

CHARTER ON THE BEACH MIDDLE SCHOOL, INC.

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

Miami Beach, Florida

Basic Financial Statements and
Independent Auditors' Report

June 30, 2008

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Charter on the Beach Middle School, Inc.

1211 Marseille Drive
Miami Beach, Florida 33141
(786) 258-2505

2007-2008

Administration

Director: Gladys Palacio

Board of Directors

Chairperson Pablo Landi

Vice Chairperson Diego Ramirez

Secretary Martha Fernandez

Board Members Eduardo Gomez
Calixto Navarro

GRAVIER & Associates

CERTIFIED PUBLIC ACCOUNTANTS
A LIMITED LIABILITY PARTNERSHIP OF PROFESSIONAL ASSOCIATIONS

INDEPENDENT AUDITORS' REPORT

Board of Directors
Charter on the Beach Middle School, Inc.

Miami Beach, Florida

We have audited the accompanying basic financial statements of the governmental activities and each major fund of Charter on the Beach Middle School, Inc. (CBMS) a Component Unit of the District School Board of Miami-Dade County, as of, and from inception through June 30, 2008, which collectively comprise 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 an opinion on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the 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 basic financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities and each major fund of CBMS, as of June 30, 2008 and the respective changes in financial position for the period then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 26, 2008, on our consideration of CBMS's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis (MD&A) on pages 4 through 9 and the Schedules of Revenues, Expenditures and Changes in Fund Balance—budget to actual on page 21 and 22 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.



CERTIFIED PUBLIC ACCOUNTANTS

Coral Gables, Florida
September 26, 2008

CHARTER ON THE BEACH MIDDLE SCHOOL, INC.
(A Component Unit of the School Board of Miami-Dade County)
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2008

As management of Charter on the Beach Middle School (CBMS), we offer readers of CBMS's financial statements this narrative overview and analysis of the financial activities of the CBMS from inception through June 30, 2008.

CBMS provided middle school education for 45 students in grades seven through eighth under a charter sponsored by the District School Board of Miami-Dade County, Florida.

Charter on the Beach Middle School is located on a 14,000 sq.ft. property in the North Beach Community of Miami Beach. The school's address is 1211-1219 Marseille Drive, Miami Beach, Florida and is on an inter-coastal canal. The campus consists of two one story buildings built in 1952, which were converted from apartments to a school. The (2) buildings stand side by side and each have (6) rooms. The 1211 side of the property consist of school office and (4) classrooms with one room and (1) classroom with (3) rooms. The 1219 side of the property consist of (1) classroom with (3) rooms, (4) classrooms with one room and (1) cafeteria with (3) available rooms. Each classroom has its own bathroom. The building has (16) total bathrooms of which (2) have been converted for handicap use to comply with ADA Compliance. A security alarm system as well as security cameras have been implemented throughout the building to provide security. The campus has a large area in the back of the property overlooking a canal. The campus is a place where kids come to learn and where a dedicated staff is committed to the education of each and every child in every aspect of their lives. We strive to make sure that each and every child receives the individual attention to grow intellectually, physically and morally.

CBMS is a start-up charter school that opened its doors to serve students in the 2007-08 school year. Due to limited funding, the school encountered much difficulty in completing renovations to its school facility and obtaining the Certificate of Occupancy in time for the school year. Because it was a start-up charter school, financial institutions were not willing to lend funds needed to complete facility renovations and other financings sources, therefore, funding in the form of loans from the school's Director and other related parties became the primary funding sources to complete the facility and help subsidize operating expenses.

In its first year of operations, CBMS served 45 students in grades seven and eighth, which generated less than anticipated FTE funding to meet operational expenses. Also, because students had to be transported to temporary locations prior to the school's facility being finalized for occupancy, high transportation costs were incurred. In addition rent cost also doubled in those months since additional rent had to be paid to provide a location for the children to learn.

Although the school ended the 2007-2008 school year in a deficit position the following factors will increase CBMS revenues and allow the school to meet its financial obligations for the upcoming 2008-2009 school year:

- 95% of our 7th grade students returned for the 2008-2009 school year to the 8th. grade
- An increase in student enrollment by 100%, this will generate twice the FTE.
- Rental and utilities income from River Cities Charter School who is currently renting classroom space for the 2008-2009 school year at CBMS.

