

CHARTER SCHOOL AT WATERSTONE, INC.

COMPONENT UNIT
FINANCIAL STATEMENTS

JUNE 30, 2006

MANAGEMENT AND
FINANCIAL STATEMENTS
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CHARTER SCHOOL AT WATERSTONE, INC.

FOR THE FISCAL YEAR ENDED JUNE 30, 2006

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

INDEPENDENT AUDITORS' REPORT

We have audited the accompanying component unit basic financial statements of governmental activities and each major fund Charter School at Waterstone, Inc. ("School") a component unit of The School Board of Miami-Dade County, Florida as of and for the year ended June 30, 2006, which collectively comprise the School's basic financial statements as listed in the foregoing table of contents. These financial statements are the responsibility of the School's management. Our responsibility is to express an opinion on these financial statements based on our 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 component unit financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the component unit financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the component unit financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the School at June 30, 2006, 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.

The management's discussion and analysis and the budgetary comparison information on pages 2 through 5 and 12, are not required parts of the basic financial statements but are supplementary information required by the accounting principles generally accepted in United States of America. We have applied certain limited procedures, which consisted principally of inquires 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.

In accordance with Government Auditing Standards, we have also issued a report dated August 23, 2006, on our consideration of School's internal control structure over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grants agreement and other matters. The purpose of that report is to describe the scope of our testing of internal over financial reporting and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

A handwritten signature in cursive script that reads "Millward & Co." followed by a stylized flourish.

Millward & Co. CPAs
Fort Lauderdale, Florida
August 23, 2006



CHARTER SCHOOL AT WATERSTONE, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2006

The Charter School at Waterstone, Inc. ("School") is a public charter school operating in Miami-Dade County, FL, under the sponsorship of the School District of Miami-Dade County.

Within this section of the School's annual financial report, the School's management provides narrative discussion and analysis of the financial activities of the School for the fiscal year ended June 30, 2006. The School's financial performance is discussed and analyzed within the context of the accompanying financial statements and disclosures following this section.

Overview of the Financial Statements

The Management's Discussion and Analysis introduces the School's basic financial statements. The basic financial statements include: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the financial statements. The School also includes in this report additional information to supplement the basic financial statements.

Financial Highlights

The School's assets exceed its liabilities by \$483,637, net assets for the fiscal year reported.

Total net assets are comprised of the following:

- \$440,457 in unrestricted fund
- \$43,180 investment in capital assets, net of related debt

School started its operation in August 2005 and 1,000 students were enrolled in grades kindergarten through eighth during 2005-2006.

Financial Analysis of School

Government funds are reported in the fund financial statements and encompass essentially the same functions reported as government activities in the government wide financial statements.

Primarily, all of the School's revenues are received through the sponsor and generally was provided by the State of Florida. The revenue per student each year is determined by the State of Florida and paid to the School based upon the student counts on certain dates in October and February of the fiscal year.

Government-Wide Financial Statements

The School's annual report includes two government-wide financial statements. Financial reporting at this level uses a perspective similar to that found in the private sector with its basis in full accrual accounting. This includes financial statements prepared on a full accrual accounting.

The first of these government-wide statements is the *Statement of Net Assets*. This is the School-wide statement of position presenting information that includes all the of the School's assets and liabilities, with the difference reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator whether the financial position of the School as a whole is improving or deteriorating. Evaluation of the overall health of the School would extend to other nonfinancial factors such as student education, progress and improvements.

CHARTER SCHOOL AT WATERSTONE, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2006

The second government-wide statement is the *Statement of Activities*, which reports how the School's net assets changed during the current fiscal year. All current year revenues and expenses are included regardless of when cash is received or paid. An important purpose of the design of the statement of activities is to show the financial reliance of the School's distinct activities or functions on revenues provided by the school district and other private grants.

The accompanying notes to the financial statements provide information essential to a full understanding of the financial statements.

Both government-wide financial statements distinguish governmental activities of the School that are principally supported by intergovernmental revenues, and other grants.

Fund Financial Statements

A fund is an accountability unit used to maintain control over resources segregated for specific activities or objectives. The School uses funds to ensure and demonstrate compliance with finance-related laws and regulation. Within the basic financial statements, fund financial statements focus on the School's most significant funds.

