

**MIAMI ARTS, INC.
A CHARTER SCHOOL AND COMPONENT UNIT OF THE
DISTRICT SCHOOL BOARD OF
MIAMI-DADE COUNTY, FLORIDA**

**FINANCIAL STATEMENTS
WITH INDEPENDENT AUDITORS' REPORTS THEREON**

JUNE 30, 2013

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MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the annual financial report of Miami Arts, Inc. (the "School") presents Management's Discussion and Analysis, which is intended to provide an overview of the School's financial position and changes in financial position for the fiscal year ended June 30, 2013.

Since the focus of the Management's Discussion and Analysis (MD&A) is on the current year activities, resulting changes and currently known facts, it should be read in conjunction with the School's financial statements, including the accompanying notes. Additionally, as a required part of the MD&A, comparative information for the current and the prior year is presented for financial analysis to enhance the understanding of the School's financial performance.

FINANCIAL HIGHLIGHTS

- For the year ended June 30, 2013, the School's expenses exceeded revenues by \$56,479. This is an increase from the prior year when expenses exceeded revenues by \$12,717.
- Overall, the School's revenues increased to \$4,086,042, or 1% over the prior year amount of \$4,026,622. The increase in revenues was primarily due to an increase in the per student funding provided by the Florida Education Finance Program ("FEFP").
- Overall, the School's expenses increased to \$4,142,521, or 3% over the prior year amount of \$4,039,339. This increase in expenses is primarily due to increases in certain expenditures for functions such as facilities acquisition and construction, operation of plant, and pupil personnel services.
- The School reduced its noncurrent liability from \$313,000 to \$120,000.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts – Management's Discussion and Analysis (this section), the basic financial statements and the notes thereto, and required supplementary information. The basic financial statements include two kinds of statements that present different views of the School:

- The first two statements are *government-wide financial statements* that provide both noncurrent and short-term information about the School's overall financial status.
- The remaining statements are *fund financial statements* that focus on individual parts of the School, reporting the School's operations in more detail than the government-wide statements.
 - The *governmental funds* financial statements tell how general school services were financed in the short term, as well as what remains for future spending.

The financial statements also include *notes* that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of *required supplementary information* that further explains and supports the information in the financial statements.

This document also includes the independent auditors' report on compliance and internal control required by *Government Auditing Standards*, as well as the management letter required by the Rules of the Auditor General, Chapter 10.850, *Audits of Charter Schools and Similar Entities*.

The following table summarizes the major features of the School's financial statements, including the portion of the School they cover and the types of information they contain. The remainder of this overview section of management's discussion and analysis explains the structure and contents of each of the statements.

Scope	Government-wide Statements	Fund Statements
		Governmental Funds
	Entire School	The activities of the School that are not proprietary or fiduciary
Required financial statements	Statement of net position Statement of activities	Balance sheet Statement of revenues, expenditures and changes in fund balances
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, and short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets included
Type of inflow/outflow information	All revenues and expenses during the year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and payment is due during the year or soon thereafter

Government-wide Financial Statements

The government-wide financial statements report information about the School as a whole using accounting methods similar to those used by private-sector companies. The statement of net position includes all of the School's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities, regardless of when cash is received or paid.

The two government-wide financial statements report the School's net position and how they have changed. Net position – the difference between the School's assets and liabilities – is one way to measure the School's financial condition. Over time, increases or decreases in the School's net position are an indicator of whether its financial condition is improving or deteriorating, respectively. To assess the overall health of the School, one needs to consider additional nonfinancial factors such as changes in the School's student base.

The government-wide financial statements of the School are generally divided into three categories:

- *Governmental activities* – most of the School's basic services are included here, such as instruction and school administration. Funds received through the Florida Education Finance Program ("FEFP") and state and federal grants finance most of these activities.
- *Business-type activities* – in certain instances, the School may charge fees to help it cover the costs of certain services it provides. The School currently has no major business-type activities.
- *Component units* – there currently are no component units included within the reporting entity of the School.

Fund Financial Statements

The fund financial statements provide more detailed information about the School's most significant funds, not the School as a whole. A fund is a self-balancing set of accounts which the School uses to keep track of specific sources of funding and spending for particular purposes. Some funds are required by state law, and the School may establish other funds to control and manage money for particular purposes, such as for federal grants.

The School has the following types of funds:

- *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.
- *Special Revenue Fund* – accounts for specific revenue, such as federal grants and capital outlay grants that are legally restricted to expenditures for particular purposes.

FINANCIAL ANALYSIS OF THE SCHOOL AS A WHOLE

Net Position

The following table provides a comparative analysis of the School's net position for the fiscal years ended June 30, 2013 and 2012:

	Governmental Activities		Increase (Decrease)
	2013	2012	
Current and other assets	\$ 392,431	\$ 503,227	\$ (110,796)
Capital assets, net	322,054	408,427	(86,373)
Total assets	<u>714,485</u>	<u>911,654</u>	<u>(197,169)</u>
Current and other liabilities	548,231	495,921	52,310
Noncurrent Liability – Related Party	120,000	313,000	(193,000)
Total liabilities	<u>668,231</u>	<u>808,921</u>	<u>(140,690)</u>
Net position:			
Net investment in capital assets	202,054	95,427	106,627
Unrestricted (deficit)	(155,800)	7,306	(163,106)
Total net position	<u>\$ 46,254</u>	<u>\$ 102,733</u>	<u>\$ (56,479)</u>

At June 30, 2013, the School's total assets were approximately \$714,000 and total liabilities were approximately \$668,000. The School's assets and liabilities declined primarily as result of depreciation and amortization, and the use of resources to reduce the noncurrent liability, respectively.

The School's net position totaled approximately \$46,000, which is comprised of approximately \$202,000 that represents the School's net investment in capital assets (leasehold improvements, furniture, fixtures and equipment), and the unrestricted deficit of approximately \$156,000.

