

Rise Academy - South Dade Charter School
(A charter school under Rise Schools, Inc.)

Florida City, Florida

Financial Statements And
Independent Auditors' Report

June 30, 2009

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Rise Academy - South Dade Charter School
(A charter school under Rise Schools, Inc.)

103 East Lucy Street, Suite 151
Florida City, Florida 33034

2008-2009

Board of Directors

Amy Rubinson, Chairwoman
William Jones
Jeff Meran (Through March 2009)
John Crary

School Administration

Gemma Torcivia, Executive Director

INDEPENDENT AUDITORS' REPORT

Board of Directors
Rise Academy - South Dade Charter School
Florida City, Florida

We have audited the accompanying basic financial statements of the governmental activities and each major fund of Rise Academy - South Dade Charter School (the "School"), a charter school under Rise Schools, Inc., which is a component unit of the District School Board of Miami-Dade County, as of, and for the year ended June 30, 2009, which collectively comprises the School's basic financial statements as listed in the table of contents. These basic financial statements are the responsibility of the School's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the accompanying financial statements referred to above present only the financial position of Rise Academy - South Dade Charter School at June 30, 2009, and the respective changes in financial position for the year then ended, and is not intended to be a complete presentation of Rise Schools, Inc.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities and each major fund of Rise Academy - South Dade Charter School as of June 30, 2009, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 8, 2009, on our consideration of the School's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis and the budgetary comparison information on pages 4 through 10 and 23 through 24, respectively, are not a required part of the basic financial statements but are supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

HLB Gammie, CPA

CERTIFIED PUBLIC ACCOUNTANTS

Coral Gables, Florida
September 8, 2009

Management's Discussion and Analysis
Rise Academy - South Dade Charter School
(A Charter School Under Rise Schools, Inc.)
June 30, 2009

The corporate officers of Rise Academy - South Dade Charter School have prepared this narrative overview and analysis of the School's financial activities for the fiscal year ended June 30, 2009.

Financial Highlights

1. The liabilities of the School exceeded its assets at June 30, 2009 by \$(244,922) (net asset deficit).
2. At year-end, the School had current assets on hand of \$34,388.
3. The net assets of the School decreased by \$(244,922) during the year.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the School's basic financial statements. The School's financial statements for the year ended June 30, 2009 are presented under GASB 34. 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 Assets* presents information on all of the School's assets and liabilities. The difference between the two is reported as *net assets*. Over time increases or decreases in net assets 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 assets changed during the fiscal year. All changes in net assets 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 periods.

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.

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 - 12 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 17 - 22 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net assets may serve over time as a useful indicator of a charter school’s financial position. A summary of the School’s net assets as June 30, 2009 follows:

	2009
Cash	\$ 34,388
Due from Other Agencies	-
Prepaid expenses	-
Capital Assets, net	24,094
Total Assets	<u>\$ 58,482</u>
Accounts Payable and accruals	\$
	103,404
Notes payable	200,000
Total Liabilities	<u>\$ 303,404</u>
Invested in Capital Assets	24,094
Unrestricted	(269,016)
Total Net Assets	<u>\$ (244,922)</u>

A summary and analysis of the School's revenues and expenses from inception through June 30, 2009 follows:

	<u>2009</u>
REVENUES	
Program Revenues	
Operating Grants and Contributions	\$ 114,950
Capital Outlay Funding	-
General Revenues	
FTE nonspecific revenues	<u>1,232,367</u>
Total Revenues	<u>\$ 1,347,317</u>
EXPENSES	
Instruction	\$ 706,041
Curriculum Development	47,962
School Administration	230,046
Fiscal Services	62,751
Food Services	89,905
Operation of Plant	368,517
Community services	80,993
Unallocated Depreciation	<u>6,024</u>
Total Expenses	<u>1,592,239</u>
Decrease in Net Assets	(244,922)
Net Assets at Beginning of Year	-
Net Assets at End of Year	<u>\$ (244,922)</u>

The 2008-2009 school-year was the first year of operation for the School. Accordingly, the financial statement has no comparison with prior year results. Comparative analysis will be provided in future years when prior year information is available.