Governmental Fund

Government funds are reported in the fund financial statements and encompass essentially the same functions reported as governmental activities in the government-wide financial statements. However, the focus is very different with funds statements providing a distinctive view of the School's governmental funds. These are useful in evaluating annual financing requirements of governmental programs and the commitment of spendable resources for the near term.

Proprietary Funds

Proprietary funds are reported in the fund financial statements and generally report services for which the School charges a fee. For fiscal year ended June 30, 2006, the School did not have any proprietary funds.

FINANCIAL ANALYSIS OF THE MAJOR FUND

GOVERNMENTAL FUND

GENERAL FUND

The general fund is the operating fund. It recognized \$6,538,273 in total revenues and \$411,241 in capital lease proceeds offset by \$6,508,922 expenditures. This resulted in excess of revenues over expenditures.

CHARTER SCHOOL AT WATERSTONE, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2006

CAPITAL ASSETS

As of June 30, 2006, the School had \$412,055 invested in capital assets, as reflected in below.

	2006
Office equipment and fixtures	\$ 451,427
Less: Accumulated depreciation	(39,372)
Net	\$ 412,055

The summary of the School government-wide statement of net assets is as follows:

Condensed Statement of Net Assets Governmental Activities June 30, 2006			
	2006	Total	% to Total
Current and Other Assets	\$ 843,346	\$ 843,346	67%
Capital Assets	412,055	412,055	33%
Total Assets	1,255,401	1,255,401	100%
Current Liabilities	527,220	527,220	68%
Note Payable	244,544	244,544	32%
Total Liabilities	771,764	771,764	100%
Investment in capital assets, net of related debt	43,180	43,180	9%
Unrestricted	440,457	440,457	91%
Total Net Assets	\$ 483,637	\$ 483,637	100%

CHARTER SCHOOL AT WATERSTONE, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2006

Condensed Statement of Activities For the years 2006			
	2006	Total	% to Total
General Revenues:			
FEFP Fees	\$ 5,392,198	\$ 5,392,198	83%
Operating grants	601,157	601,157	9%
Florida Teachers' Lead Program	4,600	4,600	-
Contributions	272,122	272,122	4%
School Fundraising	54,118	54,118	1%
School Lunch Program	68,173	68,173	1%
Charge for Services	95,511	95,511	1%
Interest	493	493	-
Other	49,901	49,901	1%
Total Revenues	6,538,273	6,538,273	100%
Function/Program Expenses:			
Instructional services	2,747,220	2,747,220	45%
Instructional support services	45,700	45,700	1%
Instruction Media Services	4,140	4,140	-
Instruction Curriculum Development	566	566	-
Instruction Staff Training services	16,277	16,277	-
Board Administration	744,797	744,797	12%
School Administration	561,679	561,679	9%
Facilities acquisition	1,011,817	1,011,817	17%
Fiscal services	42,288	42,288	1%
Food Services	238,200	238,200	4%
Transport services	149,378	149,378	3%
Operation Plant	383,460	383,460	7%
Maintenance of Plant	28,230	28,230	-
Community services	68,711	68,711	1%
Interest expense	12,038	12,038	-
Total Expenses	6,054,501	6,054,501	100%
Change in net assets	483,772	483,772	-
Beginning Net Assets (deficit)	(135)	(135)	-
Ending Net Assets	\$ 483,637	\$ 483,637	-

Request for Information

This financial report is designated to provide a general overview of Academy's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the School Financial Services, Inc., P. O. Box 130, Bonifay, FL 32425.