CHARTER ON THE BEACH MIDDLE SCHOOL, INC.
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MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2008

- Increase in students being transported, the daily cost of busing the students is the same although the reimbursement has doubled. For the 2008-2009 year.
- CBMS has been approved by the National School Lunch Program, over 75% of the students at CBMS qualify for free/reduced lunch, CBMS will receive reimbursement for these student lunches which were not reimbursed the previous year.
- Because CBMS has qualified for the NSLP and over 75% of the children qualify for free/reduced lunch, CBMS now qualifies for Title I Funds; the school can qualify as early as December 2009 for these funds.
- There has not been a dramatic increase in expenses, although our revenue has increased in FTE payments, transportation and food, additional rental income and the Title I funds.
- Additional income generated from afterschool program for utilities, security and maintenance.

Financial Highlights

- CBMS's had total assets of \$159,935 as of June 30, 2008 including capital assets, net of depreciation of \$137,435.
- The school received an implementation grant from the Florida Department of Education in the amount of \$287,659, which assisted the school during the start-up phase of the school, prior to commencement of FTE funding.
- Other financing sources including long-term loans received from individuals also supported the school through the start-up phase and through its first school year.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the CBMS's basic financial statements. CBMS's financial statements for the period ended June 30, 2008 are presented under GASB 34. The financial statements have three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other required 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 CBMS's finances, in a manner similar to a private-sector business.

The *Statement of Net Assets* presents information on all of CBMS's assets and liabilities. The difference between the two is reported as *net assets*. Over time the change in net assets serve as an indicator of whether the financial position of CBMS is improving or deteriorating.

The *Statement of Activities* presents information on how CBMS's net assets changed during the fiscal year. All changes in net assets are reported when the underlying event occurs without regard to the timing of related cash flows. Accordingly, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

The government-wide financial statements can be found on pages 10 - 11 of this report.

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 (A Component Unit of the School Board of Miami-Dade County)
 MANAGEMENT'S DISCUSSION AND ANALYSIS
 JUNE 30, 2008

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. CBMS, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the CBMS are 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 outflows 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 government's near-term financing requirements.

CBMS adopts an annual appropriated budget for its general fund. A budgetary comparison has been provided for the general fund to demonstrate compliance with this budget.

The basic government fund financial statements can be found on pages 12-15 of this report.

Notes to Financial Statements, The notes to the financial statements 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 16 - 20 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net assets may serve over time as a useful indicator of a charter school's financial position. In the case of the School, liabilities exceeded assets by \$106,117 at the close of the fiscal year. A summary of the School's net assets as of June 30, 2008 follows:

	2008
Deposits	\$ 22,500
Capital Assets	137,435
Total Assets	<u>\$159,935</u>
Current liabilities	\$169,214
Long-term payable to other governments	96,838
Total Liabilities	<u>266,052</u>
Invested in capital assets	137,435
Unrestricted	<u>(243,552)</u>
Total Net Assets	<u>(\$106,117)</u>

CHARTER ON THE BEACH MIDDLE SCHOOL, INC.
 (A Component Unit of the School Board of Miami-Dade County)
 MANAGEMENT'S DISCUSSION AND ANALYSIS
 JUNE 30, 2008

A summary and analysis of CBMS's revenues and expenses for the period ended June 30, 2008 follows.

	<u>2008</u>
REVENUES	
Program Revenues	
Operating Grants and Contributions	\$287,659
General Revenues	
Government Grants Not Restricted	308,029
Fundraising and other	<u>16,360</u>
Total Revenues	<u>612,048</u>
EXPENSES	
Instruction	274,715
Instruction and Curriculum	
Development Services	
Instructional Staff Training Services	
General Administration	15,386
School Administration	86,010
Fiscal Services	51,233
Food Services	12,751
Central Services	
Pupil Transportation Services	38,506
Operation of Plant	179,233
Maintenance of Plant	29,517
Community Service	2,901
Interest and finance charges	<u>27,913</u>
Total Expenses	<u>718,165</u>
Increase(decrease) – in net assets	(106,117)
Net Assets at Beginning	<u>-</u>
Net Assets at End	<u>(106,117)</u>

FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUND

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

Governmental funds. The focus of CBMS's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the CBMS'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.

Accomplishments

Many of our students were low performing students when they came to CBMS and showed gains in their FCAT scores from the previous year. Although as a first year school CBMS was not to receive a grade, CBMS was graded as a D school and here is some of the supporting data in the different areas:

-Reading: Charter on the Beach Middle School 31% of the students scored at Level 3 or higher on the 2008 FCAT. 57% of the students made learning gains. 60% of the lowest 25% increased by 60%.

-Math: 25% of the students scored at Level 3 or above which leaves 75% at Level 1 or Level 2. 60% of the lowest 25% made learning gains.