For fiscal year ended June 30, 2013, the decrease in current and other assets was due to a lower cash balance resulting primarily from the payment of the noncurrent liability. The increase in current and other liabilities resulted from an increase in the lease deposit due. The decrease in net capital assets was the result of depreciation and amortization expense, which during the fiscal year 2012, the School's estimated useful lives of leasehold improvements were changed from 10 to 4 years or the remaining lease term. This change was due upon Management's determination that the leasehold improvements would not have a useful life of 10 years. The decrease in noncurrent liability resulted from the payments of principal balances that were made.

Change in Net Position

The following table summarizes the changes in the School's net position from its activities for the fiscal years ended June 30, 2013 and 2012:

	Governmental Activities		Amount	%
	2013	2012	Increase (Decrease)	Change
Revenues:				
Federal sources	\$ -	\$ 67,454	\$ (67,454)	-100%
State and local sources	4,074,173	3,774,187	299,986	8%
Contributions and other revenue	11,869	184,981	(173,112)	-94%
Total revenues	4,086,042	4,026,622	59,420	1%
Expenses:				
Instruction and instruction-related services	1,732,610	1,776,925	(44,315)	-2%
Pupil personnel services	202,450	147,538	54,912	37%
Board	6,500	14,705	(8,205)	-56%
General administration	50,783	69,651	(18,868)	-27%
School administration	516,590	453,508	63,082	14%
Facilities acquisition and construction	890,893	835,516	55,377	7%
Fiscal services	78,845	57,287	21,558	38%
Food services	7,340	19,693	(12,353)	-63%
Central services	47,810	40,322	7,488	19%
Pupil transportation	2,355	19,998	(17,643)	-88%
Operation of plant	333,879	278,447	55,432	20%
Maintenance of plant	106,063	134,020	(27,957)	-21%
Instructional related	50,402	51,889	(1,487)	-3%
Unallocated depreciation and amortization expense	116,001	139,840	(23,839)	-17%
Total expenses	4,142,521	4,039,339	103,182	3%
Change in net position	\$ (56,479)	\$ (12,717)	\$ (43,762)	

As reflected, total expenses were approximately \$4,140,000, of which depreciation and amortization expense was approximately \$116,000. The majority of the funding was provided through State and Local sources.

The increase in revenues resulted primarily from an increase in FEFP.

The decrease in expenses for instruction and instruction related services was due to certain student instructional activities expenses that are no longer considered general fund expenses, but instead are activities related to internal funds. The increase in pupil personnel services was due to the hiring of an additional counselor. The decrease in general administration was primarily the result of a reduction of the district administration fees resulting from the School being declared a high performing school. The increase in school administration was primarily result of management fees incurred. The increase in facilities acquisition and construction was primarily the result of a scheduled rent increase. The increase in fiscal services resulted from additional staffing in the School's fiscal department. The reduction in maintenance of plant was the result of additional repairs, which occurred in the previous year. The decrease in the depreciation expense resulted from certain assets being fully depreciated for fiscal 2013.

FINANCIAL ANALYSIS OF THE SCHOOL'S FUNDS

As noted earlier, the School uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. Financial information is presented separately in the Balance Sheet and in the Statement of Revenues, Expenditures, and Changes in Fund Balance.

As the School completed the year, its governmental funds reported a combined fund balance deficit of approximately \$155,800, which was a reduction of approximately \$163,000 from that of the prior year. The decrease in the governmental fund net position was mainly the result of the payment of \$193,000 of noncurrent liabilities, capital outlay expenditures of approximately \$30,000, and additional expenditures mentioned above under the section change in net position.

General Fund Budgetary Highlights

Over the course of the year, the School did not significantly revise the operating budget. Budget amendments, if necessary, generally fall into two categories:

- Changes made to account for changes in student enrollment.
- Increases in appropriations to prevent certain budget overruns.

For the year ended June 30, 2013, actual general fund revenues were approximately \$217,000 over the final budgeted amounts, which represents a 6% budget variance. This variance is primarily due to additional FEFP funding that was not included with the original budget. Actual general fund expenditures were approximately \$399,000 over the final budgeted amounts primarily due to expenditures for instruction, general, and school administrative expenses that were not anticipated when finalizing the budget. In total the final budget variance with regards to general fund expenditures was 11%.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

As of June 30, 2013, the School has invested \$706,852 in a broad range of capital assets, including leasehold improvements and furniture, fixtures and equipment (see table below).

	Governmental Activities		Increase
	2013	2012	(Decrease)
Leasehold improvements	\$ 214,822	\$ 198,687	\$ 16,135
Furniture, fixtures and equipment	492,030	478,537	13,493
Total capital assets	<u>\$ 706,852</u>	<u>\$ 677,224</u>	<u>\$ 29,628</u>

This year's major capital asset additions were the following:

- Computer and office equipment \$4,047
- Musical instruments (equipment) \$9,446
- Photography room and other leasehold improvements \$16,135

There were no capital asset disposals in the current year. The School's fiscal year 2014 capital budget does not include significant spending for capital assets. More detailed information about the School's capital assets is presented in Note 2 to the financial statements.

Noncurrent Liability

At year-end, the balance on the noncurrent liability, which is comprised of a note payable to the School's management company, was \$120,000. During the year, the School made principal payments of \$193,000 to reduce the outstanding balance on the note. In prior years, the School used the proceeds of the note payable to renovate its leased school facility and to purchase furniture, technology, instruments, and other equipment to begin School operations. More detailed information about the School's noncurrent liability is presented in Note 4 to the financial statements.

ECONOMIC FACTORS

As a Charter School, the School receives most of its funding from FEFP, which are primarily State funds. The State of Florida, by constitution, does not have a state personal income tax and therefore, the state operates primarily using sales, gasoline and corporate income taxes. Despite a slow economic recovery and continued funding challenges, the School, through its fiscal management, continues to provide the quality education deserved by its students.

CONTACTING THE SCHOOL'S FINANCIAL MANAGEMENT

This financial report is designed to provide interested parties with a general overview of the School's finances and to demonstrate the School's accountability for the money it receives. Should additional information be required, please contact the School's administrative offices at 3900 Biscayne Boulevard, Miami, Florida 33137.

Sotolongo & Associates, P.A.

Certified Public Accountants

Report of Independent Auditors on Basic Financial Statements and Supplementary Information

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the major fund, and the aggregate remaining fund balance of Miami Arts, Inc. (the "School"), a charter school and component unit of the District School Board of Miami-Dade County, Florida, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise 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.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statement 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 from material misstatements.

