

THE DOWNTOWN MIAMI CHARTER SCHOOL, INC.

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

FISCAL YEARS ENDED JUNE 30, 2006 AND 2005

MANAGEMENT AND
PERFORMANCE AUDIT
2006 SEP -1 PM 2:2



THE DOWNTOWN MIAMI CHARTER SCHOOL, INC.

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

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying basic financial statements of the governmental activities, major fund and the internal fund of The Downtown Miami Charter School, Inc. (the "School") as of and for the fiscal years ended June 30, 2006 and 2005, (a component unit of the School Board of Miami-Dade County), which collectively comprises the School's basic financial statements as listed in the table of contents. These basic financial statements are the responsibility of the School's management. Our responsibility is to express opinions on these special-purpose financial statements based on our audit.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, major fund and the internal fund of The Downtown Miami Charter School, Inc. as of June 30, 2006 and 2005, and the respective changes in financial position for the fiscal years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated August 2, 2006 on our consideration of the School's internal control over financial reporting and our tests of their compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing in 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.

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

The accompanying required supplementary information, such as management's discussion and analysis and budgetary comparison information on pages 3 through 7, and pages 24 and 25, respectively, are not a required part of the basic financial statements but are supplementary information required by accounting principles. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

BKR Garcia & Company PLLC

August 2, 2006



MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of The Downtown Miami Charter School, Inc. ("School"), we offer readers of the School this narrative overview and analysis of the financial activities of the School for the year ended June 30, 2006.

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

FINANCIAL HIGHLIGHTS

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

The School's General Fund ended in a deficit position at the close of the current fiscal year, due to a carry over of deficit from the 2003-2004 school year. The School's current year of operations generated an increase in net assets of \$20,469 as a result of contributions from the management company and an increase in student enrollment, compared to an increase in net assets of \$6,953 last year. We believe that the deficit will be fully funded during next year's operations by obtaining additional funding from the National School Lunch Program. The overall condition of the funds and governmental activities remains stable for the School.

The liabilities of the School exceeded its assets at June 30, 2006 by approximately \$6,793 (net asset deficit). Of this amount, approximately (\$51,983) was unrestricted deficit, which will be funded by the operations of the School in the subsequent fiscal year.

USING THIS ANNUAL REPORT

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

Government-Wide Financial Statements

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

The *statement of net assets* presents information on all the School's assets and liabilities, with the difference between the two reported as *net assets (deficit)*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the School is improving or deteriorating.

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

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

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

USING THIS ANNUAL REPORT (CONTINUED)

Fund Financial Statements

A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The School, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The School's funds comprise of the General Fund, a governmental fund, and the Internal Fund, a fiduciary fund.

Governmental Funds

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

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the School's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balance provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

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

The School adopts an annual budget for its governmental fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with the budget.

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

Fiduciary Funds

Fiduciary funds are used to account for resources held for the benefit of parties outside the School. Fiduciary funds are used to account for the School's Internal Fund and are not reflected in the government-wide financial statement because the resources of those funds are not available to support the School's own activities. The accounting used for fiduciary funds is much like that used for government-wide financial statements.

The basic fiduciary fund financial statements can be found on pages 15 through 16 of this report.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 17 through 23 of this report.

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents certain required *supplementary information* concerning budgetary information for the School's general fund. Required supplementary information can be found on pages 24 and 25 of this report.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

GOVERNMENT-WIDE FINANCIAL ANALYSIS

This is the fourth year of operations and as such, a comparative of government-wide data will be presented. The School's net assets were (\$6,793) at June 30, 2006. Of this amount, (51,983) was unrestricted and \$45,190 were invested in capital assets. The School's net assets were (27,262) at June 30, 2005. Of this amount, (51,983) was unrestricted and \$24,721 were invested in capital assets.

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

Net Assets (Deficit)

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

Table A-1

Summary of net assets (Deficit)

| | Fiscal Year <u>2006</u> | Fiscal Year <u>2005</u> |
|-------------------------------------------------------|----------------------------|----------------------------|
| Current assets | \$ 320,883 | \$ 238,647 |
| Capital assets, net | <u>45,190</u> | <u>24,721</u> |
| Total assets | <u>366,073</u> | <u>263,368</u> |
| Current liabilities | <u>372,866</u> | <u>290,630</u> |
| Investment in capital assets, net of related debt | 45,190 | 24,721 |
| Unrestricted (Deficit) | <u>(51,983)</u> | <u>(51,983)</u> |
| Total net assets (Deficit) | <u>\$ (6,793)</u> | <u>\$ (27,262)</u> |

