

CORAL REEF MONTESSORI ACADEMY
CHARTER SCHOOL, INC.

A CHARTER SCHOOL AND COMPONENT UNIT
OF THE SCHOOL BOARD OF MIAMI-DADE COUNTY

BASIC FINANCIAL STATEMENTS

For the year ended June 30, 2005

2005 OCT -3 AM 9:53
SCHOOL BOARD OF MIAMI-DADE COUNTY
FISCAL OFFICE

Coral Reef Montessori Academy Charter School, Inc.

BASIC FINANCIAL STATEMENTS

For the year ended June 30, 2005

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INTRODUCTORY SECTION

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10853 SOUTH WEST 216 STREET
MIAMI, FLORIDA 33170

PH (305) 255-0064

FAX (305) 255-4085

September 16, 2005

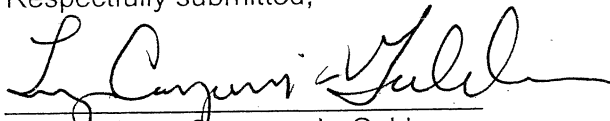
Board of Directors
Coral Reef Montessori Academy
Charter School, Inc.

This report consists of management's representation concerning the finances of Coral Reef Montessori Academy Charter School, Inc. (the "Charter School"). Consequently, management assumes full responsibility for the completeness and reliability of all of the information presented in this report. As management, we assert that, to the best of our knowledge and belief, this financial report is complete and reliable in all material respects.

The Charter School's financial statements have been audited by Sanson, Kline, Jacomino & Company, LLP, a firm of licensed certified public accountants. The goal of the independent audit was to provide reasonable assurance that the financial statements of the Charter School for the year ended June 30, 2005, are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principals used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditor concluded, based upon the audit, that there was reasonable basis for rendering an unqualified opinion that the Charter School's financial statements for the fiscal year ended June 30, 2005, are fairly presented in conformity with generally accepted accounting principals (GAAP). The independent auditor's report is presented as the first component of the financial section of this report.

GAAP requires that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement MD&A and should be read in conjunction with it. The Charter School's MD&A can be found immediately following the report of the Independent Auditors.

Respectfully submitted,

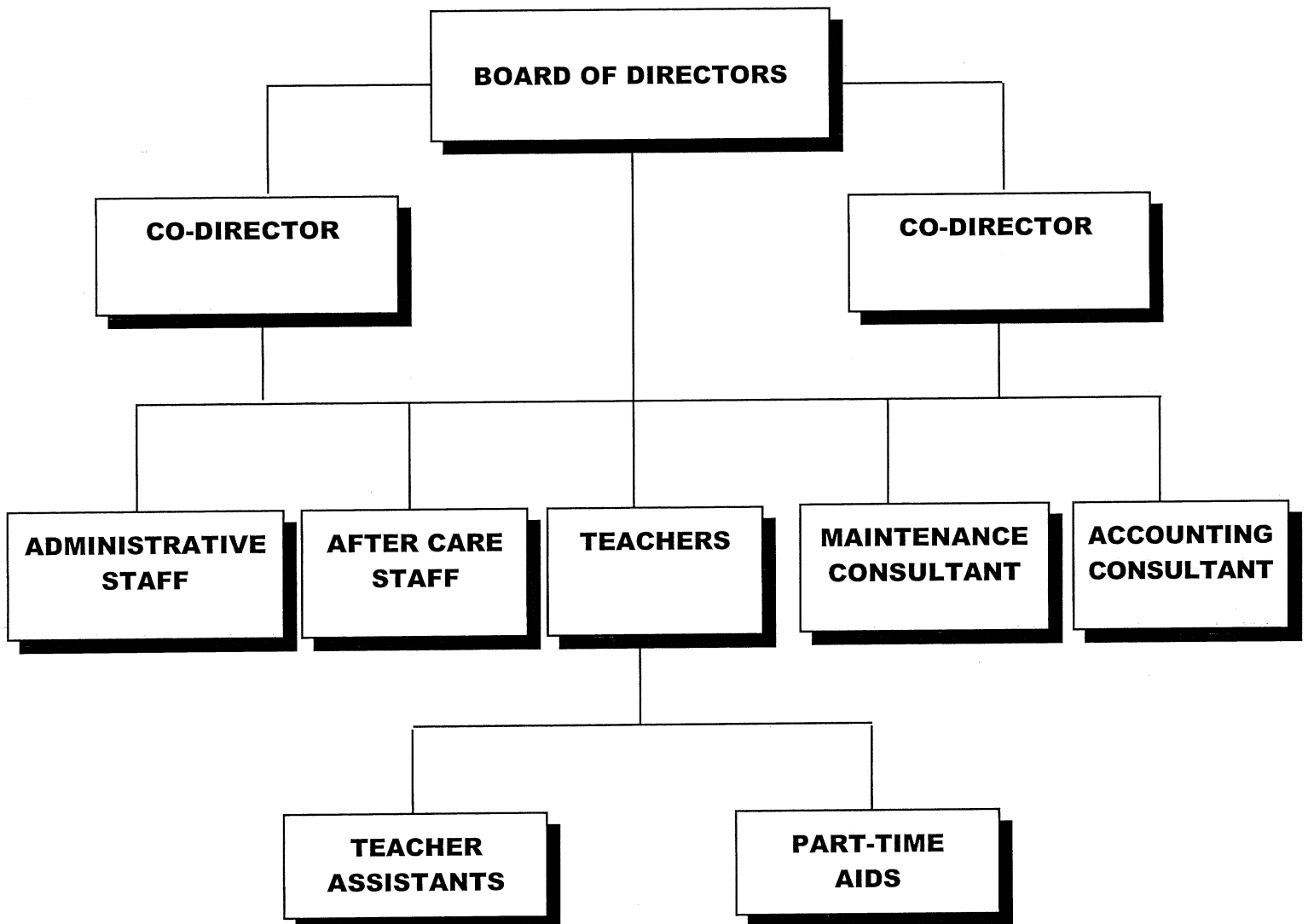

Ms. Lucy Ganzoneri - Golden,
Co-Director


Ms. Juliet King
Co-Director

Coral Reef Montessori Academy
Charter School, Inc.

