

Miami Arts, Inc.

(A charter school)

W/L 7059

Miami, Florida

Financial Statements and
Independent Auditors' Report

June 30, 2016

TABLE OF CONTENTS

General Information	1
Independent Auditors' Report	2-3
Management's Discussion and Analysis (Required Supplementary Information)	4-8
Basic Financial Statements:	
<i>Government-wide Financial Statement:</i>	
Statement of Net Position	9
Statement of Activities	10
<i>Fund Financial Statements:</i>	
Balance Sheet - Governmental Funds	11
Reconciliation of the Governmental Fund Balance Sheet to the Statement of Net Position	12
Statement of Revenues, Expenditures and Changes in Fund Balance - Governmental Funds	13
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balance of Governmental Funds to the Statement of Activities	14
Statement of Net Position – Fiduciary Fund	15
<i>Notes to the Basic Financial Statements</i>	16-28
Required Supplementary Information:	
Budgetary comparison schedules	29-31
Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	
	32-33
Schedule of Findings and Responses	34
Management Letter	35-38

Miami Arts, Inc.
(A charter school)
W/L# 7059

Wynwood Campus
Administrative offices
95 NW 23rd Street
Miami, FL 33127

Homestead Campus
3000 SE 9th Street
Homestead, FL 33035

2015-2016

BOARD OF DIRECTORS

Dr. Raymond Kimsey, DDS, Board Chair
Jennifer Kenney, Director
Pablo Canals, Director

SCHOOL ADMINISTRATION

Alfredo de la Rosa, Founder, Chief Education Administrator
Carolina Torres, Director of Curriculum and Student Services

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Miami Arts, Inc.
Miami, Florida

We have audited the accompanying financial statements of the governmental activities and each major fund of Miami Arts, Inc. (the "School"), as of, and for the year ended June 30, 2016, which collectively comprises the School's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of Miami Arts, Inc. at June 30, 2016, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

In accordance with *Government Auditing Standards*, we have also issued our report dated August 31, 2016, on our consideration of the School'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.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 4 through 8 and 29 through 31 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.



CERTIFIED PUBLIC ACCOUNTANTS

Coral Gables, Florida
August 31, 2016

Management's Discussion and Analysis
Miami Arts, Inc.
June 30, 2016

The corporate officers of Miami Arts, Inc. have prepared this narrative overview and analysis of the school's financial activities for the year ended June 30, 2016.

Financial Highlights

1. The net position of the School at June 30, 2016 was a deficit of \$2,757,911.
2. At year-end, the School had current assets on hand of \$3,215,869
3. The School had a decrease in net position of \$456,400 for the year ended June 30, 2016.
4. The unassigned fund balance at year end was a deficit of \$488,356.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the School's basic financial statements. The School's financial statements for the year ended June 30, 2016 are presented in accordance with GASB Codification Section 2200. 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 the School's finances, in a manner similar to a private-sector business.

The *Statement of Net Position* presents information on all of the School's assets, deferred outflows of resources, liabilities and deferred inflows of resources. The difference between the four is reported as *net position*. Over time increases or decreases in net position may serve as an indicator of whether the financial position of the School is improving or deteriorating.

The *Statement of Activities* presents information on how the School's net position changed during the fiscal year. All changes in net position 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 years.

The government-wide financial statements can be found on pages 9 - 10 of this report.

Fund Financial Statements

A "fund" is a collection of related accounts grouped to maintain control over resources that have been segregated for specific activities, projects, or objectives. The School like other state and local governments uses fund accounting to ensure and report compliance with finance-related legal requirements.

Governmental Funds

All of the funds of the School are governmental funds. *Government Funds* are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. Government Fund financial statements, however, focus on *near-term* inflows and outflows of spendable resources, as well as on the balances of spendable resources which are available at the end of the fiscal year. Such information may be used to evaluate a government's requirements for near-term financing. The Board of the School adopts an annual appropriated budget for its general fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with the School's budget. The basic governmental fund financial statements can be found on pages 11 – 15 of this report.

Fiduciary Fund

The agency fund statement provides information about the financial relationship in which the School acts solely as an agency for the benefit of other such as student activities. The School is responsible for ensuring that assets are used only for the intended purposes. The School excludes these activities from the Statement of Net Position because it cannot use these funds to finance its operations. The agency fund statement can be found on page 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 - 28 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net position may serve over time as a useful indicator of a charter school's financial position. In the case of the School, net position was a deficit of \$2,757,911 at the close of the fiscal year. A summary of the School's net position as of June 30, 2016 and 2015 follows:

	2016	2015
Current and other assets	\$ 3,215,869	\$ 17,886,280
Capital Assets, net	28,448,883	14,229,763
Total Assets	31,664,752	32,116,043
Deferred Outflows	-	-
Current liabilities	971,770	569,086
Long term debt	33,450,893	33,848,468
Total Liabilities	34,422,663	34,417,554
Deferred Inflows	-	-
Net Position:		
Net investment in capital assets	-	584,925
Unrestricted	(2,757,911)	(2,886,436)
Total Net Position	\$ (2,757,911)	\$ (2,301,511)

At the end of the year, the School reported a negative balance in total net position.

A summary and analysis of the School's revenues and expenses for the year ended June 30, 2016 and 2015 follows:

	<u>2016</u>	<u>2015</u>
REVENUES		
Program Revenues		
Capital outlay funding	\$ 414,311	\$ 485,577
In-kind rent revenue	248,750	-
General Revenues		
FTE nonspecific revenues	9,651,353	7,177,118
Other revenues	45,621	17,787
Total Revenues	<u>10,360,035</u>	<u>7,680,482</u>
EXPENSES		
Component Unit Activities:		
Instruction and instructional related services	4,217,992	3,367,613
Instructional related technology	70,354	56,811
Pupil personnel services	340,519	383,865
Board	23,128	11,000
General administration	60,972	28,398
School administration	829,129.00	1,022,983
Facilities acquisition	-	-
Fiscal services	145,326	125,455
Food services	1,080	3,601
Central services	131,719	81,435
Pupil transportation services	5,895	5,640
Operation of plant	2,380,256	2,077,811
Maintenance of plant	153,156	92,554
Unallocated depreciation	197,245	123,261
Interest	2,259,664	2,770,677
Total Expenses	<u>10,816,435</u>	<u>10,151,104</u>
(Decrease) Increase in Net Position	(456,400)	(2,470,622)
Net Position at Beginning of Year	(2,301,511)	169,111
Net Position at End of Year	<u>\$ (2,757,911)</u>	<u>\$ (2,301,511)</u>

The School's revenue increased by \$2,679,553 in the current year and expenses increased by \$665,331 as a result of an increase in student enrollment of approximately 352 students. The School had a decrease in its net position of \$ 456,400 for the year.

FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUND

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 funds* 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, the *unassigned fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

Most of the School's operations are funded in the General Fund. The majority of the General Fund revenues are distributed to the School by the District through the Florida Education Finance Program (FEFP), which uses formulas to distribute state funds and an amount of local property taxes (i.e., required local effort) established each year by the Florida Legislature.

At the end of the fiscal year, the School's governmental general fund reported ending fund deficit of \$363,323. The fund balance unassigned and available for spending at the School's discretion is a deficit of \$401,967.

The Debt Service Fund was created to account for resources accumulated and payments made for the principal and interest on long term debt of the School. At the end of the current fiscal year, the fund balance totaled \$2,488,969, all of which was restricted to debt service.

The Capital Projects Fund accounts for the resources restricted for the acquisition and construction of the Miami Campus from bond proceeds. At the end of the current fiscal year, fund balance totaled \$118,453, all of which is restricted for capital projects.

Capital Assets

The School's investment in capital assets as of June 30, 2016 amounts to \$28,448,883 (net of accumulated depreciation). This investment in capital assets includes building and improvements, furniture, fixtures and computer equipment. As of June 30, 2016, the School had long term debt totaling \$33,450,893 relating to capital assets.

Requests for Information

This financial report is intended to provide a general overview of the finances of the Charter School. Requests for additional information may be addressed to the School's administrative offices at Miami Arts, Inc., 95 NW 23rd Street, Miami, Florida 33127.

Governmental Fund Budget Analysis and Highlights

Prior to the start of the School's fiscal year, the Board of the Charter School adopted an annual budget. A budgetary comparison statement has been provided for total governmental funds (general fund, debt service fund and capital projects funds) to demonstrate compliance with the School's budget.

	Governmental Fund		
	Original Budget	Final Budget	Actual
REVENUES			
Program Revenues			
State capital outlay funding	\$ 581,250	\$ 581,250	\$ 414,311
State passed through local	9,455,000	9,455,000	9,651,353
In-kind rent revenue	-	-	248,750
Other revenue	-	-	45,621
	<u>10,036,250</u>	<u>10,036,250</u>	<u>10,360,035</u>
CURRENT EXPENDITURES			
Component Unit Activities			
Instruction	4,058,652	4,058,652	4,217,992
Instructional related technology	-	-	70,354
Pupil personnel services	426,545	426,545	340,519
Board	19,200	19,200	23,128
General administration	111,062	111,062	60,972
School administration	933,098	933,098	829,129
Fiscal services	146,709	146,709	145,326
Food services	-	-	1,080
Central services	140,000	140,000	131,719
Pupil transportation services	12,000	12,000	5,895
Operation of plant	2,593,469	2,593,469	2,380,256
Maintenance of plant	101,000	101,000	153,156
	<u>\$ 8,541,735</u>	<u>\$ 8,541,735</u>	<u>\$ 8,359,526</u>

Most variances occurred as a result of the Budget adopted being more conservative than actual results for the year.

Miami Arts, Inc.
(A charter school)
Statement of Net Position
June 30, 2016

	Governmental Activities
<u>Assets</u>	
Current assets:	
Cash	\$ 402,302
Restricted assets:	
Funds held by trustee in short term investments	2,693,811
Accounts receivable	50,763
Due from other agencies	30,349
Prepaid expenses	18,274
Deposits receivable	20,370
	<u>3,215,869</u>
Capital assets, not being depreciated	
Land	6,746,070
Construction in progress	21,087,555
Capital assets, depreciable	
Leashold improvements	282,875
Furniture, fixtures and equipment	889,359
Computers, software and internet technologies	239,140
Less: accumulated depreciation	<u>(796,116)</u>
	<u>28,448,883</u>
Total Assets	<u>31,664,752</u>
<u>Deferred Outflows of Resources</u>	<u>-</u>
<u>Liabilities</u>	
Current liabilities:	
Accounts payable and accrued expenses	965,890
Lease payable within one year	5,880
	<u>971,770</u>
Long-term debt:	
Payable within one year	730,000
Payable in more than one year	32,720,893
Total Liabilities	<u>34,422,663</u>
<u>Deferred Inflows of Resources</u>	<u>-</u>
<u>Net position</u>	
Net investment in capital assets	-
Unrestricted	(2,757,911)
Total Net Position	<u>\$ (2,757,911)</u>

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

Miami Arts, Inc.
(A charter school)
Statement of Activities
For the year ended June 30, 2016

FUNCTIONS	Program Revenues				Net (Expense) Revenue and Changes in Net Position
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Governmental activities:					
Instruction	\$ 4,217,992	\$ -	\$ -	\$ -	\$ (4,217,992)
Instructional related technology	70,354	-	-	-	(70,354)
Pupil personnel services	340,519	-	-	-	(340,519)
Board	23,128	-	-	-	(23,128)
General administration	60,972	-	-	-	(60,972)
School administration	829,129	-	-	-	(829,129)
Fiscal services	145,326	-	-	-	(145,326)
Food services	1,080	-	-	-	(1,080)
Central services	131,719	-	-	-	(131,719)
Pupil transportation services	5,895	-	-	-	(5,895)
Operation of plant	2,380,256	-	-	663,061	(1,717,195)
Maintenance of plant	153,156	-	-	-	(153,156)
Interest	2,259,664	-	-	-	(2,259,664)
Unallocated depreciation	197,245	-	-	-	(197,245)
Total governmental activities	10,816,435	-	-	663,061	(10,153,374)
General revenues:					
FTE nonspecific revenues					9,651,353
Interest and other revenue					45,621
Change in net position					(456,400)
Net position, beginning					(2,301,511)
Net position, ending					<u>\$ (2,757,911)</u>

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

Miami Arts, Inc.
(A charter school)
Balance Sheet - Governmental Funds
June 30, 2016

	General Fund	Debt Service	Capital Projects	Total Governmental Funds
<u>Assets</u>				
Cash	\$ 402,302	\$ -	\$ -	\$ 402,302
Restricted cash:				
Funds held by trustee in investments	-	2,575,358	118,453	2,693,811
Accounts receivable	50,763	-	-	50,763
Due from other agencies	-	-	30,349	30,349
Prepaid expenses	18,274	-	-	18,274
Deposits receivable	20,370	-	-	20,370
Due to / from funds	30,349	-	-	30,349
Total Assets	<u>522,058</u>	<u>2,575,358</u>	<u>148,802</u>	<u>3,246,218</u>
<u>Deferred Outflows of Resources</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>Liabilities</u>				
Accounts payable and accrued expenses	879,501	86,389	-	965,890
Lease payable within one year	5,880	-	-	5,880
Due to / from funds	-	-	30,349	30,349
Total Liabilities	<u>885,381</u>	<u>86,389</u>	<u>30,349</u>	<u>1,002,119</u>
<u>Deferred Inflows of Resources</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>Fund balance</u>				
Nonspendable, not in spendable form	38,644	-	-	38,644
Restricted by bonds	-	2,575,358	118,453	2,693,811
Unassigned	(401,967)	(86,389)	-	(488,356)
	<u>(363,323)</u>	<u>2,488,969</u>	<u>118,453</u>	<u>2,244,099</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balance	<u>\$ 522,058</u>	<u>\$2,575,358</u>	<u>\$ 148,802</u>	<u>\$ 3,246,218</u>

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

Miami Arts, Inc.