-Writing: Based on the 2008 FCAT Writing 93% of the students scored at a Level 3 or higher.

-Science: Based on the 2008 FCAT Science Assessment only 39% of the students scored at Level 3 or above.

Programs the students participated in:

Last year the Close Up Foundation awarded CBMS a grant and 20 of our students were able to participate in a week trip to our nation's capital where students were able to learn about our government and see hands on the way our government works. Many of our students had never been on a plane or away from home, the sense of pride and independence that this gave our students will remain with them for years to come.

Also many of students completed community projects which included:

- visits to Nursing homes where the children preformed for the residents.
- Meeting with Holocaust survivors.
- A day of working at daycare center with young children mentoring them.
- Fund raising events at the school to benefit the school.
- Beach clean up on the weekends.
- Working at Humane Socceity

CHARTER ON THE BEACH MIDDLE SCHOOL, INC.
(A Component Unit of the School Board of Miami-Dade County)
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2008

This year we have added on a Physical Education Program which is mandatory to all students through Team Fit, the City of Miami Beach has allowed us to use the newly renovated Fairway Park minutes from our campus and the children are participating in the Presidential Fitness Program.

In addition the AOL Foundation has been awarded a grant through the 21st Century which will bring a new afterschool program which will offer students extra tutoring by certified teachers afterschool and language classes for their parents is needed in addition to yoga and nutrition classes to assist the students in their daily lives.

The students take pride in their school and know they are an important part of its success and future. The students faced many obstacles along the way yet the time, effort and endless hours that go into the school by the director, teachers and staff are the lifeline that holds the school together through the many challenges and obstacles that the school has faced. The rewards are endless, the knowing that CBMS is giving children and parents an opportunity and choice and each day we transform minds and lives are what give us the courage and strength to move beyond every challenge that has come our way.

CBMS is committed to the children and families in our community and to making a difference and we take pride in knowing that we give our 100% and more to this task we have at hand. The parents and children of Charter on the Beach Middle School will continue to move forward and build the strong foundation that will allow us to prosper and reach each and everyone of our goals.

Request for Information

This financial report is designed to provide a general overview of the CBMS's finances for all those with an interest in the CBMS's finances. Questions concerning any of the information provided in this report, or requests for additional information should be addressed to Gladys Palacio, Director, Doctors Charter School, Charter on the Beach Middle School, Inc. - 1211 Marseille Drive, Miami Beach, Florida 33141. Telephone number: (786) 258-2505.

CHARTER ON THE BEACH MIDDLE SCHOOL, INC.
(A Component Unit of the School Board of Miami-Dade County)
STATEMENT OF NET ASSETS
JUNE 30, 2008

Assets

Current Assets	\$ -
Non-Current Assets:	
Capital assets, depreciable, net of accumulated depreciation	137,435
Deposits	<u>22,500</u>
Total Assets	<u>\$ 159,935</u>

Liabilities and Net Assets

Current Liabilities:	
Bank overdraft	\$ 2,892
Accounts payable	150,419
Accrued liabilities	<u>15,903</u>
	169,214
Long-term payable	<u>96,838</u>
Total Liabilities	266,052
Net Assets:	
Invested in capital assets, net of related debt	137,435
Unrestricted	<u>(243,552)</u>
Total Net Assets	<u>(106,117)</u>
Total Liabilities and Net Assets	<u>\$ 159,935</u>

The accompanying notes are an integral part of this financial statement.

CHARTER ON THE BEACH MIDDLE SCHOOL, INC.
(A Component Unit of the School Board of Miami-Dade County)
STATEMENT OF ACTIVITIES
FROM INCEPTION THROUGH JUNE 30, 2008

2008					
FUNCTIONS	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Component Unit Activities:					
Instruction	\$ 274,715	\$ -	\$ 197,772	\$ -	\$ (76,943)
Instruction and Curriculum Development	-		-		-
Instructional Staff Training Services	-		-		-
General Administration	15,386		3,500		(11,886)
School Administration	86,010		25,750		(60,260)
Fiscal Services	51,233		22,437		(28,796)
Food Services	12,751		-		(12,751)
Central Services	-		-		-
Pupil Transportation Services	38,506		-		(38,506)
Operation of Plant	179,233		33,000		(146,233)
Maintenance of Plant	29,517		5,200		(24,317)
Community Services	2,901		-		(2,901)
Interest and finance charges	27,913		-		(27,913)
Total Component Unit Activities	718,165	-	287,659	-	(430,506)
General revenues:					
					308,029
					49
					16,311
					(106,117)
					-
					<u>\$ (106,117)</u>

The accompanying notes are an integral part of this financial statement.