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 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 opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the major fund and the aggregate remaining fund balance of Miami Arts, Inc. as of June 30, 2013, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison schedules on pages 1 through 7, and 27 and 28, respectively, 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated August 28, 2013, 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 and 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* in considering Miami Arts, Inc.'s internal control over financial reporting and compliance.

A handwritten signature in blue ink that reads "Sotolongo & Associates, P.A.".

Miami, Florida
August 28, 2013

MIAMI ARTS, INC.
A CHARTER SCHOOL AND COMPONENT UNIT OF
THE DISTRICT SCHOOL BOARD OF MIAMI-DADE COUNTY, FLORIDA

STATEMENT OF NET POSITION

JUNE 30, 2013

		<u>Governmental Activities</u>
ASSETS		
Cash		\$ 104,409
Receivable - capital outlay		10,020
Prepaid expenses and other receivable		4,564
Security deposit		273,438
Capital Assets:		
Leasehold improvements	\$ 214,822	
Furniture, fixtures and equipment	492,030	
	<u>706,852</u>	
Less accumulated depreciation and amortization	<u>(384,798)</u>	
Total capital assets, net		<u>322,054</u>
Total assets		<u><u>\$ 714,485</u></u>
LIABILITIES		
Salaries payable and accrued expenses		\$ 274,793
Obligation under lease		273,438
Noncurrent Liability:		
Note payable – Related Party:		
Portion scheduled for payment within one year		<u>120,000</u>
Total liabilities		<u>668,231</u>
NET POSITION		
Net investment in capital assets		202,054
Unrestricted (deficit)		<u>(155,800)</u>
Total net position		<u>46,254</u>
Total liabilities and net position		<u><u>\$ 714,485</u></u>

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

MIAMI ARTS, INC.
A CHARTER SCHOOL AND COMPONENT UNIT OF
THE DISTRICT SCHOOL BOARD OF MIAMI-DADE COUNTY, FLORIDA

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2013

		Program Revenues			Net (Expense) Revenue and Changes in Net Position	
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Total
Governmental activities:	Expenses					
Instruction and instruction-related services	\$ 1,732,610	\$ -	\$ -	\$ -	\$ (1,732,610)	\$ (1,732,610)
Pupil personnel services	202,450	-	-	-	(202,450)	(202,450)
Board	6,500	-	-	-	(6,500)	(6,500)
General administration	50,783	-	-	-	(50,783)	(50,783)
School administration	516,590	-	-	-	(516,590)	(516,590)
Facilities acquisition and construction	890,893	-	-	224,463	(666,430)	(666,430)
Fiscal services	78,845	-	-	-	(78,845)	(78,845)
Food services	7,340	-	-	-	(7,340)	(7,340)
Central services	47,810	-	-	-	(47,810)	(47,810)
Pupil transportation	2,355	-	-	-	(2,355)	(2,355)
Operation of plant	333,879	-	-	-	(333,879)	(333,879)
Maintenance of plant	106,063	-	-	-	(106,063)	(106,063)
Instructional related technology	50,402	-	-	-	(50,402)	(50,402)
Unallocated depreciation and amortization expense	116,001	-	-	-	(116,001)	(116,001)
Total governmental activities	<u>\$ 4,142,521</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 224,463</u>	<u>\$ (3,918,058)</u>	<u>\$ (3,918,058)</u>
General revenues:						
State and local sources					3,849,710	3,849,710
Contributions and other revenue					11,869	11,869
Total general revenues					<u>3,861,579</u>	<u>3,861,579</u>
Change in net position					(56,479)	(56,479)
Net position at beginning of year					<u>102,733</u>	<u>102,733</u>
Net position at end of year					<u>\$ 46,254</u>	<u>\$ 46,254</u>

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

MIAMI ARTS, INC.
A CHARTER SCHOOL AND COMPONENT UNIT OF
THE DISTRICT SCHOOL BOARD OF MIAMI-DADE COUNTY, FLORIDA

BALANCE SHEET – GOVERNMENTAL FUNDS

JUNE 30, 2013

	<u>General Fund</u>
ASSETS	
Cash	\$ 104,409
Receivable - capital outlay	10,020
Prepaid expenses and other receivable	4,564
Security deposit	<u>273,438</u>
Total assets	<u><u>\$ 392,431</u></u>
LIABILITIES AND FUND BALANCE (DEFICIT)	
Salaries payable and accrued expenditures	\$ 274,793
Obligation under lease	<u>273,438</u>
Total liabilities	<u>548,231</u>
Fund balance (deficit):	
Nonspendable	4,564
Unassigned	<u>(160,364)</u>
Total fund balance (deficit)	<u>(155,800)</u>
Total liabilities and fund balance (deficit)	<u><u>\$ 392,431</u></u>

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

MIAMI ARTS, INC.
A CHARTER SCHOOL AND COMPONENT UNIT OF
THE DISTRICT SCHOOL BOARD OF MIAMI-DADE COUNTY, FLORIDA

RECONCILIATION OF THE GOVERNMENTAL FUND BALANCE SHEET TO THE
STATEMENT OF NET POSITION

JUNE 30, 2013

Total fund balance (deficit) – governmental fund	\$ (155,800)
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Amounts reported for governmental activities in the statement of net position are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds.

The cost of capital assets is:	\$ 706,852	
Related accumulated depreciation is:	<u>(384,798)</u>	
Total capital assets, net		322,054

The noncurrent liability is not due and payable in the current period and, therefore, is not reported as a liability in the governmental fund.
The noncurrent liability at year-end consisted of:

Note payable – Related Party: (all scheduled payments)	<u>(120,000)</u>
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Total net position – governmental activities	<u>\$ 46,254</u>
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The accompanying notes to financial statements are an integral part of this statement.