(A charter school)

Reconciliation of the Governmental Fund Balance Sheet to the Statement of Net Position

For the year ended June 30, 2016

Total Fund Balance - Governmental Funds	\$ 2,244,099
---	--------------

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

Capital assets of \$29,244,999 net of accumulated depreciation of \$796,116 used in governmental activities are not financial resources and therefore are not reported in the fund.	28,448,883
---	------------

Long term liability which is not due and payable in the current period and, therefore, is not reported in the governmental funds.	(33,450,893)
---	--------------

Total Net Position - Governmental Activities	<u>\$ (2,757,911)</u>
--	-----------------------

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

Miami Arts, Inc.

(A charter school)

Statement of Revenues, Expenditures, and Changes in Fund Balance-Governmental Funds

For the year ended June 30, 2016

	General Fund	Debt Service	Capital Projects	Total Governmental Funds
Revenues:				
State capital outlay funding	\$ -	\$ -	\$ 414,311	\$ 414,311
State passed through local	9,651,353	-	-	9,651,353
In-kind rent revenue	-	-	248,750	248,750
Other revenue	44,914	707	-	45,621
Total Revenues	9,696,267	707	663,061	10,360,035
Expenditures:				
Current				
Instruction	4,217,992	-	-	4,217,992
Instructional related technology	70,354	-	-	70,354
Pupil personnel services	340,519	-	-	340,519
Board	23,128	-	-	23,128
General administration	60,972	-	-	60,972
School administration	829,129	-	-	829,129
Facilities acquisition	-	-	-	-
Fiscal services	145,326	-	-	145,326
Food services	1,080	-	-	1,080
Central services	131,719	-	-	131,719
Pupil transportation services	5,895	-	-	5,895
Operation of plant	1,717,195	-	663,061	2,380,256
Maintenance of plant	153,156	-	-	153,156
Capital Outlay:				
Other capital outlay	136,923	-	14,181,416	14,318,339
Debt Service:				
Repayment of principal	-	435,000	-	435,000
Interest	-	2,222,239	-	2,222,239
Total Expenditures	7,833,388	2,657,239	14,844,477	25,335,104
Excess of revenues over expenditures	1,862,879	(2,656,532)	(14,181,416)	(14,975,069)
Other financing sources:				
Transfers in and (out)	(2,268,297)	1,900,613	367,684	-
Net change in fund balance	(405,418)	(755,919)	(13,813,732)	(14,975,069)
Fund Balance at beginning of year	42,095	3,244,888	13,932,185	17,219,168
Fund Balance at end of year	\$ (363,323)	\$ 2,488,969	\$ 118,453	\$ 2,244,099

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

Miami Arts, Inc.

(A charter school)

Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balance
of Governmental Funds to the Statement of Activities

For the year ended June 30, 2016

Net Change in Fund Balance - Governmental Funds

\$ (14,975,069)

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 \$14,318,339 exceeded from depreciation expense of \$197,245.

14,121,094

The proceeds from debt issuance provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net position. Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position. This is the amount by which proceeds of \$0 differed from repayments of \$435,000 in the current period.

435,000

Governmental funds report discounts on bonds as expenditures. However, in the statement of activities, the cost is allocated over the life of the bond as interest expense. This is the amount bond discount allocation for the year.

(37,425)

Change in Net Position of Governmental Activities

\$ (456,400)

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

Miami Arts, Inc.
(A charter school)
Statement of Net Position - Fiduciary Funds
June 30, 2016

	<u>Agency Funds</u>
<u>Assets</u>	
Cash	\$ 28,312
Accounts receivable	9,138
Total Assets	<u>37,450</u>
<u>Deferred Outflows of Resources</u>	<u>-</u>
<u>Liabilities</u>	
Accounts payable	4,786
Due to students and clubs	32,664
Total Liabilities	<u>37,450</u>
<u>Deferred Inflows of Resources</u>	<u>-</u>
<u>Net Position</u>	<u>\$ -</u>

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

Note 1 – Summary of Significant Accounting Policies

Organization

Miami Arts, Inc. (the "School"), is a not-for-profit corporation organized pursuant to Chapter 617, and Section 1002.33, Florida Statutes. The governing body of the School is the board of directors of the not-for-profit corporation, which is composed of three members. The School is funded by and 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, 2024 and is renewable by mutual written agreement between the School and the District. During the term of the charter, the District may terminate the charter if good cause is shown. The School's main campus and administrative offices are located in Miami, Florida for students from grades six to twelve with a second campus in Homestead, Florida also serving grades six to twelve. These financial statements are for the year ended June 30, 2016, when 950 students were enrolled in the Miami campus and 601 were enrolled in the Homestead campus for the school year.

Basis of presentation and Reporting Entity

The School's accounting policies conform to accounting principles generally accepted in the United States as applicable to state and local governments. The Governmental Accounting Standards Board ("GASB") is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

Miami Arts Wynwood, LLC ("Wynwood") was organized under the laws of the State of Florida, the sole member of which is the School. Wynwood is a legally separate entity established for the sole purpose of serving as the lessor to the School pursuant to the Series 2014A and 2014B Bond issue (See Note 5 – Long Term Debt). Pursuant to Governmental Accounting Standards Board (GASB) Statement No. 14, as amended by Statement No. 61, when a government owns a majority of the voting stock of a for-profit corporation, the government's intent for owning the stock should determine whether the corporation is presented as a component unit or an investment of the primary government. The sole intent of Wynwood was to acquire the site and new facilities and lease the facilities to the School and therefore, it is included as a blended component unit of the School. Wynwood includes the Debt Service Fund and the Capital Projects Fund. Separate financial statement are not required or reported for Wynwood. Financial information related to this component unit is included as separate columns in the fund financial statements.

Government-wide and Fund Financial Statements

Government-wide Financial Statements

The government-wide financial statements include the statement of net position and the statement of activities. These statements report all non-fiduciary activities of the School and its component unites. Any internal interfund activity has been eliminated from these financial statements. Both statements report only governmental activities as the School does not engage in any business type activities. These statements also do not include fiduciary funds.

