

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

Financial Statements and  
Independent Auditors' Report

June 30, 2017

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

Wynwood Campus  
Administrative offices  
95 NW 23<sup>rd</sup> Street  
Miami, FL 33127

Homestead Campus  
3000 SE 9<sup>th</sup> Street  
Homestead, FL 33035

2016-2017

#### BOARD OF DIRECTORS

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

#### SCHOOL ADMINISTRATION

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

## INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Miami Arts, Inc. (the "School"), as of, and for the year ended June 30, 2017, and the related notes to the financial statements which collectively comprises the School's basic financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

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

### Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls 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 controls. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

## Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Miami Arts, Inc. as of June 30, 2017, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## Other Matters

### *Other Reporting Required by Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated August 30, 2017, our consideration of the School's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School's internal control over financial reporting and compliance.

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 4 through 8 and 30 through 32 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

  
CERTIFIED PUBLIC ACCOUNTANTS

Coral Gables, Florida  
August 30, 2017



**Management's Discussion and Analysis**  
Miami Arts, Inc.  
June 30, 2017

The corporate officers of Miami Arts, Inc. have prepared this narrative overview and analysis of the school's financial activities for the year ended June 30, 2017.

**Financial Highlights**

1. The net position of the School at June 30, 2017 was a deficit of \$2,337,519.
2. At year-end, the School had current assets on hand of \$3,753,055
3. The School had an increase in net position of \$420,392 for the year ended June 30, 2017.
4. The unassigned fund balance at year end was a deficit of \$347,210

**Overview of the Financial Statements**

This discussion and analysis is intended to serve as an introduction to the School's basic financial statements. The School's financial statements for the year ended June 30, 2017 are presented in accordance with GASB Codification Section 2200. The financial statements have three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other required supplementary information in addition to the basic financial statements themselves.

*Government-Wide Financial Statements*

The *government-wide financial statements* are designed to provide readers with a broad overview of the School's finances, in a manner similar to a private-sector business.

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

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

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

*Fund Financial Statements*

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

### Governmental Funds

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

### Fiduciary Fund

The agency fund statement provides information about the financial relationship in which the School acts solely as an agency for the benefit of other such as student activities. The School is responsible for ensuring that assets are used only for the intended purposes. The School excludes these activities from the Statement of Net Position because it cannot use these funds to finance its operations. The agency fund statement can be found on page 15 of this report.

### Notes to Financial Statements

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

The notes to the financial statements can be found on pages 16 - 29 of this report.

## **GOVERNMENT-WIDE FINANCIAL ANALYSIS**

As noted earlier, net position may serve over time as a useful indicator of a charter school's financial position. In the case of the School, net position was a deficit of \$2,337,519 at the close of the fiscal year. A summary of the School's net position as of June 30, 2017 and 2016 follows:

|                                  | 2017           | 2016           |
|----------------------------------|----------------|----------------|
| Current and other assets         | \$ 3,753,055   | \$ 3,215,869   |
| Capital Assets, net              | 28,354,890     | 28,448,883     |
| Total Assets                     | 32,107,945     | 31,664,752     |
| Deferred Outflows                | -              | -              |
| Current liabilities              | 1,051,666      | 971,770        |
| Long term debt                   | 33,393,798     | 33,450,893     |
| Total Liabilities                | 34,445,464     | 34,422,663     |
| Deferred Inflows                 | -              | -              |
| Net Position:                    |                |                |
| Net investment in capital assets | -              | -              |
| Unrestricted                     | (2,337,519)    | (2,757,911)    |
| Total Net Position               | \$ (2,337,519) | \$ (2,757,911) |

At the end of the year, the School reported a negative balance in total net position. A summary and analysis of the School's revenues and expenses for the year ended June 30, 2017 and 2016 follows:

|  | 2017                  | 2016                  |
|--|-----------------------|-----------------------|
| REVENUES                                       |                       |                       |
| Program Revenues                               |                       |                       |
| Capital outlay funding                         | \$ 638,564            | \$ 414,311            |
| In-kind rent revenue                           | -                     | 248,750               |
| General Revenues                               |                       |                       |
| FTE nonspecific revenues                       | 10,787,084            | 9,651,353             |
| Other revenues                                 | 129,685               | 45,621                |
| Total Revenues                                 | <u>11,555,333</u>     | <u>10,360,035</u>     |
| EXPENSES                                       |                       |                       |
| Instruction and instructional related services | 4,450,973             | 4,217,992             |
| Instructional related technology               | 178,080               | 70,354                |
| Pupil personnel services                       | 339,492               | 340,519               |
| Board  | 25,186                | 23,128                |
| General administration                         | 62,518                | 60,972                |
| School administration                          | 829,806               | 829,129               |
| Fiscal services                                | 164,062               | 145,326               |
| Food services                                  | 1,330                 | 1,080                 |
| Central services                               | 190,515               | 131,719               |
| Pupil transportation services                  | 2,535                 | 5,895                 |
| Operation of plant                             | 1,696,535             | 2,380,256             |
| Maintenance of plant                           | 169,071               | 153,156               |
| Unallocated depreciation                       | 789,237               | 197,245               |
| Interest                                       | 2,235,601             | 2,259,664             |
| Total Expenses                                 | <u>11,134,941</u>     | <u>10,816,435</u>     |
| (Decrease) Increase in Net Position            | 420,392               | (456,400)             |
| Net Position at Beginning of Year              | <u>(2,757,911)</u>    | <u>(2,301,511)</u>    |
| Net Position at End of Year                    | <u>\$ (2,337,519)</u> | <u>\$ (2,757,911)</u> |

The School's revenue increased by \$1,195,298 in the current year and expenses increased by \$318,506 as a result of an increase in student enrollment of approximately 172 students. The School had a increase in its net position of \$ 420,392 for the year.

## FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUND

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



## **Governmental Funds**

The focus of the School's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the School's financing requirements. In particular, the *unassigned fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

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

At the end of the fiscal year, the School's governmental general fund reported ending fund deficit of \$130,047. The fund balance unassigned and available for spending at the School's discretion is a deficit of \$261,171.

The Debt Service Fund was created to account for resources accumulated and payments made for the principal and interest on long term debt of the School. At the end of the current fiscal year, the fund balance totaled \$2,488,961, all of which was restricted to debt service.

The Capital Projects Fund accounts for the resources restricted for the acquisition and construction of the Miami Campus from bond proceeds. At the end of the current fiscal year, fund balance totaled \$342,475, all of which is restricted for capital projects.

## **Capital Assets**

The School's investment in capital assets as of June 30, 2017 amounts to \$28,354,890 (net of accumulated depreciation). This investment in capital assets includes building and improvements, furniture, fixtures and computer equipment. As of June 30, 2017, the School had long term debt totaling \$33,093,798 relating to capital assets.

## **Requests for Information**

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

## Governmental Fund Budget Analysis and Highlights

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

|                                  | Governmental Fund   |                     |                     |
|----------------------------------|---------------------|---------------------|---------------------|
|                                  | Original Budget     | Final Budget        | Actual              |
| <b>REVENUES</b>                  |                     |                     |                     |
| Program Revenues                 |                     |                     |                     |
| State capital outlay funding     | \$ -                | \$ -                | \$ 638,564          |
| State passed through local       | 11,085,630          | 11,085,630          | 10,787,084          |
| In-kind rent revenue             | -                   | -                   | -                   |
| Other revenue                    | -                   | -                   | 129,685             |
|                                  | <u>11,085,630</u>   | <u>11,085,630</u>   | <u>11,555,333</u>   |
| <b>CURRENT EXPENDITURES</b>      |                     |                     |                     |
| Instruction                      | 4,286,716           | 4,286,716           | 4,450,973           |
| Instructional related technology | 221,739             | 221,739             | 178,080             |
| Pupil personnel services         | 346,412             | 346,412             | 339,492             |
| Board                            | 19,500              | 19,500              | 25,186              |
| General administration           | 30,700              | 30,700              | 62,518              |
| School administration            | 1,016,436           | 1,016,436           | 829,806             |
| Fiscal services                  | 163,880             | 163,880             | 164,062             |
| Food services                    | -                   | -                   | 1,330               |
| Central services                 | 144,000             | 144,000             | 190,515             |
| Pupil transportation services    | 2,800               | 2,800               | 2,535               |
| Operation of plant               | 1,656,748           | 1,656,748           | 1,696,535           |
| Maintenance of plant             | 167,157             | 167,157             | 169,071             |
|                                  | <u>\$ 8,056,088</u> | <u>\$ 8,056,088</u> | <u>\$ 8,110,103</u> |

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

Miami Arts, Inc.  
(A charter school)  
Statement of Net Position  
June 30, 2017

|  | <u>Governmental<br/>Activities</u> |
|--|------------------------------------|
| <b><u>Assets</u></b>   |                                    |
| Current assets:  |                                    |
| Cash   | \$ 632,973                         |
| Restricted assets:   |                                    |
| Funds held by trustee in short term investments                          | 2,917,475                          |
| Due from other agencies  | 43,629                             |
| Prepaid expenses   | 89,950                             |
| Deposits receivable  | 41,174                             |
| Other assets   | <u>27,854</u>                      |
| Total current assets   | 3,753,055                          |
| Capital assets, not being depreciated                                    |                                    |
| Land   | 6,746,070                          |
| Capital assets, depreciable  |                                    |
| Building and fixed equipment   | 21,097,370                         |
| Leashold improvements  | 332,378                            |
| Furniture, fixtures and equipment  | 1,089,290                          |
| Computers, software and internet technologies                            | 267,812                            |
| Computer equipment under capital lease                                   | 407,323                            |
| Less: accumulated depreciation   | <u>(1,585,353)</u>                 |
|  | 28,354,890                         |
| Total Assets   | <u>32,107,945</u>                  |
| <b><u>Deferred Outflows of Resources</u></b>                             | <u>-</u>                           |
| <b><u>Liabilities</u></b>  |                                    |
| Current liabilities:   |                                    |
| Accounts payable and accrued expenses                                    | <u>1,051,666</u>                   |
| Total current liabilities  | 1,051,666                          |
| Long-term debt:  |                                    |
| Related party payable  | 300,000                            |
| Revenue bond payable within one year                                     | 520,000                            |
| Revenue bond payable in more than one year                               | 32,238,318                         |
| Capital lease payable within one year                                    | 109,642                            |
| Capital lease payable in more than one year                              | <u>225,838</u>                     |
| Total Liabilities  | 34,445,464                         |
| <b><u>Deferred Inflows of Resources</u></b>                              | <u>-</u>                           |
| <b><u>Net position</u></b>   |                                    |
| Net investment in capital assets   | -                                  |
| Unrestricted (deficit)   | <u>(2,337,519)</u>                 |
| Total Net Position   | <u>\$ (2,337,519)</u>              |
| Total Liabilities and Net Assets   | <u>\$ 32,107,945</u>               |
| The accompanying notes are an integral part of this financial statement. |                                    |

