

**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, 2012**

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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, 2012.

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 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, 2012, the School's expenses exceeded revenues by \$12,717. This is a decline from the prior year when revenues exceeded expenses by \$45,778.
- Overall, the School's revenues decreased to \$4,026,622, or 6%, under the prior year amount of \$4,287,822. The decrease in revenues was primarily due to a decrease in the per student funding provided by the Florida Education Finance Program ("FEFP"). The decrease was offset by additional funding received related to capital outlay.
- Overall, the School's expenses decreased to \$4,039,339, or 5%, under the prior year amount of \$4,242,044. This decrease in expenses is primarily due to decreases in the number of employees to accommodate the decrease in funding.
- The School reduced its long-term debt from \$436,000 to \$313,000.

### 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 long-term 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 assets 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 assets 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 assets and how they have changed. Net assets – 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 assets 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 funds* – 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 Assets

The following table provides a comparative analysis of the School's net assets for the fiscal years ended June 30, 2012 and 2011:

	Governmental Activities		Increase (Decrease)
	2012	2011	
Current and other assets	\$ 503,227	\$ 463,698	\$ 39,529
Capital assets, net	408,427	499,264	(90,837)
Total assets	<u>911,654</u>	<u>962,962</u>	<u>(51,308)</u>
Current and other liabilities	583,121	498,712	84,409
Long-term liability	225,800	348,800	(123,000)
Total liabilities	<u>808,921</u>	<u>847,512</u>	<u>(38,591)</u>
Net assets:			
Invested in capital assets, net of related debt	95,427	63,264	32,163
Unrestricted	7,306	52,186	(44,880)
Total net assets	<u>\$ 102,733</u>	<u>\$ 115,450</u>	<u>\$ (12,717)</u>

At June 30, 2012, the School's total assets were approximately \$912,000 and total liabilities were approximately \$809,000. The School's assets and liabilities declined primarily as result of depreciation and amortization, and the use of resources to reduce long-term liabilities, respectively.

The School's net assets totaled approximately \$103,000. Most of this amount represents the School's net investment in capital assets (leasehold improvements, furniture, fixtures and equipment).

For fiscal year ended June 30, 2012, the increase in current and other assets was due to a larger balances in prepaid and other receivable, and the security deposit. The increase in current and other liabilities primarily resulted from an increase in the lease deposit due. The decrease in capital assets, net was the result of an increase in depreciation and amortization expense, which primarily resulted from a change in the estimated useful lives of leasehold improvements 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 long-term debt resulted from the payments of principal balances that were made.

## Change in Net Assets

The following table summarizes the changes in the School's net assets from its activities for the fiscal years ended June 30, 2012 and June 30, 2011:

	<b>Governmental Activities</b>		Amount	%
	2012	2011	Increase (Decrease)	Change
Revenues:				
Federal sources	\$ 67,454	\$ 73,385	\$ (5,931)	-8%
State and local sources	3,774,187	3,878,004	(103,817)	-3%
Contributions and other revenue	184,981	336,433	(151,452)	-45%
Total revenues	4,026,622	4,287,822	(261,200)	-6%
Expenses:				
Instruction and instruction-related services	1,776,925	2,120,480	(343,555)	-16%
Pupil personnel services	147,538	143,905	3,633	3%
Board	14,705	16,700	(1,995)	-12%
General administration	69,651	74,911	(5,260)	-7%
School administration	453,508	378,561	74,947	20%
Facilities acquisition and construction	835,516	828,909	6,607	1%
Fiscal services	57,287	54,978	2,309	4%
Food services	19,693	10,040	9,653	96%
Central services	40,322	35,597	4,725	13%
Pupil transportation	19,998	28,305	(8,307)	-29%
Operation of plant	278,447	286,190	(7,743)	-3%
Maintenance of plant	134,020	126,492	7,528	6%
Instructional related technology	51,889	50,699	1,190	2%
Unallocated depreciation and amortization expense	139,840	86,277	53,563	62%
Total expenses	4,039,339	4,242,044	(202,705)	-5%
Change in net assets	\$ (12,717)	\$ 45,778	\$ (58,495)	-

As reflected, total expenses were approximately \$4,040,000, of which depreciation and amortization expense was approximately \$140,000. The majority of the funding was provided through State and Local sources.

