

ACADEMY OF ARTS AND MINDS CHARTER HIGH SCHOOL

SPECIAL PURPOSE FINANCIAL STATEMENTS

JUNE 30, 2006 AND 2005

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ACADEMY OF ARTS AND MINDS CHARTER HIGH SCHOOL

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MORRISON, BROWN, ARGIZ & FARRA, LLP

Certified Public Accountants

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Board of Directors of
Academy of Arts and Minds Charter High School

We have audited the accompanying special purpose financial statements of Academy of Arts and Minds Charter High School (the "Academy") as of and for the fiscal years ended June 30, 2006 and 2005 as listed in the table of contents. These special purpose financial statements are the responsibility of the Academy's management. Our responsibility is to express an opinion on these special purpose financial statements based on our audits.

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 financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As explained in Note 1 to the special purpose financial statements, the financial statements being presented are only for the Academy. The financial statements, disclosures and account classifications are presented pursuant to the accounting regulations promulgated by Miami-Dade County Public Schools. The special purpose financial statements do not include the statement of financial position, activities and cash flows of Acting for All, Inc. (a not-for-profit organization). Accordingly, the accompanying special purpose financial statements are not intended to present the financial position of Acting for All, Inc. as of June 30, 2006 and 2005 or its results of operations and cash flows for the fiscal years then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the special purpose financial statements referred to above present fairly, in all material respects, the financial position of the Academy as of June 30, 2006 and 2005, and the results of its operations and its cash flows for the fiscal years then ended, in conformity with special purpose financial statements as required by the Miami-Dade County Public Schools.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 11, 2006 on our consideration of the Academy's internal control over financial reporting and on 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.

Morrison, Brown, Argiz & Farra, LLP
Miami, Florida
August 11, 2006

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ACADEMY OF ARTS AND MINDS CHARTER HIGH SCHOOL

SPECIAL PURPOSE FINANCIAL STATEMENTS
STATEMENTS OF FINANCIAL POSITION
JUNE 30,

<i>ASSETS</i>	2006	2005
Cash	\$ 22,093	\$ 3,812
Other assets	24,000	73,600
Property and equipment, net	<u>84,453</u>	<u>81,672</u>
TOTAL ASSETS	<u>\$ 130,546</u>	<u>\$ 159,084</u>
<i>LIABILITIES AND NET ASSETS</i>		
Accounts payable	\$ 64,561	\$ 51,205
Salaries and wages payable	-	6,525
Payroll deductions and withholdings	-	2,251
Due to related parties	-	238,103
Deferred rent	<u>-</u>	<u>288,000</u>
TOTAL LIABILITIES	64,561	586,084
NET ASSETS (DEFICIT)		
Unrestricted	<u>65,985</u>	<u>(427,000)</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 130,546</u>	<u>\$ 159,084</u>

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

ACADEMY OF ARTS AND MINDS CHARTER HIGH SCHOOL

SPECIAL PURPOSE FINANCIAL STATEMENTS STATEMENTS OF ACTIVITIES FOR THE YEARS ENDED JUNE 30,

	2006	2005
CHANGES IN UNRESTRICTED NET ASSETS (DEFICIT)		
SUPPORT AND REVENUES:		
State	\$ 1,036,260	\$ 646,450
Local	74,507	10,256
Contribution of deferred rent (NOTE 4)	646,953	-
Contributions from related parties (NOTE 5)	<u>380,926</u>	<u>-</u>
TOTAL SUPPORT AND REVENUES	<u>2,138,646</u>	<u>656,706</u>
EXPENSES		
Instruction (Teachers)	396,521	231,952
Pupil personnel services	6,800	900
Instructional media service	-	275
Instructional and curriculum development services	49,616	28,566
Board	15,500	8,500
School administration	139,011	216,277
Facilities acquisition / construction	14,726	179,433
Fiscal services	28,310	8,375
Central services	122,007	78,163
Operation of plant	856,164	312,913
Maintenance of the plant	-	960
Community services	-	530
Depreciation	<u>17,006</u>	<u>16,862</u>
TOTAL EXPENSES	<u>1,645,661</u>	<u>1,083,706</u>
INCREASE (DECREASE) IN UNRESTRICTED NET ASSETS (DEFICIT)	492,985	(427,000)
NET DEFICIT, BEGINNING	<u>(427,000)</u>	<u>-</u>
NET ASSETS (DEFICIT), ENDING	<u>\$ 65,985</u>	<u>\$ (427,000)</u>