Table A-2

Summary of changes in net assets (Deficit)

| | Fiscal Year <u>2006</u> | Fiscal Year <u>2005</u> |
|-----------------------------------------|----------------------------|----------------------------|
| Revenues: | | |
| Program Revenues: | | |
| Charges for services | \$ 356,209 | \$ 317,179 |
| Operating grants and contributions | 247,443 | 623,293 |
| Capital grants and contributions | 268,636 | 236,695 |
| General Revenues: | | |
| FTE | 3,650,753 | 3,348,964 |
| Investment income and miscellaneous | 13,388 | 1,185 |
| Total revenues | <u>4,536,429</u> | <u>4,527,316</u> |
| Expenses: | | |
| Instructional services | 2,003,404 | 2,055,693 |
| Support services | 358,903 | 445,506 |
| Operation of non-instructional services | 1,088,957 | 1,049,902 |
| Operation and maintenance of plant | <u>1,064,696</u> | <u>969,262</u> |
| Total expenses | <u>4,515,960</u> | <u>4,520,363</u> |
| Increase (Decrease) in net assets | <u>\$ 20,469</u> | <u>\$ 6,953</u> |

MANAGEMENT'S DISCUSSION AND ANALYSIS

GOVERNMENT-WIDE FINANCIAL ANALYSIS (CONTINUED)

As noted above and in the statement of activities on pages 9 and 10, the cost of all governmental activities during the year ended June 30, 2006 and June 30, 2005 was \$4,515,960 and \$4,520,363, respectively. The majority of these activities were financed through general revenues of \$3,650,753 and \$3,348,964, which consist primarily of FTE funding from the State.

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

FINANCIAL ANALYSIS OF THE SCHOOL'S FUNDS

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

Governmental funds. The focus of the School's *governmental fund* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the School's financing requirements. In particular, *unreserved fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

At the end of the School's fourth fiscal year of operations, fund balance of the general fund was a deficit of (\$51,983). The general fund is the chief operating fund and only fund of the School.

A summary of the general fund's condensed balance sheet and statement of revenues, expenditures and changes in fund balance is presented in Table B-1 and B-2 for June 30, 2006 and 2005:

Table B-1

Summary of condensed Balance Sheet

| | Fiscal Year <u>2006</u> | Fiscal Year <u>2005</u> |
|------------------------------------|----------------------------|----------------------------|
| Total assets | <u>\$ 320,883</u> | <u>\$ 238,647</u> |
| Total liabilities | <u>372,866</u> | <u>290,630</u> |
| Total fund balance (deficit) | <u>(51,983)</u> | <u>(51,983)</u> |
| Total liabilities and fund balance | <u>\$ 320,883</u> | <u>\$ 238,647</u> |

Table B-2

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

| | Fiscal Year <u>2006</u> | Fiscal Year <u>2005</u> |
|---------------------------------------------------|----------------------------|----------------------------|
| Total Revenues | <u>\$ 4,536,429</u> | <u>\$ 4,527,316</u> |
| Total Expenditures | <u>4,536,429</u> | <u>4,527,316</u> |
| (Excess) Deficiency of revenues over expenditures | <u>\$ 0</u> | <u>\$ 0</u> |

MANAGEMENT'S DISCUSSION AND ANALYSIS

MAJOR GOVERNMENTAL FUNDS BUDGETING AND OPERATING HIGHLIGHTS

An operating budget was adopted and maintained by the governing board for the School pursuant to the requirements of Florida Statutes. The budget is adopted using the same basis of accounting that is used in preparation of the fund financial statements. There were no amendments to the budget during the fiscal year ended June 30, 2006.

The general fund actual revenues were \$4,536,429 for the fiscal year ended June 30, 2006. That amount is above the budget estimates due primarily to contributions received as a result of a fundraising campaign. These funds were used to purchase additional computers for the school.

The actual expenditures of the general fund were \$4,536,429 for the fiscal year ended June 30, 2006. That is above the budget estimates primarily due to the capital expenditures of the computers, as mentioned above. In addition, cost savings were made in the areas of school administration and fiscal services, but those savings were offset by increases in expenses in the area of operation and maintenance of the facility.

CAPITAL ASSETS

At June 30, 2006, the School had \$64,217 invested in furniture, fixtures, computer equipment and leasehold improvements of which approximately \$19,027 has been depreciated, which resulted in a net book value of \$45,190. Total additions for the year were \$31,910.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The State of Florida has approved an increase in education funding of approximately 6% for the FEFP program for the fiscal year 2006-2007. In addition, the capital outlay allocation is expected to increase significantly due to a legislative action. Due to the local area's recognition of this school's academic excellence, it is expected that the school will be able to attract the additional 15 students needed to reach maximum capacity. This increase in the number of students will help the school to achieve additional financial stability. These factors were all considered in preparing the School's budget for fiscal year 2006-2007.