CHARTER ON THE BEACH MIDDLE SCHOOL, INC.
(A Component Unit of the School Board of Miami-Dade County)
BALANCE SHEET
JUNE 30, 2008

	2008			Total Governmental Funds
	General Fund	Special Revenue Fund	Non-major fund fundraising	
<u>Assets</u>				
Deposits	\$ 22,500	\$ -	\$ -	\$ 22,500
Total Assets	<u>\$ 22,500</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 22,500</u>
<u>Liabilities</u>				
Bank overdraft	\$ 2,892	\$ -	\$ -	\$ 2,892
Accounts payable	150,419	-	-	150,419
Accrued liabilities	15,903	-	-	15,903
Total Liabilities	<u>169,214</u>	<u>-</u>	<u>-</u>	<u>169,214</u>
<u>Fund balance</u>				
Unreserved	(146,714)	-	-	(146,714)
Total Fund Balance	<u>(146,714)</u>	<u>-</u>	<u>-</u>	<u>(146,714)</u>
 Total Liabilities and Fund Balance	 <u>\$ 22,500</u>	 <u>\$ -</u>	 <u>\$ -</u>	 <u>\$ 22,500</u>

The accompanying notes are an integral part of this financial statement.

CHARTER ON THE BEACH MIDDLE SCHOOL, INC.
(A Component Unit of the School Board of Miami-Dade County)
RECONCILIATION OF THE GOVERNMENTAL FUND BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
FROM INCEPTION THROUGH JUNE 30, 2008

Total Fund Balance - Governmental Funds \$ (146,714)

Amounts reported for *governmental activities* in the statement of net assets are different because:

Capital assets of \$185,606 net of accumulated depreciation of \$48,171 used in governmental activities are not financial resources and therefore are not reported in the fund. 137,435

The proceeds from long-term debt is a current resource to government funds, but increases in long-term liabilities in the statement of net assets. (96,838)

Total Net Assets - Governmental Activities \$ (106,117)

The accompanying notes are an integral part of this financial statement.

CHARTER ON THE BEACH MIDDLE SCHOOL, INC.

(A Component Unit of the School Board of Miami-Dade County)

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
FROM INCEPTION THROUGH JUNE 30, 2008

	2008			Total Governmental Funds
	General Fund	Special Revenue Fund	Non-major fund fundraising	
Revenues:				
Federal sources	\$ -	\$ 287,659	\$ -	\$ 287,659
Local sources	308,029			308,029
Fundraising and other			16,311	16,311
Interest and other revenues	49			49
Total Revenues	\$ 308,078	\$ 287,659	\$ 16,311	\$ 612,048
Expenditures:				
Current:				
Instruction	\$ 88,595	\$ 134,472	\$ 13,754	\$ 236,821
Instructional and Curriculum Development	-			-
Instructional Staff Training Services	-			-
General Administration	11,886	3,500		15,386
School Administration	60,260	25,750		86,010
Fiscal Services	28,796	22,437		51,233
Food Services	12,751			12,751
Central Services	-			-
Pupil Transportation Services	38,506			38,506
Operation of Plant	146,233	33,000		179,233
Maintenance of Plant	14,040	5,200		19,240
Community Services	344		2,557	2,901
Interest and finance charges	27,913			27,913
Capital Outlay:				
Facilities Acquisition and Construction	122,306	63,300		185,606
Debt Service:				
Redemption of Principal Interest				-
Total Expenditures	551,630	287,659	16,311	855,600
Excess (deficit) of Revenues Over Expenditures	(243,552)	-	-	(243,552)
Other financing sources	96,838	-	-	96,838
Net change in fund balance	(146,714)	-	-	(146,714)
Fund Balance at beginning of year	-	-	-	-
Fund Balance at end of year	\$ (146,714)	\$ -	\$ -	\$ (146,714)

The accompanying notes are an integral part of this financial statement.

CHARTER ON THE BEACH MIDDLE SCHOOL, INC.
(A Component Unit of the School Board of Miami-Dade County)
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE OF GOVERNMENTAL FUND TO THE STATEMENT OF ACTIVITIES
FROM INCEPTION THROUGH JUNE 30, 2008

Change in Fund Balance - Governmental Funds \$ (146,714)

Amounts reported for *governmental activities* in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays of \$185,606 differed from depreciation expense of \$48,171. 137,435

The proceeds from long-term debt is a current resource to government funds, but increases in long-term liabilities in the statement of net assets. (96,838)

Change in Net Assets of Governmental Activities \$ (106,117)

The accompanying notes are an integral part of this financial statement.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

Charter on the Beach Middle School, Inc. (CBMS), is a not-for-profit corporation organized in the State of Florida. The School operates under a charter granted by the sponsoring district, the District School Board of Miami-Dade County (the "District"). The current charter expires on June 30, 2015. During the term of the charter, the District may terminate the charter if good cause is shown. The School is considered a component unit of such District. The School is located in Miami Beach, Florida for children from seventh through eighth grade and is funded by the District.