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

ACADEMY OF ARTS AND MINDS CHARTER HIGH SCHOOL

SPECIAL PURPOSE FINANCIAL STATEMENTS
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30,

	<u>2006</u>	<u>2005</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Increase (decrease) in unrestricted net asset (deficit)	\$ 492,985	\$ (427,000)
Adjustments to reconcile increase (decrease) in unrestricted net assets (deficit) to net cash used in operating activities:		
Depreciation	17,006	16,862
Forgiveness of deferred rent	(646,953)	-
Forgiveness of related party liabilities	(380,926)	-
Changes in assets and liabilities:		
Decrease (increase) in other assets	49,600	(73,600)
Increase in accounts payable	13,356	51,205
Increase (decrease) in salaries and wages payable	(6,525)	6,525
Increase (decrease) in payroll deductions and withholdings	(2,251)	2,251
Increase in deferred rent	<u>358,953</u>	<u>288,000</u>
TOTAL ADJUSTMENTS	<u>(597,740)</u>	<u>291,243</u>
NET CASH USED IN OPERATING ACTIVITIES	<u>(104,755)</u>	<u>(135,757)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	<u>(19,787)</u>	<u>(98,534)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Advances from related parties	<u>142,823</u>	<u>238,103</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	18,281	3,812
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>3,812</u>	<u>-</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 22,093</u>	<u>\$ 3,812</u>

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

ACADEMY OF ARTS AND MINDS CHARTER HIGH SCHOOL

NOTES TO SPECIAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2006 AND 2005

NOTE 1. NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities

On November 19, 2003, the Miami-Dade County School Board approved the application submitted by the Board of Directors of Acting for All, Inc. (the "Parent"), for Academy of Arts and Minds Charter High School (the "Academy"). The Parent is a non-profit organization incorporated under the laws of Florida to provide community development, and promote special programs and events including operating a charter school organized pursuant to Section 228.056 of the Florida Statutes (2001).

The Academy operates under a charter of the sponsoring school district, the Miami-Dade County School Board (the "School Board"). The Academy's charter was approved by the Board of Directors on February 12, 2004 and is effective until June 30, 2015. The charter may be renewed for up to an additional fifteen (15) years by mutual written agreement between the Academy 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(11)(e), Florida Statutes (2001), the charter school contract provides that in the event the Academy 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.

Enrollment and Grade Configuration

<u>School Name and Addresses</u>	<u>Grades</u>	<u>Enrollment</u>	<u>School Principal</u>
Academy of the Arts and Minds	9 th	66	Alex Tamargo
3138 Commodore Plaza	10 th	74	Alex Tamargo
Coconut Grove, FL 33133			

Board of Directors (Executive Committee)

The Board of Directors of Academy of Arts and Minds Charter High School consists of the following members:

Ruth Montaner	President
Jorge Guerra Castro	Member
Jose Noy	Member
Ignacio Ortiz-Petit	Member
Daniel Medvedov	Member

ACADEMY OF ARTS AND MINDS CHARTER HIGH SCHOOL

NOTES TO SPECIAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2006 AND 2005

NOTE 1. NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Charter School Advisory Council

Zandra Simm	Rolando Barrios
Judy Wells	Yvonne Perez
Alfonso Jugo	Tere Thunem

Basis of Presentation

The financial statements, disclosures and account classifications are presented pursuant to the accounting regulations promulgated by Miami-Dade County Public Schools. The special purpose financial statements present the financial position, activities and cash flows for the Academy of Arts and Minds Charter High School only and does not include the assets, liabilities, net assets and statements of activities and cash flows of Acting for All, Inc.

In addition, the accounts of the Academy are maintained in accordance with the principles of fund accounting. Under fund accounting, resources for various purposes are classified for accounting and reporting purposes into funds established according to their nature and purpose. Separate accounts are maintained for each fund; however, in the accompanying special purpose financial statements, funds from the Academy's programs are presented in accordance with the provisions of Statement of Financial Accounting Standards ("SFAS") No. 117, "Financial Statements of Not-for-Profit Organizations."