Miami Arts, Inc.  
(A charter school)  
Statement of Activities  
For the year ended June 30, 2017

| FUNCTIONS                            | Expenses          | Program Revenues        |  |  | Net (Expense)<br>Revenue<br>and Changes<br>in Net Position |
|--------------------------------------|-------------------|-------------------------|--|--|--|
|                                      |                   | Charges for<br>Services | Operating<br>Grants and<br>Contributions | Capital<br>Grants and<br>Contributions |  |
| <b>Governmental activities:</b>      |                   |                         |  |  |  |
| Instruction                          | \$ 4,450,973      | \$ -                    | \$ -                                     | \$ -                                   | \$ (4,450,973)   |
| Instructional related technology     | 178,080           | -                       | -  | -                                      | (178,080)  |
| Pupil personnel services             | 339,492           | -                       | -  | -                                      | (339,492)  |
| Board                                | 25,186            | -                       | -  | -                                      | (25,186)   |
| General administration               | 62,518            | -                       | -  | -                                      | (62,518)   |
| School administration                | 829,806           | -                       | -  | -                                      | (829,806)  |
| Fiscal services                      | 164,062           | -                       | -  | -                                      | (164,062)  |
| Food services                        | 1,330             | -                       | -  | -                                      | (1,330)  |
| Central services                     | 190,515           | -                       | -  | -                                      | (190,515)  |
| Pupil transportation services        | 2,535             | -                       | -  | -                                      | (2,535)  |
| Operation of plant                   | 1,696,535         | -                       | -  | 638,564                                | (1,057,971)  |
| Maintenance of plant                 | 169,071           | -                       | -  | -                                      | (169,071)  |
| Interest                             | 2,235,601         | -                       | -  | -                                      | (2,235,601)  |
| Unallocated depreciation             | 789,237           | -                       | -  | -                                      | (789,237)  |
| <b>Total governmental activities</b> | <b>11,134,941</b> | <b>-</b>                | <b>-</b>                                 | <b>638,564</b>                         | <b>(10,496,377)</b>  |
| General revenues:                    |                   |                         |  |  |  |
| FTE nonspecific revenues             |                   |                         |  |  | 10,787,084   |
| Interest and other revenue           |                   |                         |  |  | 129,685  |
| Change in net position               |                   |                         |  |  | 420,392  |
| Net position, beginning              |                   |                         |  |  | (2,757,911)  |
| Net position, ending                 |                   |                         |  |  | <u>\$ (2,337,519)</u>                                      |

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



Miami Arts, Inc.  
(A charter school)  
Balance Sheet - Governmental Funds  
June 30, 2017

|  | General Fund      | Debt Service       | Capital Projects  | Total Governmental Funds |
|--|-------------------|--------------------|-------------------|--------------------------|
| <b><u>Assets</u></b>   |                   |                    |                   |                          |
| Cash   | \$ 632,973        | \$ -               | \$ -              | \$ 632,973               |
| Restricted cash:   |                   |                    |                   |                          |
| Funds held by trustee in investments                                 | -                 | 2,575,000          | 342,475           | 2,917,475                |
| Accounts receivable  | -                 | -                  | -                 | -                        |
| Due from other agencies  | -                 | -                  | 43,629            | 43,629                   |
| Prepaid expenses   | 89,950            | -                  | -                 | 89,950                   |
| Deposits receivable  | 41,174            | -                  | -                 | 41,174                   |
| Other assets   | 27,854            | -                  | -                 | 27,854                   |
| Due to / from funds  | 43,629            | -                  | -                 | 43,629                   |
| Total Assets   | <u>835,580</u>    | <u>2,575,000</u>   | <u>386,104</u>    | <u>3,796,684</u>         |
| <b><u>Deferred Outflows of Resources</u></b>                         | <u>-</u>          | <u>-</u>           | <u>-</u>          | <u>-</u>                 |
| <b><u>Liabilities</u></b>  |                   |                    |                   |                          |
| Accounts payable and accrued expenses                                | 965,627           | -                  | -                 | 965,627                  |
| Accrued interest   | -                 | 86,039             | -                 | 86,039                   |
| Due to / from funds  | -                 | -                  | 43,629            | 43,629                   |
| Total Liabilities  | <u>965,627</u>    | <u>86,039</u>      | <u>43,629</u>     | <u>1,095,295</u>         |
| <b><u>Deferred Inflows of Resources</u></b>                          | <u>-</u>          | <u>-</u>           | <u>-</u>          | <u>-</u>                 |
| <b><u>Fund balance</u></b>   |                   |                    |                   |                          |
| Nonspendable, not in spendable form                                  | 131,124           | -                  | -                 | 131,124                  |
| Restricted by bonds  | -                 | 2,575,000          | 342,475           | 2,917,475                |
| Unassigned   | (261,171)         | (86,039)           | -                 | (347,210)                |
|  | <u>(130,047)</u>  | <u>2,488,961</u>   | <u>342,475</u>    | <u>2,701,389</u>         |
| Total Liabilities, Deferred Inflows<br>of Resources and Fund Balance | <u>\$ 835,580</u> | <u>\$2,575,000</u> | <u>\$ 386,104</u> | <u>\$ 3,796,684</u>      |

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

Miami Arts, Inc.

