

THE DOWNTOWN MIAMI CHARTER SCHOOL, INC.

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

FISCAL YEARS ENDED JUNE 30, 2004 AND 2003

THE DOWNTOWN MIAMI CHARTER SCHOOL, INC.
(A COMPONENT UNIT OF THE SCHOOL BOARD OF MIAMI-DADE COUNTY)

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Officers of
The Downtown Miami Charter School, Inc.
(A component unit of the School Board of Miami-Dade County)
Miami, Florida

We have audited the accompanying basic financial statements of the governmental activities and major fund of The Downtown Miami Charter School, Inc. (the "School") as of and for the fiscal years ended June 30, 2004 and 2003, (a component unit of the School Board of Miami-Dade County), which collectively comprises the School's basic financial statements as listed in the table of contents. These basic financial statements are the responsibility of the School's management. Our responsibility is to express opinions on these special-purpose financial statements based on our audit.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the 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 audit provides a reasonable basis for our opinions.

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 major fund of The Downtown Miami Charter School, Inc. as of June 30, 2004 and 2003, and the respective changes in financial position for the fiscal years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated October 13, 2004 on our consideration of the School's internal control over financial reporting and our tests of their compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

To the Board of Directors and Officers of
The Downtown Miami Charter School, Inc.

The accompanying required supplementary information, such as management's discussion and analysis and budgetary comparison information on pages 3 through 7, and pages 21 and 22, respectively, are not a required part of the basic financial statements but are supplementary information required by 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.

Grau & Company

October 13, 2004

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of The Downtown Miami Charter School, Inc. ("School"), we offer readers of the School this narrative overview and analysis of the financial activities of the School for the year ended June 30, 2004.

Management's discussion and analysis is included at the beginning of the audited financial statements to provide, in layman's term, the past and current position of the School's financial condition. This summary should not be taken as a replacement for the audit, which, consists of the financial statements and other supplementary information that presents all the School's revenue and expenditures, by program for the General Fund.

FINANCIAL HIGHLIGHTS

Our financial statements provide these insights into the results of this year's operations.

The overall condition of the School's General Fund ended in a deficit position at the close of the current fiscal year. While State budget cuts affected educational funding, the School was able to surpass budgeted revenues by additional State grant awards. The School's current year end with a deficit in Total net assets of \$34,215 compared to a deficit of \$12,666 last year. We believe that the deficit will be overcome during next year's operations as enrollment increases and stabilizes for the full school year. The overall condition of the funds and governmental activities remains strong for the School.

The liabilities of the School exceeded its assets at June 30, 2004 by approximately \$34,215 (net asset deficit). Of this amount, approximately (\$51,983) was unrestricted deficit, which will be funded by the operations of the School in the subsequent fiscal year.

USING THIS ANNUAL REPORT

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

Government-Wide Financial Statements

The *government-wide financial 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 (deficit)*. 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 government's net assets changed during the most recent fiscal 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 (e.g., uncollected revenues and services rendered but unpaid).

The government-wide financial statements include all *governmental activities* that are principally supported by grants and entitlements from the State for full-time equivalent funding. The School does not have any *business-type activities*. The governmental activities of the School primarily include instructional and support services.

The government-wide financial statements can be found on pages 8 through 10 of the report.

MANAGEMENT'S DISCUSSION AND ANALYSIS

USING THIS ANNUAL REPORT (CONTINUED)

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, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The School's only fund, the General Fund, is a governmental fund.

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 outflow 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 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 changes in fund balance provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The School maintains only one governmental fund type, which is the general fund. Information is presented in the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund.

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 basic governmental fund financial statements can be found on pages 11 through 13 of this report.

Notes to the 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 14 through 20 of this report.

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents certain required *supplementary information* concerning budgetary information for the School's general fund. Required supplementary information can be found on pages 21 and 22 of this report.

Our auditor has provided reasonable assurance in his independent auditor's report, located immediately preceding this Management's Discussion and Analysis, that the Basic Financial Statements are fairly stated. Varying degrees of assurance are being provided by the auditor regarding the Supplementary Information identified above. A user of this report should read the independent auditor's report carefully to ascertain the level of assurance being provided for each of the other parts listed in the table of contents.

MANAGEMENT'S DISCUSSION AND ANALYSIS

GOVERNMENT-WIDE FINANCIAL ANALYSIS

This is the second year of operations and as such, a comparative of government-wide data will be presented. The School's net assets (deficit) were (\$34,215) at June 30, 2004. Of this amount, (\$51,983) was unrestricted and \$17,768 were invested in capital assets. The School's net assets were (\$12,666) at June 30, 2003. Of this amount, (\$28,126) was unrestricted and \$15,460 were invested in capital assets.