THE CHARTER SCHOOL AT WATERSTONE, INC.
STATEMENT OF NET ASSETS
June 30, 2006

	<u>Governmental Activities</u>
ASSETS	
Cash	\$ 364,193
Certificates of Deposit	200,000
Accounts Receivable	186,744
Prepaid Expenses	92,409
Capital Assets	<u>412,055</u>
 Total Assets	 <u>1,255,401</u>
 LIABILITIES	
Accounts Payable	401,407
Loan Payable	1,482
Capital Lease Payable:	
Current Portion	124,331
Lon-Term Portion	<u>244,544</u>
 Total Liabilities	 <u>771,764</u>
 NET ASSETS	
Invested in capital assets net of related debt	43,180
Unrestricted	<u>440,457</u>
 TOTAL NET ASSETS	 <u><u>\$ 483,637</u></u>

The accompanying notes are an integral part of these financial statements

THE CHARTER SCHOOL AT WATERSTONE, INC.
 GOVERNMENT-WIDE STATEMENT OF ACTIVITIES
 FOR THE FISCAL YEAR ENDED JUNE 30, 2006

Program Activities	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets	
		Charges for Services	Operating Grant and Contributions	Capital Grant and Contributions	Governmental Activities	Total
Governmental Activities:						
Instructional Services	2,747,220	\$ -	\$ 235,616	\$ -	\$ (2,511,604)	\$ (2,511,604)
Instructional Support Services	45,700	9,077	2,800	-	(33,823)	(33,823)
Instructional Media Services	4,140	-	4,000	-	(140)	(140)
Instructional Curriculum Development Services	566	-	522	-	(44)	(44)
Instructional Staff Training Services	16,277	-	15,367	-	(910)	(910)
Board Administration	744,797	-	127,910	-	(616,887)	(616,887)
School Administration	561,679	-	7,547	-	(554,132)	(554,132)
Facilities Acquisition	1,011,817	-	-	447,362	(564,455)	(564,455)
Fiscal Services	42,288	-	2,823	-	(39,465)	(39,465)
Food Services	238,200	68,173	-	-	(170,027)	(170,027)
Pupil Transportation Services	149,378	-	-	-	(149,378)	(149,378)
Operation Plant	383,460	-	29,332	-	(354,128)	(354,128)
Maintenance of Plant	28,230	-	-	-	(28,230)	(28,230)
Community Services	68,711	86,434	-	-	17,723	17,723
Interest Expense	12,038	-	-	-	(12,038)	(12,038)
Total Governmental Activities	\$ 6,054,501	\$ 163,684	\$ 425,917	\$ 447,362	(5,017,538)	(5,017,538)
General Revenues:						
FEFP					5,392,198	5,392,198
Florida Teachers' Lead Program					4,600	4,600
Fundraising					54,118	54,118
Interest					493	493
Other					49,901	49,901
Total General Revenue					5,501,310	5,501,310
Change in Net Assets					483,772	483,772
Net Assets-Beginning					(135)	(135)
Net Assets-Ending					\$ 483,637	\$ 483,637

The accompanying notes are an integral part of these financial statements

THE CHARTER SCHOOL AT WATERSTONE, INC.
RECONCILIATION OF THE BALANCE SHEET
OF GOVERNMENTAL FUND TO THE
STATEMENT OF NET ASSETS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

Total Fund Balance - Total Governmental Fund	\$ 440,457
Capital lease payable is not due in the current period, therefore is not reported	(368,875)
Capital Outlays of \$451,427, Net of Accumulated Depreciation of (\$39,372), are not financial resources and therefore are not reported in the governmental fund:	<u>412,055</u>
Net Assets of Governmental Activities	<u>\$ 483,637</u>

The accompanying notes are an integral part of these financial statements

THE CHARTER SCHOOL AT WATERSTONE, INC.
BALANCE SHEET
GOVERNMENTAL FUND
June 30, 2006

	<u>General Fund</u>
ASSETS	
Cash	\$ 364,193
Certificates of Deposit	200,000
Accounts Receivable	186,744
Prepaid Expenses	<u>92,409</u>
Total Current Assets	<u>\$ 843,346</u>
 LIABILITIES	
Accounts Payable and Accrued Expenses	\$ 401,407
Loan Payable	<u>1,482</u>
Total Current Liabilities	<u>402,889</u>
 FUND EQUITY	
Unreserved	<u>440,457</u>
TOTAL FUND EQUITY	<u>440,457</u>
TOTAL FUND LIABILITIES AND FUND EQUITY	<u>\$ 843,346</u>

The accompanying notes are an integral part of these financial statements

THE CHARTER SCHOOL AT WATERSTONE, INC.
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