ORGANIZATION CHART

June 30, 2005



Coral Reef Montessori Academy
Charter School, Inc.

CO-DIRECTORS AND BOARD OF DIRECTORS

June 30, 2005

Co-Directors

Ms. Lucy Canzoneri - Golden

Ms. Juliet King

Board of Directors

President

Ms. Elsie Hamler

Vice President

Mr. Victor Golden

Secretary

Ms. Geraldine Townsend

Board Members

Ms. Maria Singer
Mr. Ray Fauntroy
Mr. Nestor Torres
Ms. Kim Thomas

FINANCIAL SECTION



Sanson, Kline, Jacomino
& Company, LLP
Certified Public Accountants

LeJeune Centre 782 N.W. LeJeune Road - Suite 650 - Miami, Florida 33126

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Coral Reef Montessori Academy
Charter School, Inc.

We have audited the accompanying basic financial statements of the governmental activities and each major fund of Coral Reef Montessori Academy (the "Charter School"), as of June 30, 2005, and for the year then ended, which collectively comprise the Charter School's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Charter School's management. Our responsibility is to express an opinion on these basic 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 opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Charter School as of June 30, 2005, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have issued our report dated September 16, 2005 on our consideration of the Charter School's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.



The Management's Discussion and Analysis on pages 3 through 7 and the budgetary comparison information on page 20 are not a required part of the basic financial statements but are 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.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Charter School's basic financial statements. The introductory section is presented for purposes of additional analysis and is not a required part of the basic financial statements. The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

Sanson, Klince, Jacanino & Company, LLP

Miami, Florida
September 16, 2005

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2005

As management of Coral Reef Montessori Academy Charter School, Inc. (the "Charter School"), we offer readers of the Charter School's financial statements this narrative overview and analysis of the financial activities of the Charter School for the fiscal year ended June 30, 2005. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the Charter School's basic financial statements. The Charter School's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements.

Government-wide Financial Statements. The *government-wide financial statements* are designed to provide readers with a broad overview of the Charter School's finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of the Charter 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 Charter School is improving or deteriorating.

The *statement of activities* presents information showing how the Charter School's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event resulting in 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 8-9 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 Charter School, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Charter School are 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 on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

The Charter School adopts an annual budget for its general fund. A budgetary comparison statement has been provided for the general fund on page 20 to demonstrate compliance with this budget.

MANAGEMENT'S DISCUSSION AND ANALYSIS- CONTINUED

June 30, 2005

The basic governmental fund financial statements can be found on pages 10-11 of this report.

Notes to 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 the financial statements can be found on pages 12-19 of this report.

Budgetary Highlights

The charter school adopts an annual budget on an individual fund basis. A budgetary comparison schedule has been provided for the General Fund to demonstrate compliance with the budget on page 20 of this report.

The following is a brief review of the variances from the final budget to actual amounts for the General Fund (please see budget to actual comparison on page 20):

The variance from final budget to actual for total expenditures was a result of the new facilities construction which was expected to be completed by the end of the prior year, but it was finally completed on January 2005.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net assets may serve over time as a useful indicator of a charter school's financial position. In the case of the Charter School, assets exceeded liabilities by \$509,662 at the close of the most recent fiscal year. A summary of the Charter School's net assets for the years ended June 30, 2005 and 2004 follows:

	<u>2005</u>	<u>2004</u>
Cash	\$ -	\$ 19,758
Cash restricted	105,662	101,540
Accounts receivable	828	30,253
Due from other government agency	15,090	31,133
Prepaid expenses and other assets	4,668	668
Capital assets, net	<u>3,781,650</u>	<u>2,178,037</u>
 Total assets	 <u>\$3,907,898</u>	 <u>\$2,361,389</u>
 Bank overdraft	 \$ 1,850	 \$ -
Accounts payable and accrued liabilities	46,386	59,497
Line of credit	50,000	45,000
Long-term liabilities		
Due with in one year	429,000	1,565,177
Due in more than one year	<u>2,871,000</u>	<u>-</u>
 Total liabilities	 <u>\$3,398,236</u>	 <u>\$1,669,674</u>
 Invested in capital assets, net of related debt	 \$ 611,010	 \$ 611,010
Restricted	101,540	101,540
Unrestricted	<u>(202,888)</u>	<u>(20,835)</u>
Total net assets	<u>\$ 509,662</u>	<u>\$ 691,715</u>

Coral Reef Montessori Academy Charter School, Inc.

MANAGEMENT'S DISCUSSION AND ANALYSIS- CONTINUED

June 30, 2005

At the end of the current fiscal year, the Charter School is able to report positive balances in all three categories of net assets. The same situation held true for the prior fiscal year.

A summary of the Charter School's change in net assets for the years ended June 30, 2005 and 2004 follows:

	<u>2005</u>	<u>2004</u>
Revenues		
Program revenues		
Operating grants and contributions	\$ 160,321	\$ 96,498
Capital grants and contributions	152,246	135,677
Charges for services	308,827	316,575
General revenues		
Grant and contributions	1,434,374	1,357,528
Fund-raising	5,959	1,777
Other	27,044	1,359
Interest	<u>4,407</u>	<u>26</u>
Total revenues	<u>2,093,178</u>	<u>1,909,440</u>
Expenses		
Instructional services	1,381,507	1,131,296
School administration	121,183	105,260
Operation of plant	250,921	356,362
Maintenance of plant	37,657	35,284
Central services	82,232	72,832
Instructional media services	698	5,632
Instructional and curriculum development services	31,067	60,366
Pupil transportation	30,775	23,115
Community services	3,467	1,324
Fiscal services	23,406	23,341
Pupil personnel services	13,750	36,899
Board	26,199	12,904
Interest expense	212,486	2,464
Instructional staff training	16,120	12,398
Unallocated depreciation	<u>43,763</u>	<u>8,837</u>
Total expenses	<u>2,275,231</u>	<u>1,888,314</u>
Increase in net assets	(182,053)	21,126
Net assets at beginning of year	<u>691,715</u>	<u>663,534</u>
Prior year adjustments	<u>-</u>	<u>7,055</u>
Net assets at end of year	<u>\$ 509,662</u>	<u>\$ 691,715</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS- CONTINUED

June 30, 2005

The operating grants and contributions increased by \$63,823 during the year, and the capital grants and contributions increased by \$16,569.