REQUESTS FOR INFORMATION

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

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

June 30,

| | | Governmental Activities | |
|-----------------------------------|--|----------------------------|--------------------|
| | | <u>2006</u> | <u>2005</u> |
| <u>ASSETS</u> | | | |
| Cash and cash equivalents | | \$ 237,154 | \$ 72,833 |
| Receivables | | 69,171 | 154,832 |
| Prepays | | 14,558 | 10,982 |
| Capital assets: | | | |
| Improvements other than buildings | | 6,830 | 6,830 |
| Machinery and equipment | | 57,387 | 25,476 |
| Less accumulated depreciation | | <u>(19,027)</u> | <u>(7,585)</u> |
| Total assets | | <u>\$ 366,073</u> | <u>\$ 263,368</u> |
| <u>LIABILITIES</u> | | | |
| Accounts payable | | \$ 104,476 | \$ 95,595 |
| Wages payable | | 203,502 | 195,035 |
| Deferred revenue | | <u>64,888</u> | <u>-</u> |
| Total liabilities | | <u>372,866</u> | <u>290,630</u> |
| <u>NET ASSETS (DEFICIT)</u> | | | |
| Invested in capital assets | | 45,190 | 24,721 |
| Unrestricted (Deficit) | | <u>(51,983)</u> | <u>(51,983)</u> |
| Total net assets (deficit) | | <u>\$ (6,793)</u> | <u>\$ (27,262)</u> |

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

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

FOR THE FISCAL YEAR ENDED JUNE 30, 2006

| <u>Functions/Programs</u> | <u>Expenses</u> | <u>Program Revenues</u> | | | <u>Net (Expenses) Revenues and Changes in Net Assets Governmental Activities Total</u> |
|--------------------------------------------------|--------------------|---------------------------------|---------------------------------------------------|---------------------------|----------------------------------------------------------------------------------------------------------------|
| | | <u>Charges for Services</u> | <u>Operating Grants and Contributions</u> | <u>Capital Grants</u> | |
| Governmental activities: | | | | | |
| Instructional services | \$ (1,952,498) | \$ 327,436 | \$ 227,861 | \$ - | \$ (1,397,201) |
| Pupil personnel services | (49,467) | - | - | - | (49,467) |
| Instruction and curriculum development services | (936) | - | - | - | (936) |
| Instructional staff training services | (503) | - | - | - | (503) |
| Board | (16,000) | - | - | - | (16,000) |
| School administration | (342,903) | - | - | - | (342,903) |
| Fiscal services | (480,058) | - | 19,582 | - | (460,476) |
| Food services | (294,404) | 28,773 | - | - | (265,631) |
| Central services | (181,879) | - | - | - | (181,879) |
| Operation of plant | (1,011,587) | - | - | 268,636 | (742,951) |
| Maintenance of plant | (53,109) | - | - | - | (53,109) |
| Community services | (118,145) | - | - | - | (118,145) |
| Capital outlay | (14,471) | - | - | - | (14,471) |
| Total activities | <u>(4,515,960)</u> | <u>356,209</u> | <u>247,443</u> | <u>268,636</u> | <u>(3,643,672)</u> |
| General revenues: | | | | | |
| FTE non-specific revenues | | | | | 3,650,753 |
| Unrestricted investment income and miscellaneous | | | | | <u>13,388</u> |
| Total general revenues | | | | | <u>3,664,141</u> |
| Change in net assets | | | | | <u>20,469</u> |
| Net assets (deficit), beginning | | | | | <u>(27,262)</u> |
| Net assets (deficit), ending | | | | | <u>\$ (6,793)</u> |

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

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

FOR THE FISCAL YEAR ENDED JUNE 30, 2005

| <u>Functions/Programs</u> | <u>Expenses</u> | <u>Program Revenues</u> | | | <u>Net (Expenses)</u> <u>Revenues and</u> <u>Changes in</u> <u>Net Assets</u> <u>Governmental</u> <u>Activities</u> <u>Total</u> |
|--------------------------------------------------|--------------------|---------------------------------------|---------------------------------------------------------------|---------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------|
| | | <u>Charges for</u> <u>Services</u> | <u>Operating</u> <u>Grants and</u> <u>Contributions</u> | <u>Capital</u> <u>Grants</u> | |
| Governmental activities: | | | | | |
| Instructional services | \$ (1,863,949) | \$ 285,811 | \$ 262,079 | \$ - | \$ (1,316,059) |
| Pupil personnel services | (189,405) | - | - | - | (189,405) |
| Instructional media services | (754) | - | - | - | (754) |
| Instruction and curriculum development services | (1,239) | - | - | - | (1,239) |
| Instructional staff training services | (346) | - | - | - | (346) |
| Board | (6,918) | - | - | - | (6,918) |
| School administration | (438,588) | - | - | - | (438,588) |
| Fiscal services | (515,383) | - | 361,214 | - | (154,169) |
| Food services | (249,032) | 31,368 | - | - | (217,664) |
| Central services | (165,671) | - | - | - | (165,671) |
| Operation of plant | (944,177) | - | - | 236,695 | (707,482) |
| Maintenance of plant | (25,085) | - | - | - | (25,085) |
| Community services | (119,816) | - | - | - | (119,816) |
| Total activities | <u>(4,520,363)</u> | <u>317,179</u> | <u>623,293</u> | <u>236,695</u> | <u>(3,343,196)</u> |
| General revenues: | | | | | |
| FTE non-specific revenues | | | | | 3,348,964 |
| Unrestricted investment income and miscellaneous | | | | | 1,185 |
| Total general revenues | | | | | <u>3,350,149</u> |
| Change in net assets | | | | | <u>6,953</u> |
| Net assets (deficit), beginning | | | | | <u>(34,215)</u> |
| Net assets (deficit), ending | | | | | <u>\$ (27,262)</u> |