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

At the end of the fiscal year, the School's governmental fund reported a negative fund balance of \$(244,922)

Capital Assets

Rise plans to only increase its capital asset base over the next one to two fiscal years with items that are essential to the education of its students. These will be limited to textbooks and other PP&E which is a part of everyday learning, such as lab equipment and desks, and possibly technology-related purchases. Throughout the next fiscal year (and beyond), Rise plans on remaining at its current location (103 E. Lucy St.) as a tenant, and is seeking to minimize its purchase of durable capital assets. If and when such capital asset purchases are made, Rise will depreciate them per the suggestions of its audit firm.

Governmental Fund Budget Analysis and Highlights

Prior to the start of the School's fiscal year, the Board of the School adopted an annual budget. A budgetary comparison statement has been provided for the governmental funds to demonstrate compliance with the School's budget.

	Governmental Funds		
	Original Budget	Final Budget	Actual
REVENUES			
Program Revenues			
Operating Grants and Contributions	\$ 178,654	\$ 101,345	\$ 95,153
Capital Outlay Funding		-	-
General Revenues			
FTE nonspecific revenues	1,438,654	1,309,801	1,232,367
Other	185,750	25,578	19,797
Total Revenues	<u>1,803,058</u>	<u>1,436,724</u>	<u>1,347,317</u>
EXPENDITURES			
Instruction	\$ 494,633	502,389	\$ 706,041
Curriculum Development	50,000	50,000	47,962
School Administration	187,683	199,625	230,046
Fiscal Services	21,896	23,365	62,751
Food Services	33,250	35,841	89,905
Operation of Plant	209,876	210,985	368,517
Community services	91,867	92,500	80,993
Capital Outlay	25,452	25,452	30,118
Total Expenditures	<u>\$ 1,114,657</u>	<u>\$ 1,140,157</u>	<u>\$ 1,616,333</u>

Variances between the school's Original Budget and Final Budget was driven on the Revenue side by changes in expected enrollment for the 2008-2009 academic year (actual enrollment relative to expected enrollment accounted for the majority of the difference between the final budgeted revenues and actual revenues).

Expectations regarding the receipt of additional funding (coming from grants and third-party donations) were also materially revised downward when the processes and timing of obtaining such funds were better understood by management.

Another major factor for the variances between the school's Original and Final Budget came from the expense side, in particular the Operation of Plant and Food Services line items. With respect to the Operation of Plant, the original location that Rise had selected was not available in time for the academic year, and another, (significantly) more costly location was leased approximately two weeks prior to the school year starting. With respect to the Food Services line item, management had anticipated full participation in the National School Lunch Program, which would have covered the bulk of the food costs at the school. Participation was not realized during this past fiscal year and as such, Food Service expenses were higher than anticipated.

Financial Recovery Plan

Effective August 1, 2009, a Financial Recovery Plan has been put in place with the goal of improving the fiscal health of Rise Schools and Rise Academy South Dade. The Financial Recovery Plan is in the process of being implemented with completion expected sometime in the first calendar quarter of 2010. The Financial Recovery Plan is built on the following three underlying principles and is outlined below, in draft form:

I. Increasing Revenues

- a. Raising student enrollment (197 students last academic year, projected enrollment for this academic year of between 240 and 265). This translates to an increase in top-line revenue of between 20% and 33%. Given the fixed-cost nature of education (with facilities and faculty accounting for up to 75% of the annual budget), this increase in student enrollment will have a material impact on the school's bottom line.
- b. Obtaining an increase in public funding through grants that are available this year, most notably Title 1 and the National School Lunch Program (NSLP). Participation in Title 1 should yield Rise an additional \$53,000 in funding, while participation in the NSLP will cover approximately 75% of food costs throughout the year.
- c. Completion of formal designation of 501(c) status (non-profit/tax exempt), thereby allowing Rise Schools to become eligible for increased donations from the private sector and various grants offered by both government and non-profit organizations. This process has been underway since earlier this calendar year. Rise recently responded to an information request from the Internal Revenue Service, and expects to receive a favorable ruling from them in the near future.