The Charter School provides elementary and middle school education for 368 students in grades K through eighth under a charter sponsored by the School Board of Miami-Dade County, Florida (the "School District").

Although the Charter School did improve their test scores from last year, the Charter School still received a "C" grade earned in the school year 2004-2005. The Charter School's future goals for improving the "C" grade is to continue using the *District's Mandated Reading Improvement* plan which will identify students who scored at Level I and Level II on the FCAT Reading. Instructions will be individualized with emphasis on remediation and mastery of skills identified in order to raise test scores. An additional staff member has been hired to work with remediation in reading and one additional Middle School Teacher has been hired to instruct and remediate in math for middle school students who scored a Level I or Level II.

Students who have been identified as high risk in K-8th in either reading or math will have an Academic Improvement Plan (AIP) developed. The Charter School will monitor those students closely by using state mandated diagnostic tools. The Charter School will follow the recommendation of the Department of Education in regards to the Middle School Reform Act. Therefore, students in the Middle School who have been identified as needing remediation in reading will receive an additional intensive reading course, thereby increasing their instructional day by one hour.

An outside consultant will be working with a 3rd grade teacher whose student's FCAT scores were the lowest in 3rd grade, and will provide support for this teacher through peer mentoring and modeling successful, instructional strategies. This same consultant will work with a newly hired 3rd grade teacher, providing the same professional support. In addition, the Charter School has planned several professional development workshops for the entire staff in the areas of: Infusing Technology in the Classroom; How to Impact Student's Achievement; Analyzing Data for Improving FCAT Scores; and Decision Making, Strategies for Improving FCAT Writing, and Correlating Montessori Lessons with FCAT Skills.

Lastly, the Charter School has increased technological support by providing internet access to all classrooms, and has budgeted over \$60,000 for technology, including purchasing new computer for the students, a lap top for each teacher to analyze and monitor students, research based software, training and professional staff development.

FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

As noted earlier, the Charter School uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

MANAGEMENT'S DISCUSSION AND ANALYSIS- CONTINUED

June 30, 2005

At the end of the current fiscal year, the Charter School's governmental funds reported combined ending fund balances of \$28,012, a decrease of \$50,843 in comparison with the prior year. The decrease is mainly attributable to the increase in expenditures due to the increase in hiring of more staff teachers and assistants, increase in health insurance coverage to 100%, and construction of the new school facilities, which was 100% completed this fiscal year. The reserved fund balance is available for improvements on the land purchased for the construction of the new facilities.

The general fund is the chief operating fund of the Charter School. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance and total fund balance represent 2% of total expenditures.

Capital Assets

The Charter School's investment in capital assets as of June 30, 2005 amounts to \$3,781,650 (net of accumulated depreciation). This investment in capital assets includes land, school building, furniture, fixtures and computer equipment. During the fiscal year 2002-2003, the School began to incur costs for the construction of the new facilities. The total of these costs included those required by the agreement with Miami-Dade County, as well as those related to the new facility at June 30, 2005 is \$1,610,596. The construction of the school facility was completed on January 2005.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the Charter School's finances for all those with an interest in the Charter School's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to Ms. Juliet King, Co-Director - 10853 SW 216 Street - Miami, Florida 33170.

Basic Financial Statements

Coral Reef Montessori Academy Charter School, Inc.

STATEMENT OF NET ASSETS

June 30, 2005

ASSETS

Cash restricted	\$105,662
Accounts receivable	828
Due from other government agency	15,090
Prepaid expenses and other assets	<u>4,668</u>
	<u>126,248</u>
Capital assets	
Land	980,909
Building	2,731,298
Furniture, fixtures and computer equipment	<u>69,443</u>
Total capital assets, net	<u>3,781,650</u>
Total assets	<u>3,907,898</u>

LIABILITIES

Bank overdraft	1,850
Accounts payable and accrued liabilities	46,386
Line of credit	50,000
Long-term liabilities	
Due within one year	429,000
Due in more than one year	<u>2,871,000</u>
Total liabilities	<u>3,398,236</u>

NET ASSETS

Invested in capital assets, net of related debt	611,010
Restricted for capital projects	101,540
Unrestricted	<u>(202,888)</u>
Total net assets	<u>\$ 509,662</u>

The accompanying notes are an integral part of this statement.

Coral Reef Montessori Academy Charter School, Inc.

STATEMENT OF ACTIVITIES

For the year ended June 30, 2005

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expense) Revenue and Change in Net Assets- Governmental Activities</u>
		<u>Charges For Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	
Instructional services	\$1,381,507	\$ 191,456	\$ -	\$ -	\$(1,190,051)
School administration	121,183	-	115,472	-	(5,711)
Operation of plant	250,921	-	10,886	152,246	(87,789)
Maintenance of plant	37,657	-	-	-	(37,657)
Central services	82,232	-	-	-	(82,232)
Instructional media services	698	-	5,944	-	5,246
Instructional and curriculum development services	31,067	-	-	-	(31,067)
Pupil transportation services	30,775	-	24,017	-	(6,758)
Community services	3,467	117,371	-	-	113,904
Fiscal services	23,406	-	-	-	(23,406)
Pupil personnel services	13,750	-	-	-	(13,750)
Board	26,199	-	-	-	(26,199)
Interest expense	212,486	-	-	-	(212,486)
Instructional staff training	16,120	-	4,002	-	(12,118)
Unallocated depreciation	<u>43,763</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(43,763)</u>
Total Governmental Activities	<u>\$2,275,231</u>	<u>\$ 308,827</u>	<u>\$ 160,321</u>	<u>\$ 152,246</u>	<u>\$(1,653,837)</u>
General revenues					
Grants and contributions not restricted to specific programs					\$1,434,374
Interest					4,407
Fund raising					5,959
Other					<u>27,044</u>
Total general revenues					<u>1,471,784</u>
Change in net assets					(182,053)
Net assets at July 1, 2004					<u>691,715</u>
Net assets at June 30, 2005					<u>\$ 509,662</u>

The accompanying notes are an integral part of this statement.