	General Fund
Revenues	
FEFP Fees	\$ 5,392,198
Operating Grants	601,157
Florida Teachers' Lead Program	4,600
Contribution	272,122
Fundraising	54,118
School Lunch Program	68,173
Charge for Services	95,511
Interest	493
Other	49,901
Total Revenues	6,538,273
Expenditures	
Instructional Services	3,159,275
Instructional Support Services	45,700
Instructional Media Services	4,140
Instructional Curriculum Development Services	566
Instructional Staff Training Services	16,277
Board Administration	744,797
School Administration	561,679
Facilities Acquisition	1,011,817
Fiscal Services	42,288
Food Services	238,200
Pupil Transportation Services	149,378
Operation Plant	383,460
Maintenance of Plant	28,230
Community Services	68,711
Principal Payment	42,366
Interest Expense	12,038
Total Expenditures	6,508,922
Excess of revenues over expenses	29,351
Other Financing Sources:	
Capital Lease Proceeds	411,241
Net Change in Fund Balance	440,592
Fund Deficit - July 1, 2005	(135)
Fund Balance - June 30, 2006	\$ 440,457

The accompanying notes are an integral part of these financial statements

THE CHARTER SCHOOL AT WATERSTONE, INC.
RECONCILIATION OF THE STATEMENT OF
REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE OF GOVERNMENTAL
FUND TO THE STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

Net change in fund balance - total governmental fund	\$ 29,351
Governmental funds report capital outlay as expenditures. However, in the government-wide statement of activities and change in net assets, the cost of those assets is allocated over the estimated useful lives as depreciation expenses. This is the amount of capital assets of \$451,427 over depreciation of (\$39,372) in current period	412,055
Repayment of principal of the note is an expenditures in the governmental fund, but the repayment reduce long-term liabilities in the statement of the net assets.	<u>42,366</u>
Net Change in Statement of Activities	<u>\$ 483,772</u>

The accompanying notes are an integral part of these financial statements

THE CHARTER SCHOOL AT WATERSTONE, INC.
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

	BUDGET Original/ Final	ACTUAL	VARIANCE Positive (Negative)
Revenues:			
FEFP Fees	\$ 5,620,194	\$ 5,392,198	\$ (227,996)
Operating Grants	620,000	601,157	(18,843)
Florida Teachers' Lead Program	-	4,600	4,600
Contribution	-	272,122	272,122
Fundraising	-	54,118	54,118
School Lunch Program	-	68,173	68,173
Charge for Services	71,541	95,511	23,970
Interest	-	493	493
Other	-	49,901	49,901
	6,311,735	6,538,273	226,538
Total revenues			
Expenditures:			
Instructional Services	2,541,680	3,159,275	(617,595)
Instructional Support Services	-	45,700	(45,700)
Instructional Media Services	41,447	4,140	37,307
Instructional Curriculum Development Service:	30,000	566	29,434
Instructional Staff Training Services	-	16,277	(16,277)
Board Administration	1,069,048	744,797	324,251
School Administration	518,649	561,679	(43,030)
Facilities Acquisition	1,000,000	1,011,817	(11,817)
Fiscal Services	160,000	42,288	117,712
Food Services	178,932	238,200	(59,268)
Pupil Transportation Services	-	149,378	(149,378)
Operation Plant	395,894	383,460	12,434
Maintenance of Plant	17,250	28,230	(10,980)
Community Services	-	68,711	(68,711)
Principal Payment	131,722	42,366	89,356
Interest Expense	34,752	12,038	22,714
	6,119,374	6,508,922	(389,548)
Total expenditures			
Excess (Deficiency) of Revenue over Expenses	192,361	29,351	(163,010)
Other Financing Sources:			
Capital Lease Proceeds	-	411,241	(411,241)
Net Change in Fund Balance	\$ 192,361	440,592	\$ (574,251)
Fund Deficit - July 1, 2005		(135)	
Fund balance - June 30, 2006		\$ 440,457	

The accompanying notes are an integral part of these financial statements

CHARTER SCHOOL AT WATERSTONE, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1. Organization

Charter School at Waterstone, Inc. ("School") was established as a non-profit organization in February 2004 under the laws of the State of Florida.

