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September 16, 2005

Ms. Lorrie Davidson, Controller
Keys Gate Charter School
6245 North Federal Highway
Fifth Floor
Ft. Lauderdale, FL 33308

Dear Ms. Davidson

Enclosed are the financial statements of Keys Gate Charter School as of and for the year ended June 30, 2005.

We suggest that you send a copy of this letter along with the financial statements when they are submitted to your oversight audit agency and any other agencies for which you have submission requirements. This letter will document the date the financial statements were issued.

Should you have any questions concerning your specific submission requirements, please contact us.

It has been our pleasure to serve as your independent auditors for this engagement. If we can be of additional service to you during the year, please call on us. We appreciate your business.

Regards,

KEEFE, McCULLOUGH & CO., LLP


Kenneth G. Smith, C.P.A.

2005 SEP 19 PM 3:06

ST. JOHNS
AND DISTRICT OFFICES

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

**BASIC FINANCIAL STATEMENTS
AND ADDITIONAL INFORMATION**

June 30, 2005



KEEFE, McCULLOUGH & CO., LLP
CERTIFIED PUBLIC ACCOUNTANTS

KEYS GATE CHARTER SCHOOL
BASIC FINANCIAL STATEMENTS AND ADDITIONAL INFORMATION
June 30, 2005

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Keys Gate Charter School
Homestead, Florida

We have audited the accompanying basic financial statements of the governmental activities and the General Fund of Keys Gate Charter School (the School), a component unit of the School Board of Miami-Dade County, Florida, as of and for the year ended June 30, 2005, as listed in the table of contents. These basic financial statements are the responsibility of the 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 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 basic financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

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

In accordance with Government Auditing Standards, we have also issued our report dated August 19, 2005, on our consideration of the 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, is not a required part of the basic financial statements, but is 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 supplementary information. However, we did not audit the information and express no opinion on it.

Keefe, McCullough & Co., LLP
KEEFE, McCULLOUGH & CO., LLP

Fort Lauderdale, Florida
August 19, 2005

MANAGEMENT'S DISCUSSION AND ANALYSIS

KEYS GATE CHARTER SCHOOL
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2005

As management of Keys Gate Charter School (the School), a component unit of the School Board of Miami-Dade County, Florida, we offer readers of the School's basic financial statements this narrative overview and analysis of the financial activities of the School for the year ended June 30, 2005.

Management's discussion and analysis is included at the beginning of the School's basic financial statements to provide, in layman's terms, 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 basic financial statements and other supplementary information.

FINANCIAL HIGHLIGHTS

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

- The changes in net assets at the School resulted in net assets of \$ 835,953 as of June 30, 2005 as compared to \$ 223,376 as of June 30, 2004. The primary reason for the \$ 612,577 increase in net assets from 2004 to 2005 was due to an increase in the number of students enrolled in the aftercare and enrichment programs, and the increase in food service revenue due to the fact that the School was accepted into the National School Lunch Program and received the appropriate reimbursements for free and reduced lunches.
- As of June 30, 2005, the School has net assets of \$ 835,953. See the preceding paragraph for an explanation of the net assets.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is 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 basic financial statements, 2) fund basic financial statements, and 3) notes to the basic financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements

The government-wide basic 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 of the School's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the School is improving or deteriorating.

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

KEYS GATE CHARTER SCHOOL
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2005

The government-wide basic 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 instruction and instructional support services.

The government-wide financial statements can be found on pages 8 and 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 School, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds

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

Because the focus of governmental funds is narrower than that of the government-wide basic financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide basic financial statements. By doing so, readers may better understand the long-term impact of the School's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures and change in fund balance provide 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 change in fund balance 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 governmental fund financial statements can be found on pages 10 and 12 of this report.

Agency fund

In addition, the School has one agency fund which is a student activity fund. This fund is formed for education and school purposes.

The basic agency fund financial statement can be found on page 15 of this report.

KEYS GATE CHARTER SCHOOL
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2005

Notes to basic financial statements

The notes provide additional information that is essential for a full understanding of the data provided in the government-wide and fund basic financial statements. The notes to basic financial statements can be found on pages 16 through 22 of this report.