II. Lowering Expenses

- a. New facilities have been located which have reduced annual base rent from \$266,000 to \$157,025— a savings of \$108,975. This has been the most material event to transpire since June 30, 2009. On June 10, 2009, the counsel of Rise Schools sent a notice to its then landlord, Work America, of breaches of its lease with Rise. Work America was informed that, due to their inability to deliver space previously agreed to in the lease in a timely fashion; Rise Schools had no choice but to terminate the lease. This breach of lease and subsequent termination has allowed Rise to seek space which is considerably cheaper and is being built out to their specifications. Furthermore, this new lease has allowed us to consolidate into one location (from 2).

- b. Employee payroll on a per student basis has been reduced drastically (by approximately 30%). Furthermore, consolidating into one building (from two) has reduced Rise's administrative overhead expenses.
- c. Certain expenses, such as food costs, are being recalibrated so that the bulk of these costs can be directly offset by specific program funding. Rise is also in the process of receiving grant funds for other specific education-related costs (text books).
- d. A thorough review of all vendor relationships is underway to ensure the School's procurement process is as cost-effective as possible.
- e. A thorough review relating to the timing of expenses in efforts to better Rise's cash position while managing its accounts payable against its revenue stream(s).

III. Mitigating Risk

- a. All accounts payable are currently being negotiated, and payment plans are being put in place so that Rise ends this fiscal year with minimal liabilities. Invoices in which Rise feels they have been mischarged and/or overcharged are also being actively disputed with their respective vendors.
- b. Systems/controls are being put in place to all for all payments and billings, with the goal of increasing transparency, improving reporting (both internal and external), and allowing for more timely payment to all vendors.
- c. Jay Lipsey has been brought on board to the Rise Schools team as of July 1, 2009. While initially hired on part-time basis, it was quickly determined that he would be needed full time in efforts to both bring the School into a financial sound position and keep it there. Jay's primary responsibilities relate to the implementation of this Financial Recovery Plan.
- d. A large portion (50% or greater) of executives' salaries are being deferred until the School's cash position improves.
- e. Alternatives are being examined which may bolster the long-term viability of Rise Schools and its commitment to providing a college-preparatory education to low-income populations.

It is our belief that upon the implementation of this Financial Recovery Plan, the fiscal position of Rise Schools will start to improve materially, and continue on a positive trend throughout this fiscal year and going forward.

Highlights

Among the highlights for Rise Schools Inc./Rise Academy-South Dade Charter School for the 2008-09 fiscal year were:

- Starting the school from the ground up, with no previous track record
- Enrolling over 180 students at the school, and providing them with a world-class education
- Sorting out facilities issues, which included being at its temporary location and preparing for its transfer to its now current location at 103 E. Lucy Street
- Obtaining a \$200,000 loan from Building Hope, which has allowed Rise to leverage the services it provides to its students
- Implementing operational systems which will guide future academic and fiscal years
- Applying for various grants and other sources of funding, including Title I and National School Lunch Program, which will strengthen the school's ability to provide resources for its students
- Achieving a high level of parental/student and teacher satisfaction, as evidenced by a high percentage of students and teachers returning to Rise for the following (2009-10) academic year
- Becoming an educational establishment within the Homestead/Florida City Community
- Cementing our relationship with both local government officials and the Miami-Dade County Public School System, this continues to be an ongoing undertaking and a priority of Rise's executive management.
- Began establishing procurement/vendor relations, which is enabling Rise to purchase the goods and services that it needs for its day-to-day operations.
- Began its application, soon to be completed, for tax exemption status as a 501(c)(3) designated entity.
- Taken material steps to remedy any financial duress that may have risen out of its first year of operation.
- Taken material steps to lower its operating costs, specifically vis-à-vis its student body count, for its future academic years. This was achieved predominantly by moving to a materially least costly space, and improving its student-to-teacher ratio (while still keeping in line with any rules and regulations that the School is subject to).

Requests for Information

This financial report is intended to provide a general overview of the finances of the School. Requests for additional information may be addressed to Ms. Gemma Torcivia at 103 East Lucy Street, Florida City, Florida, 33034.