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

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

June 30,

| <u>ASSETS</u> | <u>2006</u> | <u>2005</u> |
|--------------------------------------------------------------------------------------------------------------------------|-------------------|--------------------|
| Cash and cash equivalents | \$ 237,154 | \$ 72,833 |
| Receivables | 69,171 | 154,832 |
| Prepays and other assets | <u>14,558</u> | <u>10,982</u> |
| Total assets | <u>\$ 320,883</u> | <u>\$ 238,647</u> |
| <u>LIABILITIES AND FUND BALANCE (DEFICIT)</u> | | |
| Liabilities: | | |
| Accounts payable | \$ 104,476 | \$ 95,595 |
| Wages payable | 203,502 | 195,035 |
| Deferred revenue | <u>64,888</u> | <u>-</u> |
| Total liabilities | <u>372,866</u> | <u>290,630</u> |
| Fund Balance (Deficit): | | |
| Unreserved Deficit | <u>(51,983)</u> | <u>(51,983)</u> |
| Total fund balance (deficit) | <u>(51,983)</u> | <u>(51,983)</u> |
| Amounts reported for governmental activities in the statement of net assets are different because: | | |
| Capital assets used in governmental activities are not financial resources and, therefore are not reported in the funds. | <u>45,190</u> | <u>24,721</u> |
| Net fund balance (deficit) of governmental activities | <u>\$ (6,793)</u> | <u>\$ (27,262)</u> |

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

THE DOWNTOWN MIAMI CHARTER SCHOOL, INC.
(a component unit of the School Board of Miami-Dade County)
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

| | |
|-------------------------------------------------|--------------------|
| Revenues: | |
| Local | \$ 4,109,975 |
| Local grants and other | <u>406,872</u> |
| Total revenues | <u>4,516,847</u> |
| | |
| Expenditures: | |
| Instructional services | \$ 1,952,498 |
| Pupil personnel services | 49,467 |
| Instruction and curriculum development services | 936 |
| Instruction staff training services | 503 |
| Board | 16,000 |
| School administration | 342,903 |
| Fiscal services | 480,058 |
| Food service | 294,404 |
| Central services | 181,879 |
| Operation of plant | 1,000,146 |
| Maintenance of plant | 53,109 |
| Community services | 118,145 |
| Capital outlay | <u>46,381</u> |
| Total expenditures | <u>4,536,429</u> |
| (Deficiency) of revenues over expenditures | (19,582) |
| Contributions | <u>19,582</u> |
| Net change in fund balance | <u>-</u> |
| Fund balance (deficit) at beginning of year | <u>(51,983)</u> |
| Fund balance (deficit) at end of year | <u>\$ (51,983)</u> |

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

THE DOWNTOWN MIAMI CHARTER SCHOOL, INC.
(a component unit of the School Board of Miami-Dade County)
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

| | |
|-------------------------------------------------|---------------------|
| Revenues: | |
| Local | \$ 3,848,263 |
| Federal grants | 32,028 |
| Local grants and other | <u>285,811</u> |
| Total revenues | <u>\$ 4,166,102</u> |
| | |
| Expenditures: | |
| Instructional services | \$ 1,815,375 |
| Pupil personnel services | 189,405 |
| Instructional medial services | 754 |
| Instruction and curriculum development services | 1,239 |
| Instruction staff training services | 346 |
| Board | 6,918 |
| School administration | 438,588 |
| Fiscal services | 515,774 |
| Food service | 249,032 |
| Central services | 165,671 |
| Operation of plant | 939,592 |
| Maintenance of plant | 25,085 |
| Community services | 119,816 |
| Capital outlay | <u>59,721</u> |
| Total expenditures | <u>4,527,316</u> |
| (Deficiency) of revenues over expenditures | (361,214) |
| Contribution | <u>361,214</u> |
| Net change in fund balances | <u>-</u> |
| Fund balance (deficit) at beginning of year | <u>(51,983)</u> |
| Fund balance (deficit) at end of year | <u>\$ (51,983)</u> |