Note 1 – Summary of Significant Accounting Policies (continued)

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 capital grants specific to capital outlay. Other revenue sources not properly included with program revenues are reported as general revenues.

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) until then. The School does not have any items that qualify for reporting in this category.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time. The School does not have any items that qualify for reporting in this category.

Fund Financial Statements

Fund financial statements are provided for governmental funds. The operations of the funds are accounted for with a separate set of self-balancing accounts that comprise its assets, deferred outflows of resources, liabilities, deferred inflows of resources, equity, revenues and expenditures. Major individual governmental funds are reported as separate columns in the fund financial statements:

General Fund - is the School's primary operating fund. It accounts for all financial resources of the school, except those required to be accounted for in another fund.

Debt Service Fund - accounts for the resources accumulated and payments made for principal and interest on long-term debt of the School.

Capital Project Fund – is used to account for the resources restricted for the acquisition or construction of specific capital assets from the bond proceeds and capital outlay funding that are legally restricted to expenditures for particular purposes.

Agency Fund – School's internal funds accounts for resources of the schools' Internal Fund which is used to administer monies collected at the schools in connection with school, student activities, class, and club activities.

Note 1 – Summary of Significant Accounting Policies (continued)

Measurement Focus and Basis of Accounting

The financial statements of the School are prepared in accordance with Generally Accepted Accounting Principles (GAAP). The School's reporting entity applies all relevant Governmental Accounting Standards Board (GASB) *Codification of Accounting and Financial Reporting Guidance*.

The government-wide statements report uses the economic resources measurement focus and the full 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.

The School recognizes assets of non-exchange transactions in the period when the underlying transaction occurs, when an enforceable legal claim has arisen, or when all eligibility requirements are met. Revenues are recognized, on the modified accrual basis, when they are measurable and available. Non-exchange transactions occur when the school provides (or receives) value to (from) another party without receiving (or giving) equal or nearly equal value in return. Most donations are examples of non-exchange transactions. Revenues from grants and donations are recognized on the accrual basis, in the fiscal year in which all eligibility requirements have been satisfied.

Governmental fund financial statements report using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when they are both measurable and available. "Measurable" means the amount of the transaction can be determined. Available means collectible within the current period or soon enough thereafter to pay liabilities of the current period. The School considers revenues to be available if they are collected within 60 days of the end of the fiscal year. Florida Education Finance Program (FEFP) revenues are recognized when received. A one-year availability period is used for revenue recognition for all other governmental fund revenues. Charges for services and fees are recognized when cash is collected as amounts are not measurable. When grant terms provide that the expenditure of funds is the prime factor for determining eligibility for federal, state, and other grant funds, revenue is recognized at the time the expenditure is made. Expenditures are recorded when the related fund liability is incurred, except for long-term debt principal and interest which are reported as expenditures in the year due.

Budgets and Budgetary Accounting

In compliance with Florida Statutes, the Board of Directors adopts an annual budget using the modified accrual basis of accounting. During the fiscal year, expenditures were controlled at the object level (e.g. salaries and benefits, purchased services, materials and supplies and capital outlay) within each activity (e.g. instruction, pupil personnel services and school administration). Revisions to the annual budget are approved by the Board.

Note 1 – Summary of Significant Accounting Policies (continued)

Inter-fund Transfers

Outstanding balances between funds are reported as “due to/from” other funds. Inter-fund transfers are made to move funds from the General Fund to the Debt Service and Capital Projects Fund in order to fund scheduled debt service and capital projects expenditures.

Cash, cash equivalents and investments

All deposits are held in major banks and high grade investments. The School has not adopted a formal investment policy. Cash and cash equivalents include all highly liquid investments with a maturity of three months or less.

Due from Other Governments or Agencies

Amounts due to the School by other governments or agencies are for grants or programs under which the services have been provided by the School.

Long –Term Debt

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Bond payable is reported net of the applicable bond premium or discount. Bond issuance costs are recognized as an expense in the period incurred. In the fund financial statements, governmental fund types report the face amount of debt issued as other financing sources.

Capital Assets

The School’s property, plant and equipment with useful lives of more than one year are stated at historical cost and comprehensively reported in the statement of net position in the government-wide financial statements. Donated capital assets are recorded at their estimated fair market value on the date donated. The School generally capitalizes assets with cost of \$1,000 or more. 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. 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 operations. Estimated useful lives, in years, for depreciable assets are as follows:

Leasehold improvements	4 Years
Furniture, Fixtures and Equipment	5-10 Years
Computer, Software, and Internet Technology	3-5 Years

Note 1 – Summary of Significant Accounting Policies (continued)

Revenue Sources

Revenues for operations will be received primarily from the District pursuant to the funding provisions included in the School's charter. In accordance with the funding provisions of the charter and Section 1002.33, Florida Statutes, the School 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 FEFP. Funding for the School is adjusted during the year to reflect the revised calculations by the FDOE under the FEFP and the actual weighted full-time equivalent students reported by the School during the designated full-time equivalent student survey periods. After review and verification of FTE reports and supporting documentation, the FDOE may adjust subsequent fiscal period allocations of FEFP funding for prior year errors disclosed by its review as well as to prevent statewide allocations from exceeding the amount authorized by the Legislature. Normally, such adjustments are treated as reductions of revenue in the year the adjustment is made. In addition, the school receives an annual allocation of charter school capital outlay funds for leasing of school facilities.

In addition, the School receives state funds through the District under charter school capital outlay funding pursuant to Section 1013.62, Florida Statutes. Funds are based on a capital outlay plan submitted to the District and are to be used for lease of school facilities.

Finally, the School may also receive Federal awards for the enhancement of various educational programs. Federal awards are generally received based on applications submitted to and approved by various granting agencies. For Federal awards in which a claim to these grant proceeds is based on incurring eligible expenditures, revenue is recognized to the extent that eligible expenditures have been incurred. Any excess amounts are recorded as deferred revenues until expended. Additionally, other revenues may be derived from various fundraising activities and certain other programs.

Compensated Absences

The School grants a specific number of sick and personal days. In the event that available time is not used by the end of the benefit year, employees will not be able to “rollover” unused days for use in future years. There is no termination payment for accumulated unused sick days.

GASB Codification Section C60, *Accounting for Compensated Absences*, provides that compensated absences that are contingent on a specific event that is outside the control of the employer and employee should be accounted for in the period those events take place. Accordingly, these financial statements do not include an accrual for sick days available to be used in future benefits years.

