



Superintendent of Schools
Alberto M. Carvalho

Chief Auditor
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Miami-Dade County School Board

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January 24, 2012

Honorable Members of the School Board Audit and Budget Advisory Committee

SUBJECT: FISCAL YEAR 2010-2011 AUDITED FINANCIAL STATEMENTS FOR 31 OF THE 92 CHARTER SCHOOLS IN OPERATION AT YEAR-END

Ladies and Gentlemen:

Presented herewith for consideration at your January 31, 2012, meeting is our analysis of the audited financial statements of 31 of the 92 Miami-Dade County charter schools that were in operation during fiscal year 2010-11 (ended June 30, 2011). The remaining schools will be presented to you at your March 6, 2012 meeting and subsequent meetings, if necessary. Five of the 31 school audits here were discussed at your last meeting but transmittal to the School Board was deferred. Twenty-six of the school audits presented here are without significant fiscal issues.

Representatives of the first five schools referenced above have been invited to attend the January 31, 2012, Audit and Budget Advisory Committee (ABAC) meeting to address any questions the Committee members may have. The results of our analysis of the schools' audits are detailed as follows:

Updates for Five School Audits Discussed At The Previous Audit and Budget Advisory Committee Meeting

Balere Language Academy – The School's June 30, 2011 audited financial statements were discussed at the December 6, 2011 ABAC meeting but transmittal to the School Board was deferred.

As of June 30, 2011, Balere Language Academy reported positive Net Asset and Total Fund Balance positions of \$22,092 and \$150,617, respectively. However, we identified issues of serious concern as to the completeness and validity of the audited financial statements presented and other financial information that have since been corroborated. Specifically,

- A new corporation was created during the fiscal year titled Balere Language Academy, Inc. The existing charter contract is between the School Board and Balere, Inc. The annual audit submitted to the District was for special purpose financial statements of Balere Language Academy. It is unclear as to which entity assets and liabilities of the School are recorded.

Office of Management and Compliance Audits

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- The School was delinquent in filing its Federal tax return(s) (Form 990) and may have unrecorded tax liabilities.
- We had credible anecdotal evidence that the parent entity Balere, Inc., which had not provided a financial audit for FYE June 30, 2011, was in severe financial distress.

Since the last ABAC meeting, a financial audit of Balere, Inc. as of June 30, 2011 was performed and provided to us, and it strongly confirms our suspicion that the corporation was in financial distress showing a \$(229,695) Net Assets deficit and a going concern opinion raising substantial doubt about Balere, Inc.'s ability to continue as a going concern. Balere, Inc. is in default on the mortgages of the School's facilities and the property is listed as a short sale. We are also concerned that there may have been an intentional effort to conceal the School's distressed financial position from the sponsoring School Board and other oversight agencies.

The District is planning termination proceedings against the School for reasons including poor financial performance, violation of law and breach of contract. We are continuing to work with other District departments, various agencies and the School's representatives to resolve this situation in accordance with applicable statutes and rules. We recommend forwarding the financial statements to the School Board for their information.

Lincoln – Marti Charter Schools – Hialeah, International and Little Havana – The Schools' June 30, 2011 audited financial statements were discussed at the December 6, 2011 Audit Committee meeting but transmittal to the School Board was deferred.

After we reviewed the referenced audited financial statements of the three Lincoln-Marti schools (Hialeah, International and Little Havana), we had serious questions about an arrangement where the three public charter schools guaranteed a \$24 million loan to a private, for-profit company. Also, the Hialeah school met a condition of FS 218.503 (financial emergency) by having a \$(372,499) fund balance deficit at year end. The schools were very responsive to our concerns, including:

- Had the Bank release the three schools from the guarantee.
- Provided us with copies of the governing board meeting minutes where the guarantee was contemplated and approved.
- Provided us with copies of the subject credit and guarantee agreement.
- Correctly pointed out that the questioned guarantee was fully disclosed and transparent by management and the auditing firm in the notes to the financial statements.
- Provided the District with a FS 218.503 corrective plan with substantial supporting documentation in accordance with FS 1002.345.

Despite Lincoln-Marti Charter Schools, Inc.'s responsiveness as described, we continue to have some significant concerns as follows:

- The legality of a public charter school guaranteeing the loan for the private, for-profit landlord, an arrangement that was in place for over one year,

- The independence of the governing board of Lincoln-Marti Charter Schools, Inc. from the for-profit management company of the same name and the landlord (DP Real Estate),
- The school meeting several criteria of IRS cautionary guidance for 501(c)3 charter schools as to the private benefit issue,
- Whether large contracts such as the one executed with the management company and landlord were executed in the best interest of the not-for-profit schools, or whether those vendors' interests were the driving force.

We will continue to work with various District departments and the schools' representatives to address these concerns prospectively, but recommend forwarding the financial statements to the School Board for their information.

Oxford Academy – The School's June 30, 2011 audited financial statements were discussed at the December 6, 2011 ABAC meeting but transmittal to the School Board was deferred.

Those financial statements reflected Net Asset and Total Fund Balance positions of \$28,308 as of year end. Upon our review of the financial statements and correspondence with the School's management and auditing firm, we found that the school omitted \$27,705 in payroll expenses for the fiscal year. Consequently, the School's June 30, 2011 audited financial statements had to be re-stated and re-issued by the school and auditor resulting in Net Asset and Total Fund Balance positions of \$603 as of year end. However, the School now reflected an Unassigned Fund Balance deficit of \$(16,856) causing it to meet a condition of FS 218.503 (Determination of Financial Emergency) and require a corrective action plan. The audit firm, in the re-issued statements, also reported a material weakness in internal controls over the payroll accrual process.

We are currently working with the School's management to develop a corrective action plan and forwarding it to the Florida Department of Education in accordance with Florida Statutes. We again bring this information to the Committee for informational purposes, but recommend not yet forwarding these financial statements to the School Board.

26 Schools Without Significant Fiscal Issues

- Academir Charter School West
- Archimedean Academy
- Archimedean Middle Conservatory
- Archimedean Upper Conservatory
- Aventura City of Excellence School
- Bridgepoint Academy Charter School
- City of Hialeah Education Academy
- Doctors Charter School of Miami Shores
- Downtown Miami Charter School
- Early Beginnings Academy Civic Center
- Florida International Academy

- Florida International Elementary Academy
- Florida SiaTech School for Integrated Academics and Tech Charter School
- Lawrence Academy Middle School
- Lawrence Academy Elementary School
- Lawrence Academy Senior High
- Miami Arts Charter School
- Miami Children's Museum Charter School
- Miami Community Charter High School
- Miami Community Charter Middle School
- Richard Allen Leadership Academy
- River Cities Community Charter School
- South Florida Autism Charter School
- Summerville Advantage Academy
- The Charter School at Waterstone
- Youth Co-op Charter School

The full audited statements and correspondence, if any, can be found at http://mca.dadeschools.net/CBO_Charter_1112.asp. We recommend forwarding the financial statements to the School Board for their information.

Should you have any questions, please call me or Mr. Julio C. Miranda, CPA, CFE, Assistant Chief Auditor, at 305-995-1314.

Sincerely,



Jose F. Montes de Oca, CPA, Chief Auditor
Office of Management and Compliance Audits

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cc: School Board Members
Mr. Alberto M. Carvalho
Mr. Walter J. Harvey
Mr. Freddie Woodson
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