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

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

FOR THE FISCAL YEARS ENDED JUNE 30,

| | <u>2006</u> |
|----------------------------------------------------------------------------------------------------|------------------|
| Amounts reported for governmental activities in the statement of activities are different because: | |
| Net change in fund balances- total governmental funds | \$ - |
| Fixed asset additions capitalized | 31,910 |
| Depreciation expense - general fund | <u>(11,441)</u> |
| Change in net assets of governmental activities | <u>\$ 20,469</u> |
| <u>2005</u> | |
| Net change in fund balances- total governmental funds | \$ - |
| Fixed asset additions capitalized | 11,148 |
| Depreciation expense - general fund | <u>(4,195)</u> |
| Change in net assets of governmental activities | <u>\$ 6,953</u> |

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

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

June 30,

| <u>ASSETS</u> | <u>2006</u> | <u>2005</u> |
|--------------------------------------|-------------|-------------|
| Cash and cash equivalents | \$ 15,671 | \$ 26,916 |
| Receivables | 660 | 835 |
| Total assets | \$ 16,331 | \$ 27,751 |
| <u>LIABILITIES AND NET ASSETS</u> | | |
| Liabilities: | | |
| Accounts payable | \$ - | \$ 11,289 |
| Total liabilities | - | 11,289 |
| Net Assets: | | |
| Held in trust for student activities | 16,331 | 16,462 |
| Total net assets | \$ 16,331 | \$ 16,462 |

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

THE DOWNTOWN MIAMI CHARTER SCHOOL, INC.
(a component unit of the School Board of Miami-Dade County)
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
INTERNAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30,

| | <u>2006</u> | <u>2005</u> |
|---------------------------------|------------------|-------------------|
| Additions: | | |
| Student activities | \$ <u>61,696</u> | \$ <u>123,545</u> |
| Total additions | <u>61,696</u> | <u>123,545</u> |
| | | |
| Deletions: | | |
| Student activities: | | |
| Athletics | - | 75 |
| Classes | 29,527 | 5,695 |
| Clubs | 650 | 21,560 |
| Departments | - | 1,223 |
| General | <u>31,650</u> | <u>78,530</u> |
| Total deletions | <u>61,827</u> | <u>107,083</u> |
| | | |
| Net change in net assets | <u>(131)</u> | <u>16,462</u> |
| | | |
| Net assets at beginning of year | <u>16,462</u> | <u>-</u> |
| | | |
| Net assets at end of year | <u>\$ 16,331</u> | <u>\$ 16,462</u> |

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

THE DOWNTOWN MIAMI CHARTER SCHOOL, INC.
(A COMPONENT UNIT OF THE SCHOOL BOARD OF MIAMI-DADE COUNTY)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Reporting Entity

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

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

Enrollment and Grade Configuration

| <u>School Name and Addresses</u> | <u>Grades</u> | <u>Enroll- ment</u> | <u>School Principal</u> |
|----------------------------------------------------------------------------|---------------|-------------------------|--------------------------------------------------------------------------|
| Downtown Miami Charter School 305 N. W Third Avenue, Miami, FL 33128 | K- 6 | 622 | Terry Maus (July 2005 - April 2006) Paul Thompson (April – June 2006) |

Board of Directors

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

| | |
|-------------------------|--------------|
| Matthew B. Gorson | Chairperson |
| Carlos Migoya | Vice-Chair |
| Beatriz Cuenca-Barberio | Board member |
| Robert Moore | Board member |
| Dana Nottingham | Board member |
| Wanda Mendez | Board member |
| Sandra Hernandez | Board member |
| Sharmaine Tyler Luke | Board member |

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

b. Government-Wide and Fund Financial Statements

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

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

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

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

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

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

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

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

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

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

d. Assets, Liabilities and Net Assets

1. ***New Pronouncements***

Effective July 1, 2005, the School adopted GASB Statement No. 40 ("GASB 40"), *Deposit and Investment Risk Disclosures*, which amended GASB Statement No. 3, *Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements*. The adoption of GASB 40 resulted in changes to the form and content of the Notes to the Financial Statements only, and did not have an impact on the Fund's financial position or result of operations.