Rise Academy - South Dade Charter School
(A charter school under Rise Schools, Inc)

Statement of Net Assets
June 30, 2009

Assets

Current assets:	
Cash	\$ 34,388
	<u>34,388</u>
Capital assets, depreciable	30,118
Less: accumulated depreciation	<u>(6,024)</u>
	<u>24,094</u>
Total Assets	<u>\$ 58,482</u>

Liabilities and Net assets

Current liabilities:	
Accounts payable	10,148
Note payable	200,000
Wages and payroll taxes payable	93,256
Total Liabilities	<u>\$ 303,404</u>
Net assets:	
Invested in capital assets	24,094
Unrestricted	<u>(269,016)</u>
Total Net Assets	<u>(244,922)</u>
Total Liabilities and Net Assets	<u>\$ 58,482</u>

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

Rise Academy - South Dade Charter School
 (A charter school under Rise Schools, Inc)

Statement of Activities
 From inception through June 30, 2009

FUNCTIONS	Program Revenues				Net (Expense) Revenue and Changes in Net Assets
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Governmental activities:					
Instruction	\$ 706,041	\$ -	\$ 95,153	\$ -	\$ (610,888)
Curriculum development	47,962	-	-	-	(47,962)
School administration	230,046	-	-	-	(230,046)
Fiscal services	62,751	-	-	-	(62,751)
Food services	89,905	791	-	-	(89,114)
Pupil transportation services	-	1,218	-	-	1,218
Operation of plant	368,517	-	-	-	(368,517)
Community Services	80,993	8,050	-	-	(72,943)
Unallocated depreciation	6,024				(6,024)
Total governmental activities	<u>1,592,239</u>	<u>10,059</u>	<u>95,153</u>	<u>-</u>	<u>(1,487,027)</u>
					1,232,367
					9,738
					<u>(244,922)</u>
					-
					<u>\$ (244,922)</u>

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

Rise Academy - South Dade Charter School
 (A charter school under Rise Schools, Inc)

Balance Sheet - Governmental Funds
 June 30, 2009

	General Fund	Special Revenue Fund	Total Governmental Funds
<u>Assets</u>			
Cash	\$ 34,388	\$ -	\$ 34,388
Total Assets	<u>\$ 34,388</u>	<u>\$ -</u>	<u>\$ 34,388</u>
<u>Liabilities</u>			
Salaries and wages payable	\$ 93,256	\$ -	\$ 93,256
Accounts payable	10,148	-	10,148
Note Payable	200,000	-	200,000
Total Liabilities	<u>303,404</u>	<u>-</u>	<u>303,404</u>
<u>Fund balance</u>			
Reserved	-	-	-
Unreserved	(269,016)	-	(269,016)
	<u>(269,016)</u>	<u>-</u>	<u>(269,016)</u>
Total Liabilities and Fund Balance	<u>\$ 34,388</u>	<u>\$ -</u>	<u>\$ 34,388</u>

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

Rise Academy - South Dade Charter School
(A charter school under Rise Schools, Inc)

Reconciliation of the Governmental Fund Balance Sheet to the Statement of Net Assets
From inception through June 30, 2009

Total Fund Balance - Governmental Funds \$ (269,016)

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

Capital assets of \$30,118 net of accumulated depreciation of \$6,024 used in governmental activities are not financial resources and therefore are not reported in the fund. 24,094

Total Net Assets - Governmental Activities \$ (244,922)

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

Rise Academy - South Dade Charter School
(A charter school under Rise Schools, Inc)

Statement of Revenues, Expenditures, and Changes in Fund Balance
From inception through June 30, 2009

	General Fund	Special Revenue Fund	Total Governmental Funds
Revenues:			
State passed through local	\$ 1,232,367	\$ -	\$ 1,232,367
Other local grants	-	95,153	95,153
Charges and other revenue	19,797	-	19,797
Total Revenues	1,252,164	95,153	1,347,317
Expenditures:			
Current			
Instruction	610,888	95,153	706,041
Curriculum development	47,962	-	47,962
Instructional staff training	-	-	-
School administration	230,046	-	230,046
Fiscal services	62,751	-	62,751
Food services	89,905	-	89,905
Central services	-	-	-
Operation of plant	368,517	-	368,517
Maintenance of plant	-	-	-
Community Services	80,993	-	80,993
Capital Outlay:			
Other capital outlay	30,118	-	30,118
Debt Service:			
Redemption of Principal	-	-	-
Interest	-	-	-
Total Expenditures	1,521,180	95,153	1,616,333
Excess (deficit) of revenues over expenditures	(269,016)	-	(269,016)
Other financing sources			
Proceeds from long-term debt	-	-	-
Net change in fund balance	(269,016)	-	(269,016)
Fund Balance at beginning of year	-	-	-
Fund Balance at end of year	\$ (269,016)	\$ -	\$ (269,016)

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

Rise Academy - South Dade Charter School
(A charter school under Rise Schools, Inc)

Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balance
of Governmental Funds to the Statement of Activities
From inception through June 30, 2009

Net Change in Fund Balance - Governmental Funds \$ (269,016)

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 \$30,118, exceed depreciation expense of \$6,024.