Our analysis of the financial statements of the School begins below. The Statement of Net Assets and the Statement of Activities report information about the School's activities that will help answer questions about the position of the School. A comparative analysis is provided.

Net Assets (Deficit)

A summary of the School's Net Assets (Deficit) is presented in Table A-1 and a summary of the changes in net assets is presented in Table A-2.

Table A-1

Summary of net assets (Deficit)

	Fiscal Year <u>2004</u>	Fiscal Year <u>2003</u>
Current assets	\$ 255,368	\$ 230,115
Capital assets, net	<u>17,768</u>	<u>15,460</u>
Total assets	<u>273,136</u>	<u>245,575</u>
Current liabilities	<u>307,350</u>	<u>258,241</u>
Investment in capital assets, net of related debt	17,768	15,460
Unrestricted (Deficit)	<u>(51,983)</u>	<u>(28,126)</u>
Total net assets (Deficit)	<u>\$ (34,215)</u>	<u>\$ (12,666)</u>

Table A-2

Summary of changes in net assets (Deficit)

	Fiscal Year <u>2004</u>	Fiscal Year <u>2003</u>
Revenues:		
Program Revenues:		
Charges for services	\$ 384,306	\$ 65,730
Operating grants and contributions	421,101	329,849
Capital grants and contributions	254,424	163,368
General Revenues:		
FTE	3,131,812	1,467,179
Investment income and miscellaneous	<u>9,124</u>	<u>20,665</u>
Total revenues	<u>4,200,767</u>	<u>2,046,791</u>
Expenses:		
Instructional services	1,904,069	1,029,840
Support services	1,314,967	578,578
Operation of non-instructional services	130,406	92,235
Operation and maintenance of plant	<u>872,874</u>	<u>358,804</u>
Total expenses	<u>4,222,316</u>	<u>2,059,457</u>
(Decrease) in net assets	<u>\$ (21,549)</u>	<u>\$ (12,666)</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS

GOVERNMENT-WIDE FINANCIAL ANALYSIS (CONTINUED)

As noted above and in the statement of activities on page 9, the cost of all governmental activities during the year ended June 30, 2004 and June 30, 2003 was approximately \$4,222,000 and \$2,059,000 respectively. The majority of these activities were financed through general revenues of approximately \$3,132,000 and \$1,467,000 which consist primarily of Full Time Equivalents ("FTE") funding from the State.

See "Financial Highlights" on page 3 of this report, for a further explanation of the reason for the decrease in net assets.

FINANCIAL ANALYSIS OF THE SCHOOL'S FUNDS

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

Governmental funds. The focus of the School's *governmental fund* 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 a government's net resources available for spending at the end of the fiscal year.

At the end of the School's second fiscal year of operations, fund balance of the general fund was a deficit of (\$34,215). The general fund is the chief operating fund and only fund of the School.

A summary of the general fund's condensed balance sheet and statement of revenues, expenditures and changes in fund balance is presented in Table B-1 and B-2 for June 30, 2004:

Table B-1

Summary of condensed Balance Sheet

	Fiscal Year 2004	Fiscal Year 2003
Total assets	<u>\$ 273,135</u>	<u>\$ 245,575</u>
Total liabilities	<u>307,351</u>	<u>\$ 258,241</u>
Total fund balance (deficit)	<u>(34,215)</u>	<u>(12,666)</u>
Total liabilities and fund balance	<u>\$ 273,135</u>	<u>\$ 245,575</u>

Table B-2

Summary of condensed statement of revenues, expenditures, and changes in fund balance

	Fiscal Year 2004	Fiscal Year 2003
Total Revenues	\$ 4,200,767	\$2,046,789
Total Expenditures	<u>4,224,624</u>	<u>\$2,074,915</u>
Deficiency of revenues over expenditures	<u>\$ (23,857)</u>	<u>\$ (28,126)</u>

Governmental activities. Governmental activities decrease the School's fund balance by approximately \$(23,857). Key elements of this decrease were discussed in the "Financial Highlights" section on page 3.

MANAGEMENT'S DISCUSSION AND ANALYSIS

MAJOR GOVERNMENTAL FUNDS BUDGETING AND OPERATING HIGHLIGHTS

An operating budget was 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 preparation of the fund financial statements. There were no amendments to the budget during the fiscal year ended June 30, 2004.

The general fund actual revenues were \$4,200,767. That amount is above the budget estimates of \$3,942,032 by approximately \$258,735. The increase in revenue was generated primarily from additional start up grant funding and revenues from local sources.

The actual expenditures of the general fund were \$4,224,624, which is above the budget estimates of \$3,976,521. The majority of the (\$248,103) deficiency is comprised of food service costs and capital outlay expenditures.