MIAMI ARTS, INC.
A CHARTER SCHOOL AND COMPONENT UNIT OF
THE DISTRICT SCHOOL BOARD OF MIAMI-DADE COUNTY, FLORIDA

STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES – GOVERNMENTAL FUNDS

FOR THE YEAR ENDED JUNE 30, 2013

	General Fund	Other Governmental Funds	Total Governmental Funds
REVENUES			
State and local sources	\$ 3,849,710	\$ 224,463	\$ 4,074,173
Contributions and other revenue	11,869	-	11,869
Total revenues	<u>3,861,579</u>	<u>224,463</u>	<u>4,086,042</u>
EXPENDITURES			
Current:			
Instruction and instruction-related services	1,732,610	-	1,732,610
Pupil personnel services	202,450	-	202,450
Board	6,500	-	6,500
General administration	50,783	-	50,783
School administration	516,590	-	516,590
Facilities acquisition and construction	666,430	224,463	890,893
Fiscal services	78,845	-	78,845
Food services	7,340	-	7,340
Central services	47,810	-	47,810
Pupil transportation	2,355	-	2,355
Operation of plant	333,879	-	333,879
Maintenance of plant	106,063	-	106,063
Instructional related technology	50,402	-	50,402
Capital outlay	29,628	-	29,628
Redemption of noncurrent debt	193,000	-	193,000
Total expenditures	<u>4,024,685</u>	<u>224,463</u>	<u>4,249,148</u>
Net changes in fund balances	(163,106)	-	(163,106)
Fund balance at beginning of year	<u>7,306</u>	<u>-</u>	<u>7,306</u>
Fund balance at end of year	<u><u>\$ (155,800)</u></u>	<u><u>\$ -</u></u>	<u><u>\$ (155,800)</u></u>

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

**MIAMI ARTS, INC.
A CHARTER SCHOOL AND COMPONENT UNIT OF
THE DISTRICT SCHOOL BOARD OF MIAMI-DADE COUNTY, FLORIDA**

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES**

FOR THE YEAR ENDED JUNE 30, 2013

Net changes in fund balances – total governmental funds	\$ (163,106)
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Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report repayment of noncurrent debt and capital outlays as expenditures. In the statement of activities, the cost of capital acquisitions are allocated over their estimated useful lives and reported as depreciation expense. In addition, repayments of noncurrent debt are applied to reduce to noncurrent debt reflected.

The amount by which capital outlays and repayment of noncurrent debt exceeds depreciation and amortization expense is calculated as follows:

Capital outlays	\$ 29,628	
Repayment of noncurrent debt	193,000	
Depreciation expense	<u>(116,001)</u>	
		<u>106,627</u>
Change in net position of governmental activities		<u><u>\$ (56,479)</u></u>

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

**MIAMI ARTS, INC.
A CHARTER SCHOOL AND COMPONENT UNIT OF
THE DISTRICT SCHOOL BOARD OF MIAMI-DADE COUNTY, FLORIDA**

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013

NOTE – 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

Miami Arts, Inc. (the "School") is a not-for-profit corporation organized pursuant to Chapter 617, Florida Statutes, the Florida Not For Profit Corporation Act and Section 1002.33, Florida Statutes. The governing body of the School is the not-for-profit corporation Board of Directors. The School began operations in fiscal 2010.

The general operating authority of the School is contained in Section 1002.33, Florida Statutes. The School operates under a charter of the sponsoring school district, the District School Board of Miami-Dade County, Florida (the "School District"). The current charter is effective until June 30, 2014, and may be renewed by mutual written agreement between the School and the School District. At the end of the term of the charter, the School District may choose not to renew the charter under grounds specified in the charter. In this case, the School District is required to notify the School in writing at least 90 days prior to the charter's expiration. During the term of the charter, the School District may also terminate the charter if good cause is shown. In the event of termination of the charter, any property purchased by the School with public funds and any unencumbered public funds revert back to the School District. The School is considered a component unit of the School District and meets the definition of a governmental entity under the Governmental Accounting Standards Board's ("GASB") accounting guidance; therefore, for financial reporting purposes, the School is required to follow generally accepted accounting principles applicable to state and local governmental units.

Criteria for determining if other entities are potential component units of the School which should be reported with the School's basic financial statements are identified and described in the GASB *Codification of Governmental Accounting and Financial Reporting Standards*. The application of these criteria provides for identification of any entities for which the School is financially accountable and other organizations for which the nature and significance of their relationship with the School are such that exclusion would cause the School's basic financial statements to be misleading or incomplete. Based on these criteria, no component units are included within the reporting entity of the School.

Recent accounting pronouncements

The School adopted guidance issued by the GASB that established fund balance classifications that comprise a hierarchy based primarily on the extent to which an entity is bound to observe constraints imposed upon the use of the resources reported in governmental funds. This guidance improves the usefulness of fund balance information by clarifying the definitions of existing governmental fund types and providing additional classifications of fund balance.

**MIAMI ARTS, INC.
A CHARTER SCHOOL AND COMPONENT UNIT OF
THE DISTRICT SCHOOL BOARD OF MIAMI-DADE COUNTY, FLORIDA**

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013 (Continued)

The School implemented Governmental Accounting Standards Board (GASB) Statements 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position, and 65, Items Previously Reported as Assets and Liabilities, in the fiscal year ending June 30, 2013. In accordance with GASB Statement 63, the Statement of Net Assets has been replaced with the Statement of Net Position. Items on the Statement of Net Position are now classified into Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Net Position.

Basis of presentation

The School's financial statements have been prepared in accordance with generally accepted accounting principles as prescribed by the GASB. Accordingly, both government-wide and fund financial statements are presented.

The government-wide financial statements report information about the School as a whole using accounting methods similar to those used by private-sector companies. The statement of net position includes all of the School's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The government-wide financial statements of the School are generally divided into three categories:

- *Governmental activities* – most of the School's basic services are included here, such as instruction and school administration. Funds received through the Florida Education Finance Program ("FEFP") and state and federal grants finance most of these activities.
- *Business-type activities* – in certain instances, the School may charge fees to help it cover the costs of certain services it provides. The School currently has no business-type activities.
- *Component units* – there currently are no component units included within the reporting entity of the School.

