental activities.

In the government-wide statement of net assets, the governmental activities column is presented on a consolidated basis, if applicable, and is reported on a full accrual economic resource basis, which recognizes all noncurrent assets and receivables as well as all noncurrent debt and obligations.

CHARTER SCHOOL AT WATERSTONE, INC.  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2007

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The government-wide statement of activities reports both the gross and net cost of each of the School's functions. The net costs, by function, are also supported by general revenues (unrestricted contributions, investment earnings, miscellaneous revenue, etc.). The statement of activities reduces gross expenses (including provision for depreciation) by related program revenues, operating and capital grants, and contributions. Program revenues must be directly associated with the function. Operating grants include operating-specific and discretionary (either operating or capital) grants while the capital grants column reflects capital-specific grants.

This government-wide focus is more on the ability to sustain the School as an entity and the change in the School's net assets resulting from the current year's activities.

Fund basic financial statements:

The accounts of the School are organized on the basis of funds. The operations of the funds are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, equity, revenues, and expenditures.

The General Fund is employed in accounting for the financial activities of the School. It is a governmental fund type and is used to account for all financial transactions.

Measurement focus and basis of accounting:

Basis of accounting refers to the point at which revenues or expenditures/expenses are recognized in the accounts and reported in the financial statements. It relates to the timing of the measurements made regardless of the measurement focus applied. Governmental funds use the current financial resources measurement focus and the governmental-wide statement uses the economic resources measurement focus.

Governmental activity in the government-wide basic financial statements is presented on the full accrual basis of accounting. Revenues are recognized when earned, and expenses are recognized when incurred.

The governmental funds financial statements are presented on the modified accrual basis of accounting under which revenue is recognized in the accounting period in which it becomes susceptible to accrual (i.e., when it becomes both measurable and available). "Measurable" means the amount of the transaction can be determined and "available" means collectible within sixty days after year-end or soon enough thereafter to be used to pay liabilities of the current period. For this purpose, the current period means one year.

Cash and cash equivalents:

Cash and cash equivalents are defined as demand deposits, money market accounts, and short-term investments with original maturities of three months or less from the date of acquisition.

The School considers all demand accounts and money market funds which are not subjected to withdrawal restrictions to be cash and cash equivalents.

The School maintains its cash accounts with one financial institution. The School's accounts at this institution, at times, may exceed the federally insured limit. The School has not experienced any losses in such accounts and does not believe it is exposed to any significant credit risk.

Investments:

Investments are stated at their fair value based on quoted market prices.

CHARTER SCHOOL AT WATERSTONE, INC.  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2007

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition:

Student funding is provided by the State of Florida through the School Board. Such funding is recorded as entitlement revenue in the government-wide financial statements and state source revenue in the fund financial basic statements and is net of a 5% administration fee retained by the School Board. This funding is received on a prorata basis over a twelve-month period and is adjusted for changes in full-time equivalent (FTE) student population.

Income taxes:

The School is a nonprofit corporation whose revenue is derived primarily from other governmental entities. The School is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. Accordingly, no provision for income taxes has been made in these basic financial statements.

Use of estimates:

The preparation of financial statements in accordance with accounting principles generally accepted in the United State 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 revenues and expenditures/expenses during the reporting period. Actual results could differ from those estimates.

Capital assets:

Property and equipment purchased or acquired are capitalized at historical cost or estimated historical cost. Capital assets are defined by the School as assets with an initial cost of \$ 750 and useful life of over one year. Donated property and equipment assets are valued at the estimated fair market value as of the date received. Additions, improvements, and other capital outlays that significantly extend the useful life of an asset are capitalized and depreciated over the remaining useful lives of the related fixed assets. Other costs incurred for repairs and maintenance are expensed as incurred.

Depreciation on all assets is provided on the straight-line basis over the estimated useful lives as follows:

Office equipment and fixtures	3-20 years
Leasehold improvements	5 years

Net assets:

Net assets are classified in two categories. The general meaning of each is as follows:

Invested in capital assets, net of related debt - represents the difference between the cost of capital assets, less accumulated depreciation reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets.