The School operates under Florida statutes 228.056(7) as a Charter School Contract with the School District of Miami-Dade County, Florida (the School District). Under the Charter the School provides education to children of kindergarten to eighth grade in Miami-Dade County.

The Charter requires the District to provide the School's primary source of funding based upon the number of full-time equivalent students registered at the School.

The School is a component unit of School District of Miami-Dade County, Florida.

2. Reporting Entity

The School's financial reporting entity consists of the following:

- The primary government
- Organizations for which the primary government is financially accountable
- Other organizations that, because of the nature and significance of their relationship with the primary government, may not be excluded from the financial reporting entity.

There are no component units; however, the School is a component unit of School District of Miami-Dade County, Florida.

Government-Wide Financial Statements

The government-wide financials statements include the statement of net assets and the statement of activities. These statements report financial information for the School as a whole.

The statement of activities report the expenses of a given function offset by program revenues directly connected with the functional program. A function is an assembly of similar activities and may include positions of a fund or summarize more than one fund to capture the expense and program revenues associated with a district functional activity. Program revenues include: (1) charges for services which report fees and other charges and (2) operating grants and contributions which finance annual operating activities including restricted investment income. These revenues are subject to externally imposed restrictions to these programs uses.

Fund Financial Statements

Fund financial statements are provided for governmental fund. Major individual governmental funds are reported in separate column.

CHARTER SCHOOL AT WATERSTONE, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3. Measure Focus, basis of Accounting and Financial Statement Presentation

The financial statements of the School are prepared in accordance with generally accepted accounting principles (GAAP). The reporting entity applies all relevant Governmental Accounting Standards Board (GASB) pronouncements. The government-wide financial statements apply Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinion issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails.

The government-wide statements report using the economic resources measurement focus and the accrual basis of accounting generally including the reclassification or elimination of internal activity (between or within funds). Revenues are recorded when earned and expenses are recorded when a liability is incurred.

Governmental fund financial statements report using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when they are both measurable and available. Available means collectible within the current period or soon enough thereafter to pay current liabilities. The School considers revenues to be available if they are collected within 60 days of the end of the fiscal year. Expenditures are recorded when the related fund liability is incurred.

Major revenues sources susceptible to accrual include: intergovernmental revenues, and investment income.

4. Major Fund

General Fund - The General Fund is the general operating fund. It is used to account for all current financial resources except those required to be accounted for in another fund of the School.

5. Capital Assets, Depreciation

The School's property, equipment, and infrastructure with useful lives of more than one year are stated at historical cost and comprehensively reported in the government wide financial statements.

The School generally capitalizes assets with cost of \$750 or more as outlays occur. The cost of normal maintenance and repairs that do not add to the asset value or materially extend useful lives are expensed. Capital assets are depreciated using the straight-line method. When capital assets are disposed, the cost and applicable accumulated depreciation are removed from the respective accounts, and the resulting gain or loss is recorded in operation. Estimated useful lives, in years, for depreciable assets are as follows:

Office Equipment	5 years
Fixtures and Improvement	20 years

CHARTER SCHOOL AT WATERSTONE, INC.
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2006

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

6. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the 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 expenses during the reporting period. The actual results could differ from those estimates.

7. Budget

Budget to actual comparison are reflected in the accompanying financial statements for general fund type which the School has adopted for its operations. The School adopts its budget on basis consistent with generally accepted accounting principles. The budget control is total expenditures since there are no departments.

NOTE B - SCHOOL DISTRICT OF MIAMI-DADE COUNTY

The School has an agreement with the School District of Miami-Dade County, Florida, to operate a Charter School. The School receives funding from the School District of Miami-Dade County, Florida, based on the projected number of full time equivalent (FTE) students. The term of the agreement began June 15, 2005, and will end on June 30, 2010. Thereafter, the agreement may be renewed for an additional fifteen years. The enrollment for year ended June 30, 2006 was 1,000 students.