24,094

Change in Net Assets of Governmental Activities

\$ (244,922)

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

Note 1 – Organization and Operations

Rise Academy - South Dade Charter School (the "School"), is a charter school under Rise Schools, Inc., not-for-profit corporation organized in the State of Florida. The governing body of the School is the board of directors of Rise Schools, Inc. The School operates under a charter granted by the sponsoring district, the District School Board of Miami-Dade County (the "District"). The current charter is for a ten year term and expires on June 30, 2018. If eligible, the School may renew its charter for an additional 15 years 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 is considered a component unit of such District. The School is located in Florida City, Florida for students from kindergarten through eighth grade and is funded by the District. Enrollment at the school is limited for the initial years as follows:

- Year 1: 2008-2009 – Grades K-1 and 6 – up to 400 students
- Year 2: 2009-2010 – Grades K-2 and 6-7 – up to 600 students
- Year 3: 2010-2011 – Grades K-3 and 6-8 – up to 800 students

These financial statements are for the first school year of operations, which ended June 30, 2009, and when approximately 197 students were enrolled for the school year.

Note 2 – Summary of Significant Accounting Policies

Basis of presentation

Based on the guidance provided in the American Institute of Certified Public Accountants Audit and Accounting Guide – Audits for States and Local Governments and provisions of Florida Statutes, the School is presented as a governmental organization for financial statement reporting purposes. These statements also do not include fiduciary funds.

Government-wide and Fund Financial Statements

Government-wide Financial Statements

The government-wide financial statements include the statement of net assets and the statement of activities. These statements report information for the School as a whole. Both statements report only governmental activities as the School does not engage in any business type activities. These statements also do not include fiduciary activities.

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: (1) charges for services which report fees; (2) operating grants and contributions which finance annual operating activities; and (3) capital grants and contributions which fund the acquisition, construction, or rehabilitation of capital assets. These revenues are subject to externally imposed restrictions to these program uses. Other revenue sources not properly included with program revenues are reported as general revenues.

Note 2 – Summary of Significant Accounting Policies (continued)

Fund Financial Statements

Fund financial statements are provided for governmental funds. The operations of the funds are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, equity, revenues and expenditures. Major individual governmental funds, namely, the general and special revenue 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.

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

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) pronouncements. The government-wide financial statements apply Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails.

The government-wide statements report using 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. Revenues from non-exchange transactions are reported according to Governmental Accounting Standards Board (GASB) Statement No. 33 Accounting and Financial Reporting for Non-Exchange Transactions, as amended by GASB Statement No. 36 Recipient Reporting for Certain Shared Non-Exchange Revenues, they include grants and donations. On the accrual basis, revenues from grants and donations are recognized 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 current liabilities. The School considers revenues to be available if they are collected within 60 days of the end of the fiscal year. 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.

Note 2 – Summary of Significant Accounting Policies (continued)

Cash

Cash and cash equivalents include all highly liquid investments with a maturity of three months or less.

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 assets 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 \$500 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:

Furniture, Equipment and Software	5 Years
Textbooks and reference books	3 Years

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 Florida Education Finance Program. Funding for the School is adjusted during the year to reflect the revised calculations by the FDOE under the Florida Education Finance Program and the actual weighted full-time equivalent students reported by the School during the designated full-time equivalent student survey periods. In addition, the school may receive an annual allocation of charter school capital outlay funds. No capital outlay funds were received in 2009.

Note 2 – Summary of Significant Accounting Policies (continued)

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. No federal funds were received during 2009. Additionally, other revenues may be derived from various fundraising activities and certain other programs.

Compensated Absences

The School grants a specific number of days of sick leave. Full time instructional employees are eligible for six days annually. In the event that available time is not used by the end of the benefit year, employees may not “rollover” any unused days for use in future benefit years.