Note 1 – Summary of Significant Accounting Policies (continued)

Income Taxes

The School qualifies as a tax-exempt organization under Internal Revenue Code Section 501(c)(3), and is, therefore, exempt from income tax. Accordingly, no tax provision has been made in the accompanying financial statements.

Subsequent Events

In accordance with GASB Codification Section 2250.106, the School has evaluated subsequent events and transactions for potential recognition or disclosure through August 31, 2016, which is the date the financial statements were available to be issued.

Order of Fund Balance Spending Policy

The School's policy is to apply expenditures against non-spendable fund balance, restricted fund balance, committed fund balance, assigned fund balance, and unassigned fund balance at the end of the fiscal year by adjusting journal entries. First Non-spendable fund balances are determined. Then restricted fund balances for specific purposes are determined (not including non-spendable amounts). Then any remaining fund balance amounts for the non-general funds are classified as restricted fund balance. It is possible for the non-general funds to have negative unassigned fund balance when non-spendable amounts plus the restricted fund balances for specific purposes amounts exceed the positive fund balance for the non-general fund.

Restricted Assets

Restricted assets include short term investments that are related to amounts that the School is required to segregate in connection with the issuance of bonds, including sinking fund and reserve requirements, as well as amounts segregate for the construction of the School Miami Campus. The indenture of Trust requires the establishment of Funds for the bonds and accounts within such funds, all of which shall be special trust funds and accounts held by the Trustee. At June 30, 2016, composition of restricted account is as follows:

<u>Debt Service Fund</u>	
Interest fund-Series 2014A	\$ 329
Interest fund-Series 2014B	10
Sinking Fund	2,575,000
Debt Service Reserve	19
	<u>\$ 2,575,358</u>
 <u>Capital Project Fund</u>	
Project Fund-Series 2014A	\$ 4
Project Fund-Series 2014B	63,447
Reserve and Replenish Fund	55,002
	<u>\$ 118,453</u>

Note 1 – Summary of Significant Accounting Policies (continued)

Net Position and Fund Balance Classifications

Government-wide financial statements

Equity is classified as net position and displayed in three (3) components:

- a) Net investment in capital assets - consists of capital assets net of accumulated depreciation and reduced by the outstanding balances of any borrowings that are attributable to the acquisition or improvement of those assets
- b) Restricted net position - consists of net position with constraints placed on their use either by external groups such as creditors, grantors, contributors or laws or regulations of other governments.
- c) Unrestricted net position - all other net position that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

Fund financial statements

Under GASB Codification Section 1800.142, *Fund Balance Reporting and Governmental Fund Type Definitions*. This Statement defines the different types of fund balances that a governmental entity must use for financial reporting purposes. GASB requires the fund balance amounts to be properly reported within one of the fund balance categories list below:

- a) Nonspendable - includes amounts that cannot be spent because they are either not in spendable form or legally or contractually required to be maintained intact. Consists of fund balance associated with inventories, prepaid expenses, long-term loans and notes receivable, and property held for resale (unless the proceeds are restricted, committed, or assigned).
- b) Restricted - fund balance category includes amounts that can be spent only for the specific purposes stipulated by constitution, external resource providers, or through enabling legislation. Restricted fund balance of the School relate to the bond issues.
- c) Committed - fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the School's Board of Directors. There are no committed fund balances at year end.
- d) Assigned - fund balance classification are intended to be used by the School's management for specific purposes but do not meet the criteria to be classified as restricted or committed. There are no assigned fund balances at year end.
- e) Unassigned - portion of the fund balance that has not been restricted, committed or assigned for a specific purpose. This is the residual classification for the School's general fund.

Note 1 – Summary of Significant Accounting Policies (continued)

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States 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 – Cash, Cash Equivalents and Investments

Deposits

Operating cash is held by banks qualified as public depositories under Florida law. All deposits are insured by Federal depository insurance and/or collateral with securities held in Florida's multiple financial institution collateral pool required by Sections 280.07 and 280.08, Florida Statutes. Any other cash deposits are held at FDIC-insured institutions.

Investments

The School categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in markets for identical assets; Level 2 inputs are significant other observable inputs (including quoted prices for similar investments, interest rates, credit risk, etc.); Level 3 inputs are significant unobservable inputs.

At June 30, 2016, the School has the following recurring fair value measurements:

- Government money market mutual fund of \$2,693,811 valued using Level 2 inputs.

The government money market mutual fund values its portfolio securities at amortized cost which approximates fair value. The government money market mutual fund primarily invests in cash, high quality, short-term U.S. government securities and/or repurchase agreements that are collateralized fully by government securities that have been valued by the fund as Level 2. As of June 30, 2016, the maturities of the fund's portfolio holdings are approximately 68% within 30 days.

Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of investments in a single issuer. The School manages its exposure to credit risk by limiting investments to highly rated government money market mutual funds. The fund is rated AAA-mf by Moody's.

Note 2 – Cash, Cash Equivalents and Investments (continued)

Custodial credit risk is the risk that in the event of a failure of a depository financial institution or counterparty that is in possession of investment or collateral securities, the School will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party.

For an investment, custodial credit risk is the risk that in the event of the failure of the counterparty to a transaction, the School will not be able to recover the value of investments or collateral securities that are in the possession of an outside party. At June 30, 2016, all of the School's investments in government money market mutual funds were held in a separate account and designated as assets of the School.

Interest rate risk is the risk that changes in interest rate will adversely affect the fair value of an investment. The School manages its exposure to declines in fair values by limiting all investments to government money market mutual funds that can be redeemed daily.

Note 3 –Capital Assets

The following schedule provides a summary of changes in capital assets, acquired substantially with public funds, for the year ended June 30, 2016:

	Balance 7/1/2015	Additions	Retirements	Balance 6/30/2016
Capital assets, not being depreciated				
Land	\$ 6,746,070	\$ -	\$ -	\$ 6,746,070
Construction in progress	6,906,140	14,181,415	-	21,087,555
Capital assets, depreciable				
Leashold improvements	255,922	26,953	-	282,875
Furniture, fixtures and equipment	787,176	102,183	-	889,359
Computers, software and internet	231,352	7,788	-	239,140
	<u>14,926,660</u>	<u>14,318,339</u>	<u>-</u>	<u>29,244,999</u>
Less Accumulated Depreciation	(598,871)	(197,245)	-	(796,116)
Capital Assets, net	<u>\$ 14,327,789</u>	<u>\$ 14,121,094</u>	<u>\$ -</u>	<u>\$ 28,448,883</u>

Depreciation and amortization expense for the year ended June 30, 2016, amounted to \$197,245.