(A charter school)

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

June 30, 2017

---

|   |              |
|---|--------------|
| Total Fund Balance - Governmental Funds | \$ 2,701,389 |
|---|--------------|

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

|   |            |
|---|------------|
| Capital assets of \$29,940,243 net of accumulated depreciation of \$1,585,353 used in governmental activities are not financial resources and therefore are not reported in the fund. | 28,354,890 |
|---|------------|

|   |              |
|---|--------------|
| Long term liability which is not due and payable in the current period and, therefore, is not reported in the governmental funds. | (33,393,798) |
|---|--------------|

|  |                       |
|--|-----------------------|
| Total Net Position - Governmental Activities | <u>\$ (2,337,519)</u> |
|--|-----------------------|

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

Miami Arts, Inc.

(A charter school)

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

For the year ended June 30, 2017

|   | General Fund | Debt Service | Capital Projects | Total Governmental<br>Funds |
|---|--------------|--------------|------------------|-----------------------------|
| Revenues:                                   |              |              |                  |                             |
| State capital outlay funding                | \$ -         | \$ -         | \$ 638,564       | \$ 638,564                  |
| State passed through local                  | 10,787,084   | -            | -                | 10,787,084                  |
| Other revenue                               | 125,813      | 3,872        | -                | 129,685                     |
| Total Revenues                              | 10,912,897   | 3,872        | 638,564          | 11,555,333                  |
| Expenditures:                               |              |              |                  |                             |
| Current                                     |              |              |                  |                             |
| Instruction                                 | 4,450,973    | -            | -                | 4,450,973                   |
| Instructional related technology            | 178,080      | -            | -                | 178,080                     |
| Pupil personnel services                    | 339,492      | -            | -                | 339,492                     |
| Board                                       | 25,186       | -            | -                | 25,186                      |
| General administration                      | 62,518       | -            | -                | 62,518                      |
| School administration                       | 829,806      | -            | -                | 829,806                     |
| Facilities acquisition                      | -            | -            | -                | -                           |
| Fiscal services                             | 164,062      | -            | -                | 164,062                     |
| Food services                               | 1,330        | -            | -                | 1,330                       |
| Central services                            | 190,515      | -            | -                | 190,515                     |
| Pupil transportation services               | 2,535        | -            | -                | 2,535                       |
| Operation of plant                          | 1,659,796    | -            | 36,739           | 1,696,535                   |
| Maintenance of plant                        | 169,071      | -            | -                | 169,071                     |
| Capital Outlay:                             |              |              |                  |                             |
| Other capital outlay                        | -            | -            | 695,244          | 695,244                     |
| Debt Service:                               |              |              |                  |                             |
| Repayment of principal                      | -            | 480,000      | -                | 480,000                     |
| Amortization of bond premium                | -            | (37,425)     | -                | (37,425)                    |
| Interest                                    | -            | 2,217,562    | 18,039           | 2,235,601                   |
| Total Expenditures                          | 8,073,364    | 2,660,137    | 750,022          | 11,483,523                  |
| Excess of revenues over expenditures        | 2,839,533    | (2,656,265)  | (111,458)        | 71,810                      |
| Other financing sources:                    |              |              |                  |                             |
| Advances from related party                 | 50,000       | -            | -                | 50,000                      |
| Acquisition of assets through capital lease | -            | -            | 407,323          | 407,323                     |
| Repayment of capital lease obligations      | -            | -            | (71,843)         | (71,843)                    |
| Transfers in and (out)                      | (2,656,257)  | 2,656,257    | -                | -                           |
| Net change in fund balance                  | 233,276      | (8)          | 224,022          | 457,290                     |
| Fund Balance at beginning of year           | (363,323)    | 2,488,969    | 118,453          | 2,244,099                   |
| Fund Balance at end of year                 | \$ (130,047) | \$ 2,488,961 | \$ 342,475       | \$ 2,701,389                |

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

Miami Arts, Inc.

(A charter school)

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

For the year ended June 30, 2017

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Net Change in Fund Balance - Governmental Funds \$ 457,290

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

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays of \$695,244 exceeded from depreciation expense of \$789,237. (93,993)

The proceeds from debt issuance provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net position. Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position. This is the amount by which proceeds of \$457,323, including lease obligations differed from repayments of \$551,843 in the current period. 94,520

Governmental funds report discounts on bonds as expenditures. However, in the statement of activities, the cost is allocated over the life of the bond as interest expense. This is the amount bond discount allocation for the year. (37,425)

Change in Net Position of Governmental Activities \$ 420,392

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



Miami Arts, Inc.  
(A charter school)  
Statement of Net Position - Fiduciary Funds  
June 30, 2017

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|  | <u>Agency Funds</u> |
|--|---------------------|
| <b><u>Assets</u></b>                         |                     |
| Cash   | \$ 70,057           |
| Accounts receivable                          | 16,153              |
| Total Assets                                 | <u>86,210</u>       |
| <b><u>Deferred Outflows of Resources</u></b> | <u>-</u>            |
| <b><u>Liabilities</u></b>                    |                     |
| Accounts payable                             | -                   |
| Due to students and clubs                    | 86,210              |
| Total Liabilities                            | <u>86,210</u>       |
| <b><u>Deferred Inflows of Resources</u></b>  | <u>-</u>            |
| <b><u>Net Position</u></b>                   | <u>\$ -</u>         |