These financial statements are for from inception (August 13, 2004) through June 30, 2008. CBMS's first school year was the 2007-2008 school year when approximately 45 students were enrolled for the school year.

Basic Financial Statements

The basic financial statements include both government-wide and fund financial statements.

Government-wide Financial Statements

The government-wide financial statements include the statement of net assets and the statement of activities and changes in net assets. These statements report information for CBMS as a whole. The statement of activities reports 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 portions of a fund or summarize more than one fund to capture the expenses and program revenues associated with a distinct functional activity. Program revenues include: (1) charges for services which report fees; (2) operating grants and contributions which finance annual operating activities; and (3) capital grants and contributions which fund the acquisition, construction, or rehabilitation of capital assets. These revenues are subject to externally imposed restrictions to these program uses. Other revenue sources not properly included with program revenues are reported as general revenues.

Fund Financial Statements

Fund financial statements are provided for each major governmental fund. Non-major funds are summarized into a single column.

CBMS reports the following major funds:

- General Fund – used to account for the full-time equivalent (FTE) revenue received from the District and the expenditures incurred under the charter with the District. In addition, it accounts for unrestricted contributions, interest income and other income
- Special Revenue Fund – used to account for resources legally restricted to specifically approved expenditures.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Additionally, CBMS reports the following non-major fund:

- Fundraising Fund – used to account for revenues from fundraising events and other private sources which are designated to finance particular functions and activities in accordance with administrative requirements.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The financial statements of CBMS are prepared in accordance with generally accepted accounting principles (GAAP). CBMS's 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) opinions issued on or before November 30, 1989, unless those pronouncements conflict with GASB pronouncements, in which case, GASB prevails.

The government-wide financial statements report 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. Revenues from non-exchange transactions are reported according to Governmental Accounting Standards Board (GASB) Statement No. 33 Accounting and Financial Reporting for Non-Exchange Transactions, as amended by GASB Statement No. 36 Recipient Reporting for Certain Shared Non-Exchange Revenues, they include grants and donations. On the accrual basis, revenues from grants and donations are recognized in the fiscal year in which all eligibility requirements have been satisfied. Government-wide financial statements also report capital assets and long-term debt.

Governmental fund financial statements report using the current financial resources measurement focus and the modified accrual basis of accounting. Each fund is accounted for by providing a separate set of self-balancing accounts that comprises its assets, liabilities, reserves, fund equity, revenues and expenditures. Revenues are recognized when they are both measurable and available. Measurable means the amount of the transaction can be determined. Available means collectible within the current period or soon enough thereafter to pay current liabilities. CBMS considers revenues to be available if they are collected within 90 days of the end of the fiscal year. Expenditures are recorded when the related fund liability is incurred, except for long-term debt and other liabilities which are reported as expenditures when the obligations are expected to be liquidated with expendable available financial resources.

Budgetary Basis Accounting

Budgets are presented on the modified accrual basis of accounting. During the period, expenditures were controlled at the function level.

NOTE 1 –SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash

Cash and cash equivalents include cash on hand, demand deposits and any short-term investments with original maturities of three months or less from the date of acquisition. At June 30, 2008, CBMS had an overdrawn balance in cash.

Capital Assets

CBMS's property, plant and equipment with useful lives of more than one year are stated at historical cost and reported in the statement of net assets in the government-wide financial statements. Donated assets are stated at fair value on the date donated. CBMS generally capitalizes assets with a cost of more than \$750 for tangible personal property and more than \$1,500 for improvements other than buildings. Building improvements, additions and other capital outlays that significantly extend the useful life of an asset are capitalized. The costs of normal maintenance and repairs that do not add to the asset value or materially extend useful lives are not capitalized. Capital assets are depreciated using the straight-line method over the estimated useful life of the asset. 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 the statement of activities. Estimated useful lives, in years, for depreciable assets are as follows:

Building and Fixed Equipment	10 Years
Furniture and Fixtures	5 Years
Computer software	3 Years

Pursuant to the Florida Statutes, any capital assets purchased with funds provided by the District would revert to the District upon termination of the charter. Management maintains records of such purchases. During the year ended June 30, 2008 \$122,306 of FTE funds were used to purchase capital assets.