2. ***Cash and Cash Equivalents***

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

3. ***Receivables***

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

4. ***Capital Assets***

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

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

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

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

5. ***Fund Equity/Net Assets (Deficit)***

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

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

d. Assets, Liabilities and Net Assets (Continued)

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

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

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

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

e. Revenue Sources

Revenues for current operations are received primarily from the Miami-Dade County District School Board pursuant to the funding provisions included in the School's charter. In accordance with the funding provisions of the charter, the School reports the number of full-time equivalent students and related data to the District. Under the provisions of Section 1011.62, Florida Statutes, the District reports the number of full-time equivalent students and related data to the Florida Department of Education (FDOE) for funding through the Florida Education Finance Program. Funding for the School is adjusted during the year to reflect the revised calculations by the FDOE under the Florida Education Finance Program and the actual full-time equivalent students reported by the School during the designated full-time equivalent student survey periods.

f. Use of Estimates

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

2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Information

Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America for the governmental fund. All annual appropriations lapse at fiscal year end. The original budget and any subsequent amendments are approved by the Board of Directors. For the fiscal year ended June 30, 2006, there were no amendments to the original budget.

(Deficit) Fund Balance

The School General Fund had an accumulated deficit of \$(51,983) as of June 30, 2005 and 2006. The School expects to fully fund the deficit for the fiscal year 2007 by receiving additional funding from the National School Lunch Program.

3. DEPOSITS & INVESTMENTS

The School does not have a written investment policy; however, follows Florida Statutes 218.415(17) which allows public entities electing not to adopt a written investment policy to invest or reinvest any surplus public funds in their control or possession in:

- The Local Government Surplus Funds Trust Fund, or any intergovernmental investment pool
- Securities and Exchange Commission registered money market funds with the highest credit quality rating from a national recognized rating agency
- Interest-bearing time deposits or savings accounts in qualified public depositories
- Direct obligations of the U.S. Treasury

The School's cash and cash equivalents include cash on hand and demand deposits. At June 30, 2006, the carrying amount of the School's bank deposits was \$236,854, while the bank balances of such deposits were \$256,959. In addition to insurance provided by the Federal Deposit Insurance Corporation ("FDIC"), all cash in the bank is held in banking institutions approved by the State of Florida, State Treasurer, to hold public funds, and the accounts are defined as deposits of a public entity.

Florida Statutes Chapter 280, "Florida Security for Public Deposits Act", provides that if a loss to a public depository is not covered by deposit insurance, and the proceeds from the sale of securities pledged by the defaulting depository, the difference will be provided by an assessment levied against other public depositories of the same type as the depository in default.

Since the School uses only authorized public depositories, all funds deposited with financial institutions are FDIC insured and/or are fully collateralized and treated as insured; therefore, they are not categorized as to level of risk.

4. CAPITAL ASSETS

| | <u>Beginning Balance</u> | <u>Increases</u> | <u>Decreases</u> | <u>Ending Balance</u> |
|---------------------------------------------|------------------------------|------------------|------------------|---------------------------|
| Capital assets, being depreciated: | | | | |
| Improvements other than buildings | \$ 6,830 | \$ - | \$ - | \$ 6,830 |
| Machinery and equipment | <u>25,476</u> | <u>31,911</u> | <u>-</u> | <u>57,387</u> |
| Total capital assets being depreciated | <u>32,306</u> | <u>31,911</u> | <u>-</u> | <u>64,217</u> |
| Less accumulated depreciation for: | | | | |
| Improvements other than buildings | (1,555) | (683) | - | (2,238) |
| Machinery and equipment | <u>(6,030)</u> | <u>(10,759)</u> | <u>-</u> | <u>(16,789)</u> |
| Total accumulated depreciation | <u>(7,585)</u> | <u>(11,442)</u> | <u>-</u> | <u>(19,027)</u> |
| Total capital assets being depreciated, net | <u>\$ 24,721</u> | <u>\$ 20,469</u> | <u>\$ -</u> | <u>\$ 45,190</u> |

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

| | <u>2006</u> | <u>2005</u> |
|------------------------------------|------------------|-----------------|
| Governmental activities: | | |
| Operation and maintenance of plant | <u>\$ 11,441</u> | <u>\$ 4,195</u> |

5. COMMITMENTS AND CONTINENCIES

Lease Agreement with the Downtown Development Authority of Miami

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

Ground Lease Agreement Downtown Miami Charter School

On April 22, 2002, the School entered into a lease agreement (the "Ground Lease") with DDA Charter School Developers, Inc. ("CSD") for the Leased Land mentioned in the Lease above. The Ground Lease was entered into with the understanding and agreement that CSD, at its sole cost and expense, would construct and equip the School on the Leased Land and rent the facilities back to the School. The term of the Lease is for thirty (30) years commencing on April 22, 2002 for \$12.00 per year. Pursuant to the terms of the Interlocal Agreement, the School and the City authorize CSD as lessee under this Lease to pledge, mortgage or encumber its leasehold interest to a leasehold mortgagee in order to obtain financing for the construction of the charter school.