The decrease in revenues from state and local sources was primarily due to a decrease in FEFP funding. The decrease in contributions and other revenue was due to contributions for a students' trip to Europe during the fiscal year ended June 30, 2011, which did not take place during the fiscal year ended June 30, 2012.

The decrease in expenses for instruction and instruction related services was due to 1) a reduction in the number of instructional staff, and 2) a reduction in overall instructional salaries. These reductions were necessary in order to address the reduction in FEFP per student funding. The increase in general administration was due to certain scheduled salary increases that were due to the administrative staff and the addition of a new disciplinarian position. The increase in food services resulted in additional meals provided to students for after hour rehearsals, practices and activities. The decrease in pupil transportation was due to a larger number of field trips that occurred during 2011. The increase in unallocated depreciation and amortization expense was due to changing the estimate of the useful lives on leasehold improvements from 10 to 4 years or the remaining lease term, and the furniture and equipment from 4 to 10 years.

## **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 of \$7,306, which was below that of the prior year. The primary reason for this reduction was the payment of \$123,000 in long-term debt and acquisitions of capital assets totaling approximately \$49,000. Other revenues and expenditures decreased overall for the same reasons described above under the section change in net assets.

### **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, 2012, actual general fund revenues were approximately \$45,000 below the final budgeted amounts, which represents a -1% budget variance. This variance is primarily due to budgeted state and local source revenue that was not received. Actual general fund expenditures were approximately \$47,000 above the final budgeted amounts primarily due to expenditures for capital outlay, and certain other 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 1%.



## CAPITAL ASSET AND DEBT ADMINISTRATION

### Capital Assets

As of June 30, 2012, the School has invested \$677,224 in a broad range of capital assets, including leasehold improvements and furniture, fixtures and equipment (see table below).

	<b>Governmental Activities</b>		<b>Increase</b>
	<b>2012</b>	<b>2011</b>	<b>(Decrease)</b>
Leasehold improvements	\$ 198,687	\$ 185,749	\$ 12,938
Furniture, fixtures and equipment	478,537	442,272	36,265
Total capital assets	<u>\$ 677,224</u>	<u>\$ 628,021</u>	<u>\$ 49,203</u>

Among this year's major capital asset additions are the following:

- Computer equipment \$13,510
- Musical instruments \$13,154
- Office furniture and equipment \$9,401
- Leasehold improvements \$12,938

There were no capital asset disposals in the current year. The School's fiscal year 2013 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.

### Long-Term Liability

At year-end, the balance on the long-term liability, which is comprised of a note payable to the School's management company, was \$313,000. During the year, the School made principal payments of \$123,000 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 long-term 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**

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### **Report of Independent Auditors on Basic Financial Statements and Supplementary Information**

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 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, 2012, which collectively comprise the School's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the School's management. 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the 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, 2012, 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 23, 2012, 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* 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 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.

*Sotolongo & Associates, P.A.*

Miami, Florida  
August 23, 2012

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

**STATEMENT OF NET ASSETS**

**JUNE 30, 2012**

		<u>Governmental Activities</u>
<b>ASSETS</b>		
Cash		\$ 186,471
Accounts receivable		1,030
Prepaid expenses and other receivable		136,038
Security deposit		179,688
Capital Assets:		
Leasehold improvements	\$ 198,687	
Furniture, fixtures and equipment	478,537	
	<u>677,224</u>	
Less accumulated depreciation and amortization	<u>(268,797)</u>	
Total capital assets, net		<u>408,427</u>
Total assets		<u><u>\$ 911,654</u></u>
<b>LIABILITIES</b>		
Accounts payable and accrued expenses		\$ 316,233
Obligation under lease		179,688
Long-term Liability:		
Note payable – Related Party:		
Portion scheduled for payment within one year		87,200
Portion scheduled for payment after one year		<u>225,800</u>
Total liabilities		<u>808,921</u>
<b>NET ASSETS</b>		
Invested in capital assets, net of related debt		95,427
Unrestricted		<u>7,306</u>
Total net assets		<u>102,733</u>
Total liabilities and net assets		<u><u>\$ 911,654</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, 2012**