Coral Reef Montessori Academy Charter School, Inc.

BALANCE SHEET- GOVERNMENTAL FUNDS

June 30, 2005
(With comparable totals for June 30, 2004)

	General Fund	Capital Projects Fund	Total Governmental Funds (Memorandum Only)	
			2005	2004
ASSETS				
Cash	\$ -	\$ -	\$ -	\$ 19,758
Restricted cash	-	105,662	105,662	101,540
Accounts receivable	828	-	828	30,253
Due from other government agency	15,090	-	15,090	31,133
Prepaid expenses	<u>4,668</u>	<u>-</u>	<u>4,668</u>	<u>668</u>
Total assets	<u>\$ 20,586</u>	<u>\$105,662</u>	<u>\$126,248</u>	<u>\$183,352</u>
LIABILITIES AND FUND BALANCES				
Liabilities				
Bank overdraft	\$ 1,850	\$ -	\$ 1,850	\$ -
Accounts payable and accrued liabilities	46,386	-	46,386	59,497
Line of credit	<u>50,000</u>	<u>-</u>	<u>50,000</u>	<u>45,000</u>
Total liabilities	<u>98,236</u>	<u>-</u>	<u>98,236</u>	<u>104,497</u>
Fund balances				
Reserved for capital projects	-	105,662	105,662	101,540
Unreserved fund balance	<u>(77,650)</u>	<u>-</u>	<u>(77,650)</u>	<u>(22,685)</u>
Total fund balances	<u>(77,650)</u>	<u>105,662</u>	<u>28,012</u>	<u>78,855</u>
Total liabilities and fund balances	<u>\$ 20,586</u>	<u>\$105,662</u>	<u>\$126,248</u>	<u>\$183,352</u>

The accompanying notes are an integral part of this statement.

Coral Reef Montessori Academy Charter School, Inc.

**STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES- GOVERNMENTAL FUNDS**

For the year ended June 30, 2005
(With comparable totals for June 30, 2004)

			Total	
	General	Capital	Governmental Funds	
	Fund	Projects	(Memorandum Only)	
		Fund	2005	2004
Revenues				
School Board of Miami-Dade County	\$1,594,695	\$ -	\$1,594,695	\$1,454,026
Capital outlay and SIT	152,246	-	152,246	135,677
Program fees	308,827	-	308,827	316,575
Fundraising-net of expenses	5,959	-	5,959	1,777
Other	27,044	-	27,044	1,359
Interest	285	4,122	4,407	26
Total revenues	<u>2,089,056</u>	<u>4,122</u>	<u>2,093,178</u>	<u>1,909,440</u>
Expenditures				
Current				
Instructional services	1,381,507	-	1,381,507	1,131,296
School administration	121,183	-	121,183	105,260
Operation of plant	250,921	-	250,921	356,362
Maintenance of plant	37,657	-	37,657	35,284
Central services	82,232	-	82,232	72,832
Instructional media services	698	-	698	5,632
Instructional and curriculum development services	31,067	-	31,067	60,366
Pupil transportation services	30,775	-	30,775	23,115
Community services	3,467	-	3,467	1,324
Fiscal services	23,406	-	23,406	23,341
Pupil personnel services	13,750	-	13,750	36,899
Board	26,199	-	26,199	12,904
Instructional staff training	16,120	-	16,120	12,398
Capital outlay				
Facilities acquisition and renovation	1,612,517	-	1,612,517	806,168
Other capital outlay	34,861	-	34,861	33,761
Debt service				
Interest expense	212,486	-	212,486	133,432
Total expenditures	<u>3,878,846</u>	<u>-</u>	<u>3,878,846</u>	<u>2,850,374</u>
Deficiency of revenues over expenditures	<u>(1,789,798)</u>	<u>4,122</u>	<u>(1,785,668)</u>	<u>(940,934)</u>
Other financing sources				
Proceeds from long-term financing	<u>1,734,825</u>	<u>-</u>	<u>1,734,825</u>	<u>858,670</u>
Total other financing sources	<u>1,734,825</u>	<u>-</u>	<u>1,734,825</u>	<u>858,670</u>
Excess (deficiency) of revenues over expenditures and other financing sources (uses)	<u>(22,685)</u>	<u>4,122</u>	<u>(50,843)</u>	<u>(82,264)</u>
Fund balance at July 1, 2004	<u>(81,225)</u>	<u>101,540</u>	<u>78,855</u>	<u>154,064</u>
Prior period adjustment	-	-	-	7,055
Fund balance at June 30, 2005	<u><u>\$ (77,650)</u></u>	<u><u>\$ 105,662</u></u>	<u><u>\$ 28,012</u></u>	<u><u>\$ 78,855</u></u>

The accompanying notes are an integral part of this statement.

NOTES TO THE BASIC FINANCIAL STATEMENTS

June 30, 2005

NOTE A- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of Coral Reef Montessori Academy Charter School, Inc. (the "Charter School") have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the standard-setting body for governmental accounting and financial reporting. The GASB periodically updates its codification of the existing Governmental Accounting and Financial Reporting Standards which, along with subsequent GASB pronouncements (Statements and Interpretations), constitutes GAAP for governmental units.

1. Reporting Entity

Coral Reef Montessori Academy Charter School, Inc. is a not-for-profit corporation, organized pursuant to Chapter 617, Florida Statutes, the Florida Not For Profit Corporation Act, and Section 228.056, Florida Statutes. The governing body of the Charter School is a Board of Directors which is composed of 7 members.

At June 30, 2005 a total of 313 students were enrolled in grades kindergarten through eighth and 55 students were enrolled in the pre-school program at the Charter School.