Other information

In addition to the basic financial statements and accompanying notes, this report also presents certain supplementary information concerning revenues and expenditures presented in a "management format" for the School's General Fund. Supplementary information can be found on page 23 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

The School has been in operation for two years; therefore, comparative government-wide data is presented. The School's net assets were \$ 835,953 at June 30, 2005. Of this amount, \$ 814,528 represented an unrestricted net asset and \$ 21,425 represented amounts invested in capital assets, net of related debt. The School's net assets were \$ 223,376 at June 30, 2004. Of this amount, \$ 193,859 represented unrestricted net assets and \$ 29,517 represented amounts invested in capital assets, net of related debt. See "Financial Highlights" on page 3 of this report for an explanation of the reason for the change in net assets.

Our analysis in the table below focuses on the net assets of the School's governmental activities:

Keys Gate Charter School Net Assets		
	<u>June 30, 2005</u>	<u>June 30, 2004</u>
ASSETS:		
Current and other assets	\$ 1,441,424	\$ 1,081,865
Capital assets, net of depreciation	<u>21,425</u>	<u>29,517</u>
Total assets	<u>1,462,849</u>	<u>1,111,382</u>
LIABILITIES:		
Liabilities, excluding long-term liabilities	341,896	513,006
Long-term liabilities	<u>285,000</u>	<u>375,000</u>
Total liabilities	<u>626,896</u>	<u>888,006</u>
NET ASSETS:		
Invested in capital assets, net of related debt	21,425	29,517
Unrestricted	<u>814,528</u>	<u>193,859</u>
Total net assets	\$ <u>835,953</u>	\$ <u>223,376</u>

KEYS GATE CHARTER SCHOOL
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2005

Governmental activities

The results of this year's operations for the School as a whole are reported in the statement of activities on page 9. The table below provides a condensed presentation of the School's revenues and expenses for the years ended June 30, 2005 and 2004:

Keys Gate Charter School Changes in Net Assets		
	<u>June 30, 2005</u>	<u>June 30, 2004</u>
REVENUES:		
General revenues	\$ 5,684,982	\$ 5,304,124
Program revenues	<u>1,165,601</u>	<u>951,709</u>
Total revenues	<u>6,850,583</u>	<u>6,255,833</u>
FUNCTIONS/PROGRAM EXPENSES:		
Instruction	2,429,275	2,583,795
Instructional support services	2,494,023	3,214,277
Operation of noninstructional services	1,216,830	192,696
Community services	<u>97,878</u>	<u>41,689</u>
Total governmental activities	<u>6,238,006</u>	<u>6,032,457</u>
Increase (decrease) in net assets	\$ <u>612,577</u>	\$ <u>223,376</u>

As noted in the "Financial Highlights" on page 3 of this report, program revenues increased from 2004 to 2005 as a result of increases in aftercare and enrichment revenue, and reimbursements received as a part of the National School Lunch Program.

Governmental fund expenditures

In the table below, we have presented the cost of the largest functions/programs as a percentage of total governmental expenditures:

<u>Functions/Programs</u>	<u>2005</u>		<u>2004</u>	
	<u>Expenditures</u>	<u>Percent</u>	<u>Expenditures</u>	<u>Percent</u>
<u>Governmental expenditures:</u>				
Instructional expenditures	\$ 2,423,169	38.3%	\$ 2,583,795	45.4%
Administrative services	458,875	7.3%	1,388,759	24.4%
Plant operations and maintenance	1,588,312	25.1%	1,140,987	20.1%
Other instructional support services	441,771	7.0%	304,169	5.4%
All other functions/programs	<u>1,407,787</u>	<u>22.3%</u>	<u>269,264</u>	<u>4.7%</u>
Total governmental expenditures	\$ <u>6,319,914</u>	<u>100.0%</u>	\$ <u>5,686,974</u>	<u>100.0%</u>

KEYS GATE CHARTER SCHOOL
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2005

The increase in total governmental expenditures from 2004 to 2005 of \$ 632,937 was mainly attributable to an increase in plant operations and maintenance expenses.

General Fund budgetary highlights

Actual revenues were slightly lower than budget amounts due primarily to the actual student mix as it relates to per student funding percentages. Expenditures were below budgeted amounts by 2%. Instructional expenses were lower than budget due to the fact that there was not a need to replace or update as many of the text books and workbooks as was planned for in the budget. Plant operations expense was greater than the budget due to the fact that the school, as lessee, was required to place property insurance on the facility, which was not a planned expense. Site, building and equipment expenses were lower than budget due to the fact that the school was able to have the builder pay for the school zone traffic signs that were budgeted for, rather than have the expense be paid by the School.