Under SFAS No. 117, the Academy is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted. In addition, the Academy is required to present a statement of cash flows.

- Unrestricted net assets consist of net assets that are neither permanently nor temporarily restricted by donor-imposed stipulations.
- Temporarily restricted net assets represent net assets with a donor-imposed restriction that is satisfied either by the passage of time or by actions of the Academy.
- Permanently restricted net assets result primarily from contributions and other inflows of assets whose use by the Academy is limited by donor-imposed stipulations that neither expire by the passage of time nor can be fulfilled or otherwise removed by actions of the Academy.

ACADEMY OF ARTS AND MINDS CHARTER HIGH SCHOOL

NOTES TO SPECIAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2006 AND 2005

NOTE 1. NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Restricted and Unrestricted Revenue

The Academy follows SFAS No. 116, "Accounting for Contributions Received and Contributions Made." In accordance with SFAS No. 116, contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted.

Support that is restricted by the donor is reported as an increase in unrestricted net assets if the restriction expires in the reporting period in which the support is recognized. All other donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose of the restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. No restricted monies were received by the Academy.

Cash and Cash Equivalents

Cash and cash equivalents consist of demand deposit accounts held with financial institutions.

Property and Equipment, Net

Property and equipment consist of furniture, fixtures and equipment and are recorded at cost and depreciated using the straight-line method over a three to ten year estimated useful lives. Expenditures greater than \$1,000 that increase the value or productive capacity of assets are capitalized.

Revenue Sources

Revenues for current operations are received primarily from the School Board pursuant to the funding provisions included in the Academy's charter. In accordance with the funding provisions of the charter and Section 228.056(13), Florida Statutes (2001), the Academy reports the number of full-time equivalent (FTE) students and related data to the School Board. Under the provisions of Section 236.081, Florida Statutes (2001), the School Board reports the number of FTE students and related data to the Florida Department of Education (FDOE) for funding through the Florida Education Finance Program (FEFP). Funding for the Academy is adjusted quarterly during the same fiscal year to reflect the revised calculations by the FDOE under the FEFP and the actual FTE students reported by the Academy during the designated full-time equivalent student survey periods.

ACADEMY OF ARTS AND MINDS CHARTER HIGH SCHOOL

NOTES TO SPECIAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2006 AND 2005

NOTE 1. NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income Taxes

The Academy is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. Accordingly, the accompanying financial statements reflect no income taxes.

Management Estimates

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

Accounting Changes and Error Corrections

In May 2005, the Financial Accounting Standards Board (FASB) issued SFAS No. 154, "Accounting Changes and Error Corrections" which supersedes Accounting Principles Board Opinion No. 20, "Accounting Changes" and SFAS No. 3, "Reporting Accounting Changes in Interim Financial Statements." SFAS 154 changes the requirements for the accounting for and reporting of changes in accounting principles. The statement requires the retroactive application to prior periods' financial statements of changes in accounting principles, unless it is impracticable to determine either the period specific effects or the cumulative effect of the change. SFAS 154 does not change the guidance for reporting the correction of an error in previously issued financial statements or the change in an accounting estimate. SFAS 154 is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. The Academy does not expect the adoption of SFAS 154 to have a material impact on its results of operations and financial condition.

Reclassifications

Certain amounts in the 2005 financial statements have been reclassified to conform to 2006 presentation.

ACADEMY OF ARTS AND MINDS CHARTER HIGH SCHOOL

NOTES TO SPECIAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2006 AND 2005

NOTE 2. PROPERTY AND EQUIPMENT, NET

Property and equipment consist of the following as of June 30:

	<u>2006</u>	<u>2005</u>
Furniture, fixtures, and equipment	\$ 122,969	\$ 103,182
Less: Accumulated depreciation	<u>38,516</u>	<u>21,510</u>
	<u>\$ 84,453</u>	<u>\$ 81,672</u>

Depreciation expense was \$17,006 and \$16,862 for the years ended June 30, 2006 and 2005, respectively.