Note 4 – Management Agreement – related party

The School entered into two separate management agreements with the charter management company, New Way Schools, Inc. (“NWS”) for the Miami Arts Charter School, (the “Miami Campus”) and Miami Arts Charter School at Homestead (the “Homestead Campus”) to provide management and administrative services to the School. Currently, the School’s Founder and Chief Education Administrator is an officer of NWS.

The Miami Campus management agreement expires on June 30, 2019 and requires the Miami Campus to pay, as compensation, a management fee of \$420 per Full Time Equivalent (FTE) per annum. On October 16, 2014, the agreement was amended and changed the amount of compensation to the lesser of (i) \$420 per FTE, or (ii) the amount allocated for payment to NWS in the annual budget payable monthly in arrears. In addition, the management fee is subordinated under the terms of the School lease, loan and bond agreements.

On October 16, 2014, the School entered into a management agreement for the Homestead Campus expiring on October 2017. The agreement requires the Homestead Campus to pay a management fee of \$420 per FTE per annum.

The School management fee for the year ended June 30, 2015 was \$84,000.

Note 5 – Long Term Debt

Revenue Bond

Educational Facilities Revenue Bonds, Series 2014A and 2014B – The Florida Development Finance Corporation (the “issuer”) issued Educational Facilities Revenue Bonds (Miami Arts Charter School Project), Series 2014A, in the aggregate principal amount of \$30,000,000 (the “Series 2014A Bond”). Miami Arts, Inc. (“Miami Arts”) issued Taxable Educational Facilities Revenue Bonds (Miami Arts Charter School Project) Series 2014B, in the aggregate principal amount of \$4,710,000 (the “Series 2014B Bonds”). The bonds were used to (i) finance or refinance the costs of acquiring, constructing, and equipping certain charter school facilities (collectively, the “Facility”) for the School located within Miami-Dade, Florida, the land on which the School will be located (the “Site”), and improvements thereto (collectively the “Project”), (ii) fund a debt service reserve account for the Series 2014 Bonds, (iii) fund capitalized interest with respect to the Series 2014A Bonds, and (iv) pay certain costs of issuance of the Series 2014 Bonds. The Series 2014A Bonds are subject to mandatory and optional redemption prior to maturity. The Series 2014B are subject to mandatory redemption prior to maturity.

Note 5 – Long Term Debt (continued)

Interest is payable semi-annually on June 15 and December 15. The bonds are secured by a mortgage interest on the project to the benefit of Regions Bank (the “Trustee”) and assignment of payments (the “Pledge Revenues”) to the Trustee pursuant to the Indenture of Trust dated October 1, 2014. These Bonds are subject to interest rates ranging from 5.000% to 7.750%.

The bonds contain restrictive covenants related to debt service coverage ratio, days cash on hands requirements, student enrollment and reporting requirements. At times, the School may be in violation of these covenants and, pursuant to certain bond provisions, has retained the services of a consultant to assist in remediation of the violations.

The Borrowers are obligated under the Loan Agreement to deposit all receipts revenues (“Pledged Revenues”) directly with the Trustee during the term of the lease excluding the Homestead Campus. The Bonds, to pay Operating Expenses of the School, to establish and maintain certain reserve funds described in the Indenture, to pay management fees under the Management Agreement, and to reimburse amounts previously paid for School purposes.

Revenue bond debt service requirements to maturity are as follows:

Series 2014A Bonds:

Year Ending June 30,	Principal	Interest
2017		1,770,825
2018		1,770,825
2019		1,770,825
2020		1,770,825
2021		1,770,825
2022-2026	2,205,000	8,713,421
2027-2031	4,595,000	7,699,785
2032-2036	6,125,000	6,168,823
2037-2041	8,225,000	4,070,700
2042-2044	8,850,000	1,101,300

Series 2014B Bonds:

Year Ending June 30,	Principal	Interest
2017	480,000	322,206
2018	520,000	284,037
2019	560,000	242,962
2020	605,000	198,594
2021	650,000	150,931
2022-2023	1,460,000	143,763

Note 5 – Long Term Debt (continued)

The Bonds were issued at a discount which was deferred and is being amortized over the life of the bonds using the effective interest method. The Bonds payable are presented net of the applicable discount. Amortization of Bond discount during the year amounted to \$37,525.

Long-term debt – related party

Long term debt also consists of \$100,000 note payable to the Chief Education Administrator of the School and President of the Management Company and \$150,000 note payable to a Limited Liability Company owned by the Finance Director of the School. The note payable is noninterest bearing and due depending in cash availability.

Long term debt activity for the year ended June 30, 2016 was as follows:

<u>Governmental activities:</u>	<u>Beginning Balance</u>	<u>Payments</u>	<u>Amortization</u>	<u>Ending Balance</u>	<u>Due within One Year</u>
Educational Facilities Revenue Bonds, Series 2014A	\$ 30,000,000	\$ -		\$ 30,000,000	\$ -
Educational Facilities Revenue Bonds, Series 2014B	4,710,000	(435,000)		4,275,000	480,000
Bond Discount	(1,111,532)		37,425	(1,074,107)	
Note payable-related parties	250,000			250,000	250,000
Total	<u>\$ 33,848,468</u>	<u>\$ (435,000)</u>	<u>\$ 37,425</u>	<u>\$ 33,450,893</u>	<u>\$ 730,000</u>

Note 6 – Commitments, Contingencies and Concentrations

The School entered into an operating lease agreement for the Miami Campus on Biscayne Blvd through July 31, 2015. The School is responsible for the leasehold improvements, repairs and maintenance and the insurance of the property. After the expiration of the lease, the landlord and the School agreed to continue the lease on a month-to-month basis. In addition, the landlord contributed the final three months of the School year (April, May and June) as in-kind rent. Subsequent to June 30, 2016, the School moved to its newly constructed location and no further commitments or obligations are due under the lease.

Note 6 – Commitments, Contingencies and Concentrations (continued)

On April 16, 2003, the School entered into an operating lease agreement for the Homestead Campus through July 2039. The School is responsible for the leasehold improvements, repairs and maintenance and the insurance of the property. The lease requires the base rent payment of \$650,000 for year 1, \$1,170,000 for year 2 and \$1,560,000 for year 3. In addition, the School is required to pay a special rent premium of \$35,000 for years 2 and 3. The lease includes a provision for escalating annual base rentals starting on year 4 based on the consumer price index.

Future minimum payments are as follows:

Year	Amount
2017	944,100
2018	1,137,500
2019	1,495,000
2020	1,560,000
2021	1,560,000
2022-2026	7,800,000
2027-2031	7,800,000
2032-2036	7,800,000
2037-2039	4,680,000

Contingencies and Concentrations

The School receives substantially all of its funding from the District under the Florida Education Finance Program (FEFP), which is based in part on a computation of the number of full-time equivalent (FTE) students attending different instructional programs. The accuracy of FTE student data submitted by individual schools and used in the FEFP computations is subject to audit by the state and, if found to be in error, could result in refunds to the state or in decreases to future funding allocations. Additionally, the School receives various forms of federal, state and local funding which are subject to financial and compliance audits. It is the opinion of management that the amount of funding, if any, which may be remitted back to the state due to errors in the FTE student data or the amount of grant expenditures which may be disallowed by grantor agencies would not be material to the financial position of the School.