Capital assets and debt administration

Capital assets

At June 30, 2005, the School had capital assets of \$ 21,415, net of accumulated depreciation, invested in computers, furniture and equipment and leasehold improvements as compared to \$ 29,517 at June 30, 2004.

Long-term debt

At June 30, 2005, the School had long-term debt consisting of development fees owed to the management company of \$ 285,000 as compared to \$ 375,000 at June 30, 2004.

Economic factors and next year's budget

The State of Florida has approved an increased in education funding of approximately 5% for the fiscal year 2005-2006. Student enrollment is expected to remain at full capacity, with a large waiting list. Both factors were considered in preparing the School's budget for fiscal year 2005-2006.

Requests for information

If you have any questions about this report or need additional information, please write Lorrie Davidson, Controller, Charter Schools USA, 6425 North Federal Highway, 5th Floor, Fort Lauderdale, Florida 33308.

BASIC FINANCIAL STATEMENTS

KEYS GATE CHARTER SCHOOL
STATEMENT OF NET ASSETS
June 30, 2005

A S S E T S

	Governmental <u>Activities</u>
CURRENT ASSETS:	
Cash and cash equivalents	\$ 1,269,448
Due from other governments	102,292
Due from agency fund	5,313
Prepaid expenses and other assets	37,966
Deposits	<u>26,405</u>
Total current assets	1,441,424
NONCURRENT ASSETS:	
Capital assets (depreciable), net of accumulated depreciation	<u>21,425</u>
Total assets	<u>1,462,849</u>
L I A B I L I T I E S A N D N E T A S S E T S	
CURRENT LIABILITIES:	
Accounts payable and accrued liabilities	63,938
Accrued contracted services	274,209
Due to management company	<u>3,749</u>
Total current liabilities	<u>341,896</u>
NONCURRENT LIABILITIES:	
Due within one year	90,000
Due in more than one year	<u>195,000</u>
Total noncurrent liabilities	<u>285,000</u>
Total liabilities	<u>626,896</u>
NET ASSETS (deficit):	
Invested in capital assets, net of related debt	21,425
Unrestricted (deficit)	<u>814,528</u>
Total net assets	\$ <u><u>835,953</u></u>

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

KEYS GATE CHARTER SCHOOL
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2005

		Program Revenues			Governmental Activities Net Revenue (Expense) and Change in Net Assets
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
	Expenditures				
FUNCTIONS/PROGRAMS:					
Instruction:					
Regular instruction	\$ 2,332,196	\$ --	\$ 200,833	\$ --	\$ (2,131,363)
Exceptional instruction	97,079	--	--	--	(97,079)
Instructional support services:					
Pupil services	193,992	--	--	--	(193,992)
Instructional services	3,882	--	--	--	(3,882)
Administrative services	458,875	--	--	--	(458,875)
Plant operations and maintenance	1,591,634	--	--	633,212	(958,422)
Transportation	245,640	--	--	--	(245,640)
Operation of noninstructional services:					
Food services	248,311	161,311	--	--	(87,000)
Board services	33,009	--	--	--	(33,009)
Fiscal services	931,864	--	--	--	(931,864)
Central services	3,646	--	--	--	(3,646)
Community services	<u>97,878</u>	<u>170,245</u>	<u>--</u>	<u>--</u>	<u>72,367</u>
Total governmental activities	\$ <u>6,238,006</u>	\$ <u>331,556</u>	\$ <u>200,833</u>	\$ <u>633,212</u>	<u>(5,072,405)</u>
General revenues:					
Grants and entitlements					5,681,641
Other					<u>3,341</u>
Total general revenues					<u>5,684,982</u>
Change in net assets					612,577
Net assets, July 1, 2004					<u>223,376</u>
Net assets, June 30, 2005					\$ <u>835,953</u>

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

KEYS GATE CHARTER SCHOOL
BALANCE SHEET - GOVERNMENTAL FUND
June 30, 2005

A S S E T S

	<u>General Fund</u>
ASSETS:	
Cash and cash equivalents	\$ 1,269,448
Due from other governments	102,292
Due from agency funds	5,313
Prepaid expenditures and other assets	37,966
Deposits	<u>26,405</u>
Total assets	\$ <u>1,441,424</u>