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

## **Note 1 – Summary of Significant Accounting Policies**

### Organization

Miami Arts, Inc. (the "School"), is a not-for-profit corporation organized pursuant to Chapter 617, and Section 1002.33, Florida Statutes. The governing body of the School is the board of directors of the not-for-profit corporation, which is composed of three members. The School is funded by and operates under a charter granted by the sponsoring district, the District School Board of Miami Dade County (the "District"). The current charter expires on June 30, 2024 and is renewable by mutual written agreement between the School and the District. During the term of the charter, the District may terminate the charter if good cause is shown. The School's main campus and administrative offices are located in Miami, Florida for students from grades six to twelve with a second campus in Homestead, Florida also serving grades six to twelve. These financial statements are for the year ended June 30, 2017, when 1050 students were enrolled in the Miami campus and 674 were enrolled in the Homestead campus for the school year.

### Basis of presentation and Reporting Entity

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

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

### Government-wide and Fund Financial Statements

#### *Government-wide Financial Statements*

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

**Note 1 – Summary of Significant Accounting Policies (continued)**

The statement of activities reports the expenses of a given function offset by program revenues directly connected with the functional program. A function is an assembly of similar activities and may include portions of a fund or summarize more than one fund to capture the expenses and program revenues associated with a distinct functional activity. Program revenues include capital grants specific to capital outlay. Other revenue sources not properly included with program revenues are reported as general revenues.

Deferred Outflows/Inflows of Resources

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

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

*Fund Financial Statements*

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

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

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

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

Additionally, the school reports separately the following fiduciary fund types

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

**Note 1 – Summary of Significant Accounting Policies (continued)**

Measurement Focus and Basis of Accounting

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

The government-wide statements report uses the economic resources measurement focus and the full accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

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

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

Agency fund assets and liabilities are accounted for on the accrual basis of accounting.

Budgets and Budgetary Accounting

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



**Note 1 – Summary of Significant Accounting Policies (continued)**

Inter-fund Transfers

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

Cash, cash equivalents and investments

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

Due from Other Governments or Agencies

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

Long –Term Debt

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

Capital Assets

The School’s property, plant and equipment with useful lives of more than one year are stated at historical cost and comprehensively reported in the statement of net position in the government-wide financial statements. Donated capital assets are recorded at their estimated fair market value on the date donated. The School generally capitalizes assets with cost of \$1,000 or more. Building improvements, additions and other capital outlays that significantly extend the useful life of an asset are capitalized. The costs of normal maintenance and repairs that do not add to the asset value or materially extend useful lives are not capitalized. Capital assets are depreciated using the straight-line method. When capital assets are disposed, the cost and applicable accumulated depreciation are removed from the respective accounts, and the resulting gain or loss is recorded in operations. Estimated useful lives, in years, for depreciable assets are as follows:

|   |            |
|---|------------|
| Leasehold improvements                      | 4 Years    |
| Furniture, Fixtures and Equipment           | 5-10 Years |
| Computer, Software, and Internet Technology | 3-5 Years  |
| Building                                    | 40 Years   |

**Note 1 – Summary of Significant Accounting Policies (continued)**

Revenue Sources

Revenues for operations will be received primarily from the District pursuant to the funding provisions included in the School's charter. In accordance with the funding provisions of the charter and Section 1002.33, Florida Statutes, the School will report the number of full-time equivalent (FTE) students and related data to the District. Under the provisions of Section 1011.62, Florida Statutes, the District reports the number of the full-time equivalent (FTE) students and related data to the Florida Department of Education (FDOE) for funding through the FEFP. Funding for the School is adjusted during the year to reflect the revised calculations by the FDOE under the FEFP and the actual weighted full-time equivalent students reported by the School during the designated full-time equivalent student survey periods. After review and verification of FTE reports and supporting documentation, the FDOE may adjust subsequent fiscal period allocations of FEFP funding for prior year errors disclosed by its review as well as to prevent statewide allocations from exceeding the amount authorized by the Legislature. Normally, such adjustments are treated as reductions of revenue in the year the adjustment is made. In addition, the school receives an annual allocation of charter school capital outlay funds for leasing of school facilities.

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

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

Compensated Absences

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

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

**Note 1 – Summary of Significant Accounting Policies (continued)**

Income Taxes

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

Subsequent Events

In accordance with GASB Codification Section 2250.106, the School has evaluated subsequent events and transactions for potential recognition or disclosure through August 30, 2017 which is the date the financial statements were available to be issued.

Order of Fund Balance Spending Policy

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

Restricted Assets

Restricted assets include short term investments that are related to amounts that the School is required to segregate in connection with the issuance of bonds, including sinking fund and reserve requirements, as well as amounts segregate for the construction of the School Miami Campus. The indenture of Trust requires the establishment of Funds for the bonds and accounts within such funds, all of which shall be special trust funds and accounts held by the Trustee. At June 30, 2017, composition of restricted account is as follows:

|                                 |                     |
|---------------------------------|---------------------|
| <u>Debt Service Reserve</u>     |                     |
| Interest fund-Series 2014A      | \$ -                |
| Interest fund-Series 2014B      | -                   |
| Sinking Fund                    | 2,575,000           |
| Debt Service Reserve            | -                   |
|                                 | <u>\$ 2,575,000</u> |
| <br><u>Capital Project Fund</u> |                     |
| Project Fund-Series 2014A       | \$ -                |
| Project Fund-Series 2014B       | 227,360             |
| Reserve and Replenish Fund      | 115,115             |
|                                 | <u>\$ 342,475</u>   |

## **Note 1 – Summary of Significant Accounting Policies (continued)**

### Net Position and Fund Balance Classifications

#### *Government-wide financial statements*

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

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

#### *Fund financial statements*

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

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



## **Note 1 – Summary of Significant Accounting Policies (continued)**

### Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

## **Note 2 – Cash, Cash Equivalents and Investments**

### Deposits

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

### Investments

The School categorizes its fair value measurements within the fair value hierarchy established by GASB Codification Section 3100 Fair Value Measurement and Application. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in markets for identical assets; Level 2 inputs are significant other observable inputs (including quoted prices for similar investments, interest rates, credit risk, etc.); Level 3 inputs are significant unobservable inputs.