		Program Revenues			Net (Expense) Revenue and Changes in Net Assets	
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Total
Governmental activities:	Expenses					
Instruction and instruction-related services	\$ 1,776,925	\$ -	\$ 67,454	\$ -	\$ (1,709,471)	\$ (1,709,471)
Pupil personnel services	147,538	-	-	-	(147,538)	(147,538)
Board	14,705	-	-	-	(14,705)	(14,705)
General administration	69,651	-	-	-	(69,651)	(69,651)
School administration	453,508	-	-	-	(453,508)	(453,508)
Facilities acquisition and construction	835,516	-	-	292,855	(542,661)	(542,661)
Fiscal services	57,287	-	-	-	(57,287)	(57,287)
Food services	19,693	-	-	-	(19,693)	(19,693)
Central services	40,322	-	-	-	(40,322)	(40,322)
Pupil transportation	19,998	-	-	-	(19,998)	(19,998)
Operation of plant	278,447	-	-	-	(278,447)	(278,447)
Maintenance of plant	134,020	-	-	-	(134,020)	(134,020)
Instructional related technology	51,889	-	-	-	(51,889)	(51,889)
Unallocated depreciation and amortization expense	139,840	-	-	-	(139,840)	(139,840)
Total governmental activities	<u>\$ 4,039,339</u>	<u>\$ -</u>	<u>\$ 67,454</u>	<u>\$ 292,855</u>	<u>\$ (3,679,030)</u>	<u>\$ (3,679,030)</u>
General revenues:						
State and local sources					3,481,332	3,481,332
Contributions and other revenue					184,981	184,981
Total general revenues					<u>3,666,313</u>	<u>3,666,313</u>
Change in net assets					(12,717)	(12,717)
Net assets at beginning of year					<u>115,450</u>	<u>115,450</u>
Net assets at end of year					<u>\$ 102,733</u>	<u>\$ 102,733</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, 2012**

	General Fund
<b>ASSETS</b>	
Cash	\$ 186,471
Accounts receivable	1,030
Prepaid expenses and other receivable	136,038
Security deposit	<u>179,688</u>
Total assets	<u><u>\$ 503,227</u></u>
<b>LIABILITIES AND FUND BALANCE</b>	
Accounts payable and accrued expenditures	\$ 316,233
Obligation under lease	<u>179,688</u>
Total liabilities	<u>495,921</u>
Fund balance:	
Nonspendable	136,038
Unassigned	<u>(128,732)</u>
Total fund balance	<u>7,306</u>
Total liabilities and fund balance	<u><u>\$ 503,227</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 ASSETS**

**JUNE 30, 2012**

**Total fund balance – governmental fund** **\$ 7,306**

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

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

The cost of capital assets is:	\$ 677,224	
Related accumulated depreciation is:	<u>(268,797)</u>	
Total capital assets, net		408,427

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

Note payable – Related Party: (all scheduled payments)	<u>(313,000)</u>
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**Total net assets – governmental activities** **\$ 102,733**

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, 2012**

	General Fund	Other Governmental Funds	Total Governmental Funds
<b>REVENUES</b>			
Federal sources	\$ -	\$ 67,454	\$ 67,454
State and local sources	3,481,332	292,855	3,774,187
Contributions and other revenue	184,981	-	184,981
Total revenues	<u>3,666,313</u>	<u>360,309</u>	<u>4,026,622</u>
<b>EXPENDITURES</b>			
Current:			
Instruction and instruction-related services	1,709,471	67,454	1,776,925
Pupil personnel services	147,538	-	147,538
Board	14,705	-	14,705
General administration	69,651	-	69,651
School administration	453,508	-	453,508
Facilities acquisition and construction	542,661	292,855	835,516
Fiscal services	57,287	-	57,287
Food services	19,693	-	19,693
Central services	40,322	-	40,322
Pupil transportation	19,998	-	19,998
Operation of plant	278,447	-	278,447
Maintenance of plant	134,020	-	134,020
Instructional related technology	51,889	-	51,889
Capital outlay	49,003	-	49,003
Redemption of long-term debt	123,000	-	123,000
Total expenditures	<u>3,711,193</u>	<u>360,309</u>	<u>4,071,502</u>
Net changes in fund balances	(44,880)	-	(44,880)
Fund balance at beginning of year	<u>52,186</u>	<u>-</u>	<u>52,186</u>
Fund balance at end of year	<u>\$ 7,306</u>	<u>\$ -</u>	<u>\$ 7,306</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, 2012**

<b>Net changes in fund balances – total governmental funds</b>	<b>\$ (44,880)</b>
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Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report repayment of long-term 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 long-term debt are applied to reduce to long-term debt reflected.