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

LIABILITIES:	
Accounts payable and other accrued liabilities	\$ 63,938
Accrued contracted services	274,209
Due to management company	<u>3,749</u>
Total liabilities	<u>341,896</u>
FUND BALANCE (DEFICIT):	
Reserved for:	
Prepaid expenditures and other assets	37,966
Unrestricted	<u>1,061,562</u>
Total fund balance	<u>1,099,528</u>
Total liabilities and fund balance (deficit)	\$ <u>1,441,424</u>

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

KEYS GATE CHARTER SCHOOL
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUND
TO THE STATEMENT OF NET ASSETS
June 30, 2005

Total fund balance - governmental fund	\$ 1,099,528
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Amounts reported for governmental activities in the statement of net assets are different because:

The cost of capital assets acquired is reported as an expenditure in the governmental fund. The statement of net assets includes those capital assets, net of accumulated depreciation, among the assets of the School as a whole.

Cost of capital assets	\$ 37,958	
Accumulated depreciation	<u>(16,533)</u>	21,425

Liabilities not payable with current available resources are not reported as fund liabilities in the governmental fund statements. All liabilities, both current and long-term, are reported in the government-wide statements.

Development fees	<u>(285,000)</u>
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Net assets of governmental activities	\$ <u><u>835,953</u></u>
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The accompanying notes to basic financial statements are an integral part of these statements.

KEYS GATE CHARTER SCHOOL
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGE IN FUND BALANCE - GOVERNMENTAL FUND
For the Year Ended June 30, 2005

	<u>General Fund</u>
REVENUES:	
State sources	\$ 6,314,852
Federal sources	200,833
Local sources	164,653
Aftercare	<u>170,245</u>
 Total revenues	 <u>6,850,583</u>
EXPENDITURES:	
Current:	
Instruction:	
Regular instruction	2,326,090
Exceptional instruction	97,079
Instructional support services:	
Pupil services	193,992
Instructional services	2,139
Administrative services	458,875
Plant operations and maintenance	1,588,312
Transportation	245,640
Other support services	
Operation of noninstructional services:	
Food services	248,311
Board services	33,009
Fiscal services	931,864
Central services	93,646
Community services	97,878
Capital outlay:	
Site, building and equipment	<u>3,079</u>
 Total expenditures	 <u>6,319,914</u>
 Net change in fund balance	 530,669
 FUND BALANCE, July 1, 2004	 <u>568,859</u>
 FUND BALANCE, June 30, 2005	 \$ <u><u>1,099,528</u></u>

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

KEYS GATE CHARTER SCHOOL
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES AND CHANGE IN FUND BALANCE OF
GOVERNMENTAL FUND TO THE STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2005

NET CHANGE IN FUND BALANCE - TOTAL GOVERNMENTAL FUND, PAGE 12			\$ 530,669
Amounts reported for governmental activities in the statement of activities are different because:			
Governmental funds report capital outlays as expenditures; in the statement of activities, these costs are allocated over their estimated useful lives as provision for depreciation.			
The cost of property and equipment purchased	\$ 3,079		
Provision for depreciation	<u>(11,171)</u>	(8,092)	
Repayment of debt principal is an expenditure in the governmental fund, but the repayment reduces long-term liabilities in the statement of net assets (deficit) and are eliminated from the statement of activities.			<u>90,000</u>
CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES, PAGE 9			\$ <u>612,577</u>

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

KEYS GATE CHARTER SCHOOL
STATEMENT OF REVENUES AND EXPENDITURES -
BUDGET AND ACTUAL - GENERAL FUND
For the Year Ended June 30, 2005

	Original/ Final Budget	Actual	Variance
REVENUES:			
State sources	\$ 6,664,153	\$ 6,623,719	\$ (40,434)
Federal sources	200,000	200,833	833
Local	165,000	164,653	(347)
Aftercare	<u>140,400</u>	<u>170,245</u>	<u>29,845</u>
Total revenues	<u>7,169,553</u>	<u>7,159,450</u>	<u>(10,103)</u>
EXPENDITURES:			
Instruction:			
Regular instruction	2,577,508	2,326,090	251,418
Exceptional instruction	143,946	97,079	46,867
Instructional support services:			
Pupil services	178,042	193,992	(15,950)
Instructional services	26,176	2,139	24,037
Administrative services	449,339	458,875	(9,536)
Plant operations and maintenance	1,478,113	1,588,312	(110,199)
Transportation	248,400	245,640	2,760
Operation of noninstructional services:			
Food services	208,574	248,311	(39,737)
Board services	30,000	33,009	(3,009)
Fiscal services	980,817	931,864	(94,681)
Central services	307,832	402,513	48,953
Community services	47,789	97,878	(50,089)
Site, building and equipment	<u>105,000</u>	<u>3,079</u>	<u>101,921</u>
Total expenditures	<u>6,781,536</u>	<u>6,628,781</u>	<u>152,755</u>
Net change in fund balance	\$ <u>388,017</u>	\$ <u>530,669</u>	\$ <u>142,652</u>