NOTE 3. REVENUE SOURCES

As explained in Note 1, the School Board provides operating funds from FEFP, on a monthly basis based on FTE students. In addition, the School Board allows for a one-time startup grant of \$250,000 less administrative fees. This startup grant is to aid in the Academy's costs incurred to begin functional operations. A second year implementation grant was given by the School Board of \$200,000 less administrative fees. This second year implementation grant is for the continued operations of the Academy, including monies used for personnel and implementation of support services. Remaining revenue sources are generated by daily operations of the Academy from student activities and other contributions (NOTES 4 and 5). These amounts are included in total revenue sources in the statement of activities as follows:

	<u>2006</u>	<u>2005</u>
<u>Miami-Dade County School Board:</u>		
Start up grant	\$ -	\$ 241,663
Second year implementation grant	191,773	-
Florida Education Finance Program	<u>844,487</u>	<u>404,787</u>
TOTAL	<u>1,036,260</u>	<u>646,450</u>
<u>Local Source:</u>	<u>74,507</u>	<u>10,256</u>
<u>Other:</u>		
Contribution of deferred rent	646,953	-
Contributions from related parties	<u>380,926</u>	<u>-</u>
TOTAL	<u>1,027,879</u>	<u>-</u>
TOTAL REVENUES	<u>\$ 2,138,646</u>	<u>\$ 656,706</u>

ACADEMY OF ARTS AND MINDS CHARTER HIGH SCHOOL

NOTES TO SPECIAL PURPOSE FINANCIAL STATEMENTS JUNE 30, 2005 AND 2006

NOTE 4. DEFERRED RENT

The Academy has an operating lease agreement with an entity owned by a related party, where rent was to be deferred until September 1, 2007 (Note 7). Deferred rent includes facilities rent, parking rent and common area maintenance expenses. As of June 30, 2005, the Academy recorded deferred rent of \$288,000, which includes a deposit of \$24,000. As of June 30, 2006, the amount owed of \$646,953 for the facility was forgiven by the landlord and recorded as a contribution of deferred rent and is included in revenue on the statement of activities.

NOTE 5. RELATED PARTY TRANSACTIONS

The Academy has several related parties which include the Parent, the Spokesman of the BOD (the "Spokesman"), and Commodore Plaza Parking, L.C. (the "Plaza"), an entity owned by the Spokesman. The Parent provided financial resources to the Academy for startup costs and other operating expenses. The Spokesman also funded monies for the operational needs of the school during the year. In addition, the Plaza has provided advances to the Academy for operating expenses as well as deferring rental payments for the Academy's facilities as described in Note 4.

During the initial startup of the Academy and throughout the course of the fiscal years ended June 30, 2006 and 2005, the Academy received the following advances from the related parties mentioned above, which are located at 3138 Commodore Plaza, Suite 317, Coconut Grove, Florida 33133:

	<u>2006</u>	<u>2005</u>
Acting for All, Inc.	\$ -	\$ 103,103
Spokesman of the Board of Directors	-	85,000
Commodore Plaza Parking, L.C.	-	50,000
TOTAL DUE TO RELATED PARTIES	<u>\$ -</u>	<u>\$ 238,103</u>

During 2006, the Academy received additional advances of \$142,823 from the above related parties. The total amount due to related parties of \$380,926 was forgiven and recorded as a contribution from related parties and is included in revenue on the statement of activities.

NOTE 6. MANAGEMENT AGREEMENT

The Parent company entered into a management agreement with Charter Schools USA, Inc. ("CSUSA") located at 6245 North Federal Highway, Fort Lauderdale, Florida 33308, on behalf of the Academy effective January 1, 2004 for a four and a half year term. CSUSA was to provide the Academy with management and operating consulting services required to properly organize, develop, staff, manage, operate and administer a charter school. For the year ended June 30, 2005, expenses paid to CSUSA for services provided are recorded among several functional categories in the statement of activities and totaled approximately \$391,000, which includes amounts paid for instructional and administrative salaries.

ACADEMY OF ARTS AND MINDS CHARTER HIGH SCHOOL

NOTES TO SPECIAL PURPOSE FINANCIAL STATEMENTS JUNE 30, 2005 AND 2006

NOTE 6. MANAGEMENT AGREEMENT (CONTINUED)

In May, 2005, both parties agreed to terminate the agreement by mutual accord and obligations were canceled. CSUSA continued providing management information system services to the Academy for an undefined period of time. Approximately \$21,000 is owed to CSUSA as of June 30, 2006 and is included in accounts payable in the statements of financial position. The Academy expects to repay this balance in the subsequent period.