CAPITAL ASSETS

At June 30, 2004, the School had \$21,158 invested in furniture, fixtures and leasehold improvements. Of this amount, \$3,390 in depreciation has been as a result of the implementation of the Government Accounting Standards Board Statement No. 34 and the new financial reporting model, which resulted in a net book value of \$17,768. Total additions for the year were \$4,258 as noted above.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The economy in the State of Florida has slowly been recouping since the tragic events of September 11, 2001. While the current revenue estimates for the State of Florida have declined, the Governor has proposed a net increase ranging from three percent to three and one-half percent for educational funding. The School is planning to maintain its student enrollment at its current size. These factors were considered in preparing the School's budget for the fiscal year 2004-2005.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the School's finances for all those with an interest in the School's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Charter Schools USA, 6245 N. Federal Highway, 5th Floor, Ft. Lauderdale, Florida 33308.

THE DOWNTOWN MIAMI CHARTER SCHOOL, INC.
(a component unit of the School Board of Miami-Dade County)
STATEMENT OF NET ASSETS

June 30,

		Governmental Activities	
		<u>2004</u>	<u>2003</u>
	<u>ASSETS</u>		
Cash and cash equivalents		\$ 240,303	\$ 198,815
Receivables		-	16,663
Prepays		15,064	14,637
Capital assets:			
Improvements other than buildings		6,830	5,000
Machinery and equipment		14,328	11,900
Less accumulated depreciation		<u>(3,390)</u>	<u>(1,440)</u>
Total capital assets, net of accumulated depreciation		<u>17,768</u>	<u>15,460</u>
Total assets		<u>\$ 273,135</u>	<u>\$ 245,575</u>
	<u>LIABILITIES</u>		
Accounts payable		\$ 60,349	\$ 130,888
Wages payable		<u>247,001</u>	<u>127,353</u>
Total liabilities		<u>307,350</u>	<u>258,241</u>
	<u>NET (DEFICIT)</u>		
Invested in capital assets		17,768	15,460
Unrestricted (Deficit)		<u>(51,983)</u>	<u>(28,126)</u>
Total net (deficit)		<u>\$ (34,215)</u>	<u>\$ (12,666)</u>

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

THE DOWNTOWN MIAMI CHARTER SCHOOL, INC.
(a component unit of the School Board of Miami-Dade County)
STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Charges for Services</u>	<u>Program Revenues</u>		<u>Capital Grants</u>	<u>Net (Expenses) Revenues and Changes in Net Assets Governmental Activities Total</u>
			<u>Operating Grants and Contributions</u>	<u>Capital Grants</u>		
Governmental activities:						
Instructional services	\$ (1,833,969)	\$ 310,717	\$ 421,101	\$ -	\$ -	\$ (1,102,151)
Pupil personnel services	(29,836)	-	-	-	-	(29,836)
Instructional media services	(5,524)	-	-	-	-	(5,524)
Instruction and curriculum development services	(7,957)	-	-	-	-	(7,957)
Instructional staff training services	(1,000)	-	-	-	-	(1,000)
Board	(7,766)	-	-	-	-	(7,766)
School administration	(544,280)	-	-	-	-	(544,280)
Fiscal services	(539,838)	-	-	-	-	(539,838)
Food services	(219,582)	73,589	-	-	-	(145,993)
Central services	(132,907)	-	-	-	-	(132,907)
Operation of plant	(847,823)	-	-	254,424	-	(593,399)
Maintenance of plant	(51,834)	-	-	-	-	(51,834)
Total activities	<u>(4,222,316)</u>	<u>384,306</u>	<u>421,101</u>	<u>254,424</u>	<u>-</u>	<u>(3,162,485)</u>
General revenues:						
FTE non-specific revenues						3,131,812
Unrestricted investment income and miscellaneous						9,124
Total general revenues						<u>3,140,936</u>
Change in net assets						<u>(21,549)</u>
Net assets, beginning						<u>(12,666)</u>
Net (deficit), ending						<u>\$ (34,215)</u>

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

THE DOWNTOWN MIAMI CHARTER SCHOOL, INC.
(a component unit of the School Board of Miami-Dade County)
STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