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

KEYS GATE CHARTER SCHOOL
STATEMENT OF NET ASSETS - AGENCY FUND
June 30, 2005

A S S E T S

	<u>Student Activity</u>
ASSETS:	
Cash	\$ <u>40,166</u>
Total assets	\$ <u><u>40,166</u></u>

L I A B I L I T I E S

LIABILITIES:	
Accounts payable	\$ 5,313
Due to students	<u>34,853</u>
Total liabilities	\$ <u><u>40,166</u></u>

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

KEYS GATE CHARTER SCHOOL
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2005

NOTE 1 - ORGANIZATION AND OPERATIONS

The Homestead Charter Foundation, Inc. d/b/a Keys Gate Charter School (the "School"), a component unit of the School Board of Miami-Dade County, Florida, is established as a charter school for students from kindergarten to eighth grade in Miami-Dade County. As of June 30, 2005, approximately 1,146 students were enrolled in the School. The School is funded primarily through the School Board of Miami-Dade County. The entity was organized in October 2000 as a Florida nonprofit corporation. The School was granted a charter from the School Board of Miami-Dade County to operate a public elementary school within the School District. The School Board may terminate the charter before its expiration date based on various circumstances, as defined, in the charter agreement.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting entity:

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

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

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

Basis of presentation:

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

Government-wide Basic Statements:

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

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

KEYS GATE CHARTER SCHOOL
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2005

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

Fund Basic Financial Statements:

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

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

Measurement focus and basis of accounting:

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

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

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

Cash and cash equivalents:

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

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

Revenue recognition:

Student funding is provided by the State of Florida through the School Board. Such funding is recorded as entitlement revenue in the government-wide financial statements and state source revenue in the fund financial basic statements and is net of a 5% administration fee retained

KEYS GATE CHARTER SCHOOL
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2005

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

by the School Board. This funding is received on a prorata basis over a twelve month period and is adjusted for changes in full-time equivalent (FTE) student population.

Income taxes:

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

Use of estimates:

The preparation of financial statements in accordance with accounting principles generally accepted in the United State of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures/expenses during the reporting period. Actual results could differ from those estimates.

Capital assets:

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

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

Computers	3 years
Furniture and equipment	5 years
Improvements other than building	3 years

Net assets:

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

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

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

KEYS GATE CHARTER SCHOOL
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2005

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fund balance:

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

Reserved - indicates the portion of fund balance not available for appropriation in subsequent periods or is legally segregated for a specific future use. These amounts do not represent available spendable resources.

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

Budget:

An operating budget is adopted and maintained by the governing board for the School pursuant to the requirements of Florida Statutes. The budget is adopted using the same basis of accounting that is used in the preparation of the financial statements, except for the reporting of a 5% administration fee retained by the School Board.

A reconciliation of the General Fund presented on a budgetary basis to the amount presented in accordance with generally accepted accounting principles (GAAP) is as follows:

	<u>Revenues and Other Financing Sources</u>	<u>Expenditures</u>
Budgetary basis	\$ 7,159,450	\$ 6,628,781
Less: 5% administration fee retained by the School Board included as revenue and expenditures on a budgetary basis	<u>(308,867)</u>	<u>(308,867)</u>
GAAP basis	\$ <u><u>6,850,583</u></u>	\$ <u><u>6,319,914</u></u>

NOTE 3 - CASH AND CASH EQUIVALENTS

At June 30, 2005, the carrying amount of the deposits and cash on hand totaled \$ 1,269,448 with a bank balance of \$ 1,313,821.

State statutes require, and it is the School's policy, that all deposits be made into, and be held by, financial institutions designated by the Treasurer of the State of Florida as "qualified public depositories" as defined by Chapter 280 of the Florida Statutes. This Statute requires that every qualified public depository institution maintain eligible collateral to secure the public entity's funds. The minimum collateral to be pledged by an institution, the collateral eligible for pledge, and reporting requirements of the qualified public depositor to the Treasurer is defined by the Statute. Collateral is pooled in a multiple qualified public depository institution pool with the ability to assess members of the pool should the need arise. The School's deposits are held in a qualified public depository. They are covered by the collateral pool as the School has identified itself as a public entity at June 30, 2005.