At June 30, 2017, the School has the following recurring fair value measurements:

- Government money market mutual fund of \$2,917,475 valued using Level 2 inputs.

The government money market mutual fund values its portfolio securities at amortized cost which approximates fair value. The government money market mutual fund primarily invests in cash, high quality, short-term U.S. government securities and/or repurchase agreements that are collateralized fully by government securities that have been valued by the fund as Level 2. As of June 30, 2017, the maturities of the fund's portfolio holdings are approximately 79% within 30 days.

### Credit Risk

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

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

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

For an investment, custodial credit risk is the risk that in the event of the failure of the counterparty to a transaction, the School will not be able to recover the value of investments or collateral securities that are in the possession of an outside party. At June 30, 2017, all of the School's investments in government money market mutual funds were held in a separate account and designated as assets of the School.

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

**Note 3 –Capital Assets**

The following schedule provides a summary of changes in capital assets, acquired substantially with public funds, for the year ended June 30, 2017:

|                                       | Balance<br>7/1/2016  | Additions            | Transfers             | Balance<br>6/30/2017 |
|---------------------------------------|----------------------|----------------------|-----------------------|----------------------|
| Capital assets, not being depreciated |                      |                      |                       |                      |
| Land                                  | \$ 6,746,070         | \$ -                 | \$ -                  | \$ 6,746,070         |
| Construction in progress              | 21,087,555           | 9,815                | (21,097,370)          | -                    |
| Capital assets, depreciable           |                      |                      |                       |                      |
| Building and fixed equipment          | -                    | 21,097,370           | -                     | 21,097,370           |
| Leashold improvements                 | 282,875              | 49,503               | -                     | 332,378              |
| Furniture, fixtures and equipment     | 889,359              | 199,931              | -                     | 1,089,290            |
| Computers, software and internet      | 239,140              | 435,995              | -                     | 675,135              |
|                                       | <u>29,244,999</u>    | <u>21,792,614</u>    | <u>(21,097,370)</u>   | <u>29,940,243</u>    |
| Less Accumulated Depreciation         | (796,116)            | (789,237)            | -                     | (1,585,353)          |
| Capital Assets, net                   | <u>\$ 28,448,883</u> | <u>\$ 21,003,377</u> | <u>\$(21,097,370)</u> | <u>\$ 28,354,890</u> |

Depreciation and amortization expense for the year ended June 30, 2017, amounted to \$789,237.

**Note 4 – Management Agreement – related party**

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

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

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

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

**Note 5 – Long Term Debt**

Revenue Bond

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

**Note 5 – Long Term Debt (continued)**

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

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

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

Revenue bond debt service requirements to maturity are as follows:

**Series 2014A Bonds:**

| Year Ending June 30, | Principal   | Interest    |
|----------------------|-------------|-------------|
| 2018                 |             | \$1,770,825 |
| 2019                 |             | \$1,770,825 |
| 2020                 |             | \$1,770,825 |
| 2021                 |             | \$1,770,825 |
| 2022                 |             | \$1,770,825 |
| 2023-2027            | \$3,025,000 | \$8,582,343 |
| 2028-2032            | \$4,860,000 | \$7,431,856 |
| 2033-2037            | \$6,495,000 | \$5,799,754 |
| 2038-2042            | \$8,725,000 | \$3,569,700 |
| 2043-2044            | \$6,895,000 | \$599,550   |

**Series 2014B Bonds:**

| Year Ending June 30, | Principal | Interest  |
|----------------------|-----------|-----------|
| 2018                 | \$520,000 | \$284,037 |
| 2019                 | \$560,000 | \$242,962 |
| 2020                 | \$605,000 | \$198,594 |
| 2021                 | \$650,000 | \$150,931 |
| 2022                 | \$695,000 | \$143,763 |
| 2023                 | \$765,000 | \$143,763 |



## Note 5 – Long Term Debt (continued)

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

### Long-term debt – related party

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

Long term debt activity for the year ended June 30, 2017 was as follows:

| Governmental activities:                              | Beginning<br>Balance | Advances/<br>(Payments) | Amortization     | Ending<br>Balance    | Due within<br>One Year |
|---|----------------------|-------------------------|------------------|----------------------|------------------------|
| Educational Facilities Revenue<br>Bonds, Series 2014A | \$ 30,000,000        | \$ -                    |                  | \$ 30,000,000        | \$ -                   |
| Educational Facilities Revenue<br>Bonds, Series 2014B | 4,275,000            | (480,000)               |                  | 3,795,000            | 520,000                |
| Bond Discount   | (1,074,107)          |                         | 37,425           | (1,036,682)          |                        |
| Note payable-related parties                          | 250,000              | 50,000                  |                  | 300,000              | 300,000                |
| Total   | <u>\$ 33,450,893</u> | <u>\$ (430,000)</u>     | <u>\$ 37,425</u> | <u>\$ 33,058,318</u> | <u>\$ 820,000</u>      |