The fund financial statements provide more detailed information about the School's most significant funds, not the School as a whole. A fund is an accounting entity having a self-balancing set of accounts for recording assets, liabilities, fund balance, revenues, expenditures, and other financing sources and uses. Resources are allocated to and accounted for in individual funds based on the purposes for which they are to be spent and the means by which spending activities are controlled. The funds in the financial statements of this report are as follows:

Governmental Funds:

- General Fund – to account for all financial resources not required to be accounted for in another fund.
- Special Revenue Fund – to account for the proceeds of specific revenue sources, such as Federal grants and capital outlay grants that are restricted by law or administrative action to expenditure for specific purposes.

For purposes of these statements, the general fund constitutes a major fund. The special revenue fund and capital outlay fund are considered non-major and are presented as the other governmental funds.

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NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013 (Continued)

Basis of accounting

Basis of accounting refers to when revenues and expenses/expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

The government-wide financial statements are presented using the accrual basis of accounting and an economic resources focus. Revenues and expenses are recognized when they occur.

The modified accrual basis of accounting and current financial resources focus is followed by the governmental funds. Under the modified accrual basis, revenues are recognized when they become measurable and available. Available means collectible within the current year or soon enough thereafter to pay current liabilities. The School considers revenues to be available if they are collected within 60 days of the end of the fiscal year. Under the modified accrual basis of accounting, expenditures are generally recognized when the related fund liability is incurred. The principal exceptions to this general rule are: (1) interest on general noncurrent debt is recognized when due and (2) expenditures related to liabilities reported as general noncurrent debt are recognized when due.

Use of estimates

In preparing the financial statements, Management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the statement of net position and affect revenues and expenditures for the year presented. Actual results could differ significantly from those estimates.

Budgetary basis accounting

Budgets are presented on the modified accrual basis of accounting. During the fiscal year, expenditures were controlled at the object level (e.g., salaries, purchased services and capital outlay).

Cash

The School's cash consists primarily of demand deposits with financial institutions. All amounts are fully insured within the Federal Deposit Insurance Corporation limits.

Receivable – capital outlay

Receivable – capital outlay at June 30, 2013, consists of amounts receivable under capital outlay grants. An allowance for doubtful accounts was not considered necessary.

**MIAMI ARTS, INC.
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NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013 (Continued)

Capital assets, depreciation and amortization

Expenditures for capital assets acquired for general School purposes are reported in the governmental fund that financed the acquisition. Purchased capital assets are reported at cost, net of accumulated depreciation and amortization, in the government-wide financial statements. For purposes of recording capital assets, the School has a capitalization threshold of \$1,000. The School considers all capital assets to be shared by all functions; therefore depreciation and amortization expense is not directly allocated but is presented in the statement of activities as unallocated depreciation and amortization expense. Depreciation and amortization are computed using the straight-line method over the estimated useful lives of the assets, which is generally 4 years or the remaining lease term for leasehold improvements, and 4 to 10 years furniture, fixtures, and equipment.

Additional information relative to changes in capital assets is described in Note 2.

Income taxes

The School is in the process of applying to become an organization exempt from income taxation under Section 501(a) as an entity described in 501(c)(3) of the Internal Revenue Code of 1986, as amended. As of the issuance date of these financial statements, the School had not received a tax exempt status final determination letter from the Internal Revenue Service ("IRS"). Management believes that the School will be approved and considered tax exempt for the fiscal year ended June 30, 2013. If the School is not recognized as tax exempt by the IRS, it may have to file its tax returns as a C corporation. Management believes that any future tax liabilities, which may result from having to file the current and prior year tax returns as a C corporation will not be material to the financial statements taken as a whole, as the School has tax net operating losses, which are available to offset any current taxable income. In addition, Management believes that because the School will be recognized as a tax exempt entity, any deferred tax assets generated during current and prior fiscal years as a result of available net operating losses will not be available to offset future taxable income, since the School does not anticipate to have any unrelated business income tax due. Due to the reasons described above, the School did not record a provision for income taxes.

The School has adopted guidance related to accounting for uncertainty in income taxes, which prescribes a recognition threshold and measurement attribute for financial statement recognition and measurement of a tax position that an entity takes or expects to take in a tax return. This guidance is applicable to not-for-profit organizations that may be conducting unrelated business activities, which are potentially subject to income taxes, including state income taxes. The School assesses its income tax positions, including its expected tax status as a not-for-profit entity, and recognizes tax benefits only to the extent that the School believes it is "more likely than not" that its tax positions will be sustained upon an examination by the Internal Revenue Service or the applicable state taxing authority. The School believes all tax positions, including its expected status as a not-for-profit entity, have a greater than 50% chance of realization in the event of an IRS examination. State income taxes, which may be due in certain jurisdictions, have been evaluated following the same "more likely than not" measurement threshold. The School has not accrued any interest and or penalties related to income taxes. Currently all of the School's tax years since its organization are open to an IRS examination.

**MIAMI ARTS, INC.
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NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013 (Continued)

Noncurrent liability

Noncurrent obligations that will be financed by resources to be received in the future by the General Fund are reported in the government-wide financial statements, not in the General Fund. Changes in the noncurrent liability for the current year are reported in Note 4.

Revenue sources

Revenues for current operations are received primarily from the District School Board of Miami-Dade County, Florida pursuant to the funding provisions included in the School's charter. As such, the School's revenue stream is largely dependent upon the general state of the economy and the amounts allotted to the Florida Department of Education ("FDOE") by the state legislature. In accordance with the funding provisions of the charter and Section 1002.33(18), Florida Statutes, the School reports the number of full-time equivalent students and related data to the School Board.

Under the provisions of Section 1011.62, Florida Statutes, the School District reports the number of full-time equivalent students and related data to the FDOE for funding through the Florida Education Finance Program ("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. The School District receives an administrative fee from the School, which is reflected as a general administration expense/expenditure in the accompanying statement of activities and statement of revenues, expenditures and changes in fund balances – governmental funds. This administrative fee is calculated on the FEFP revenue up to 250 students. The difference between the actual fee and the fee as calculated on total FEFP for fiscal 2012 was approximately \$91,000 and was expended for capital outlay expenditures as required.

The School may receive federal awards for the enhancement of various educational programs. This assistance is 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.