Revenue Sources

Revenues for operations are received primarily from the District pursuant to the funding provisions included in the CBMS's charter. In accordance with the funding provisions of the charter and Section 1002.33, Florida Statutes, CBMS will report the number of full-time equivalent (FTE) students and related data to the District. Under the provisions of Section 1011.62, Florida Statutes, the District reports the number of the full-time equivalent (FTE) students and related data to the Florida Department of Education (FDOE) for funding through the Florida Education Finance Program. Funding for CBMS is adjusted during the year to reflect the revised calculations by the FDOE under the Florida Education Finance Program and the actual weighted full-time equivalent students reported by CBMS during the designated full-time equivalent student survey periods.

CHARTER ON THE BEACH MIDDLE SCHOOL, INC.
 (A Component Unit of the School Board of Miami-Dade County)
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 JUNE 30, 2008

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

NOTE 2 – INCOME TAXES

CBMS has been granted tax-exempt status under Internal Revenue Code Section 501(c)(3), effective August 13, 2004. Accordingly, no tax provision has been made in the accompanying financial statements.

NOTE 3 – CONTINGENCIES AND CONCENTRATIONS

CBMS received 50% of its revenues from the District. These funds are subject to audit by the District and the State of Florida, the purpose of which is to ensure compliance with conditions precedent to funding. Any liabilities for reimbursement that may arise as a result of these audits are not reflected in the financial statements.

NOTE 4 – CHANGES IN CAPITAL ASSETS

The following schedule provides a summary of changes in capital assets for year ended June 30, 2008:

	<u>Balance at Inception</u>	<u>Additions</u>	<u>Disposal</u>	<u>Balance 6/30/08</u>
Capital Assets:				
Furniture and fixtures		44,225	2,850	\$41,375
Building and fixed equipment		102,770		102,770
Computer software	-	41,461	-	41,461
Total Capital Assets		188,456	2,850	185,606
Less Accumulated Depreciation:				
Furniture and fixtures		(16,334)		(16,334)
Building and fixed equipment		(10,277)		(10,277)
Computer software		(21,560)		(21,560)
Total Accumulated Depreciation	-	(48,171)	-	(48,171)
Capital Assets				<u>\$137,435</u>

Depreciation expense for the period ended June 30, 2008 was \$48,171 and has been allocated to various functions in the Statement of Activities.

NOTE 5 – RELATED PARTY TRANSACTIONS

CBMS's director and certain family members of the director have made advances to the school to support its first year operations. These advances have been recorded as long-term payables as there is no specific repayment terms.

Pursuant to the School charter agreement with the District, CBMS pays a management fee of 5% of qualifying revenues to the District. During the school year ended June 30, 2008, fees paid to the District totaled \$15,401.

NOTE 6 – COMMITMENTS

The School entered into a lease agreement for its building including all ancillary facilities, outdoor areas and other improvements. Current monthly rent payments under the agreement are approximately \$7,600 plus insurance costs of approximately \$1,641 per month. This lease expires on June 14, 2009.

For the 2007 - 2008 school year, rent and insurance expense on the facility totaled \$118,417. Future minimum payments under these leases are as follows:

<u>Year</u>	
2009	\$110,892

REQUIRED SUPPLEMENTARY INFORMATION

CHARTER ON THE BEACH MIDDLE SCHOOL, INC.
(A Component Unit of the School Board of Miami-Dade County)
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
FROM INCEPTION THROUGH JUNE 30, 2008

	General Fund		
	Original Budget	Final Budget	Actual
Revenues:			
State Sources	\$ -	\$ -	\$ -
Local sources	625,000	300,000	308,029
Interest and other revenues	-	-	49
Total Revenues	\$ 625,000	\$ 300,000	\$ 308,078
Expenditures:			
Current:			
Instruction	\$ 205,887	\$ 73,187	\$ 88,595
Instructional and Curriculum Development			-
Instructional Staff Training Services			-
General Administration	26,500	14,500	11,886
School Administration	69,250	54,250	60,260
Fiscal Services	27,563	27,563	28,796
Food Services	12,000	12,000	12,751
Central Services	-	-	-
Pupil Transportation Services	33,300	33,300	38,506
Operation of Plant	127,000	127,000	146,233
Maintenance of Plant	11,800	11,800	14,040
Community Services	-	-	344
Capital Outlay:			
Facilities Acquisition and Construction	86,700	86,700	122,306
Debt Service:			
Redemption of Principal			-
Interest	25,000	25,000	27,913
Total Expenditures	\$ 625,000	\$ 465,300	\$ 551,630