KEYS GATE CHARTER SCHOOL
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2005

NOTE 4 - DUE FROM OTHER GOVERNMENTS

Due from other governments at June 30, 2005 consists of amounts due from the School Board for capital outlay and National School Lunch Program.

NOTE 5 - CAPITAL ASSETS

Capital asset balances and activity for the year ended June 30, 2005 are as follows:

	Balance at July 1, 2004	Additions	Deletions	Balance at June 30, 2005
Capital assets, depreciable:				
Furniture and equipment	\$ 10,496	\$ 3,079	\$ --	\$ 13,575
Computers	15,922	--	--	15,922
Leasehold improvements	<u>8,461</u>	<u>--</u>	<u>--</u>	<u>8,461</u>
	<u>34,879</u>	<u>3,079</u>	<u>--</u>	<u>37,958</u>
Accumulated depreciation:				
Furniture and equipment	1,050	2,645	--	3,695
Computers	2,902	1,329	--	4,231
Leasehold improvements	<u>1,410</u>	<u>7,197</u>	<u>--</u>	<u>8,607</u>
	<u>5,362</u>	<u>11,171</u>	<u>--</u>	<u>16,533</u>
Net capital assets	\$ <u><u>29,517</u></u>	\$ <u><u>(8,092)</u></u>	\$ <u><u>--</u></u>	\$ <u><u>21,425</u></u>

Provision for depreciation was charged to governmental activities as follows:

Instruction - regular	\$ 6,106
Instructional support services - instructional	1,743
Instructional support services - plant operations and maintenance	<u>3,322</u>
	\$ <u><u>11,171</u></u>

NOTE 6 - LEASES

The School entered into an operating lease agreement for the use of various capital assets and its premises. The lease is for a ten-year term expiring in 2013 and requires monthly payments ranging from \$ 81,280 to \$ 100,936. The base monthly rental amount is based on full enrollment of 1,100 students. If the number of students is greater than or less than 1,100, the monthly rental amount is prorated.

KEYS GATE CHARTER SCHOOL
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2005

NOTE 6 - LEASES (continued)

The School also leases office equipment under an operating lease agreement which expires in July 2005 and requires monthly payments of \$ 455.

Future minimum principal payments required under long-term noncancelable operating leases at June 30, 2005 are approximately as follows:

Year Ending <u>June 30,</u>	<u>Amount</u>
2006	\$ 1,025,855
2007	1,049,638
2008	1,070,304
2009	1,095,146
Thereafter	NONE

Rent expense totaled \$ 999,569 for the year ended June 30, 2005.

NOTE 7 - COMMITMENTS

The School has a formal agreement with Charter Schools USA, Inc. (CSUSA) to manage, staff and operate the School. All staff of the School are employees of CSUSA. The agreement expires in June 2012 and requires the School to pay an administration fee to CSUSA of 14% of the School's revenues, as defined in the agreement.

Total management fees amounted to \$ 931,495 for the year ended June 30, 2005.

The School previously entered into a development agreement with CSUSA in October 2002. Under the agreement, the School is to pay CSUSA a development fee of \$ 450,000 payable in 60 equal installments of \$ 7,500 commencing on September 1, 2003. The development fee covers services rendered by CSUSA to cover the start-up costs from the time the School was organized to commencement of activities. In connection with the agreement, the School expensed \$ 90,000 during the year ended June 30, 2005.

Future minimum payments under the development agreement at June 30, 2005 are as follows:

Year Ending <u>June 30,</u>	<u>Amount</u>
2006	\$ 90,000
2007	90,000
2008	90,000
2009	15,000
Therafter	NONE

KEYS GATE CHARTER SCHOOL
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2005

NOTE 8 - CAPITAL APPROPRIATIONS FUNDING

The Florida Department of Education has approved a Charter School Capital Outlay (CSCO) award for the School. In each year that funds are appropriated by the state for charter school capital outlay purposes those funds are allocated among eligible charter schools. The funds for the School's allocation are transferred to the School once a CSCO Plan has been provided to and approved by the sponsoring district. The School's CSCO Award totaled \$ 464,400 for the 2004-2005 school year which has been recognized as revenue in the accompanying basic financial statements. If the CSCO funds are used to acquire tangible property assets, the School Board has a reversionary interest in those assets. In the event of nonrenewal, termination, or breach of the charter school agreement, ownership of the assets would automatically revert to the School Board. The School has elected to use these funds to pay its portion of the lease expense on the facility.