Functions/Programs	Expenses	Charges for Services	Program Revenues		Capital Grants	Net (Expenses) Revenues and Changes in Net Assets Governmental Activities Total
			Operating Grants and Contributions			
Governmental activities:						
Instructional services	\$ (1,020,923)	\$ 38,875	\$ 329,849	\$ -	\$ -	\$ (652,199)
Pupil personnel services	(6,811)	-	-	-	-	(6,811)
Instruction and curriculum development services	(1,788)	-	-	-	-	(1,788)
Instructional staff training services	(318)	-	-	-	-	(318)
Board	(7,853)	-	-	-	-	(7,853)
School administration	(189,094)	-	-	-	-	(189,094)
Fiscal services	(266,586)	-	-	-	-	(266,586)
Food services	(115,045)	26,855	-	-	-	(88,190)
Central services	(90,648)	-	-	-	-	(90,648)
Pupil transportation services	(1,587)	-	-	-	-	(1,587)
Operation of plant	(351,612)	-	-	163,368	-	(188,244)
Maintenance of plant	(7,192)	-	-	-	-	(7,192)
Total activities	<u>(2,059,457)</u>	<u>65,730</u>	<u>329,849</u>	<u>163,368</u>		<u>(1,500,510)</u>
General revenues:						
FTE non-specific revenues						1,467,179
Unrestricted investment income and miscellaneous						<u>20,665</u>
Total general revenues						<u>1,487,844</u>
Change in net assets						<u>(12,666)</u>
Net assets, beginning						<u>-</u>
Net (deficit), ending						<u>\$ (12,666)</u>

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

THE DOWNTOWN MIAMI CHARTER SCHOOL, INC.
(a component unit of the School Board of Miami-Dade County)
BALANCE SHEETS - GOVERNMENTAL FUNDS

June 30,

	<u>2004</u>	<u>2003</u>
<u>ASSETS</u>		
Cash and cash equivalents	\$ 240,303	\$ 198,815
Receivables	-	16,663
Prepays	<u>15,065</u>	<u>14,637</u>
Total assets	<u>\$ 255,368</u>	<u>\$ 230,115</u>
<u>LIABILITIES AND FUND BALANCE (DEFICIT)</u>		
Liabilities:		
Accounts payable	60,350	130,888
Wages payable	<u>247,001</u>	<u>127,353</u>
Total liabilities	<u>307,351</u>	<u>258,241</u>
Fund Balance (Deficit):		
Deficit	(51,983)	(28,126)
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.		
Net (deficit) of governmental activities	<u>17,768</u> <u>\$ (34,215)</u>	<u>15,460</u> <u>\$ (12,666)</u>

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

THE DOWNTOWN MIAMI CHARTER SCHOOL, INC.
(a component unit of the School Board of Miami-Dade County)
STATEMENTS OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE FISCAL YEARS ENDED JUNE 30

	<u>2004</u>	<u>2003</u>
Revenues:		
Local	\$ 3,386,236	\$ 1,630,547
Federal grants	353,935	201,000
Local grants and other	<u>460,596</u>	<u>215,242</u>
Total revenues	<u>4,200,767</u>	<u>2,046,789</u>
Expenditures:		
Instructional services	\$ 1,787,096	\$ 902,402
Pupil personnel services	29,836	6,811
Instructional medial services	5,524	-
Instruction and curriculum development services	7,957	1,788
Instruction staff training services	1,000	318
Board	7,766	7,853
School administration	544,280	189,094
Fiscal services	539,838	266,586
Food service	219,582	115,045
Central services	132,907	90,648
Pupil transportation services	-	1,587
Operation of plant	845,479	350,171
Maintenance of plant	51,825	7,192
Capital outlay	<u>51,534</u>	<u>135,420</u>
Total expenditures	<u>4,224,624</u>	<u>2,074,915</u>
Deficiency of revenues over expenditures	(23,857)	(28,126)
Fund balance (deficit) at beginning of year	<u>(28,126)</u>	-
Fund balance (deficit) at end of year	<u>\$ (51,983)</u>	<u>\$ (28,126)</u>

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

THE DOWNTOWN MIAMI CHARTER SCHOOL, INC.
(a component unit of the School Board of Miami-Dade County)
RECONCILIATION OF THE STATEMENTS OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES

FOR THE FISCAL YEARS ENDED JUNE 30.

		<u>2004</u>
Amounts reported for governmental activities in the statement of activities are different because:		
Net change in fund balances- total governmental funds	\$	(23,857)
Fixed asset additions capitalized		4,258
Depreciation expense - general fund		<u>(1,950)</u>
Change in net assets of governmental activities	\$	<u>(21,549)</u>
		<u>2003</u>
Net change in fund balances- total governmental funds	\$	(28,126)
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 and reported as depreciation expense. This is the amount which capital outlays exceeded depreciation in the current period.		<u>15,460</u>
Change in net assets of governmental activities	\$	<u>(12,666)</u>

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

THE DOWNTOWN MIAMI CHARTER SCHOOL, INC.
(A COMPONENT UNIT OF THE SCHOOL BOARD OF MIAMI-DADE COUNTY)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Reporting Entity

On February 14, 2002, the Miami-Dade County School Board approved the applications submitted by the Board of Directors of The Downtown Miami Charter School, Inc. for the creation of The Downtown Miami Charter School (the School). The Downtown Miami Charter School, Inc. (the Organization) is a non-profit organization incorporated under the laws of Florida to operate a charter school organized pursuant to Section 228.056 of the Florida Statutes. The governing body of the School is the Organization's Board of Directors.