CHARTER ON THE BEACH MIDDLE SCHOOL, INC.
 (A Component Unit of the School Board of Miami-Dade County)
 SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
 BUDGET AND ACTUAL
 FROM INCEPTION THROUGH JUNE 30, 2008

	Special Revenue Fund		
	Original Budget	Final Budget	Actual
Revenues:			
Operating grant	\$ 300,000	\$ 300,000	\$ 287,659
Total Revenues	<u>\$ 300,000</u>	<u>\$ 300,000</u>	<u>\$ 287,659</u>
Expenditures:			
Current:			
Instruction	\$ 146,813	\$ 146,813	\$ 134,472
General Administration	3,500	3,500	3,500
School Administration	25,750	25,750	25,750
Fiscal Services	22,437	22,437	22,437
Operation of Plant	33,000	33,000	33,000
Maintenance of Plant	5,200	5,200	5,200
Capital Outlay:			
Facilities Acquisition and Construction	63,300	63,300	63,300
Total Expenditures	<u>\$ 300,000</u>	<u>\$ 300,000</u>	<u>\$ 287,659</u>

GRAVIER & Associates

CERTIFIED PUBLIC ACCOUNTANTS
A LIMITED LIABILITY PARTNERSHIP OF PROFESSIONAL ASSOCIATIONS

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

Board of Directors
Charter on the Beach Middle School

Miami Beach, Florida

We have audited the financial statements of Charter on the Beach Middle School, Inc. ("CBMS") as of, and for the year ended June 30, 2008 and have issued our report thereon dated September 26, 2008. 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 CBMS's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of CBMS's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of CBMS's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects CBMS's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of CBMS's financial statements that is more than inconsequential will not be prevented or detected by CBMS's internal control. We consider the deficiencies described in the accompanying schedule of findings and responses to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by CBMS's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, of the significant deficiencies described in the accompanying schedule of findings and responses, we consider item 2008-1 and 2008-2 to be a material weakness.

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether CBMS'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 the following instance of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Finding 1 – Audit Deadline

CBMS's audited financial statements were not submitted by September 5, 2008, which is the contractually required deadline under the Standard Charter School Contractual Agreement with the School Board of Miami-Dade County.

Management's response

Management is aware of the deadline and will strive to achieve a timely audit for the 2008-2009 school year.

Finding 2 – Form 990

CBMS's has not filed the Federal information for non-profit organization (Form 990) for any year. Failure to timely file such returns could lead to a revocation of the entities non-profit status.

Management's response

Management will immediately contract an accounting firm to prepare all required forms.

In addition, we noted certain matters that we reported to management of CBMS in a separate letter dated September 26, 2008.

This report is intended solely for the information and use of management, the audit committee, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Gravitt & Associates, LLP

CERTIFIED PUBLIC ACCOUNTANTS

Coral Gables, Florida
September 26, 2008

CHARTER ON THE BEACH MIDDLE SCHOOL, INC.
(A Component Unit of the School Board of Miami-Dade County)
SCHEDULE OF FINDINGS AND RESPONSES
JUNE 30, 2008

2008-1 - FINANCIAL INFORMATION AND ELECTRONIC DATA SECURITY

- Criteria:** Accounting information and electronic data should be properly safeguarded against loss through appropriate means of back-up, security features and contingency plans.
- Condition:** CBMS loss significant portions of its accounting data during the school year, which required a reconstruction and re-entering of the data for preparation of the financial statements. Unaudited financial information submitted to the District was not accurate because of this data loss.
- Context:** Because all the data had to be reconstructed, the risk of error and misstatement is greater. In addition, the unaudited financial information provided to the District was not accurate because of this data loss and the audit could not be timely performed.
- Effect:** The reconstruction process delayed the audit and increased the risk of error and misstatement in the financial statement. In addition, the unaudited financial information provided to the District was not accurate because of this data loss. Failure to correct this condition could lead to further loss of data that may not be recoverable and therefore, make the issuance of accurate financial information difficult or not possible.
- Cause:** The condition results from the lack of control over data security.
- Recommendation:** Management should obtain the services of an IT firm that could recommend appropriate safeguards such as periodic or automatic back-up, off-site storage of information or other contingency plans.
- Management Response:** As soon as funds are available, management will contract an IT firm to provide the required services.