Net Position and Fund Balance Classifications

Government-wide financial statements

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

1. Net investment in capital assets – consists of capital assets net of accumulated depreciation and amortization, and reduced by the outstanding balances of any borrowings that are attributable to the acquisition or improvement of those assets.
2. 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. Management believes there are no restrictions on net position.

**MIAMI ARTS, INC.
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NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013 (Continued)

3. Unrestricted net position – all other net position that do not meet the definition of "restricted" or "net investment in capital assets."

Fund Financial Statements

Generally accepted accounting principles define the different types of fund balances that a governmental entity must use for financial reporting purposes. Fund balance amounts are to be properly reported within one of the fund balance categories listed below:

1. Nonspendable – fund balance associated with inventories, prepaid expenses, noncurrent loans, and notes receivable, and property held for sale (unless the proceeds are restricted committed or assigned). All nonspendable fund balances at year end relate to assets not in spendable form.
2. Restricted – fund balance associated with amounts that can be spent only for the specific purpose stipulated by constitution, external resource providers, or through enabling legislation. At June 30, 2013, the School did not have any restricted fund balances.
3. 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. At June 30, 2013, the School did not have any committed fund balances.
4. 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. At June 30, 2013, the School did not have assigned fund balances.
5. Unassigned – fund balance classification is the residual classification for the School's general fund and includes all spendable amounts not contained in the other classifications.

Fund balance spending policy

The School's adopted spending policy is to spend from restricted fund balance first, followed by committed, assigned, and then the unassigned fund balance. Most funds were designated for one purpose at the time of their creation. Therefore, expenditures made out of the fund will be allocated to the applicable fund balance classifications in the order of the aforementioned spending policy. If expenditures are incurred that meet the purpose of more than one fund, they will be allocated to restricted fund balance first and then follow the order above. Funds can only be committed by formal action of the Board. The Board has delegated authority to the Principal to assign funds up to the amount of \$50,000. There are no minimum fund balance requirements for any of the School's funds.

**MIAMI ARTS, INC.
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NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013 (Continued)

Deferred outflows/inflows of resources

In addition to assets, the statement of financial 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 expense or expenditure until then. The School has no items that meet this criterion. In addition to liabilities, the statement of financial 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 revenue until then. The School has no items that meet this criterion.

Subsequent events

The School has adopted guidance that requires the disclosure of the date through which an entity has evaluated subsequent events and the basis for that date (that is, whether that date represents the date the financial statements were issued or were available to be issued). The School has evaluated subsequent events through August 28, 2013, which is the date the financial statements were available to be issued.

NOTE – 2 CHANGES IN CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2013 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental activities:				
Leasehold improvements	\$ 198,687	\$ 16,135	\$ -	\$ 214,822
Furniture, fixtures and equipment	<u>478,537</u>	<u>13,493</u>	<u>-</u>	<u>492,030</u>
Total capital assets at historical cost	<u>677,224</u>	<u>29,628</u>	<u>-</u>	<u>706,852</u>
Less accumulated depreciation and amortization for:				
Leasehold improvements	(126,367)	(57,489)	-	(183,856)
Furniture, fixtures and equipment	<u>(142,430)</u>	<u>(58,512)</u>	<u>-</u>	<u>(200,942)</u>
Total accumulated depreciation and amortization	<u>(268,797)</u>	<u>(116,001)</u>	<u>-</u>	<u>(384,798)</u>
Governmental activities capital assets, net	<u>\$ 408,427</u>	<u>\$ (86,373)</u>	<u>\$ -</u>	<u>\$ 322,054</u>

Depreciation and amortization expense is not charged by function, but is included in the statement of activities as unallocated depreciation and amortization expense.

MIAMI ARTS, INC.
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NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013 (Continued)

NOTE – 3 SCHEDULES OF FEDERAL, STATE AND LOCAL REVENUE SOURCES

The following are schedules of federal, state and local revenue sources for the year ended June 30, 2013:

State and Local Sources

District School Board of Miami-Dade County, Florida:

Florida Education Finance Program	\$ 2,538,689
Class size reduction	642,860
Capital outlay	224,463
Supplemental academic instruction	232,318
State fiscal stabilization funds	236,499
ESE guaranteed allocation	49,084
Instructional and science lab materials	53,211
School recognition	61,764
Safe schools	19,428
Other	12,372
EEC Allocation	3,485
	<hr/>
Total	<u><u>\$ 4,074,173</u></u>

NOTE – 4 NONCURRENT LIABILITY (NOTE PAYABLE – RELATED PARTY)

The noncurrent liability consists of a note payable to New Way Schools, Inc. ("NWS"), a Florida corporation. NWS is a related party, as the Director and Founder of the School is also the President of NWS. The note payable is secured by certain capital assets owned by the School. During 2010, the School used this debt for the renovation of its leased school facility, and also to make purchases of certain furniture, fixtures and equipment necessary for the commencement of the School's operations. The original terms of the note include scheduled monthly principal only payments of \$7,267, beginning in May 2009 with the remaining principal balance due in or before April 2014. There is no stated rate of interest. In order to assist the School with cash flow needs, NWS allows the School from time-to-time to defer the scheduled principal payments on the note payable. See Note 7, for additional information and transactions pertaining to NWS.

**MIAMI ARTS, INC.
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NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013 (Continued)

Activity during the fiscal year ending June 30, 2013 was as follows:

Balance outstanding at beginning of year	\$ 313,000
Additions	-
Reductions	<u>(193,000)</u>
Balance outstanding at end of year	<u>\$ 120,000</u>
Amount scheduled to be paid within one year	<u>\$ 120,000</u>

Future scheduled payments related to the noncurrent liability are as follows:

<u>Year ending</u> <u>June 30,</u>	<u>Principal</u>
2014	<u>\$ 120,000</u>

NOTE – 5 RISK MANAGEMENT PROGRAM

Workers' compensation coverage, health and hospitalization, general liability, professional liability and property coverage are being provided through purchased commercial insurance with minimum deductibles for each line of coverage. Settled claims resulting from these risks have not historically exceeded commercial coverage.