The general operating authority of the Charter School is contained in Section 228.056, Florida Statutes. The Charter School operates under a charter of the sponsoring school district, the School Board of Miami-Dade County, Florida (the "School Board"). The current charter is effective until June 30, 2008, and may be renewed every 3 years by mutual agreement between the Charter School and the School Board. At the end of the term of the charter, the School District may choose not to renew the charter under grounds specified in the charter in which case the School District is required to notify the Charter School in writing at least 90 days prior to the Charter School's expiration. During the term of the charter, the School District may also terminate the charter if good cause is shown.

Criteria for determining if other entities are potential component units which should be reported within the Charter School's basic financial statements are identified and described in the Governmental Accounting Standards Board's (GASB) Codification of *Government Accounting and Financial Reporting Standards*. The application of these criteria provide for identification of any entities for which the Charter School is financially accountable and other organizations for which the nature and significance of their relationship with the Charter School are such that exclusion would cause the Charter School's basic financial statements to be misleading or incomplete. Based on these criteria, no component units are included within the reporting entity of the Charter School.

NOTES TO THE BASIC FINANCIAL STATEMENTS- CONTINUED

June 30, 2005

NOTE A - Continued

2. Basic Financial Statements - GASB 34

The basic financial statements include both government-wide (based on the Charter School as a whole) and fund financial statements. While the previous financial reporting model emphasized fund types (the total of all funds of a particular type), in the new financial reporting model the focus is on either the Charter School as a whole, or major individual funds (within the fund financial statements).

In the government-wide statement of net assets, the governmental type activities are presented on a consolidated basis by column and are reflected on a full accrual, economic resource basis, which incorporates long-term assets and receivables as well as long-term debt and obligations.

The government-wide statement of activities reflects both the gross and net costs per functional category (instructional services, school administration, central services, etc.), which are otherwise supported by general revenues (grants and contributions not restricted to specific programs, fund raising, interest income, etc.). The statement of activities reduces gross expenses (including depreciation) by related program revenues, operating and capital grants. The program revenues must be directly associated with the function (instructional services, school administration, central services, etc.). The operating grants include operating-specific and discretionary (either operating or capital) grants which the capital grants column reflects capital-specific grants.

The net cost by function is normally covered by general revenue. Historically, the previous financial reporting model did not summarize or present net cost by function or activity.

The government-wide focus is more on the sustainability of the Charter School as an entity and the change in aggregate financial position resulting from the activities of the fiscal period.

The fund financial statements are, in substance, very similar to the financial statements presented in the previous financial reporting model. Emphasis here is on the major funds in the governmental category. Non-major funds (by category) are summarized into a single column.

The governmental funds major fund statements in the fund financial statements are presented on a current financial resource and modified accrual basis of accounting. This is the manner in which these funds are normally budgeted. This presentation is deemed most appropriate to (a) demonstrate legal and covenant compliance, (b) demonstrate the source and use of liquid resources, and (c) demonstrate how the Charter School's actual experience conforms to the budget fiscal plan.

NOTES TO THE BASIC FINANCIAL STATEMENTS- CONTINUED

June 30, 2005

NOTE A - Continued

3. Measurement Focus Basis of Accounting and Financial Statement Presentation

The financial transactions of the Charter School are recorded in individual funds. Each fund is accounted for by providing a separate set of self-balancing accounts that comprises its assets, liabilities, reserves, fund equity, revenues and expenditures/expenses. The various funds are reported by generic classification within the financial statements.

GASB 34 sets forth minimum criteria (percentage of the assets, liabilities, revenues or expenditures/expenses of either fund category or the governmental and enterprise combine) for the determination of major funds. The Charter School has no non-major funds.

Governmental funds are used to account for the Charter School's general governmental activities. Governmental fund types use the flow of current financial resources measurement focus and the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., when they are 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. The Charter School considers all revenues available if they are collected within 90 days after year end. Expenditures are recorded when the related fund liability is incurred, except for certain other liabilities which are recognized when the obligations are expected to be liquidated with expendable available financial resources.

The Charter School reports the following major funds:

- ▶ **General Fund-** used to account for the full-time equivalent (FTE) revenue received from the School Board and the expenditures incurred under the Charter School contract with the School Board. In addition, it is used to account for unrestricted contributions, interest income and other income.
- ▶ **Capital Projects Fund-** used to account for Capital Outlay funds and School Infrastructure Thrift (SIT) funds. These funds have been segregated to account for renovation to the existing facility or the acquisition of new facilities.

GASB 34 eliminates the presentation of account groups but provides for these records to be maintained and incorporates the information into the Statement of Net Assets.

4. Assets, Liabilities and Fund Balance

Cash

The Charter School's cash is considered to be cash on hand and demand deposits.

NOTES TO THE BASIC FINANCIAL STATEMENTS- CONTINUED

June 30, 2005

NOTE A - Continued

Restricted Cash

Restricted cash consists of a CD used as collateral for a letter of credit required by an agreement between the Charter school and Miami-Dade county Public Works Department for improvements to the subdivision where the new school building will be constructed.

Accounts receivable

Accounts receivable consists of pre-K tuition and after school care fees pending to be collected. Any bad debts are expensed in the subsequent period when they are determined to be uncollectible.

Due from other government agency

Due from other government agency consists of grants receivable which were collected in the subsequent year. Since all the receivables were collected subsequent to year end, an allowance for doubtful accounts is not necessary.

Capital Assets

Capital assets purchased or acquired is carried at historical cost or estimated historical cost. The Charter School capitalization levels are \$750 on tangible personal property. Other costs incurred for repairs and maintenance are expensed as incurred. Depreciation on all assets is provided on the straight-line basis over the following estimated useful lives:

	<u>Years</u>
Furniture and fixtures	5
Computer equipment	7
Building	39

Fund Balance

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for expenditure and are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

5. Comparative Data and Reclassifications

Comparative total data for the prior year have been presented only for the balance sheet and statement of revenues, expenditures and changes in fund balances for governmental funds in order to provide an understanding of the changes in the financial position and operations of these funds. Also, certain amounts presented in the prior year data have been reclassified in order to be consistent with the current year's presentation.

NOTES TO THE BASIC FINANCIAL STATEMENTS- CONTINUED

June 30, 2005

NOTE A - Continued

6. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Although these estimates are based on management's knowledge of current events and actions it may undertake in the future, they may ultimately differ from actual results.