CHARTER ON THE BEACH MIDDLE SCHOOL, INC.
(A Component Unit of the School Board of Miami-Dade County)
SCHEDULE OF FINDINGS AND RESPONSES
JUNE 30, 2008

2008-2 - INTERNAL CONTROL ENVIRONMENT

Criteria: The accounting function of an organization should be established with appropriate controls to ensure that financial data is recorded in a complete, accurate and timely manner. These controls should include policies to establish proper authorization, segregation, risk assessment, communication and monitoring.

Condition: CBMS's accounting controls have not been effectively implemented. Specifically, the following accounting controls were not observed during our audit:

- Documented Board member approval for significant purchases or contracts.
- Second signature on large checks
- Segregation of key functions
- Documentation of adopted budget and budget monitoring
- Complete documentation of personnel files

Context: Failure to effectively implement a sound and robust internal control system increases the risk of error, omissions or fraud.

Effect: The deficient internal control environment resulted in a stressed financial environment, a prolonged and challenging audit process and has hindered the entity's ability to accurately and timely provide financial information.

Cause: The condition results from the lack of available personnel and resources.

**Recom-
mendation:** Management should work to implement and achieve the sound internal control environment desired and described in the school's charter application.

**Management
Response:** Management fully expects obtain sufficient financial resources during the 2008-2009 school year in order to properly implement the control system.

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CERTIFIED PUBLIC ACCOUNTANTS
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MANAGEMENT LETTER

Board of Directors of
Charter on the Beach Middle School, Inc.

Miami Beach, Florida

We have audited the accompanying basic financial statements of Charter on the Beach Middle School, Inc. as of and from inception through June 30, 2008 and have issued our report thereon dated September 26, 2008.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and 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 Compliance and Other Matters dated September 26, 2008. Disclosures in that report, if any, should be considered in conjunction with this management letter.

Additionally, our audit was conducted in accordance with the provisions of Chapter 10.850, Rules of the Auditor General which govern the conduct of charter school audits performed in the State of Florida and require that certain items be addressed in this letter.

Those items, as outlined in Section 10.854, are as follows:

1. A statement as to whether or not corrective actions have been taken to address significant findings and recommendations made in the preceding annual financial audit report.

Not applicable. This is the first audit of the school.

2. A statement as to whether the School has met one or more conditions described in Section 218.503 (1) Florida Statutes, and identification of the specific condition.

CBMS has met the following conditions described in Section 218.503(1) Florida Statutes:

- Failure to pay uncontested claims from creditors within 90 days after the claim is presented, as a result of a lack of funds.
- An unrestricted and total net assets deficit for which sufficient resources are not available to cover.

3. Recommendations to improve the School's present financial management, accounting procedures and internal controls.

The following are recommendations to improve the School's financial management, accounting procedures and internal controls:

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FRAUD AND WHISTLEBLOWER POLICY

Observation

The School has not implemented a policy/process by which personnel can anonymously report suspected fraud and abuse.

Recommendation

Personnel are often in the best position to identify and report fraud and abuse. Therefore, such a policy will enhance internal control.

Management's response

A policy will be implemented during the 2008-2009 school year.

4. Violations of laws, regulations, contracts or grant agreements, or abuse that have occurred, or are likely to have occurred, that have an effect on the determination of financial amounts that are less than material but more than inconsequential.

No such violations have been noted during the audit.

5. Matters that are inconsequential to the determination of financial statement amounts considering both quantitative and qualitative factors, including the following:
 - a. Violations of laws, rules, regulations and contractual provisions or abuse that have occurred, or are likely to have occurred,
 - b. Improper expenditures or illegal acts that would have an immaterial effect on the financial statements.
 - c. Control deficiencies that are not significant deficiencies, including, but not limited to:
 - i. Improper or inadequate accounting procedures (e.g., the omission of required disclosures from the annual financial statements).
 - ii. Failures to properly record financial transactions.
 - iii. Inaccuracies, shortages, defalcations, and instances of fraud discovered by, or that come to the attention of, the auditor.

No such conditions were noted during the audit.

6. The name or official title of the School.

The name and title are disclosed in the accompanying financial statements.

7. A statement that the auditor applied financial condition assessment procedures pursuant to Rule 10.855(10).

We have applied such procedures and have determined that the school has met certain of the financial emergency conditions in Florida Statutes Section 218.503(1). See item 2 above. We consider these conditions to have resulted as a consequence of the school being a start-up having completed its first school year and not as a result of a deteriorating financial condition.

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

Grawin & Associates, CP

CERTIFIED PUBLIC ACCOUNTANTS

Coral Gables, Florida
September 26, 2008