NOTE C - CAPITAL ASSETS

Changes in assets during the year ended June 30, 2006 were as follows:

	<u>Balance</u> <u>06/30/05</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>06/30/06</u>
Office equipment and fixtures	\$ -	\$ 451,427	\$ -	\$ 451,427
	-	451,427	-	451,427
Less: Accumulated depreciation	-	(39,372)	-	(39,372)
Net	<u>\$ -</u>	<u>\$ 412,055</u>	<u>\$ -</u>	<u>\$ 412,055</u>

Depreciation expense for the year ended June 30, 2006, was \$39,372.

CHARTER SCHOOL AT WATERSTONE, INC.
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2006

NOTE D – RENT

The School leases school facilities from a third party. The lease began on August 1, 2005 and the lease expires on July 1, 2035. The School has the right to cancel the lease upon providing thirty (30) days written notice. The rental expense was \$1,051,549 for the year ended June 30, 2006.

The future rental expense under this lease agreement is as follow:

<u>June 30</u>	
2007	\$1,200,000
2008	1,236,000
2009	1,273,080
2010	1,311,272
2011	1,350,611
2012 Thru. 2015	<u>5,819,964</u>
 Total	 <u>\$12,190,927</u>

NOTE E – CAPITAL LEASE

On March 10, 2006, the School entered into two capital leases for purchase of school equipment and educational supplies. The term of lease is set at thirty six month with interest rate of 10.6% and 14.5%, and monthly payment of \$7,136 and \$6,465 respectively. The minimum future payments under leases are as follows:

<u>June 30</u>	
2007	\$ 124,331
2008	140,644
2009	<u>103,900</u>
 Total	 <u>\$ 368,875</u>

The book value of capital leased equipment is as follow:

Capital Leased Equipment	\$ 411,241
Less: Accumulated Depreciation	<u>(34,270)</u>
 Net book valued of Leased Equipment	 <u>\$ 376,971</u>

NOTE F – CERTIFATES OF DEPOSITS

At June 30, 2006, the School had \$200,000 in 3.9% certificates of deposit with a maturity date of July 23, 2006. It is the intent of the School to hold these certificates until maturity. If these certificates were to be liquidated prior to maturity, it would be subject to market fluctuations and possible early withdrawal penalties.

CHARTER SCHOOL AT WATERSTONE, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006

NOTE G – CONTINGENCIES

The School receives funding through the School District of Miami-Dade County, Florida, that is based in part on a computation of the number of full time equivalent (“FTE”) students enrolled. The accuracy of data compiled supporting the FTE count is subject to audit, and if found to be in error, could result in refunds or in decreases of future funding allocations. It is the opinion of management that the amount of revenue which may be remitted back due to errors in the FTE count, if any, will not be material to the financial position of the School. In addition, the continued operation of the School is depended upon an agreement with School District of Miami-Dade County, Florida.

NOTE H – RISK MANAGEMENT

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

NOTE I – OTHER INFORMATION

Charter School at Waterstone located at 855 Waterstone Way, Homestead, FL 33033. The School principal is Ms. Cristina Cruz and the Board of Directors is as follows:

Michael Goldschmidt	Chairman
Helena Del Monte	Secretary
John K. Scott	Treasurer

On August 31, 2005, the School entered into a five year contract with Charter School Associates, Inc. for professional services. The Charter School Associates, Inc. agreed to plan, develop and manage the School operations. Under the term of this agreement, the management company provides curriculum implementation, personnel, professional development, accounting, payroll and compliance services to School. The Charter School Associates, Inc. located at 10320 NW 6th Street, Coral Springs, FL 33071, and the company president is Michael Strader. The contract expires on June 30, 2010 and may be renewed for an additional five years. The professional fee for the year ending June 30, 2006 was \$531,170.