NOTE B - RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

1. Explanation of certain differences between the governmental fund balance sheet and the government-wide statement of net assets

Total fund balances- governmental funds	\$ 28,012
---	-----------

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 funds.	3,781,650
---	-----------

Mortgages payable are not due or payable in the current period and therefore are not reported in the funds	(3,300,000)
--	-------------

Total net assets- governmental activities	\$ <u>509,662</u>
---	-------------------

2. Explanation of certain differences between the governmental fund statement of revenues, expenditures and changes in fund balances and the government-wide statement of activities

Net change in fund balances- governmental funds	\$ (50,843)
---	-------------

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 allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays expense exceeds depreciation in the current period.	1,603,615
--	-----------

The issuance of long-term debt (mortgage payable) provides current financial resources to governmental funds. However, the proceeds from long-term debt financing is not other financing sources in the statement of activities.	(1,734,825)
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Change in net assets of governmental activities	\$ <u>(182,053)</u>
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Coral Reef Montessori Academy Charter School, Inc.

NOTES TO THE BASIC FINANCIAL STATEMENTS- CONTINUED

June 30, 2005

NOTE C - CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2005 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets, not being depreciated:				
Land	\$ 980,909	\$ -	\$ -	\$ 980,909
Improvements other than buildings	142,103	-	142,103	-
Construction in progress	<u>1,011,229</u>	<u>-</u>	<u>1,011,229</u>	<u>-</u>
Total capital assets, not being depreciated	<u>2,134,241</u>	<u>-</u>	<u>1,153,332</u>	<u>980,909</u>
Capital assets, being depreciated:				
Furniture, fixtures and computer equipment	57,281	34,861	-	92,142
Building	<u>-</u>	<u>2,765,847</u>	<u>-</u>	<u>2,765,847</u>
Total capital assets, being depreciated	<u>57,281</u>	<u>2,800,708</u>	<u>-</u>	<u>2,857,989</u>
Less accumulated depreciation for:				
Furniture, fixtures and computer equipment	13,485	9,214	-	22,699
Building	<u>-</u>	<u>34,549</u>	<u>-</u>	<u>34,549</u>
Total accumulated depreciation	<u>13,485</u>	<u>43,763</u>	<u>-</u>	<u>57,248</u>
Total capital assets, being depreciated, net	<u>43,796</u>	<u>2,756,945</u>	<u>-</u>	<u>2,800,741</u>
Total capital assets, net of accumulated depreciation	<u>\$2,178,037</u>	<u>\$2,756,945</u>	<u>\$1,153,332</u>	<u>\$3,781,650</u>

Coral Reef Montessori Academy Charter School, Inc.

NOTES TO THE BASIC FINANCIAL STATEMENTS- CONTINUED

June 30, 2005

NOTE D - CHANGES IN LONG-TERM LIABILITIES

Long-term liabilities balances and activity for the year ended June 30, 2005, were as follows:

	<u>Balance 07/01/04</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 06/30/05</u>	<u>Due within One Year</u>
Mortgage Note, issued on June 2, 2002, interest of 10.75%, interest only due monthly, maturity date June 4, 2007.	\$ 500,000	\$ -	\$ 500,000	\$ -	\$ -
Mortgage Note, issued on June 2, 2002, interest of 10.75%, interest only due monthly, maturity date June 4, 2007.	350,000	-	350,000	-	-
Mortgage Note, issued on June 2, 2002, interest at 12.50%, interest only due monthly, maturity date August 30, 2005.	715,176	-	715,176	-	-
Mortgage Note, issued on January 31, 2005, interest at 13.00%, interest only due monthly, maturity date January 1, 2008.	-	3,300,000	-	3,300,000	429,000
Total	<u>\$1,565,176</u>	<u>\$3,300,000</u>	<u>\$1,565,176</u>	<u>\$3,300,000</u>	<u>\$ 429,000</u>

Maturities of long-term debt are as follows:

<u>Year ended June 30,</u>	<u>Amount</u>
2006	\$ 429,000
2007	429,000
2008	<u>2,442,000</u>
	<u>\$3,300,000</u>

NOTES TO THE BASIC FINANCIAL STATEMENTS- CONTINUED

June 30, 2005

NOTE E- OTHER INFORMATION

1. Risk Management

The Charter School is exposed to various risks of loss related to torts, theft of, damage to and destruction of assets, errors and omissions and natural disasters for which the Charter School carries commercial insurance. The Charter School also carries builders' risk insurance for the construction of the new school.

2. Related Party Transactions

School Board

Pursuant to the Charter School contract with the School Board, the School Board is paid a management fee of 5% of the qualifying revenues of the Charter School. During the year ended June 30, 2005, \$82,232 was paid to the School Board for management fees. Pursuant to the contract, the Charter School receives an FTE fee for each full time student enrolled. The fee is based upon various teaching requirements of each student enrolled. There were 313 full time students and 55 pre-school students enrolled for the fiscal year ended June 30, 2005. The Charter School also receives other allowances based upon the students enrolled including a transportation allowance for students living between 2 and 4 miles from the school property. The Charter School retains the services of 5 employees of the School Board for which the Charter School reimburses the School Board for actual cost of payroll, taxes, insurance and benefits. The total reimbursement under this arrangement was \$282,911 for the 2004-2005 school year.

At September 16, 2005, the date of the auditors' report, the Charter School had a remaining receivable of \$15,091 from the School Board for the 2004/5 fiscal year. In the opinion of management, no reserve for uncollectible amounts was necessary.

Board of Directors

The co-directors also serve as managers of the Charter School. Both co-directors have relatives who are on the Charter School Board of Directors. The total salaries and fringe benefits paid to the co-directors/managers amounted to \$282,911 for the year ended June 30, 2005.

3. Leases

During the fiscal year ended June 30, 2005, the Charter School leased one facility under operating leases. The lease agreement is renewed on a month-to-month basis. Once the construction of the new facilities was finalized on January 17, 2005, this lease was no longer effective.

Rent expense for the year ended June 30, 2005 was \$152,000.