NOTE 7. COMMITMENTS AND CONTINGENCIES

School Facility Operating Lease

Effective August 1, 2004, the Parent entered into a twenty-year operating lease with Commodore Plaza Parking, L.C. for the Academy's school facilities in Coconut Grove, Florida. In addition, the Academy pays for all property taxes, insurance, common area maintenance and parking spaces. Parking spaces will vary depending on the number of spaces occupied during the fiscal year.

As noted in Note 4, rent expense was deferred until September 1, 2007. However, subsequent to June 30, 2005, the Academy began making monthly payments for rent on facilities for eight months. The remaining four months of rent expense for the year ended June 30, 2006 were deferred; however, all unpaid rent through June 30, 2006 is forgiven and is included as contribution of deferred rent (NOTE 4).

Future minimum rent payments are as follows:

2007	\$ 448,884
2008	461,580
2009	474,792
2010	488,532
2011	502,824
Thereafter	<u>8,130,873</u>
TOTAL	<u>\$ 10,507,485</u>

Rent expense for the years ended June 30, 2006 and 2005 was approximately \$572,000 and \$288,000, respectively.

NOTE 8. RISK MANAGEMENT

Insurance for general liability, automotive liability, and property coverages are being provided through purchased commercial insurance with minimum deductibles for each line of coverage.

ACADEMY OF ARTS AND MINDS CHARTER HIGH SCHOOL

NOTES TO SPECIAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2005 AND 2006

NOTE 9. PLANS FOR CONTINUED OPERATIONS

The Academy of Arts and Minds is currently in its third year of operation. Many positive occurrences have taken place over the past two years to assure that the school is in an encouraging financial situation and will continue to operate for years to come. The following factors are in place to assure that the school will be able to operate and meet all of its needs without incurring further debt:

1. The non-for-profit parent company, Acting for All, Inc., has forgiven the loans made to the school. This has eliminated the majority of the deficit, thus allowing the school to operate with a balanced budget and pay off all debts sooner than anticipated as evidenced in the Academy's projected budgets.
2. The Academy of Arts and Minds is a SACS accredited high school. This qualifies the school to receive Capital Outlay dollars yearly as provided by the state. Capital dollars represent a significant amount of money that will facilitate payment of the lease and will allow the school to pay off debt.
3. The school has added another 9th grade class thus expanding to grades 9-11 for the school year 2006 – 2007. The revenue that the 110 new students represent allows the school to operate with a balanced budget. Next year's projected enrollment for grades 9-12 is 350 students. This increase of 100 students will also allow the Academy to continue to operate with a balanced budget.

**REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS
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**

Board of Directors of
Academy of Arts and Minds Charter High School

We have audited the special purpose financial statements of Academy of Arts and Minds Charter High School (the "Academy") as of and for the fiscal years ended June 30, 2006 and 2005, and have issued our report thereon dated August 11, 2006. 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.

Internal Control Over Financial Reporting

In planning and performing our audits, we considered the Academy'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 an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Academy's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described in the accompanying schedule of findings as item 2006-1.

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 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. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, the reportable condition described in the accompanying schedule of findings, is considered to be a material weakness. We also noted other matters involving the internal control over financial reporting, which we have reported to the management of the Academy in a separate letter dated August 11, 2006.

Compliance and other matters

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

This report is intended solely for the information and use of the Board of Trustees, 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 these specified parties.

Morawson, Brown, Arzoo + Fara, LLP
Miami, Florida
August 11, 2006

ACADEMY OF ARTS AND MINDS CHARTER HIGH SCHOOL

SCHEDULE OF FINDINGS
FOR THE YEAR ENDED JUNE 30, 2006

SECTION I – SUMMARY OF AUDITOR’S RESULTS

Financial Statements

Type of auditor’s report issued:	Unqualified
Internal control over financial reporting:	
Material weakness(es) identified?	<u> X </u> Yes <u> </u> No
Reportable condition(s) identified that are not considered to be material weaknesses?	<u> X </u> Yes <u> </u> No
Noncompliance material to financial statements noted?	<u> </u> Yes <u> X </u> No

SECTION II – FINANCIAL STATEMENT FINDINGS

2006- 1 FINANCIAL REPORTING

Condition Found

The Academy hired a third party record keeper to maintain its accounting records during the year. However, through our audit, we noted that in certain cases incorrect record keeping was posted to the ledger and corrections needed to be done.