Government Accounting Standards Board (GASB) Statement 16, 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.

Income Taxes

Rise Schools, Inc. has applied to qualify as a tax-exempt organization under Internal Revenue Code Section 501(c)(3). Management believes that they will be granted the tax exemption under IRC Section 501(c)(3). Accordingly, no tax provision has been made in the accompanying financial statements.

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 3 – Deposits Policy and Credit Risk

It is the School's policy to maintain its cash and cash equivalents in major banks and in high grade investments. As of June 30, 2009, the carrying amount of the School's deposits was \$34,388 and the respective bank balances totaled \$13,789, which was subject to coverage under the Federal Depository Insurance Corporation (FDIC).

Note 4 – Note Payable

The School has a promissory note payable to Building Hope (A Charter School Facilities Fund). The note was dated October 10, 2008 for a principal amount of \$100,000 and amended to \$200,000 on March 10, 2009. The note accrues interest at 4.0% per annum with interest only payments due monthly. Building Hope reserved the right to secure this promissory note with a security agreement and UCC-1 financing statement constituting a first lien against the 2008-2011 Planning, Design and Implementation Grant funds borrower received from the Florida Stated Department of Education.

As of June 30, 2009, the balance due on the note was \$200,000 plus accrued interest of \$2,408. The note payable matured on August 10, 2009 and the School defaulted on the note. Management is currently in discussions with Building Hope (its creditor and holder of the \$200,000 note payable) to renegotiate its note. This renegotiation will include a deferment of interest due, an extension on the note's maturity, and an amortization schedule that can fit within Rise's expected budget for the 2009-10 fiscal year. Principals at Building Hope have shown a strong willingness to work with Rise and Management is confident that this note payable will be successfully renegotiated by the end of the 2009 calendar year.

Note 5 – 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.

Note 6 – Commitments and Contingencies

On July 23, 2008, the School entered into a lease agreement with Work America, Inc. for its facility during the 2008-2009 fiscal year. Fixed annual payments under this agreement are \$266,000 for a period of 10 years. During the year, the School made total rent payments of \$256,000 under this agreement. Subsequent to June 30, 2009, a lawsuit was filed on behalf of the landlord alleging breach of contract for vacating the premises and failure to make its rent payments. The lawsuit seeks nine years of rent at \$266,000 per year. The School vacated the premises due to breach by the landlord with regards to certain required upkeep and maintenance of the premises. The School plans to vigorously defend this matter and anticipates asserting a counterclaim alleging breach by the landlord. The School considers it too early to assess the likelihood of an unfavorable outcome; however, believe there is good documentation of the breach by the landlord. Counsel believes the School has a reasonable possibility of prevailing in the litigation.

On June 19, 2009, the School entered into a new lease agreement with Lucy Street Shops Ltd, LLLP for its new facility at 103 East Lucy Street, Florida City, Florida. The term of this lease is for three years beginning August 1, 2009, with an option to renew for an additional term of three years. Initial fixed monthly payments under the lease agreement are \$13,085 for the 11,851 square feet facility at \$13.25 per square foot. The fixed minimum rental payment shall be adjusted annually by the Consumer Price Index (CPI). In addition, the School will be charged for an allocation of “shopping center operating costs”, not to exceed \$1.75 per square foot. The School also has the option to expand the leased premises by an additional 6,995 square feet. During the year, no rent payments were made under this agreement.

Future minimum payments for these leases are as follows:

<u>Year</u>	
2010	\$157,025
2011	\$157,025
2012	\$157,025

Litigation

The school is named in a claim by two former employees alleging they were terminated in violation of the “Whistleblower Law”. This matter has been reported to the School’s insurance carrier, who has assigned Counsel to defend the matter. Counsel believes the possibility of a material negative impact to the School is remote.