Note 7 – Risk Management

The School is exposed to various risks of loss related to torts, thefts of, damage to and destruction of assets, errors and omissions and natural disasters for which the School carries commercial insurance. Settlement amounts have not exceeded insurance coverage in the past. In addition, there were no reductions in insurance coverage from those in the prior year.

REQUIRED SUPPLEMENTARY INFORMATION

Miami Arts, Inc.

(A charter school)

Statement of Revenues, Expenditures, and Changes in Fund Balance - General fund

For the year ended June 30, 2016

	General Fund		
	Original Budget	Final Budget	Actual
REVENUES			
State passed through local	\$ 9,455,000	\$ 9,455,000	\$ 9,651,353
Other revenues	-	-	44,914
Total Revenues	9,455,000	9,455,000	9,696,267
EXPENDITURES			
Current:			
Instruction	4,058,652	4,058,652	4,217,992
Instructional related technology	-	-	70,354
Pupil personnel services	426,545	426,545	340,519
Board	19,200	19,200	23,128
General administration	111,062	111,062	60,972
School administration	933,098	933,098	829,129
Fiscal services	146,709	146,709	145,326
Food service	-	-	1,080
Pupil transportation services	12,000	12,000	5,895
Central services	140,000	140,000	131,719
Operation of plant	2,012,219	2,012,219	1,717,195
Maintenance of plant	101,000	101,000	153,156
Total current expenditures	7,960,485	7,960,485	7,696,465
Excess of revenues			
Over current expenditures	1,494,515	1,494,515	1,999,802
Debt service:			
Capital outlay:			
Other capital outlay	-	-	136,923
Total capital outlay and			
Debt service expenditures	-	-	136,923
Total expenditures	7,960,485	7,960,485	7,833,388
Excess of revenues			
Over expenditures	1,494,515	1,494,515	1,862,879
Other financing sources:			
Transfers out	-	-	(2,268,297)
Net change in fund balance	1,494,515	1,494,515	(405,418)
Fund balance at beginning of year	42,095	42,095	42,095
Fund balance at end of year	\$ 1,536,610	\$ 1,536,610	\$ (363,323)

Notes to Budgetary Comparison Schedule

An annual budget is adopted on the modified accrual basis of accounting, consistent with generally accepted accounting principles. Amendments to the budget can only be made with the approval of the Board of Directors.

Miami Arts, Inc.

(A charter school)

Statement of Revenues, Expenditures, and Changes in Fund Balance - Debt Service Fund

For the year ended June 30, 2016

	Debt Service Fund		
	Original Budget	Final Budget	Actual
REVENUES			
Other revenues	\$ -	\$ -	\$ 707
Total Revenues	-	-	707
EXPENDITURES			
Current:			
Instruction	-	-	-
Total current expenditures	-	-	-
Excess of revenues			
Over current expenditures	-	-	707
Debt service:			
Repayment of principal	435,000	435,000	435,000
Interest	2,065,000	2,065,000	2,222,239
Capital outlay:			
Other capital outlay	-	-	-
Total capital outlay and			
Debt service expenditures	2,500,000	2,500,000	2,657,239
Total expenditures	2,500,000	2,500,000	2,657,239
Excess of revenues			
Over expenditures	(2,500,000)	(2,500,000)	(2,656,532)
Other financing sources			
Transfers in	-	-	1,900,613
Net change in fund balance	(2,500,000)	(2,502,356)	(755,919)
Fund balance at beginning of year	3,244,888	3,244,888	3,244,888
Fund balance at end of year	\$ 744,888	\$ 742,532	\$ 2,488,969

Notes to Budgetary Comparison Schedule

An annual budget is adopted on the modified accrual basis of accounting, consistent with generally accepted accounting principles. Amendments to the budget can only be made with the approval of the Board of Directors.

Miami Arts, Inc.

(A charter school)

Statement of Revenues, Expenditures, and Changes in Fund Balance - Capital Projects Fund

For the year ended June 30, 2016

	Capital Projects Fund		
	Original Budget	Final Budget	Actual
REVENUES			
State capital outlay funding	\$ 581,250	\$ 581,250	\$ 414,311
In-kind rent revenue	-	-	248,750
Total Revenues	581,250	581,250	663,061
EXPENDITURES			
Current:			
Operation of plant	581,250	581,250	663,061
Total current expenditures	581,250	581,250	663,061
Excess of revenues			
Over current expenditures	-	-	-
Debt service:			
Repayment of principal	-	-	-
Interest	-	-	-
Capital outlay:			
Other capital outlay	-	-	14,181,416
Total capital outlay and			
Debt service expenditures	-	-	14,181,416
Total expenditures	581,250	581,250	14,844,477
Excess of revenues			
Over expenditures	-	-	(14,181,416)
Other financing sources			
Transfers out	-	-	367,684
Net change in fund balance	-	-	(13,813,732)
Fund balance at beginning of year	13,932,185	13,932,185	13,932,185
Fund balance at end of year	\$ 13,932,185	\$ 13,932,185	\$ 118,453

Notes to Budgetary Comparison Schedule

An annual budget is adopted on the modified accrual basis of accounting, consistent with generally accepted accounting principles. Amendments to the budget can only be made with the approval of the Board of Directors.

INDEPENDENT AUDITOR'S 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 of
Miami Arts, Inc.
Miami, Florida

We have audited, in accordance with the 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, the financial statements of the governmental activities and each major fund of Miami Arts, Inc. (the "School") as of, and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the School's basic financial statements and have issued our report thereon dated August 31, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the School's internal control over financial reporting to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the School's internal control. Accordingly, we do not express an opinion on the effectiveness of the School's internal control.

A *deficiency in internal control* 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 and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider finding 2016-01 in the attached Schedule of Findings and Responses to be a significant deficiency.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

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

We noted certain matters that were reported to management in a separate management letter dated August 31, 2016 pursuant to Chapter 10.850, Rules of the Auditor General.