## Note 6 – Commitments, Contingencies and Concentrations

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



**Note 6 – Commitments, Contingencies and Concentrations (continued)**

Future minimum payments are as follows:

| Year      | Amount      |
|-----------|-------------|
| 2018      | \$1,170,000 |
| 2019      | \$1,560,000 |
| 2020      | \$1,560,000 |
| 2021      | \$1,560,000 |
| 2022      | \$1,560,000 |
| 2023-2027 | \$7,800,000 |
| 2028-2032 | \$7,800,000 |
| 2033-2037 | \$7,800,000 |
| 2038-2039 | \$2,340,000 |

Contingencies and Concentrations

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

**Note 7 - Capital Lease**

The School leases certain machinery and equipment under agreements that are classified as capital leases. The cost of equipment under capital leases is included in the Balance Sheets as property, plant, and equipment and was \$407,323 at June 30, 2017. Accumulated amortization of the leased equipment at June 30, 2017, was approximately \$85,097. Amortization of assets under capital leases is included in depreciation expense.

**Capital Lease (continued)**

The future minimum lease payments required under the capital leases and the present value of the minimum lease payments as of June 30, 2017, are as follows:

|   | Year<br>Ending<br>June 30 | Amount            |
|---|---------------------------|-------------------|
|   | 2018                      | \$ 127,938        |
|   | 2019                      | 127,938           |
|   | 2020                      | 65,062            |
|   | 2021                      | 39,152            |
|   | 2022                      | <u>6,525</u>      |
| Total minimum lease payments                          |                           | 366,615           |
| Less: Amount representing interest                    |                           | (31,135)          |
| Present value of minimum lease payments               |                           | 335,480           |
| Less: Current maturities of capital lease obligations |                           | (109,642)         |
| Long - term capital lease obligation                  |                           | <u>\$ 225,838</u> |

**Note 8 – Risk Management**

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

## REQUIRED SUPPLEMENTARY INFORMATION

Miami Arts, Inc.  
(A charter school)  
Statement of Revenues, Expenditures, and Changes in Fund Balance - General fund  
For the year ended June 30, 2017

|                                   | General Fund    |               |               |
|-----------------------------------|-----------------|---------------|---------------|
|                                   | Original Budget | Final Budget  | Actual        |
| REVENUES                          |                 |               |               |
| State passed through local        | \$ 11,085,630   | \$ 11,085,630 | \$ 10,787,084 |
| Other revenues                    | -               | -             | 125,813       |
| Total Revenues                    | 11,085,630      | 11,085,630    | 10,912,897    |
| EXPENDITURES                      |                 |               |               |
| Current:                          |                 |               |               |
| Instruction                       | 4,286,716       | 4,286,716     | 4,450,973     |
| Instructional related technology  | 221,739         | 221,739       | 178,080       |
| Pupil personnel services          | 346,412         | 346,412       | 339,492       |
| Board                             | 19,500          | 19,500        | 25,186        |
| General administration            | 30,700          | 30,700        | 62,518        |
| School administration             | 1,016,436       | 1,016,436     | 829,806       |
| Fiscal services                   | 163,880         | 163,880       | 164,062       |
| Food service                      | -               | -             | 1,330         |
| Pupil transportation services     | 2,800           | 2,800         | 2,535         |
| Central services                  | 144,000         | 144,000       | 190,515       |
| Operation of plant                | 1,656,748       | 1,656,748     | 1,659,796     |
| Maintenance of plant              | 167,157         | 167,157       | 169,071       |
| Total current expenditures        | 8,056,088       | 8,056,088     | 8,073,364     |
| Excess of revenues                |                 |               |               |
| Over current expenditures         | 3,029,542       | 3,029,542     | 2,839,533     |
| Debt service:                     |                 |               |               |
| Capital outlay:                   |                 |               |               |
| Other capital outlay              | -               | -             | -             |
| Total capital outlay and          |                 |               |               |
| Debt service expenditures         | -               | -             | -             |
| Total expenditures                | 8,056,088       | 8,056,088     | 8,073,364     |
| Excess of revenues                |                 |               |               |
| Over expenditures                 | 3,029,542       | 3,029,542     | 2,839,533     |
| Other financing sources:          |                 |               |               |
| Advances from related party       | -               | -             | 50,000        |
| Transfers out                     | (2,573,180)     | (2,573,180)   | (2,656,257)   |
| Net change in fund balance        | 456,362         | 456,362       | 233,276       |
| Fund balance at beginning of year | (363,323)       | (363,323)     | (363,323)     |
| Fund balance at end of year       | \$ 93,039       | \$ 93,039     | \$ (130,047)  |

Notes to Budgetary Comparison Schedule

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

Miami Arts, Inc.