The School received substantially all of its revenues from Federal and local governmental agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and may be subject to audit by the grantor agencies

REQUIRED SUPPLEMENTARY INFORMATION

Rise Academy - South Dade Charter School
 (A charter school under Rise Schools, Inc)

Statement of Revenues, Expenditures, and Changes in Fund Balance
 From inception through June 30, 2009

	General Fund		
	Original Budget	Final Budget	Actual
REVENUES			
State passed through local	\$ 1,438,654	\$ 1,309,801	\$ 1,232,367
Charges and other revenue	185,750	25,578	19,797
Total Revenues	<u>1,624,404</u>	<u>1,335,379</u>	<u>1,252,164</u>
EXPENDITURES			
Current:			
Instruction	494,633	502,389	610,888
Curriculum development	50,000	50,000	47,962
School Administration	187,683	199,625	230,046
Fiscal Services	21,896	23,365	62,751
Food Services	33,250	35,841	89,905
Operation of Plant	209,876	210,985	368,517
Maintenance of Plant	-	-	-
Community Services	91,867	92,500	80,993
Total Current Expenditures	<u>1,089,205</u>	<u>1,114,705</u>	<u>1,491,062</u>
Excess of Revenues			
Over Current Expenditures	<u>535,199</u>	<u>220,674</u>	<u>(238,898)</u>
Debt Service:			
Redemption of Principal	-	-	-
Capital Outlay:			
Other Capital Outlay	25,452	25,452	30,118
Total Capital Outlay and			
Debt Service Expenditures	<u>25,452</u>	<u>25,452</u>	<u>30,118</u>
Total Expenditures	<u>1,114,657</u>	<u>1,140,157</u>	<u>1,521,180</u>
Excess of Revenues Over Expenditures	509,747	195,222	(269,016)
Other financing sources			
Proceeds from long-term debt	-	-	-
Fund Balance at beginning of year	<u>-</u>	<u>-</u>	<u>-</u>
Fund Balance at end of year	<u>\$ 509,747</u>	<u>\$ 195,222</u>	<u>\$ (269,016)</u>

Rise Academy - South Dade Charter School
 (A charter school under Rise Schools, Inc)

Statement of Revenues, Expenditures, and Changes in Fund Balance
 From inception through June 30, 2009

	Special Revenue Fund		
	Original Budget	Final Budget	Actual
REVENUES			
Capital outlay funding	\$ -	\$ -	\$ -
Other local grants	178,654	101,345	95,153
Total Revenues	<u>178,654</u>	<u>101,345</u>	<u>95,153</u>
EXPENDITURES			
Current:			
Instructional	-	-	95,153
Operation of Plant	-	-	-
Maintenance of Plant	-	-	-
Total Current Expenditures	<u>-</u>	<u>-</u>	<u>-</u>
Excess of Revenues Over Current Expenditures	<u>178,654</u>	<u>101,345</u>	<u>95,153</u>
Debt Service:			
Redemption of Principal	-	-	-
Capital Outlay:			
Other Capital Outlay	-	-	-
Total Capital Outlay and Debt Service Expenditures	<u>-</u>	<u>-</u>	<u>-</u>
Total Expenditures	<u>-</u>	<u>-</u>	<u>-</u>
Excess of Revenues Over Expenditures	-	-	-
Fund Balance at beginning of year	<u>-</u>	<u>-</u>	<u>-</u>
Fund Balance at end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

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
Rise Academy - South Dade Charter School
Florida City, Florida

We have audited the financial statements of the governmental activities and each major fund of Rise Academy - South Dade Charter School (the "School") as of, and for the year ended June 30, 2009, which collectively comprise the School's basic financial statements and have issued our report thereon dated September 8, 2009. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the School's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the School's financial statements that is more than inconsequential will not be prevented or detected by the School's internal control. We consider the deficiencies described in the accompanying schedule of findings and responses to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the School's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, of the significant deficiencies described in the accompanying schedule of findings and responses, we consider item 2009-1 to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the School's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed the following instance of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Finding 1 – Audit Deadline

Rise Academy - South Dade Charter School's audited financial statements were not submitted by September 1, 2009, which is the contractually required deadline under the Standard Charter School Contractual Agreement with the School Board of Miami-Dade County.

Management's response

Management is aware of the deadline and will strive to achieve a timely audit for the 2009-2010 school year.

Finding 2 – Payroll Taxes

Rise Academy - South Dade Charter School is in arrears on State of Florida Unemployment taxes (SUTA) in the amount of approximately \$8,400. Failure to timely submit payroll taxes may subject the school to large fines and termination of its exempt status with the Internal Revenue Service.