Purpose of this report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



CERTIFIED PUBLIC ACCOUNTANTS

Coral Gables, Florida
August 31, 2016

2016-01 - FIDUCIARY (INTERNAL) ACCOUNT

Criteria:	Accounting for activity in the fiduciary/internal account should be performed in a timely manner to ensure that the School meets its responsibility of ensuring that such assets are held and used only for the intended purposes.
Condition:	The School's internal account activity involving student activities, class, and club activities was not performed in a timely manner.
Context:	Failure to account for the activity of the fiduciary/internal account reduces the School's ability to meet its obligation to ensure that such assets are held and used only for the intended purpose.
Effect:	This condition resulted in the School's internal account activity not being recorded and the bank statement not being reconciled in a timely manner. The accounts were accounted and reconciled at the end of August, which is 60 days after the fiscal year end.
Cause:	The condition results from the lack of available personnel and resources in a small control environment.
Recommendation:	Management should work to allocate more resources to the School's accounting function to ensure timely accounting of all funds.
Management Response:	Management fully expects obtain sufficient resources to provide for timely accounting of all funds during the 2016-2017 school year now that the school has moved into its new facility in Miami and the School has the construction project behind them.

MANAGEMENT LETTER

Board of Directors of
Miami Arts, Inc.
Miami, Florida

Report on the Financial Statements

We have audited the financial statements of the governmental activities and each major fund of Miami Arts, Inc. as of and for the year ended June 30, 2016 and have issued our report thereon dated August 31, 2016.

Auditor's Responsibility

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 and Chapter 10.850, Rules of the Auditor General.

Other Reports and Schedules

We have issued our Independent Auditors' Report on Internal Control over Financial Reporting and Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with *Government Auditing Standards*. Disclosure in those reports, which are dated August 31, 2016, should be considered in conjunction with this management letter.

Prior Audit Findings

Section 10.854(1)(e)1., Rules of the Auditor General, requires that we determine whether or not corrective actions have been taken to address findings and recommendations made in the preceding annual financial audit report.

Refer to section below titled "Status of Prior Year Findings and Recommendations".

Official Title

Section 10.854(1)(e)5., Rules of the Auditor General, requires the name or official title of the entity. The official title of the entity is Miami Arts, Inc..

Financial Condition

Sections 10.854(1)(e)2, Rules of the Auditor General, requires that we report the results of our determination as to whether or not has met one or more of the conditions described in Section 218.503(1), Florida Statutes, and identification of the specific condition(s) met. In connection with our audit, we determined that Miami Arts, Inc. did not meet any of the conditions described in Section 218.503(1), Florida Statutes.

Sections 10.854(1)(e)6.a and 10.855(12), Rules of the Auditor General, require that we apply financial condition assessment procedures for Miami Arts, Inc.. It is management's responsibility to monitor Miami Arts, Inc. financial condition, and our financial condition assessment was based in part on representations made by management and the review of financial information provided by same. We have applied such procedures as of the fiscal year end and no deteriorating financial condition has been noted.

Transparency

Sections 10.854(1)(e)7 and 10.855(13), Rules of the Auditor General, require that we apply appropriate procedures to determine whether Miami Arts, Inc. maintains on its Web site the information specified in Section 1002.33(9)(p), Florida Statutes. In Connection with our audit, we determined that Miami Arts, Inc. maintained on its Web site the information specified in Section 1002.33(9)(p), Florida Statutes.

Other Matters

Section 10.854(1)(e)3., Rules of the Auditor General, requires that we address in the management letter any recommendations to improve financial management. In connection with our audit, we have the following findings and recommendation.

ML – 16-02 SEGREGATION OF DUTIES

Observation

We noted that the individual that has control over check disbursement also performs the bank reconciliations.

Recommendation

In order to enhance controls, management should work to segregate these functions.

Management's response

These functions will be segregated during the 2016-2017 fiscal year.

Section 10.854(1)(e)4., Rules of the Auditor General, requires that we address noncompliance with provisions of contracts or grant agreements, or abuse, that have occurred, or are likely to have occurred, that have an effect on the financial statements that is less than material but which warrants the attention of those charged with governance. In connection with our audit, we did not have any such findings.

Status of Prior Year Findings and Recommendations

2015-01 Compliance with Florida Statute Section 280.17

Condition:	During our audit we noted that the School did not prepare and file with the Florida Department of Financial Services, the forms required to collateralize the cash deposits held by the financial institutions in excess of the \$250,000 insured by the Federal Deposit Insurance Corporation (FDIC)
Criteria:	The Florida Department of Financial Services requires each entity in possession of public funds to prepare and file this form on a yearly basis
Cause:	The School was not aware of the requirement to file the form.
Effect:	The School is exposed to cash credit risk for cash balances in excess of FDIC limit of \$250,000.
Recommendation:	We recommend that the School file the required Qualified Public Depository form on an annual basis
Status:	During the year it was noted that the School filed required forms.

2015-02 Purchasing and Disbursements

Condition:	<p>During our audit we noted several control weaknesses as a result of our testing surrounding the purchasing and disbursement process:</p> <p>We noted several instances where the approval for payment was not clearly evident on the vendor's invoice, leading to inconsistencies in data entry regarding date of invoice, invoice number or invoice total as compared to amount paid.</p>
Criteria:	<p>Effective internal control procedures on purchasing and disbursement process should include the following key controls to prevent misappropriation of assets or avoid duplicate payments to vendors:</p> <ul style="list-style-type: none">• Information recorded on the accounting records must agree to supporting documentation• Use of invoice number within the accounting system to ensure no duplicate payments are made• Check signer reviews all supporting documentation prior to signing check
Cause:	The School currently has no formal written procedures on its disbursement process. The lack of written procedures and oversight resulted in inconsistencies in processing invoices for payment.
Effect:	Potential overpayment to vendors. In addition, the lack of effective controls in purchasing and disbursement process exposes the Charter to misappropriation of assets due to fraud or error.
Recommendation:	We recommend that the School implement a written policy and procedures on purchasing and disbursement that includes an oversight control feature, such as approval and verification of the information entered into the accounting system
Status:	During the audit, we noted that the School implemented an online procurement management system (Procurify.com).

Condition:	During the audit we noted that appears to be proper segregation of duties of the payroll process. However, we noted there was no documentation of the approval process used by the School
Criteria:	Internal controls should be in place that provides reasonable assurance that payroll process is properly authorized.
Cause:	No approval documentation was noted during the audit
Effect:	There is no documented evidence of the procedures used by the School for the approval process.
Recommendation:	We recommended that management document approval of payroll process.
Status:	During the current audit it was noted that payroll was properly approved.

Our management letter is intended solely for the information and use of the Legislative Auditing Committee, members of the Florida Senate and Florida House of Representatives, the Florida Auditor General, School Board of Brevard County, Federal and other granting agencies, the Board of Directors, and applicable management and is not intended to be and should not be used by anyone other than these specified parties.

HLB Grannin LLP
CERTIFIED PUBLIC ACCOUNTANTS