Recommendation

The Academy should establish and maintain books, records, and documents in accordance with U.S. generally accepted accounting principles and practices as well as the requirements of the Miami-Dade County Public School Board. The necessary procedures should be implemented in order to execute the complete and accurate recording of financial information in order to prevent possible deficiencies in financial reporting.

Management Response

The Academy of Arts and Minds is aware of the incorrect record keeping that took place during the school year 2005 – 2006. In order to continue to maintain books, records and documents in accordance with generally accepted accounting principles and requirements of the Miami-Dade County Public School Board, we will keep all books in-house by hiring a bookkeeper on staff. This will keep all of the financial information readily available on campus at all times and remedy the situation.

**MANAGEMENT LETTER IN ACCORDANCE WITH SECTION 10.850,
RULES OF THE AUDITOR GENERAL OF THE STATE OF FLORIDA**

Board of Directors of
Academy of Arts and Minds Charter School

We have audited the special purpose financial statements of the Academy of Arts and Minds Charter School (the "Academy") as of and for the fiscal years ended June 30, 2006 and 2005, and have issued our report thereon date August 11, 2006. 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 internal control over financial reporting and on compliance and other matters, which is dated August 11, 2006 and should be considered in conjunction with this management letter.

In connection with our audits of the special purpose financial statements of the Academy for the fiscal years ended June 30, 2006 and 2005, we report the following in accordance with Chapter 10.850 Rules of 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. No inaccuracies, shortages, defalcations, fraud and/or violations of laws, rules, regulations and contractual provisions were reported.
2. Recommendations to improve the Academy's present financial management, accounting procedures and internal controls are accompanying this report in the Schedule of Recommendations.
3. During the course of our audits, we did not find any:
 - a. Violation of any laws, rules, regulations, contracts, and grant agreements or abuse that: (1) have occurred, or are likely to have occurred; (2) were discovered within the scope of the financial audit; and (3) may or may not have materially affected the financial statements.
 - b. Improper expenditures discovered within the scope of the financial audit which may or may not materially affect the financial statements.

We noted one matter involving the internal control over financial reporting and its operation that we considered to be a material weakness during the 2006 audit, which is included in our schedule of findings. Additionally, we noted certain matters that are opportunities for strengthening internal controls and operating efficiency as noted below.

**2006-1 INTERNAL FINANCIAL STATEMENTS NOT CONSISTENT WITH YEAR END
AUDIT**

Observation:

As a result of the audit, there were significant adjustments to the financial statements provided to the Academy. These adjustments should have been made prior to the commencement of the audit.

Recommendation:

The financial statements prepared by the Academy throughout the year should be consistent with the year end audit. This will allow management and the board to be able to more accurately assess the Academy's financial condition and results of its activities.

Management Response:

The Academy changed accountants for this fiscal year and during the transition, not all prior year end detail financial schedules were transferred over to the new accountant to provide a basis for making some necessary adjustments. Subsequently, the Academy is performing such accounting recordkeeping in-house in order to better facilitate the accounting process and maintain more control over this function.

2006-2 DISBURSEMENTS

Observation:

During our audit, we noted that certain voided checks were not retained. In addition, we noted that certain checks were not included in the accounting records due to them not being used. As a result, the checks were never voided in the accounting records.

Recommendation:

We recommend that all voided checks be defaced, with the signature portion of the check removed and the check retained and accounted for in numerical sequence. We recommend that all checks not used be voided in the accounting records.

Management Response:

The Academy was originally printing its own checks using a check writing program instead of having a printed checkbook with check stubs. Although the checks were being printed with sequential check numbers, oftentimes paper jams in the printer would cause misprinted checks that were unusable and would be discarded, thus creating breaks in sequence numbers of checks used. These checks were considered "not used" or voided but were not retained. This situation was resolved by ordering a printed checkbook with check stubs from the bank to ensure that an audit trail is maintained of all checks. Additionally, all voided checks will be defaced and maintained, per the auditor's request and will also be voided in the accounting records.

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 these specified parties.

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Miami, Florida
August 11, 2006