The School operates under a charter of the sponsoring school district, the Miami-Dade County School Board (the School Board). The Downtown Miami Charter School's charter was approved by the Board of Directors on February 14, 2002 and is effective until June 30, 2012. The charter may be renewed for up to an additional fifteen (15) years by mutual written agreement between the School and the School Board. At the end of the term of the charter, the School Board may choose not to renew the charter under grounds specified in the charter in which case the School Board is required to notify the School in writing at least 90 days prior to the charter's termination. Pursuant to Section 228.056(10)(e), Florida Statutes, the charter school contract provides that in the event the School is dissolved or terminated, any unencumbered funds and all school property purchased with public funds automatically revert to the School Board. During the term of the charter, the School Board may also terminate the charter if good cause is shown. The School started operations during the fiscal year beginning on July 1, 2002 and for financial reporting purpose the Organization is considered a component unit of the School Board of Miami-Dade County and is included in the School Board's Comprehensive annual financial report.

Enrollment and Grade Configuration

<u>School Name and Addresses</u>	<u>Grades</u>	<u>Enroll- ment</u>	<u>School Principal</u>
Downtown Miami Charter School 305 N. W Third Avenue, Miami, FL 33128	K- 5	609	Terry Maus

Board of Directors

The Board of Directors of the Downtown Miami Charter School, Inc. consists of the following members:

Matthew B. Gorson	Chairperson
Carlos Migoya	Vice-Chair
Tony E. Crapp, Sr.	Board member
Beatriz Cuenca-Barberio	Board member
Robert Moore	Board member
Gary Green	Board member

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

b. Government-Wide and Fund Financial Statements

The School's government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the activities of the School. *Governmental activities*, are supported by Full-Time Equivalent (FTE) dollars and intergovernmental revenues.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function. *Program revenues* include 1) charges to customers who purchase, use or directly benefit from goods, services or privileges provided by a given function or segment, 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function and 3) capital grants and contributions that are restricted to meeting the capital requirements of a particular function. FTE dollars and other items not properly included among program revenues are reported instead as *general revenues*.

Major individual governmental funds are reported as separate columns in the fund financial statements. The School's financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board.

c. Measurement Focus, Basis of Accounting and Financial Statement Presentation

The School's government-wide financial statements are reported using the *economic resources measurement* focus and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The School's fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the School considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures are recorded when a liability is incurred, as under accrual accounting.

FTE dollars, grants and interest associated with the current fiscal period are all considered to be susceptible to accrual and have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the School.

The School reports one fund, the general fund, which is considered its major fund.

Amounts reported as *program revenues* include 1) charges to School for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all FTE dollars.

When both restricted and unrestricted resources are available for use, it is the School's policy to use restricted resources first, then unrestricted resources as they are needed.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

d. Assets, Liabilities and Net Assets

1. Cash and Cash Equivalents

The School considers all highly liquid investments with a maturity of three months or less when purchased to be cash and cash equivalents.

2. Receivables

All intergovernmental receivables are considered to be collectible. No allowance for uncollectibles is considered necessary.

3. Capital Assets

Capital assets, which include improvements other than buildings and machinery and equipment, are reported in the government activities columns in the government-wide financial statements. Capital assets are defined by the School as assets with an initial, individual cost of more than \$750 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Capital assets of the School are depreciated using the straight-line method over the following estimated useful lives:

	<u>Years</u>
Improvement other than buildings	30
Machinery and equipment	10

4. Fund Equity/Net Assets(Deficit)

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or 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.

The government-wide financial statements utilize a net asset presentation. Net asset are categorized as investment in capital assets (net of related debt) and restricted and unrestricted.

Investment in Capital Assets (net of related debt) - is intended to reflect the portion of net assets which are associated with non-liquid capital assets less outstanding capital asset related debt. The net related debt is debt less the outstanding liquid assets and any associated unamortized cost.

Restricted Net Assets – represent liquid assets (generated from revenues and not bond proceeds) which have third party (statutory, bond covenant or granting agency) limitations on their use. The School would typically use restricted net assets first, as appropriate opportunities arise, but reserve the right to selectively defer the use thereof to a future project or replacement equipment acquisition.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

d. Assets, Liabilities and Net Assets (Continued)

4. Fund Equity/Net Assets (Deficit) (Continued)

Unrestricted Net Assets (Deficit) - represent unrestricted liquid assets.

e. Revenue Sources

Revenues for current operations are received primarily from the Miami-Dade County District School Board pursuant to the funding provisions included in the School's charter. In accordance with the funding provisions of the charter and Section 228.056(13), Florida Statutes, the School reports the number of full-time equivalent students and related data to the District. Under the provisions of Section 236.081, Florida Statutes, the District reports the number of full-time equivalent students and related data to the Florida Department of Education (FDOE) for funding through the Florida Education Finance Program. Funding for the School is adjusted during the year to reflect the revised calculations by the FDOE under the Florida Education Finance Program and the actual full-time equivalent students reported by the School during the designated full-time equivalent student survey periods.

f. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the 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 differ from actual results.