REQUIRED SUPPLEMENTARY INFORMATION

Coral Reef Montessori Academy Charter School, Inc.

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES- BUDGET AND ACTUAL- GENERAL FUND**

For the year ended June 30, 2005

	<u>Original and Final</u>	<u>Actual Amounts</u>	<u>Variance Final Budget- Positive (Negative)</u>
Revenues			
School Board of Miami- Dade County	\$1,600,442	\$1,594,695	\$ (5,747)
Capital outlay and SIT	-	152,246	152,246
Program fees	287,350	308,827	21,477
Fundraising	10,000	5,959	4,041
Other	80,000	27,044	(52,956)
Interest	<u>200</u>	<u>285</u>	<u>85</u>
Total revenues	<u>1,977,992</u>	<u>2,089,056</u>	<u>111,164</u>
Expenditures			
Current			
Instructional services	1,098,000	1,381,507	(283,507)
School administration- personnel	164,700	121,183	43,517
Operation of plant	152,000	250,921	(98,921)
Maintenance of plant	41,400	37,657	3,743
Central services	116,000	82,232	33,768
Instructional media services	-	698	(698)
Instructional and curriculum development services	34,500	31,067	3,433
Pupil transportation services	29,000	30,775	(1,775)
Community services	-	3,467	(3,467)
Fiscal services	18,200	23,406	(5,206)
Pupil personnel services	-	13,750	(13,750)
Board	20,000	26,199	(6,199)
Instructional staff training	14,000	16,120	(2,120)
Capital outlay	-	1,647,378	(1,647,378)
Principal	254,861	-	254,861
Interest expense	<u>189,000</u>	<u>212,486</u>	<u>(23,486)</u>
Total expenditures	<u>2,131,661</u>	<u>3,878,846</u>	<u>(1,747,185)</u>
Excess (deficiency) of revenues over expenditures	(153,669)	(1,789,798)	(1,636,129)
Other Financing Sources			
Proceeds from long-term financing	-	1,734,825	(1,734,825)
Carryover of reserves	<u>153,669</u>	<u>-</u>	<u>153,669</u>
Total other financing sources	<u>153,669</u>	<u>1,734,825</u>	<u>(1,581,156)</u>
Deficiency of revenues over expenditures and other financing sources	-	(54,965)	(54,965)
Fund balance at July 1, 2004	<u>-</u>	<u>(22,685)</u>	<u>(22,685)</u>
Fund balance at June 30, 2005	<u>\$ -</u>	<u>\$ (77,650)</u>	<u>\$ (77,650)</u>

NOTE TO REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2005

1. BUDGETARY POLICY

The annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America for all governmental funds, except the capital projects fund, which adopts a project length budget. All annual appropriations lapse at fiscal year end. The original budget and any subsequent amendments are approved by the Board of Trustees.

OTHER REPORTS



Sanson, Kline, Jacomino

& Company, LLP

Certified Public Accountants

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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
Performed in Accordance with *Government Auditing Standards***

Board of Directors
Coral Reef Montessori Academy
Charter School, Inc.

We have audited the basic financial statements of Coral Reef Montessori Academy Charter School, Inc. (the "Charter School") as of June 30, 2005, and have issued our report thereon dated September 16, 2005. We conducted our audit in accordance with generally accepted auditing standards 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 Charter School's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the basic 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 internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that we have reported to management of the Charter school, in a separate letter dated September 16, 2005.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the basic financial statements are free of material misstatement, we performed tests of the Charter School's compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance 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 non-compliance or other matters that are required to be reported under *Government Auditing Standards*.

The report is intended solely for the information and use of the Board of Directors, management of the Charter School, 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.

Sensen, Kline, Jaramila & Company, LLP

Miami, Florida
September 16, 2005



Sanson, Kline, Jacomino
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**MANAGEMENT LETTER IN ACCORDANCE WITH THE RULES
OF THE AUDITOR GENERAL OF THE STATE OF FLORIDA**

Board of Directors
Coral Reef Montessori Academy
Charter School, Inc.

We have audited the basic financial statements of Coral Reef Montessori Academy Charter School, Inc. (the "Charter School") as of and for year ended June 30, 2005, and have issued our report thereon dated September 16, 2005.

We conducted our audit in accordance with generally accepted auditing standards generally accepted in the United States of America, and standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

We have issued our Independent Auditor's Report on Compliance and on Internal Control Over Financial Reporting dated September 16, 2005. Disclosures in that report, if any, should be considered in conjunction with this management letter.

Additionally, the provisions of Chapter 10.850, Rules of the Auditor General govern the conduct of charter school audits performed in the State of Florida and require that certain items be addressed in this letter. Those items, which are listed in Section 10.854, are as follows:

1. A statement as to whether or not inaccuracies, irregularities, shortages, defalcations, and/or violations of laws, rules, regulations, and contractual provisions reported in the preceding basic financial audit report have been corrected.

There were no such matters reported in the preceding basic financial report.

2. A statement as to whether or not recommendations made in the preceding basic financial audit report have been followed.

See status of prior year's observations, recommendations, and management's responses following.

3. Recommendations to improve present financial management, accounting procedures, and internal controls.

See current year's observations, recommendations, and management's responses following.

4. Violations of laws, rules, regulations and contractual provisions that have or are likely to have occurred, that were discovered within the scope of the financial audit, which may or may not materially affect the financial statements.

We have issued a separate report dated September 16, 2005 on compliance and other matters, and internal control over financial reporting.

5. Illegal or improper expenditures discovered within the scope of the financial audit which may or may not materially affect the financial statements.

We have issued a separate report dated September 16, 2005 on compliance and other matters, and internal control over financial reporting.

6. Other matters requiring correction which may or may not materially affect the 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 discovered by, or that came to the attention of, the Auditor.

We have issued a separate report dated September 16, 2005 on compliance and other matters, and internal control over financial reporting.

7. The name or official title of the entity.

The information is disclosed in the accompanying financial statements.

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

Sousa, Kline, Jacarino & Company, LLP

Miami, Florida
September 16, 2005

Coral Reef Montessori Academy Charter School, Inc.