Unrestricted - indicates that portion of net assets that will need to be funded by future operations.

Fund balance:

Fund balance is classified in two categories. The general meaning of each is as follows:

Reserved - indicates the portion of fund balance not available for appropriation in

**CHARTER SCHOOL AT WATERSTONE, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
 June 30, 2007

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

subsequent periods or is legally segregated for a specific future use. These amounts do not represent available spendable resources.

Unreserved - indicates the portion of fund balance that will need to be funded by future operations.

**Budget:**

An operating budget is adopted and maintained by the governing board for the School pursuant to the requirements of Florida statutes. The budget is adopted using the same basis of accounting that is used in the preparation of the financial statements.

**NOTE 3 - DEPOSITS AND INVESTMENTS**

The School's deposits must be placed with banks and savings and loans which are qualified as public depositories, prior to receipt of public monies, under Chapter 280, Florida statutes and the School's policy. These deposits are insured by the FDIC up to \$ 200,000, \$ 100,000 for demand deposits, and \$ 100,000 for savings deposits. Monies deposited in amounts greater than the insurance coverage are secured by the bank's pledging securities with the state treasurer in the collateral pool. At year end, the carrying amount of the School's deposits was \$ 930, 297 and the bank balance was \$ 999,088.

These deposits are reflected in the accompanying statement of net assets in the following accounts:

Cash and cash equivalents	\$	521,258
Investments (certificates of deposit)		<u>409,039</u>
Total deposits and investments	\$	<u><u>930,297</u></u>

**NOTE 4 - CAPITAL ASSETS**

A summary of changes in governmental capital is as follows:

	Balance July 1, 2006	Additions	Deletions	Balance June 30, 2007
Capital assets, depreciable:				
Office equipment and fixtures	\$ 451,427	\$ 41,430	\$ --	\$ 492,857
Leasehold improvements	<u>--</u>	<u>30,418</u>	<u>--</u>	<u>30,418</u>
	<u>451,427</u>	<u>71,848</u>	<u>--</u>	<u>523,275</u>
Accumulated depreciation:				
Office equipment and fixtures	39,372	145,810	--	185,182
Leasehold improvements	<u>--</u>	<u>2,787</u>	<u>--</u>	<u>2,787</u>
	<u>39,372</u>	<u>148,597</u>	<u>--</u>	<u>187,969</u>
Net capital assets	\$ <u><u>412,055</u></u>	\$ <u><u>(76,749)</u></u>	\$ <u><u>--</u></u>	\$ <u><u>335,306</u></u>

Depreciation expense for the year ended June 30, 2007 was \$ 148,597 and was allocated to instructional services.

CHARTER SCHOOL AT WATERSTONE, INC.  
 NOTES TO FINANCIAL STATEMENTS  
 June 30, 2007

NOTE 5 - LEASES

The School previously entered into an operating lease for the building in which the School conducts its operations. The lease called for monthly payments of \$ 100,000 during the year ended June 30, 2007 and includes annual increases in accordance with the agreement through June 2015. In accordance with the agreement, the School is required to maintain the premises at its own expense. The agreement term expires in July 2035. Rental expense for the year ended June 30, 2007 was \$ 1,200,000. Future annual payments related to this lease are as follows:

Future rental expense under this lease agreement is as follows:

Year ending June 30,	
2008	\$ 1,236,000
2009	\$ 1,273,080
2010	\$ 1,311,272
2011	\$ 1,350,611
2012	\$ 1,391,129
2013-2015	\$ 4,428,834
Thereafter	\$ NONE

NOTE 6 - CAPITAL LEASE

The School previously entered into two capital lease agreements for the purchase of school equipment and educational supplies. The leases call for monthly payments of \$ 13,781 through February 2009. At June 30, 2007, the net book value of the assets acquired under these capital leases is \$ 237,693. The following is a schedule of the future minimum lease payments under this capital lease obligation and the present net minimum lease payments at June 30, 2007:

Year ending June 30,	
2008	\$ 163,213
2009	<u>108,808</u>
Total minimum lease payments	272,021
Less: amount representing interest	<u>27,468</u>
Present value of future minimum lease payments	\$ <u>244,553</u>

NOTE 7 - CONTINGENCIES AND COMMITMENTS

The School received financial assistance from Federal, state and local governmental agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and may be subject to audit by the grantor agencies. In accordance with OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations and the Florida Single Audit Act, the School is not required to conduct a "single audit" since the required threshold for both Federal and state money is currently \$ 500,000 and the School did not exceed such threshold.

CHARTER SCHOOL AT WATERSTONE, INC.  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2007

NOTE 7 - CONTINGENCIES AND COMMITMENTS (continued)

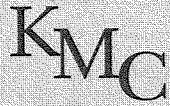
The School also has a contract with a management company to assist in performing various administrative, educational, operating, and financial duties. Under the terms of the agreement, the School will pay ten percent (10%) of gross operating revenue, less the sponsor's administrative fee, and will include public charter school program implementation grant funds. The total amount incurred during the year ended June 30, 2007 relating to this contract was \$ 699,654.

NOTE 8 - RISK MANAGEMENT

The School is exposed to various risks of loss related to limited torts; theft of, damage to and destruction of assets; errors and omissions and natural disasters for which the School carries commercial insurance.

**OTHER INDEPENDENT AUDITORS'  
REPORTS**





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**INDEPENDENT AUDITORS' 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**

To the Board of Directors  
Charter School at Waterstone, Inc.  
Homestead, Florida

We have audited the basic financial statements of Charter School at Waterstone, Inc. (the "School") a component unit of the School Board of Miami-Dade County, Florida, as of and for the year ended June 30, 2007, and have issued our report thereon dated August 31, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

**Internal Control over Financial Reporting**

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

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 School'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 School's financial statements that is more than inconsequential will not be prevented or detected by the School's internal control.

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 School's internal control.


Our consideration of 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 internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Charter School at Waterstone, Inc.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the School's basic 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 basic financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

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

  
KEEFE, McCULLOUGH & CO., LLP

Fort Lauderdale, Florida  
August 31, 2007



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INDEPENDENT AUDITORS' REPORT TO THE BOARD OF DIRECTORS

To the Board of Directors  
Charter School at Waterstone, Inc.  
Homestead, Florida


This letter is written in connection with our audit of the basic financial statements of Charter School at Waterstone, Inc. (the "School"), as of and for the year ended June 30, 2007. The purpose of this letter is to communicate to you any comments and recommendations and to comply with the requirements of Chapter 10.850, Rules of the Auditor General, Rule 10.854(1)(d).

The following statements relate to requirements of the Auditor General:

1. There were no inaccuracies, irregularities, shortages, defalcations, fraud, and/or violations of laws, rules, regulations or contractual provisions reported for the preceding audit.
2. There were no recommendations made relating to the preceding audit.
3. There were no recommendations to improve the School's financial management accounting procedures and internal controls.
4. There were no violations of laws, rules, regulations or contractual provisions discovered during our audit.
5. There were no illegal or improper expenditures discovered within the scope of the financial audit which may or may not materially affect the basic financial statements.
6. There were no other matters requiring correction which may or may not materially affect the basic financial statements reported on, including, but not limited to: improper or inadequate accounting procedures, failures to properly record financial transactions, or other inaccuracies, shortages, defalcations, and instances of fraud or other reportable conditions.
7. As required by the Rules of the Auditor General (Section 10.854(1)(d)2), a statement must be included as to whether or not the local government entity has met one or more of the conditions described in Section 218.503(1), Florida Statutes. In connection with our audit, we determined that the School did not meet any of the conditions described in Section 218.503(1), Florida Statutes.

Charter School at Waterstone, Inc.

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

  
KEEFE, McCULLOUGH & CO., LLP

Fort Lauderdale, Florida  
August 31, 2007