NOTE 9 - RISK FINANCING

The School is exposed to various risks of loss related to torts, thefts of, damage to, and destruction of assets and natural disasters. The School has obtained property insurance from commercial companies. Claims have not exceeded this commercial coverage since the School's inception.

As disclosed in Note 7, CSUSA employs all of the employees of the School. As a result, the School is not exposed to medical or workers' compensation claims for these individuals. In addition, CSUSA carries all required insurance including, but not limited to, general liability and errors and omissions insurance.

SUPPLEMENTARY INFORMATION

KEYS GATE CHARTER SCHOOL
STATEMENT OF REVENUES AND EXPENDITURES -
GENERAL FUND - MANAGEMENT FORMAT
For the Year Ended June 30, 2005

	Account	300 Purchased Services	400 Energy Services	500 Materials and Supplies	600 Capital Outlay	700 Other Expenses	Totals
Revenues:							
Federal through state	3200						\$ 200,833
State sources	3300						6,623,719
Local sources	3400						<u>334,897</u>
Total revenues							<u>7,159,450</u>
Expenditures:							
Instruction	5000	\$ 2,298,819	\$ --	\$ 110,790	\$ 13,560	\$ --	\$ 2,423,169
Pupil services	6100	177,125	--	--	16,867	--	193,992
Instruction and curriculum development	6300	--	--	231	--	--	231
Instructional staff training services	6400	1,908	--	--	--	--	1,908
Board	7100	33,009	--	--	--	--	33,009
School administration	7300	436,672	--	22,203	--	--	458,875
Fiscal services	7500	931,864	--	--	--	--	931,864
Food service	7600	11,092	--	237,219	--	--	248,311
Other support services	7700	402,513	--	--	--	--	402,513
Pupil transportation services	7800	245,640	--	--	--	--	245,640
Operation of plant	7900	1,371,615	104,969	24,785	--	911	1,502,280
Maintenance of plant	8100	86,032	--	--	--	--	86,032
Community services	9100	88,277	--	9,601	--	--	97,878
Capital outlay:							
Site, building and equipment	9300	--	--	--	3,079	--	<u>3,079</u>
Total expenditures		\$ <u>6,084,566</u>	\$ <u>104,969</u>	\$ <u>404,829</u>	\$ <u>33,506</u>	\$ <u>911</u>	<u>6,628,781</u>
Net change in fund balance (deficit)							\$ <u><u>530,669</u></u>

**OTHER INDEPENDENT
AUDITORS' REPORTS**



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

To the Board of Directors
Keys Gate Charter School
Homestead, Florida

We have audited the basic financial statements of governmental activities, the General Fund, each major fund, and the aggregate remaining fund information of Keys Gate Charter School (the School), a component unit of the School Board of Miami-Dade County, Florida, as of June 30, 2005, and have issued our report thereon dated August 19, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the School's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide an opinion 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 reportable 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 caused by error or fraud in amounts that would be material in relation to the basic 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the School's basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of basic financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

Keys Gate Charter School

This report is intended solely for the information and use of School's management, Board of Directors, the Auditor General of the State of Florida and various other governmental agencies and is not intended to be and should not be used by anyone other than these specified parties. This restriction is not intended to limit the distribution of this report which is a matter of public record.

Keefe, McCulloch & Co., LLP
KEEFE, McCULLOUGH & CO., LLP

Fort Lauderdale, Florida
August 19, 2005



KEEFE, McCULLOUGH & CO., LLP
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INDEPENDENT AUDITORS' REPORT TO THE BOARD OF DIRECTORS

To the Board of Directors
Keys Gate Charter School
Homestead, Florida

This letter is written in connection with our audit of the basic financial statements of Keys Gate Charter School (the School), a component unit of the School Board of Miami-Dade County, Florida, as of and for the year ended June 30, 2005. The purpose of this letter is to communicate to you any comments and recommendations, and to comply with the requirements of Chapter 10.850 Rules of the Auditor General, Rule 10.854(1)(d).