Management Letter in Accordance with the
Rules of the Auditor General of the State of Florida

June 30, 2005

**Current Year's Observations, Recommendations,
and Management's Responses**

SUMMARY

No.	Current Year's Observation
2005-1	Record Retention
2005-2	General Ledger - No Account Numbers
2005-3	Safeguarding Against Double Payments
2005-4	Revenue and Expense Classification and Allocation

**Management Letter in Accordance with the
Rules of the Auditor General of the State of Florida**

June 30, 2005

2005-1 RECORD RETENTION

Observation:

During the course of the audit, we noted that the client was unable to locate several expenditures supporting documentation. In such instances the client had to request a copy of the cancelled check from the bank, and copies of missing invoices from their vendors.

Recommendation:

The client should adhere to a strict policy of record retention such that all financial documents less than two years old be kept on file on the premises while older critical records be maintained indefinitely in a safe and readily accessible facility.

Benefit:

Adherence to a record retention policy will result in improved accountability over historical financial information.

Management Response:

Over the last two years, the school has been working under hardship conditions as construction of the new school facility was in progress. The school moved locations on separate occasion until finally the new facility was ready for occupancy in the middle of the FY 2004-05 school year. Although the school's management tried to keep all records in marked cabinets and boxes, due to the circumstances, some records were misplaced and most likely misfiled.

Now that the new facility is fully operational, the school's management is working with a new accountant to formalize accounting policies and procedures in a new accounting manual to include proper record maintenance and retention as well as organization of records by office staff. Additionally, office staff will be trained when procedures are finalized to ensure that the records are maintained in accordance with adopted procedures.

2005-2 GENERAL LEDGER – ACCOUNT NUMBERS

Observation:

The general ledger did not provide account numbers. Thus, additional time is spent agreeing the general ledger to supporting documentation and from the trial balance to the general ledger.

Recommendation:

All accounts in the general ledger should be numbered, according the trial balance and any other subsidiary ledger.

Benefit:

This will facilitate the agreeing to financial information.

Management Response:

Over the last 2 years, the school has contracted with different accountants whom management feels have not provided adequate accounting services to the school. The last accountant was terminated as of the end of the fiscal year, and a new accountant with experience in charter school financial accounting has been hired. Management will be working with the new accountant to ensure that the general ledger is properly set up with account codings that meet "Red Book" guidelines to ascertain that financial transactions are recorded and reported properly.

2005-3 SAFEGUARDING AGAINST DOUBLE PAYMENTS**Observation:**

In the course of our testing, we noted that neither invoices nor supporting documentation were effectively canceled upon payment to the vendor.

Recommendation:

Once payments are made to vendors, all supporting documentation should be stamped "paid". Payment should only be made on the original invoice.

Benefit:

These procedures will prevent payment duplication.

Management Response:

The school's new formal accounting policies and procedures manual will include proper procedures and standard forms (i.e. Purchase Orders, Check Requisitions, etc.) for initiating and documenting revenue and expenditure transactions to ensure that the revenues are properly recorded and expenditures are accurately and timely paid. Procedures will include a provision that requires vendor invoices to be marked "paid" as well as reflect the respective check number and date issued. All staff will be trained on the formal policies and procedures adopted to ensure effective implementation.

2005-4 REVENUE & EXPENSE CLASSIFICATION AND ALLOCATION

Observation:

During our testwork on revenues and expenditures, we noted numerous transactions were improperly classified in the general ledger.

Recommendation:

We recommended that the client establish allocation methods for common revenue & expenditure transactions, as well as reviewing all revenue and expenditure accounts on a monthly basis to ascertain their proper classification.

Benefit:

This will ensure proper financial statement classification.

Management Response:

The school's management will work with the new accountant to establish adequate allocation methods consistent with the general ledger account codes to ensure that a uniform system of allocating revenue and expenditures is maintained. On a monthly basis, the accountant will meet with the Co-directors to review the allocation and coding of revenues and expenditures that will be posted to the general ledger to ascertain consistency in the classification of the financial transactions.

Coral Reef Montessori Academy Charter School, Inc.

Management Letter in Accordance with the
Rules of the Auditor General of the State of Florida

June 30, 2005

**Status of Prior Year's Observations, Recommendations,
and Management's Responses**

SUMMARY

<u>No.</u>	<u>Prior year's observation</u>	<u>Comment Partially Addressed Or No Longer Relevant</u>	<u>Comment Is Still Relevant At June 30, 2005</u>
2004-1	Chart School Contract Non-compliance	X	
2004-2	Payroll Records and time Sheet Approval	X	
2004-3	Purchase and Invoice Approval		X

Coral Reef Montessori Academy Charter School, Inc.

Management Letter in Accordance with the
Rules of the Auditor General of the State of Florida

June 30, 2005

2004-3 Purchase and Invoice Approval

Observation:

During our review of the cash disbursements, we noted the following instances:

- Invoices are not approved.
- No proper filing process in place.

Effect:

Deficiencies in the internal controls over the purchasing and cash disbursement process can result in incorrect and/or inaccurate payment to vendors. In addition, an inadequate filing process delays the retrieval of support for any questioned items for audit purposes.

Recommendation:

The Charter School should develop adequate policies and procedures over the purchasing and disbursement process. A Payment Requisition Form should be completed to include, at a minimum, two signatures; the person initiating the purchase, and the Co-director's approval, and a third signature by a Board member for purchases over a certain amount.

Furthermore, a proper filing system should be developed to ensure that all cash disbursements are supported by a Payment Requisition Form, approved invoice, and any other documents that supports the disbursement.

Prior Year's Management Response:

1. Taking into consideration the auditor's recommendation, management will keep a copy of all checks, along with the receipt or invoice.
2. Management will confer with the new in-house accounting firm to further develop a system that will meet the objections stated in the recommendations offered by the auditor.
3. Management has also hired a bookkeeper who has extensive experience with Quick Books and will implement a record keeping system that should improve in-house controls significantly.

Current Year's Status:

This observation was still applicable in fiscal year 2005.

Current Year's Management Response:

Management will be working with the new accountant to implement the auditor's recommendation.