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

Capital outlays	\$	49,003	
Repayment of long-term dept		123,000	
Depreciation expense		<u>(139,840)</u>	
			<u>32,163</u>
<b>Change in net assets of governmental activities</b>			<b><u><u>\$ (12,717)</u></u></b>

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, 2012**

**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, which is comprised of four members. 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.

**Recently adopted accounting pronouncements**

During fiscal year 2011, 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, 2012 (Continued)**

**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 assets 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.

**MIAMI ARTS, INC.  
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**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2012 (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 long-term debt is recognized when due and (2) expenditures related to liabilities reported as general long-term 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 assets 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.

**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.

**MIAMI ARTS, INC.**  
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**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2012 (Continued)**

Depreciation and amortization are computed using the straight-line method over the estimated useful lives of the assets, which range as follows:

	<u><b>Years</b></u>
Leasehold improvements	4
Furniture, fixtures and equipment	4 – 10

For the year ended June 30, 2012, Management revised the estimated useful lives of its capital assets. The useful life of the leasehold improvements was decreased from 10 to 4 years or the remaining lease term, while the useful live of certain furniture, fixtures and equipment was increased to 10 years. Management believes such changes were necessary to properly reflect the remaining useful lives of such assets. 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 determination letter from the Internal Revenue Service ("IRS"). The School believes that it will be approved and considered tax exempt for the fiscal year ended June 30, 2012. The School is in the process of filing its Federal and State income tax returns for the fiscal years ended June 30, 2009, 2010, and 2011 as a C corporation. The School believes it will not have taxable income for these years. The School believes that any deferred tax assets generated during the fiscal years ended June 30, 2009, 2010 and 2011 will not be available to offset future taxable income, because it will be considered a tax exempt entity that will not have any unrelated business income tax due. As such, the School has recorded a full valuation allowance on any deferred tax assets. 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 audit. 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, 2012 (Continued)**

**Long-term liability**

Long-term 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 long-term 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 a 5% 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 \$107,000 and was expended for capital outlay expenditures as required.

The School receives 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 Assets and Fund Balance Classifications**

***Government-wide financial statements***

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

1. Invested in capital assets, net of related debt. – 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 assets – consists of net assets 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 assets.

**MIAMI ARTS, INC.  
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**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2012 (Continued)**

3. Unrestricted net assets – all other net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

***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, long-term 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, 2012, 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, 2012, 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, 2012, 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, 2012 (Continued)**

**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 23, 2012, 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, 2012 was as follows:

	<u><b>Beginning Balance</b></u>	<u><b>Increases</b></u>	<u><b>Decreases</b></u>	<u><b>Ending Balance</b></u>
Governmental activities:				
Leasehold improvements	\$ 185,749	\$ 12,938	\$ -	\$ 198,687
Furniture, fixtures and equipment	442,472	36,065	-	478,537
Total capital assets at historical cost	<u>628,221</u>	<u>49,003</u>	<u>-</u>	<u>677,224</u>
Less accumulated depreciation and amortization for:				
Leasehold improvements	(26,555)	(99,812)	-	(126,367)
Furniture, fixtures and equipment	<u>(102,402)</u>	<u>(40,028)</u>	<u>-</u>	<u>(142,430)</u>
Total accumulated depreciation and amortization	<u>(128,957)</u>	<u>(139,840)</u>	<u>-</u>	<u>(268,797)</u>
Governmental activities capital assets, net	<u>\$ 499,264</u>	<u>\$ (90,837)</u>	<u>\$ -</u>	<u>\$ 408,427</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, 2012 (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, 2012:

State and Local Sources

District School Board of Miami-Dade County, Florida:

Florida Education Finance Program	\$ 2,333,020
Class size reduction	608,514
Capital outlay	292,855
Supplemental academic instruction	215,644
State fiscal stabilization funds	163,072
ESE guaranteed allocation	41,807
Instructional materials	49,582
School recognition	45,214
Safe schools	18,624
Other	2,545
EEC Allocation	3,310
	<hr/>
Total	<u><u>\$ 3,774,187</u></u>