2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Information

Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America for the governmental fund. All annual appropriations lapse at fiscal year end. The original budget and any subsequent amendments are approved by the Board of Directors. For the fiscal year ended June 30, 2004, there were no amendments to the original budget.

Excess of Expenditures over Appropriations

Expenditures exceeded the budget for the fiscal year ended June 30, 2004 by \$(23,856).

Deficit Fund Equity

The School had an accumulated deficit of \$(51,983) as of June 30, 2004. The School expects to fully fund the deficit in fiscal year 2005.

3. DEPOSITS

Deposits include cash on hand and certificates of deposit. At June 30, 2004, the carrying amount of the School's bank deposits was \$240,303 while the bank balances of such deposits were \$276,745. In addition to insurance provided by the Federal Deposit Insurance Corporation, significant deposits are held in banking institutions approved by the State Treasurer of the State of Florida to hold public funds.

3. DEPOSITS (CONTINUED)

Florida Statutes Chapter 280, *Florida Security for Public Deposits Act*, provides that if a loss to public depository is not covered by deposit insurance and the proceeds from the sale of securities pledged by the defaulting depository, the difference will be provided by an assessment levied against pledged by the defaulting depository, the difference will be provided by an assessment levied against other public depositories of the same type as the depository in default. Accordingly, all amounts reported as deposits are deemed as insured or collateralized with securities held by the entity or its agent in the entity's name.

4. CAPITAL ASSETS

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, being depreciated:				
Improvements other than buildings	\$ 5,000	\$ 1,830	\$ -	\$ 6,830
Machinery and equipment	<u>11,900</u>	<u>2,428</u>	<u>-</u>	<u>14,328</u>
Total capital assets being depreciated	<u>16,900</u>	<u>4,258</u>	<u>-</u>	<u>21,158</u>
Less accumulated depreciation for:				
Improvements other than buildings	(250)	(622)	-	(872)
Machinery and equipment	<u>(1,190)</u>	<u>(1,328)</u>	<u>-</u>	<u>(2,518)</u>
Total accumulated depreciation	<u>(1,440)</u>	<u>(1,950)</u>	<u>-</u>	<u>(3,390)</u>
Total capital assets being depreciated, net	<u>\$ 15,460</u>	<u>\$ 2,308</u>	<u>\$ -</u>	<u>\$ 17,768</u>

Depreciation expense was charged to functions/programs of the School as follows:

Governmental activities:	
Operation and maintenance of plant	<u>\$ 1,950</u>

5. COMMITMENTS AND CONTINGENCIES

Lease Agreement with the Downtown Development Authority of Miami

On April 22, 2002, the School entered into a lease agreement (the "Lease") with the Downtown Development Authority of Miami (DDA) for property (Leased Land) to be used for the sole purpose of the operation and construction of a charter school; subject to a Ground Lease Agreement with the Developer for the construction of the charter school. DDA had previously obtained the land from the City of Miami through an interlocal agreement (the "Interlocal Agreement") pursuant to Resolution No. 02-382 adopted on April 11, 2002. The Lease is subject to all provisions of the Interlocal Agreement and to the extent the Lease and the Interlocal Agreement conflicts the terms of the Interlocal Agreement will govern. The term of the Lease is for thirty (30) years commencing on April 22, 2002 for \$1.00 per year as long as the land is used for charter school purpose.

Ground Lease Agreement Downtown Miami Charter School

On April 22, 2002, the School entered into a lease agreement (the "Ground Lease") with DDA Charter School Developers, Inc. ("CSD") for the Leased Land mentioned in the Lease above. The Ground Lease was entered into with the understanding and agreement that CSD, at its sole cost and expense, would construct and equip the School on the Leased Land and rent the facilities back to the School. The term of the Lease is for thirty (30) years commencing on April 22, 2002 for \$12.00 per year.

5. COMMITMENTS AND CONTINGENCIES (CONTINUED)

Ground Lease Agreement Downtown Miami Charter School (Continued)

Pursuant to the terms of the Interlocal Agreement, the School and the City authorize CSD as lessee under this Lease to pledge, mortgage or encumber its leasehold interest to a leasehold mortgagee in order to obtain financing for the construction of the charter school.