The following is information about the Certified Public Accountants issuing the audit report:

CPA’s Name:	Millward & Co., CPAs
CPA’s Address:	100 NE Third Avenue, Suite#300 Fort Lauderdale, Florida 33301
License No:	1143963
Status:	Current
Expiration Date:	December 31, 2006



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

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

We have audited the component unit basic financial statements of the governmental activities and each major fund of Charter School at Waterstone, Inc. ("School") as of and for the year ended June 30, 2006, which collectively comprise the School basic financial statements and have issued our report thereon dated August 23, 2006. 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 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 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 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 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

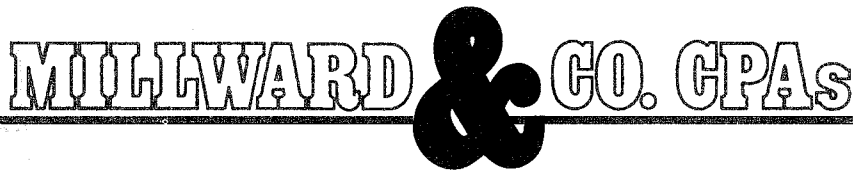
As part of obtaining reasonable assurance about whether School's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect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

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

A handwritten signature in cursive script that reads "Millward & Co."

Millward & Co. CPAs
Fort Lauderdale, Florida
August 23, 2006





MANAGEMENT LETTER

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

We have audited the component unit basic financial statements of Charter School at Waterstone, Inc. ("School") as of and for the fiscal year ended June 30, 2006, and have issued our report thereon dated August 23, 2006.

We have 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. We have issued our Independent Auditors' Report on Internal Control over financial Reporting and on compliance and other matters based on the audit of the financial statements performed in accordance with *Government Auditing Standards*, dated August 23, 2006, and it should be considered in conjunction with this management letter.

Additionally, our audit was conducted in accordance with the provisions of Chapter 10.550, Rules of the Auditor General, which govern the conduct of local governmental entity audits performed in the State of Florida and require that certain items be addressed in this letter.

The Rules of the Auditor General (Section 10.554(1)(h)1.) require that we address in the management letter, if not already addressed in the auditor's reports on compliance and internal controls or schedule of findings and questioned costs, whether or not recommendations made in the preceding annual financial audit report have been followed. There were no recommendations made in the preceding audit report.

As required by the Rules of the Auditor General (Section 10.554(1)(h)2.), the scope of our audit included a review of the provisions of Section 218.415., Florida Statutes, regarding the investment of public funds. In connection with our audit, we determined that the District complied with Section 218.415, Florida Statutes.

The Rules of the Auditor General (Section 10.544(1)(h)3.) require that we address in the management letter any findings and recommendations to improve financial management, accounting procedures, and internal controls. In connection with our audit, we did not have any such findings.

The Rules of the Auditor General (Section 10.554(1)(h)4.) require disclosure in the management letter of the following matters if not already addressed in the auditor's reports on compliance and internal controls or schedule of findings and questioned costs and are not clearly in consequential: (1) violations of laws, rules, regulations, and contractual provisions that have occurred, or are likely to have occurred; (2) improper or illegal expenditures; (3) improper or inadequate accounting procedures (e.g., the omission of required disclosures from the financial statements); (4) failures to properly record financial transactions; and (5) other inaccuracies, shortages, defalcations, and instances of fraud discovered by, or that come to the attention of the auditor. There are no items requiring disclosure.

As required by the Rules of the Auditor General (Section 10.554(1)(h)6.a), a statement must be included as to whether or not the local government entity has met one or more of the conditions described in Section 218.503(1), Florida Statutes. In connection with our audit, we determined that the District did not meet any of the conditions described in Section 218.503(1), Florida Statutes.



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As required by the Rules of the Auditor General (Section 10.554(1)(h)6.b.), we determined that the annual financial report for the District for the fiscal year ended June 30, 2005, filed with the Florida Department of Financial Services pursuant to Section 218.32(1)(a), Florida Statutes, is in agreement with the annual financial audit report for the fiscal year ended June 30, 2005.

As required by the Rules of the Auditor General (Sections 10.554(h)6.c. and 10.556(7)), we applied financial assessment procedures. It is management's responsibility to monitor the entity's financial condition, and our financial condition assessment was based in part on representations made by management and the review of financial information provided by same.

This management letter is intended solely for the information and use of the Board members, management, and the State of Florida Office of the Auditor General, School District of Miami-Dade County, and others within the Organization and is not intended to be and should not be used by anyone other than these specified parties.



Millward & Co. CPAs
Fort Lauderdale, Florida
August 23, 2006