**MIAMI ARTS, INC.
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NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013 (Continued)

NOTE – 6 COMMITMENTS AND CONTINGENT LIABILITIES

The School receives a majority of its funding from the School 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 participates in a number of federal, state and local grants which are subject to financial and compliance audits. It is the opinion of management that the amount of revenue, 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.

Legal matters

In the normal course of conducting its operations, the School occasionally becomes party to various legal actions and proceedings. In the opinion of Management, the ultimate resolution of such legal matters will not have a significant adverse effect on the accompanying financial statements.

Lease commitments

The School leases its school facility under a noncancelable five-year operating lease. This lease contains a five-year renewal option and requires the School to pay insurance and other costs. Aggregate remaining minimum rental commitments as of June 30, 2013 under this lease are summarized as follows:

Year ending June 30,	Amount
2014	\$ 895,000
2015	74,583
Total	<u>\$ 969,583</u>

Rental expense/expenditure for the year ended June 30, 2013 was approximately \$891,000, and is reflected under the functional category facilities acquisition and construction.

**MIAMI ARTS, INC.
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NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013 (Continued)

In addition to the future minimum lease payments above, the lease agreement also requires monthly payments in the amount of \$7,813 beginning on August 1, 2010 and continuing through July 1, 2014, which sums shall be retained by the lessor as security for the payment of rent by the School. As of June 30, 2013, the accumulated security deposit due of \$273,438 had not been paid and has been recorded as a liability in the accompanying financial statements.

In connection with the operating lease above, the School entered into a credit enhancement agreement with Charter Schools Development Corporation to provide a standby letter of credit to the landlord in the amount of \$375,000 as collateral security for the School's obligations pursuant to the lease. The credit enhancement agreement is guaranteed by the NWS.

NOTE – 7 RELATED PARTY TRANSACTIONS

New Way Schools, Inc.

The School has a management agreement with NWS, which is the related party and holder of the note payable described in Note 4. The management agreement is for NWS to provide certain educational and management services to the School. The Agreement calls for the School to pay NWS a management fee of 12% of the School's gross receipts, excluding any proceeds from borrowings undertaken by the School. In fiscal year 2013, the management fees incurred were \$50,000, and all other remaining management fees that were pertaining to the fiscal year were waived. The management fees are reflected as a school administration expense/expenditure in the accompanying statement of activities and statement of revenues, expenditures and changes in fund balances – governmental funds.

The School pays an administration fee to the School District of Miami-Dade County. During the year ended June 30, 2013, such administration fees totaled approximately \$51,000, and are reflected as a general administration expense/expenditure in the accompanying statement of activities and statement of revenues, expenditures and changes in fund balances – governmental funds.

MIAMI ARTS, INC.

**A CHARTER SCHOOL AND COMPONENT UNIT OF
THE DISTRICT SCHOOL BOARD OF MIAMI-DADE COUNTY, FLORIDA**

REQUIRED SUPPLEMENTARY INFORMATION

BUDGETARY COMPARISON SCHEDULE – GENERAL FUND

FOR THE YEAR ENDED JUNE 30, 2013

	<u>Budgeted Original</u>	<u>Budgeted Final</u>	<u>GAAP Actual</u>	Variance with Final Budget- Positive (Negative)
REVENUES				
State and local sources	\$ 3,644,797	\$ 3,644,797	\$ 3,849,710	\$ 204,913
Contributions and other revenue	-	-	11,869	11,869
Total revenues	<u>3,644,797</u>	<u>3,644,797</u>	<u>3,861,579</u>	<u>216,782</u>
EXPENDITURES				
Current:				
Instruction and instruction-related services	1,600,368	1,600,368	1,732,610	(132,242)
Pupil personnel services	258,435	258,435	202,450	55,985
Instruction and curriculum development	2,200	2,200	-	2,200
Board	12,000	12,000	6,500	5,500
General administration	65,721	65,721	50,783	14,938
School administration	366,648	366,648	516,590	(149,942)
Facilities acquisition and construction	614,240	614,240	666,430	(52,190)
Fiscal services	45,736	45,736	78,845	(33,109)
Food services	-	-	7,340	(7,340)
Central services	44,343	44,343	47,810	(3,467)
Pupil transportation	-	-	2,355	(2,355)
Operation of plant	287,219	287,219	333,879	(46,660)
Maintenance of plant	52,686	52,686	106,063	(53,377)
Instructional related technology	-	-	50,402	(50,402)
Capital outlay	-	-	29,628	(29,628)
Redemption of noncurrent debt	276,000	276,000	193,000	83,000
Total expenditures	<u>3,625,596</u>	<u>3,625,596</u>	<u>4,024,685</u>	<u>(399,089)</u>
Net changes in fund balance	<u>\$ 19,201</u>	<u>\$ 19,201</u>	(163,106)	<u>\$ (182,307)</u>
Fund balance at beginning of year			<u>7,306</u>	
Fund balance at end of year			<u>\$ (155,800)</u>	

See report of independent auditors.

MIAMI ARTS, INC.

**A CHARTER SCHOOL AND COMPONENT UNIT OF
THE DISTRICT SCHOOL BOARD OF MIAMI-DADE COUNTY, FLORIDA**

REQUIRED SUPPLEMENTARY INFORMATION

BUDGETARY COMPARISON SCHEDULE – SPECIAL REVENUE FUNDS

FOR THE YEAR ENDED JUNE 30, 2013

	<u>Budgeted Original</u>	<u>Budgeted Final</u>	<u>GAAP Actual</u>	<u>Variance with Final Budget- Positive (Negative)</u>
REVENUES				
State and local sources	<u>\$ 280,760</u>	<u>\$ 280,760</u>	<u>\$ 224,463</u>	<u>\$ (56,297)</u>
Total revenues	<u>280,760</u>	<u>280,760</u>	<u>224,463</u>	<u>(56,297)</u>
EXPENDITURES				
Current:				
Facilities acquisition and construction	<u>280,760</u>	<u>280,760</u>	<u>224,463</u>	<u>56,297</u>
Total expenditures	<u>280,760</u>	<u>280,760</u>	<u>224,463</u>	<u>56,297</u>
Net changes in fund balance	<u>\$ -</u>	<u>\$ -</u>	<u>-</u>	<u>\$ -</u>
Fund balance at beginning of year			<u>-</u>	
Fund balance at end of year			<u>\$ -</u>	

NOTES TO BUDGETARY COMPARISON SCHEDULES

The School's budgets presented in the accompanying budgetary comparison schedules are annually adopted, and prepared using the modified accrual basis of accounting, which is consistent with generally accepted accounting principles. Amendments to the School's budgets can only be made with the approval of the board of directors.