Premises Lease Agreement

On April 22, 2002, the School entered into a lease agreement (the "Premises Lease") with CSD for the charter school premises. The term of the Premises Lease commences on July 1, 2002 and continues for thirty (30) years. The agreement specifies the lease payments for the first five years of the lease with an adjustment on the sixth year and every lease year thereafter during the term of the lease. The rental adjustment will be adjusted upwards or downwards on the sixth year and every year thereafter based on the percentage increase or decrease of the per student full-time equivalent (FTE) credit from the preceding year.

The total non-cancelable minimum lease payments under the School's operating leases are as follows:

<u>June 30,</u>	
2005	\$ 650,000
2006	676,000
2007	<u>703,000</u>
	<u>\$ 2,029,000</u>

The School's rent expenditures totaled approximately \$588,000 for the fiscal year ended June 30, 2004.

Grants

Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies. If through these audits, any of these agencies determines that the School has incurred expenditures disallowed under the terms and conditions of the appropriate agency, such audits could result in: (1) the denial of outstanding claims (pertaining to grants under the reimbursement method agreement by which the School uses its own funds and then files a reimbursement claim), or (2) the request for refund of monies given in advance (pertaining to those grants where grant funds are given to the School in advance).

Concentration of Credit Risk

As of June 30, 2004, there was \$176,745 of deposits in excess of the \$100,000 amount insured by the Federal Deposit Insurance Corporation. The School maintains its cash with high quality financial institutions, which the School believes limits these risks.

6. RELATED PARTY TRANSACTIONS

School Board

Pursuant to the Charter School Agreement with the School Board, the School is paid a management fee of five percent (5%) of the qualifying revenues of the School. During the fiscal year ended June 30, 2004 approximately \$128,000 was paid to the School Board for management fees. Pursuant to the Charter School Agreement with the School Board, the School receives from the School Board an FTE for each full-time equivalent student enrolled. There were 609 full time students enrolled for during the fiscal year ended June 30, 2004. The School also receives other allowances based upon students enrolled.

6. RELATED PARTY TRANSACTIONS (CONTINUED)

Management Fee

The School has entered into a three-year agreement with a professional charter school management company (Charter Schools USA) to provide management and administrative services to the School. The agreement expires on June 30, 2005 and calls for a monthly management fee equal to 14% of School's revenues as defined in the Management Agreement. The School paid approximately \$585,000 in management fees for the fiscal year ended June 30, 2004.

Management Company Information:

Name and Address:

Charter Schools USA
6245 N. Federal Highway, 5th Floor
Ft. Lauderdale, FL 33308

List of Principal Officers:

President- Dan Rishavy
Chief Education Officer-Jonathan K. Hage
Chief Financial Officer- Richard Moreno

8. RISK MANAGEMENT

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

SUPPLEMENTARY SCHEDULE

THE DOWNTOWN MIAMI CHARTER SCHOOL, INC.
(a component unit of the School Board of Miami-Dade County)
BUDGETARY COMPARISON SCHEDULE
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

	Budgeted Amounts			Variance with Final Budget- Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues:				
State FTE grants	3,310,032	3,310,032	3,386,236	76,204
Federal grants	532,000	532,000	353,935	(178,065)
Local grants and other	100,000	100,000	460,596	360,596
Total revenues	<u>3,942,032</u>	<u>3,942,032</u>	<u>4,200,767</u>	<u>258,735</u>
Expenditures:				
Current:				
Instruction	2,021,975	2,021,975	1,787,096	234,879
Pupil personnel services	-	-	29,836	(29,836)
Instructional media services	7,500	7,500	5,524	1,976
Instruction and curriculum development services	9,002	9,002	7,957	1,045
Instructional staff training services	6,000	6,000	1,000	5,000
Board	22,200	22,200	7,766	14,434
School administration	363,510	363,510	544,280	(180,770)
Fiscal services	503,654	503,654	539,838	(36,184)
Food service	33,811	33,811	219,582	(185,771)
Central services	131,713	131,713	132,907	(1,194)
Operation of plant	820,056	820,056	845,479	(25,423)
Maintenance of plant	12,500	12,500	51,825	(39,325)
Capital outlay	10,000	10,000	51,534	(41,534)
Total expenditures	<u>3,941,921</u>	<u>3,941,921</u>	<u>4,224,624</u>	<u>(282,703)</u>
Excess (deficiency) of revenues over expenditures	111	111	(23,857)	(23,968)
Fund balances (deficit) at beginning of year	-	-	(28,126)	-
Fund balances (deficit) at end of year	<u>\$ 111</u>	<u>\$ 111</u>	<u>\$ (51,983)</u>	<u>\$ (23,968)</u>

See notes to budgetary comparison schedule

THE DOWNTOWN MIAMI CHARTER SCHOOL, INC.
(A COMPONENT UNIT OF THE SCHOOL BOARD OF MIAMI-DADE COUNTY)
NOTE TO BUDGETARY COMPARISON SCHEDULE
JUNE 30, 2004

1. BUDGETS AND BUDGETARY ACCOUNTING

Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America for all governmental funds. All annual appropriations lapse at fiscal year end. The original budget and any subsequent amendments are approved by the Board of Directors. For the fiscal year ended June 30, 2004, there were no amendments to the original budget.