Premises Lease Agreement

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

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

| | |
|-------------------------|-------------------|
| <u>June 30,</u> 2007 | <u>\$ 703,000</u> |
|-------------------------|-------------------|

The School's rent expenditures totaled approximately \$671,800 and \$646,000 for the fiscal years ended June 30, 2006 and 2005, respectively.

Grants

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

6. RELATED PARTY TRANSACTIONS

School Board

Pursuant to the Charter School Agreement with the School Board, the School Board is paid an administrative fee of five percent (5%) of the qualifying revenues of the School. During the years ended June 30, 2006 and 2005 approximately \$169,900 and \$156,800, respectively, was paid to the School Board for administrative fees. Pursuant to the Charter School Agreement with the School Board, the School receives from the School Board an FTE for each full-time equivalent student enrolled. There were 622 and 602 full time students enrolled during the fiscal years ended June 30, 2006 and 2005, respectively. The School also receives other allowances based upon students enrolled.

Management Operating Agreement

The School entered into a three-year management agreement with a professional charter school management company (Charter School USA) to provide management and administrative services to the School. The agreement expired on June 30, 2005 and required monthly management fees equal to 14% of School's revenues as defined in the Management Agreement.

During the year ended June 30, 2006 and 2005, Charter School U.S.A. ("CSUSA") donated approximately \$19,600 and \$361,200, respectively, to the School in management fees and other advances that were owed to CSUSA. In addition, the School and CSUSA reached an understanding and entered into a new operating management agreement that will expire on July 31, 2012. As defined under article V financial arrangements section C, Fee, this agreement requires the School to pay, as compensation to CSUSA, a management fee of 11%. For the first year of the agreement any revenues in excess of the 11% (fee cap) would be retained by CSUSA up to a maximum amount of \$350,000. The School's management fee expenses were approximately \$478,500 and \$515,000 for the fiscal years ended June 30, 2006 and 2005, respectively.

Management Company Information:

Name and Address:

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

List of Principal Officers:

Chairman and CEO-Jonathan K. Hage

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

7. INTERNAL FUND

As defined in Chapter 6Al.085 Florida State Board of Education Rules, internal funds are monies collected and expended that are used for financing the normal programs of school activities and for other purposes consistent with the school programs as established and approved by the School Board of Miami-Dade County.

For financial statement issued for 2005 the School's Internal Fund was included and reported as part of the General Fund. For the 2006 financial statements, Internal Funds have been reported as Trust Funds in the accompanying financial statements. This resulted in a change of the net assets and fund balance of General Fund for 2005 as follows:

| | Statement of <u>Net Asses</u> | <u>Balance Sheet</u> |
|--------------------------------------------------------|----------------------------------|----------------------|
| Balance (deficit) at year ended June 30, 2005 | \$ (10,800) | \$ (35,521) |
| Less: Internal Fund fund balance | <u>(16,462)</u> | <u>(16,462)</u> |
| Restated balance (deficit) at year ended June 30, 2005 | <u>\$ (27,262)</u> | <u>\$ (51,983)</u> |

SUPPLEMENTARY SCHEDULE

THE DOWNTOWN MIAMI CHARTER SCHOOL, INC.
(a component unit of the School Board of Miami-Dade County)
BUDGETARY COMPARISON SCHEDULE
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

| | Budgeted Amounts | | Actual | Variance with Final Budget- Positive (Negative) |
|-------------------------------------------------|--------------------|--------------------|--------------------|----------------------------------------------------------|
| | Original | Final | | |
| Revenues: | | | | |
| State FTE grants | \$ 4,115,780 | \$ 4,115,780 | \$ 4,109,975 | \$ (5,805) |
| Local grants and other | 377,500 | 377,500 | 406,872 | 29,372 |
| Local grants and other | - | - | 19,582 | 19,582 |
| Total revenues | <u>4,493,280</u> | <u>4,493,280</u> | <u>4,536,429</u> | <u>43,149</u> |
| Expenditures: | | | | |
| Current: | | | | |
| Instruction | 1,937,879 | 1,937,879 | 1,952,498 | (14,619) |
| Pupil personnel services | 62,294 | 62,294 | 49,467 | 12,827 |
| Instruction media services | 5,000 | 5,000 | - | 5,000 |
| Instruction and curriculum development services | 3,600 | 3,600 | 936 | 2,664 |
| Instructional staff training services | 314 | 314 | 503 | (189) |
| Board | 12,405 | 12,405 | 16,000 | (3,595) |
| School administration | 367,915 | 367,915 | 342,903 | 25,012 |
| Fiscal services | 493,683 | 493,683 | 480,058 | 13,625 |
| Food service | 284,680 | 284,680 | 294,404 | (9,724) |
| Central services | 182,079 | 182,079 | 181,879 | 200 |
| Operation of plant | 975,938 | 975,938 | 1,000,146 | (24,208) |
| Maintenance of plant | 31,700 | 31,700 | 53,109 | (21,409) |
| Community services | 112,716 | 112,716 | 118,145 | (5,429) |
| Capital outlay | 17,677 | 17,677 | 46,381 | (28,704) |
| Total expenditures | <u>4,487,880</u> | <u>4,487,880</u> | <u>4,536,429</u> | <u>(48,549)</u> |
| Excess of revenues over expenditures | 5,400 | 5,400 | - | (5,400) |
| Fund balances at beginning of year | <u>(35,521)</u> | <u>(35,521)</u> | <u>(51,983)</u> | <u>-</u> |
| Fund balances at end of year | <u>\$ (30,121)</u> | <u>\$ (30,121)</u> | <u>\$ (51,983)</u> | <u>\$ (5,400)</u> |