The following statements relate to requirements of the Auditor General:

1. There were no inaccuracies, irregularities, shortages, defalcations, fraud and/or violations of laws, rules or regulations reported for the preceding audit. Previous years status of violations of contractual provisions are reported on pages 28 through 31.
2. There were recommendations made relating to the preceding audit. The status of recommendations to improve accounting procedures and internal controls are disclosed on the Schedule of Findings and Questioned Costs on page 28 through 31.
3. There were recommendations to improve the School's financial management, accounting procedures, and internal controls.
4. There were no violations of laws, rules, regulations, and contractual provisions discovered during our audit.
5. There were no illegal or improper expenditures discovered within the scope of the financial audit which may or may not materially affect the basic financial statements.
6. There were no other matters requiring correction which may or may not materially affect the basic financial statements reported on, including, but not limited to: improper or inadequate accounting procedures, failures to properly record financial transactions, or other inaccuracies, shortages, defalcations and instances of fraud or other reportable conditions.

Keys Gate Charter School

This report is intended solely for the use and information of the School's management, the Board of Directors, the Auditor General of the State of Florida and other governmental agencies, and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

Keefe, McCullough & Co., LLP
KEEFE, McCULLOUGH & CO., LLP

Fort Lauderdale, Florida
August 19, 2005

KEYS GATE CHARTER SCHOOL
INTERNAL CONTROL COMMENTS AND RECOMMENDATIONS
June 30, 2005

CURRENT YEAR COMMENTS AND RECOMMENDATIONS

None

PRIOR YEAR COMMENTS AND RECOMMENDATIONS

	<u>STILL APPLICABLE</u>	<u>IMPLEMENTED OR NO LONGER RELEVANT</u>
A. Reportable Conditions in Internal Control		
IC 04-1 - Recording of Trade Accounts Payable		
The School's management company should implement procedures to allow it to both identify and record all obligations in the appropriate accounting period. The School should also establish monitoring procedures to ensure all costs of the School are captured and reported in a timely manner.		X
IC 04-2 - Compliance Monitoring		
The School should establish a monitoring process to ensure the School is in compliance with the County Charter Agreement and its management agreement.		X
IC 04-3 - Grant Documentation		
The School should track all grant awards, have controls in place to ensure compliance with requirements, and record and maintain all necessary supporting information. The School should also establish a monitoring system to ensure CSUSA is meeting its obligations under the management agreement.		X
IC 04-4 - Overpayment of Fees		
The School should establish procedures to monitor and approve the payment of fees to CSUSA.		X
B. Compliance Findings		
CF 04-1 - Quarterly Financial Statements		
<u>Condition:</u> In accordance with the School's Charter Agreement with the School Board, the School is required to provide the School Board with quarterly financial statements in accordance with GAAP, using Financial and Program Cost Accounting and Reporting for Florida Schools. The School was late in sending its March 31, 2004 quarterly report in to the School Board.		X

KEYS GATE CHARTER SCHOOL
INTERNAL CONTROL COMMENTS AND RECOMMENDATIONS
(continued)
June 30, 2005

PRIOR YEAR COMMENTS AND RECOMMENDATIONS

	<u>STILL APPLICABLE</u>	<u>IMPLEMENTED OR NO LONGER RELEVANT</u>
CF 04-2 - Annual Financial Statements		
<u>Condition:</u> In accordance with the School's Charter Agreement with the School Board, the School is required to provide the School Board with year-end financial statements, in accordance with GAAP, using Financial and Program Cost Accounting and Reporting for Florida Schools. The School was late in sending its June 30, 2004 audited year-end financial statements to the School Board.		X
CF 04-3 - Audited Financial Statements		
<u>Condition:</u> In accordance with the School's Charter Agreement with the School Board, the School is required to provide the School Board with annual audited financial statements by September 20 of each year, in compliance with State and School Board regulations. The School did not submit the audited financial statements to the School Board by September 20, 2004.		X
CF 04-4 - Deposits Held by Qualified Public Depositories		
<u>Condition:</u> Florida State Statutes require that all deposits be made into and held by financial institutions designated by the Treasurer of the State of Florida as "qualified public depositories." The State Statutes require that those institutions maintain eligible collateral to secure the public entity's funds. While the School's deposit account was held by a qualified public depository; it had not designated itself as a public entity, therefore, its funds were not collateralized beyond the Federal Depository Insurance Coverage. The School should identify itself as a public entity to minimize its credit risk.		X
CF 04-5 - Medical Reimbursement		
<u>Condition:</u> In accordance with the School's Charter Agreement with the School Board, the School, when eligible, should seek reimbursement for certain services provided to Medicaid-eligible students. The School should seek reimbursement if available.		X