SUPPLEMENTARY AUDITORS' REPORTS

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

To the Board of Directors and Officers of
The Downtown Miami Charter School, Inc.
(A component unit of the School Board of Miami-Dade County)

We have audited the basic financial statements of The Downtown Miami Charter School, Inc. (the School) (a component unit of the School Board of Miami-Dade County), as of and for the fiscal years ended June 30, 2004 and 2003, and have issued our report dated October 13, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

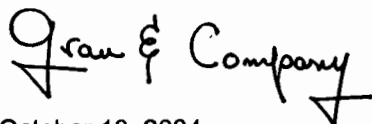
Compliance

As part of obtaining reasonable assurance about whether 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 grants, 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 that are required to be reported under Government Auditing Standards. However, we noted other matters related to non compliance that we have reported to management in the schedule of findings accompanying this report.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the School's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

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



October 13, 2004

**MANAGEMENT LETTER IN ACCORDANCE WITH THE RULES
OF THE AUDITOR GENERAL OF THE STATE OF FLORIDA**

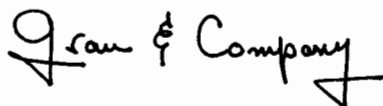
To the Board of Directors and Officers of
The Downtown Miami Charter School, Inc.
(A component unit of the School Board of Miami-Dade County)

We have audited the basic financial statements of The Downtown Miami Charter School, Inc. (the "School"), (a component unit of the School Board of Miami-Dade County), as of and for the fiscal years ended June 30, 2004 and 2003, and have issued our report thereon dated October 13, 2004. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. We have also issued our report on compliance and on internal control over financial reporting; which is dated October 13, 2004, and should be considered in conjunction with this management letter.

In connection with our audit of the basic financial statements of the School for the fiscal years ended June 30, 2004, we report the following in accordance with Chapter 10.850 Rules of the Auditor General, Charter School Audits which requires that this report specifically address but not be limited to the matters outlined in Rule 10.854(1)(d):

1. Recommendations except those addressed in the schedule of findings made in the preceding annual financial report have been addressed.
2. Recommendations to improve the School's present financial management, accounting procedures and internal controls are accompanying this report in the Schedule of Findings.
3. During the course of our audit, nothing came to our attention that caused us to believe that the School:
 - a. Was in violation of any laws, rules, regulations, contractual provisions or abuse, except as reported in the Schedule of Findings.
 - b. Made any illegal or improper expenditures.
 - c. Had improper or inadequate accounting procedures.
 - d. Failed to record financial transactions.
 - e. Had other inaccuracies, shortages, defalcations, and instances of fraud.
4. The name of the charter school is Downtown Miami Charter School

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



October 13, 2004

THE DOWNTOWN MIAMI CHARTER SCHOOL, INC.
(A COMPONENT UNIT OF THE SCHOOL BOARD OF MIAMI-DADE COUNTY)
SCHEDULE OF FINDINGS
FISCAL YEAR ENDED JUNE 30, 2004

CURRENT YEAR FINDING

2004 -1 Insurance deductible compliance with Charter School Contract

Condition - The Charter School Contract requires the school to have property damage liability at a maximum deductible of \$1,000 per occurrence.

Criteria - The School did not meet the required amount of deductible.

Cause - The School was not aware of the requirement.

Effect - Lack of compliance with the provision of the School Charter may result in loss of funding.

Recommendation - We recommend that the School change terms of the policy.

Managements' Response - Management agrees with the recommendation and will update their insurance policy.

PRIOR YEAR FINDINGS AND RECOMMENDATIONS

a. Prior Year Uncorrected Financial Statement Findings

2003 - 2 Submittal of Audited Financial Statements to the Miami-Dade County Public School Board

Observation - The audited financial statements of the School were not submitted to the Miami-Dade County School Board by the September 20, 2004 deadline as required by the School Charter.

Recommendation - We recommend that the School schedule the fiscal year 2005 audit earlier in the year to ensure compliance with this deadline.

Current Status - Recommendation has not been implemented. Comment shall be repeated.

Managements' Response - Management agrees with the recommendation and will schedule the 2005 audit at an earlier date.

b. Prior Year Corrected Financial Statement Findings

Based on the results of our testing during the current fiscal year end audit, we noted that adequate steps had been taken by management to correct the comments listed below regarding financial reporting. As such, the following comments will not be repeated.

2003 - 1 Federal Start-Up Funds Reporting