See notes to budgetary comparison schedule

THE DOWNTOWN MIAMI CHARTER SCHOOL, INC.
(A COMPONENT UNIT OF THE SCHOOL BOARD OF MIAMI-DADE COUNTY)
NOTE TO BUDGETARY COMPARISON SCHEDULE
JUNE 30, 2006

1. BUDGETS AND BUDGETARY ACCOUNTING

Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America for all governmental funds. All annual appropriations lapse at fiscal year end. The original budget and any subsequent amendments are approved by the Board of Directors. For the fiscal year ended June 30, 2006, there were no amendments to the original budget.

SUPPLEMENTARY AUDITORS' REPORTS



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

We have audited the basic financial statements of The Downtown Miami Charter School, Inc. (the School) (a component unit of the School Board of Miami-Dade County), as of and for the fiscal years ended June 30, 2006 and 2005, and have issued our report dated August 2, 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 the School's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide 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 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, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of non-compliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as item 2005-3.

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

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

BKR Garcia & Company PLLC

August 2, 2006



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

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

We have audited the basic financial statements of The Downtown Miami Charter School, Inc. (the "School"), (a component unit of the School Board of Miami-Dade County), as of and for the fiscal years ended June 30, 2006 and 2005, and have issued our report thereon dated August 2, 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 and Chapter 10.850, Rules of the Auditor General. We have also issued our report on compliance and on internal control over financial reporting; which is dated August 2, 2006, and should be considered in conjunction with this management letter.

The purpose of this letter is to comment on those matters described in Rule 10.854(1)(d) as required by the Auditor General for the State of Florida. Accordingly in connection with our audit of the basic financial statements of the School, as described in the first paragraph, we report the following:

1. Recommendations made in the preceding annual financial report were corrected, except as reported in the Schedule of Findings and Questioned Costs as items 2005-3.
2. There were no violations of laws, rules, regulations, contractual provisions or abuse that were not clearly inconsequential that have occurred, or were likely to have occurred, that were discovered within the scope of the audit, except as reported in the Schedule of Findings and Questioned Costs as items 2005-3.
3. There were no improper expenditures discovered within the scope of the financial audit which may or may not materially affect the financial statements.
4. There were no deficiencies in internal control that are not reportable conditions, including, but not limited to:
 - Improper or inadequate accounting procedures
 - Failure to properly record financial transactions
5. The name of the charter school is Downtown Miami Charter School

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

BKR Garcia & Company PLLC

August 2, 2006

THE DOWNTOWN MIAMI CHARTER SCHOOL, INC.
(A COMPONENT UNIT OF THE SCHOOL BOARD OF MIAMI-DADE COUNTY)
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FISCAL YEAR ENDED JUNE 30, 2006

PRIOR YEAR FINDINGS AND QUESTIONED COSTS

a. Prior Year Uncorrected Financial Statement Findings

2005-3 School Internal Funds

CONDITION:

We noted that as defined by the "Financial and Program Cost Accounting and Reporting for Florida Schools", commonly called the "Red Book", Chapter 7 – School Internal Funds, the following are financial transactions not followed by the School:

1. Each organization should operate within a budget.
2. Internal funds which are temporarily idle shall, as required by law, be invested.

RECOMMENDATION:

We recommend that the school follow the uniform structure of the Financial Accounting for Local and State School Systems for Internal Funds as described in the "Red Book".

CURRENT YEAR STATUS:

We noted that although the School adopted a budget for the Internal Funds, it did not invest temporarily idle funds. Funds were held in a regular checking account and not in an interest bearing checking account.

MANAGEMENT RESPONSE:

From August 2005 to January 2006, the School's internal funds account was an interest bearing account. In February 2006, the account was converted from an interest bearing account to a regular checking account by the bank for an unknown reason. Management will make the change back to an interest bearing account.

b. Prior Year Corrected Financial Statement Findings

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

2005 – 1 Segregation of duties

2005 – 2 Receipts, Deposits and Reconciliation