Federal Sources

Education jobs fund	<u><u>\$ 67,454</u></u>
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**NOTE – 4      LONG-TERM LIABILITY (NOTE PAYABLE – RELATED PARTY)**

The long-term liability consists of a note payable to New Way Schools, Inc. ("NWS"), a Florida corporation. NWS is a related party, as the Director 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.**  
**A CHARTER SCHOOL AND COMPONENT UNIT OF**  
**THE DISTRICT SCHOOL BOARD OF MIAMI-DADE COUNTY, FLORIDA**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2012 (Continued)**

Activity during the fiscal year ending June 30, 2012 was as follows:

Balance outstanding at beginning of year	\$ 436,000
Additions	-
Reductions	<u>(123,000)</u>
Balance outstanding at end of year	<u>\$ 313,000</u>
Amount due within one year	<u>\$ 87,200</u>

Future scheduled payments related to the long-term liability are as follows:

<u>Year ending</u> <u>June 30,</u>	<u>Principal</u>
2013	\$ 87,200
2014	<u>225,800</u>
Total	<u>\$ 313,000</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.  
A CHARTER SCHOOL AND COMPONENT UNIT OF  
THE DISTRICT SCHOOL BOARD OF MIAMI-DADE COUNTY, FLORIDA**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2012 (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, 2012 under this lease are summarized as follows:

<b>Year ending</b>	
<b>June 30,</b>	<b>Amount</b>
2013	\$ 890,833
2014	895,000
2015	74,583
Total	<u>\$ 1,860,416</u>

Rental expense/expenditure for the year ended June 30, 2012 was approximately \$836,000, and is reflected under the functional category facilities acquisition and construction.

**MIAMI ARTS, INC.  
A CHARTER SCHOOL AND COMPONENT UNIT OF  
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**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2012 (Continued)**

In addition to the future minimum lease payments above, the lease agreement also requires monthly payments in the amount of \$7,812.50 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, 2012, the accumulated security deposit due of \$179,688 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 untaken by the School. In fiscal year 2012, the management fees were waived and no payments were made. At June 30, 2012, the School had a \$50,000 refundable deposit with NWS pertaining to management fees for the 2012-2013 school year. This refundable deposit is included in under the caption prepaid expenses and other receivable.

The School pays an administration fee to the School District of Miami-Dade County. During the year ended June 30, 2012, such administration fees totaled approximately \$65,000, 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, 2012**

	<u>Budgeted Original</u>	<u>Budgeted Final</u>	<u>GAAP Actual</u>	Variance with Final Budget- Positive (Negative)
<b>REVENUES</b>				
State and local sources	\$ 3,539,948	\$ 3,539,948	\$ 3,481,332	\$ (58,616)
Contributions and other revenue	<u>365,100</u>	<u>171,000</u>	<u>184,981</u>	<u>13,981</u>
Total revenues	<u>3,905,048</u>	<u>3,710,948</u>	<u>3,666,313</u>	<u>(44,635)</u>
<b>EXPENDITURES</b>				
Current:				
Instruction and instruction-related services	1,600,280	1,703,679	1,709,471	(5,792)
Pupil personnel services	178,529	147,600	147,538	62
Instruction and curriculum development	22,200	-	-	-
Instructional staff training	50,000	500	-	500
Board	16,000	14,700	14,705	(5)
General administration	65,900	45,000	69,651	(24,651)
School administration	377,317	438,500	453,508	(15,008)
Facilities acquisition and construction	645,000	536,500	542,661	(6,161)
Fiscal services	43,312	49,300	57,287	(7,987)
Food services	11,000	20,000	19,693	307
Central services	39,893	40,400	40,322	78
Pupil transportation	-	20,000	19,998	2
Operation of plant	230,651	279,000	278,447	553
Maintenance of plant	82,291	140,100	134,020	6,080
Instructional related technology	51,291	51,900	51,889	11
Other student related	300,000	4,500	-	4,500
Capital outlay	-	-	49,003	(49,003)
Redemption of long-term debt	<u>-</u>	<u>173,000</u>	<u>123,000</u>	<u>50,000</u>
Total expenditures	<u>3,713,664</u>	<u>3,664,679</u>	<u>3,711,193</u>	<u>(46,514)</u>
Net changes in fund balance	<u>\$ 191,384</u>	<u>\$ 46,269</u>	(44,880)	<u>\$ (91,149)</u>
Fund balance at beginning of year			<u>52,186</u>	
Fund balance at end of year			<u>\$ 7,306</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, 2012**