(A charter school)

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

For the year ended June 30, 2017

|                                   | Debt Service Fund |              |              |
|-----------------------------------|-------------------|--------------|--------------|
|                                   | Original Budget   | Final Budget | Actual       |
| REVENUES                          |                   |              |              |
| Other revenues                    | \$ -              | \$ -         | \$ 3,872     |
| Total Revenues                    | -                 | -            | 3,872        |
| EXPENDITURES                      |                   |              |              |
| Current:                          |                   |              |              |
| Instruction                       | -                 | -            | -            |
| Total current expenditures        | -                 | -            | -            |
| Excess of revenues                |                   |              |              |
| Over current expenditures         | -                 | -            | 3,872        |
| Debt service:                     |                   |              |              |
| Repayment of principal            | 480,000           | 480,000      | 480,000      |
| Amortization of bond premium      | -                 | -            | (37,425)     |
| Interest                          | 2,093,180         | 2,093,180    | 2,217,562    |
| Capital outlay:                   |                   |              |              |
| Other capital outlay              | -                 | -            | -            |
| Total capital outlay and          |                   |              |              |
| Debt service expenditures         | 2,573,180         | 2,573,180    | 2,660,137    |
| Total expenditures                | 2,573,180         | 2,573,180    | 2,660,137    |
| Excess of revenues                |                   |              |              |
| Over expenditures                 | (2,573,180)       | (2,573,180)  | (2,656,265)  |
| Other financing sources           |                   |              |              |
| Transfers in                      | -                 | -            | 2,656,257    |
| Net change in fund balance        |                   |              | (8)          |
| Fund balance at beginning of year | 2,488,969         | 2,488,969    | 2,488,969    |
| Fund balance at end of year       | \$ 2,488,969      | \$ 2,488,969 | \$ 2,488,961 |



Miami Arts, Inc.

(A charter school)

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

For the year ended June 30, 2017

|  | Capital Projects Fund |              |            |
|--|-----------------------|--------------|------------|
|  | Original Budget       | Final Budget | Actual     |
| REVENUES                                 |                       |              |            |
| State capital outlay funding             | \$ -                  | \$ -         | \$ 638,564 |
| In-kind rent revenue                     | -                     | -            | -          |
| Total Revenues                           | -                     | -            | 638,564    |
| EXPENDITURES                             |                       |              |            |
| Current:                                 |                       |              |            |
| Operation of plant                       | -                     | -            | 36,739     |
| Total current expenditures               | -                     | -            | 36,739     |
| Excess of revenues                       |                       |              |            |
| Over current expenditures                | -                     | -            | 601,825    |
| Debt service:                            |                       |              |            |
| Repayment of principal                   | -                     | -            | -          |
| Interest                                 | -                     | -            | 18,039     |
| Capital outlay:                          |                       |              |            |
| Other capital outlay                     | -                     | -            | 695,244    |
| Total capital outlay and                 |                       |              |            |
| Debt service expenditures                | -                     | -            | 713,283    |
| Total expenditures                       | -                     | -            | 750,022    |
| Excess of revenues                       |                       |              |            |
| Over expenditures                        | -                     | -            | (111,458)  |
| Other financing sources:                 |                       |              |            |
| Acquisition of assets thru capital lease | -                     | -            | 407,323    |
| Repayment of capital lease obligations   | -                     | -            | (71,843)   |
| Net change in fund balance               | -                     | -            | 224,022    |
| Fund balance at beginning of year        | 118,453               | 118,453      | 118,453    |
| Fund balance at end of year              | \$ 118,453            | \$ 118,453   | \$ 342,475 |

Notes to Budgetary Comparison Schedule

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

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL  
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF  
FINANCIAL STATEMENTS PERFORMED IN  
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Miami Arts, Inc. (the "School") as of, and for the year ended June 30, 2017, 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 30, 2017.

Internal Control Over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

#### Compliance and Other Matters

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

We noted certain matters that were reported to management in a separate management letter dated August 30, 2017 pursuant to Chapter 10.850, Rules of the Auditor General.

#### Purpose of this report

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

  
CERTIFIED PUBLIC ACCOUNTANTS

Coral Gables, Florida  
August 30, 2017



## MANAGEMENT LETTER

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

### Report on the Financial Statements

We have audited the financial statements of the governmental activities and each major fund of Miami Arts, Inc. as of and for the year ended June 30, 2017 and have issued our report thereon dated August 30, 2017.

### Auditor's Responsibility

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and Chapter 10.850, Rules of the Auditor General.

### Other Reports and Schedules

We have issued our Independent Auditors' Report on Internal Control over Financial Reporting and Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with *Government Auditing Standards*. Disclosure in those reports, which are dated August 30, 2017 should be considered in conjunction with this management letter.

### Prior Audit Findings

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

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

### Official Title

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

### Financial Condition

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

## **Official Title**

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

## **Financial Condition**

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

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

## **Transparency**

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

## **Other Matters**

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

### **ML – 17-01 JOURNAL ENTRIES**

#### Observation

During the current year audit, we noted that journal entries are not supported by documentary evidence or authorization.

#### Recommendation

All journal entries should have documented authorization and should be supported by worksheets, invoices, explanations or other supporting documentation.

#### Management's response

Management reviewed this auditor's note and consulted with staff and the auditor to ensure that no material inconsistency affecting the financial statements could have been caused due to the journal entries mentioned. In the future, journal entries shall not be entered without proper documentation and support on file



**Official Title**

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

**Financial Condition**

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

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

**Status of Prior Year Findings and Recommendations****ML – 16-02 SEGREGATION OF DUTIES**Observation

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

Recommendation

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

Status

During the current year audit, it was determined that the School hired a Treasurer and was able to satisfactorily address the issue of segregation of duties.

**Purpose of this Letter**

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

  
CERTIFIED PUBLIC ACCOUNTANTS

Coral Gables, Florida  
August 30, 2017