Sotolongo & Associates, P.A.

Certified Public Accountants

Report of Independent Auditors on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards

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

We have audited the accompanying financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of Miami Arts, Inc. (the "School"), a charter school and component unit of the District School Board of Miami-Dade County, Florida, as of and for the year ended June 30, 2013, 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 28, 2013.

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 (internal control) to determine 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 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 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting 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*.

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.

A handwritten signature in blue ink that reads "Sotolongo & Associates, P.A." in a cursive script.

Miami, Florida
August 28, 2013

ADDITIONAL INFORMATION REQUIRED BY
RULES OF THE AUDITOR GENERAL,
CHAPTER 10.850, *AUDITS OF CHARTER SCHOOLS AND SIMILAR
ENTITIES*

Sotolongo & Associates, P.A.

Certified Public Accountants

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

We have audited the financial statements of the governmental activities, the major fund and the aggregate remaining fund information of Miami Arts, Inc., a charter school and component unit of the District School Board of Miami-Dade County, Florida, as of and for the year ended June 30, 2013, and have issued our report thereon dated August 28, 2013.

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. We have issued our Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with *Government Auditing Standards*. Disclosures in that report, which is dated August 28, 2013, should be considered in conjunction with this management letter.

Additionally, our audit was conducted in accordance with Chapter 10.850, Rules of the Auditor General, which governs the conduct of charter school and similar entity audits performed in the State of Florida. This letter includes the following information, which is not included in the aforementioned auditors' reports:

- > 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. No corrective actions were necessary as there were no findings and recommendations made in the preceding annual financial audit report.
- > Section 10.854(1)(e)2., Rules of the Auditor General, requires a statement be included as to whether or not the School 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 the School did not meet any of the conditions described in Section 218.503(1), Florida Statutes.
- > 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 recommendation:

For the year ended June 30, 2013, payment of a large portion of the School's noncurrent liability, and expenditures that were not anticipated in the School's budget appear to have caused a reduction in the School's cash balance and a deficit fund balance in the general fund at year-end. We recommend that the School provide for in its budget contingency reserves, so that the School's cash balance and general fund balance can increase, and monitor such balances on a regular basis to ensure that the general fund balance and the cash balance remains at an adequate level. Management's response to this recommendation is reflected on Page 34. We did not audit Management's response and, accordingly, we do not express an opinion or provide any assurance on it.

- > Section 10.854(1)(e)4., Rules of the Auditor General, requires that we address violations of 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.
- > Section 10.854(1)(e)5, Rules of the Auditor General, requires the name or official title of the entity. The name of the entity is Miami Arts, Inc.
- > Pursuant to Sections 10.854(1)(e)6.a. and 10.855(11), Rules of the Auditor General, we applied financial condition assessment procedures as of June 30, 2013, which included calculation and analysis of certain financial indicators we considered relevant to the School. It is Management's responsibility to monitor the School's financial condition, and our financial condition assessment was based in part on representations made by Management and the review of financial information provided by Management. We applied such procedures and no deteriorating financial condition, as defined by Florida Statutes, has been noted.

As mentioned in the recommendation above, at June 30, 2013, the School had a deficit balance in the general fund. This appears to have been caused primarily by the significant reduction in noncurrent liabilities, and expenditures that were not anticipated in the School's budget. During our audit we noted that in August 2013, the School received funds from its Director in the amount of \$165,000. Management believes this will improve the School's cash balance in the short term. In addition, Management anticipates a budget surplus as a result of an increase in FEFP per student funding and an increase in student enrollment. Management believes these factors should provide for an improved cash position, and a surplus in the general fund at the end of the 2013-14 School year.

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

Sotolongo & Associates, P.A.

Miami, Florida
August 28, 2013



WRITTEN STATEMENT OF RESPONSE TO
RECOMMENDATIONS IN INDEPENDENT AUDIT REPORT

2012-2013 has been overwhelmingly successful at Miami Arts Charter School. Student scores have risen for the fourth consecutive year and the school's grade was once again an "A". This year, Miami Arts Charter School qualified for and received "High-Performing" status and our arts programs in all areas continue to mature and develop toward greater and greater levels of excellence throughout the curriculum.

As the school enters its fifth anniversary, management recognizes that the path to greater excellence will require for investments to be made that will provide for the future growth of our academic and arts programs. It is management's position that eliminating debt aggressively will pay far greater dividends in the future and strengthen our long-term financial position.

Our administration appreciates the inherent challenges faced as we strive to provide excellence in arts education while simultaneously providing necessary resources to ensure and maintain high academic standards in the classroom.

Our mid-term plans call for the strengthening of the school's overall balance sheet. The elimination of debt has become a top priority for our school and it is management's position that the earlier the debt is eliminated, the sooner we will be able to redirect resources and funds to the essential mission of education in the classroom. As Florida moves decisively toward integrating more and more technology in the instructional and assessment processes, liquidity will become a higher priority for schools such as ours that are already equipment-intensive because of our emphasis on the fine and performing arts.

Managing and paying off debt while maintaining the integrity of our academic and arts programs, though difficult and challenging, is a worthwhile endeavor. By the end of 2013-2014, the school's long-term debt (start-up loan) will be eliminated, our balance sheet will be greatly improved and the budget will be easier to balance. The strengthened financial position will also allow for an increase of arts adjunct teachers that will directly impact student performance.

Management agrees that a greater overall fund balance and cash reserve is a prudent goal. Thus, subsequent to June 30th, 2013, we have taken deliberate action toward the establishment of a greater cash reserve and we anticipate that the net position by June 30th, 2014 will be adequately improved.

A handwritten signature in blue ink, appearing to read "Alfredo de la Rosa".

Alfredo de la Rosa, NBCT
Founder & Director
Instrumental Music Conductor