	<u>Budgeted Original</u>	<u>Budgeted Final</u>	<u>GAAP Actual</u>	<u>Variance with Final Budget- Positive (Negative)</u>
<b>REVENUES</b>				
Federal Sources	\$ 65,518	\$ 65,518	\$ 67,454	\$ 1,936
State and local sources	<u>200,000</u>	<u>300,000</u>	<u>292,855</u>	<u>(7,145)</u>
Total revenues	<u>265,518</u>	<u>365,518</u>	<u>360,309</u>	<u>(5,209)</u>
<b>EXPENDITURES</b>				
Current:				
Instruction and instruction-related services	65,518	65,518	67,454	(1,936)
Facilities acquisition and construction	<u>200,000</u>	<u>300,000</u>	<u>292,855</u>	<u>7,145</u>
Total expenditures	<u>265,518</u>	<u>365,518</u>	<u>360,309</u>	<u>5,209</u>
Net changes in fund balance	<u>\$ -</u>	<u>\$ -</u>	-	<u>\$ -</u>
Fund balance at beginning of year			<u>-</u>	
Fund balance at end of year			<u>\$ -</u>	

# **Sotolongo & Associates, P.A.**

## **Certified Public Accountants**

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### **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, 2012, which collectively comprise the School's basic financial statements and have issued our report thereon dated August 23, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

#### Internal Control Over Financial Reporting

Management of the School is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the School's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the School's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the School's internal control over financial reporting.

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.

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 deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control that we consider to be material weaknesses, as defined above.

### 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*.

This report is intended solely for the information and use of management of the School, the Board of Directors, the District School Board of Miami-Dade County, Florida, the Florida Department of Education and the Florida Auditor General 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 23, 2012



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**

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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, 2012, and have issued our report thereon dated August 23, 2012.

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. Disclosures in that report, which is dated August 23, 2012, 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. Corrective actions have been taken to address findings and recommendations made in the preceding annual financial audit report, as noted below under the heading "Status of Prior Year Findings and Recommendations."
- > 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 did not have such recommendations.
- > 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 or are likely to have occurred, that have an effect on the financial statements that is less than material but more than inconsequential. In connection with our audit, we did not have any such violations.

- > Section 10.854(1)(e)5., Rules of the Auditor General, provides that the auditor may, based on professional judgment, report the following matters that have an inconsequential effect on the financial statements considering both quantitative and qualitative factors: (1) violations of provisions of contracts or grant agreements, fraud, illegal acts, or abuse and (2) deficiencies in internal control that are not significant deficiencies. In connection with our audit, we did not have any such findings.
- > Section 10.854(1)(e)6., Rules of the Auditor General, requires the name or official title of the school. The name of the School is Miami Arts, Inc.
- > 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 met. In connection with our audit, no such conditions were noted. The School had a deficit in the fund balance classified as unassigned, however, the nonspendable fund balance had a surplus, and sufficient resources are available to the School to cover this deficit.
- > Pursuant to Sections 10.854(1)(e)7.a. and 10.855(10), Rules of the Auditor General, we applied financial condition assessment procedures as of June 30, 2012, which included calculation and analysis of certain financial indicators we considered relevant to the School. Our financial condition assessment procedures did not include the use of benchmarks. 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 has been noted.

#### Status of Prior Year Findings and Recommendations

##### **Prior year noncompliance finding 2011-01: Board Oversight**

During our current year audit procedures, we noted the School increased the number of total Board of Directors to four, and that reviews and approvals pertaining to board governance are documented. Meetings of the Board of Directors are held quarterly.

##### **Prior year noncompliance finding 2011-02: Annual Accountability Report.**

During our current year audit procedures, we noted the School has taken measures to insure that required reports are timely submitted to its sponsor.

Pursuant to Chapter 119, Florida Statutes, this management letter is a public record and its distribution is not limited. Auditing standards generally accepted in the United States of America require us to indicate that this letter is intended solely for the information and use of management, the audit committee, the Auditor General of the State of Florida and the School Board of Miami-Dade County, and is not intended to be and should not be used by anyone other than these specified parties.

*Sotolongo & Associates, P.A.*

Miami, Florida  
August 23, 2012