Management's response

Management has contacted its representative at the Florida Department of Revenue in efforts to pay these taxes immediately (either in full, if so required, or in installments throughout the remainder of 2009, if possible). Management expects this matter to be resolved in a matter satisfactory to all parties by September 15, 2009.

Finding 3 – Promissory Note

Rise Academy - South Dade Charter School is in default of the promissory note with Building Hope. The note matured on June 10, 2009, in which full payment of \$200,000 was due. Failure to meet this obligation subjects the school to default interest rates and other remedies from the lender.

Management's response

Management is currently in discussions with Building Hope (its creditor and holder of the \$200,000 note payable) to renegotiate its note. This renegotiation will include a deferment of interest due, an extension on the note's maturity, and an amortization schedule that can fit within Rise's expected budget for the 2009-10 fiscal year. Principals at Building Hope have shown a strong willingness to work with Rise and Management is confident that this note payable will be successfully renegotiated by the end of the 2009 calendar year.

This report is intended solely for the information and use of management, the audit committee, the Auditor General of the State of Florida and the School Board of Miami-Dade County and is not intended to be and should not be used by anyone other than these specified parties.

HCB Grawie, LLP

CERTIFIED PUBLIC ACCOUNTANTS

Coral Gables, Florida
September 8, 2009

Rise Academy - South Dade Charter School
(A charter school under Rise Schools, Inc.)
SCHEDULE OF FINDINGS AND RESPONSES
JUNE 30, 2009

2009-1 - INTERNAL CONTROL ENVIRONMENT

Criteria: The accounting function of an organization should be established with appropriate controls to ensure that financial data is recorded in a complete, accurate and timely manner. These controls should include policies to establish proper authorization, segregation, risk assessment, communication and monitoring.

Condition: Rise Academy - South Dade Charter School's accounting controls have not been effectively implemented. Specifically, the following accounting controls were not observed during our audit:

- Documented Board member approval for significant purchases, contracts and events.
- Second signature on large checks
- Segregation of key functions
- Written policies and procedures such as policy on capitalization of assets
- Documentation of adopted budget and budget monitoring

Context: Failure to effectively implement a sound and robust internal control system increases the risk of error, omissions or fraud.

Effect: The deficient internal control environment resulted in a stressed financial environment, a prolonged and challenging audit process and has hindered the entity's ability to initiate, authorize, record, process, or report financial data reliably in a timely manner.

Specifically we noted the following:

- We noted the school had no policy for capitalizing assets. Therefore, we noted small items (sometimes as little as \$30) that would normally be expensed were capitalized and one item for the purchase of desks totaling approximately \$17,000 was expensed when capitalization is normally appropriate. In addition, there was no depreciation expense recorded. These items were corrected through audit adjustments.

Rise Academy - South Dade Charter School
(A charter school under Rise Schools, Inc.)
SCHEDULE OF FINDINGS AND RESPONSES
JUNE 30, 2009

2009-1 - INTERNAL CONTROL ENVIRONMENT (Continued)

- We noted a number of instances whereby expenditures were not supported or inadequately supported with documentation. The total dollar amount noted was not considered material to the financial statement taken as a whole.

Cause: The condition results from the lack of available personnel and resources.

Recom-
mendation: Management should work to implement and achieve the sound internal control environment desired and described in the school's charter application.

Management
Response: Management fully expects obtain sufficient financial resources during the 2009-2010 school year in order to properly implement the control system.

MANAGEMENT LETTER

Board of Directors of
Rise Academy - South Dade Charter School
Florida City, Florida

We have audited the accompanying basic financial statements of Rise Academy - South Dade Charter School as of and for the year ended June 30, 2009 and have issued our report thereon dated September 8, 2009.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and Government Auditing Standards, issued by the Comptroller General of the United States. We have issued our Independent Auditors' Report on Internal Control Over Financial Reporting and Compliance and Other Matters dated September 8, 2009. Disclosures in that report, if any, should be considered in conjunction with this management letter.

Additionally, our audit was conducted in accordance with Chapter 10.850, Rules of the Auditor General, which govern the conduct of charter school audits performed in the State of Florida. This letter includes the following information, which is not included in the aforementioned auditor's report or schedule:

1. 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.

Not applicable. This is the first audit of the school.

2. 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.

ML - 09-01 FRAUD AND WHISTLEBLOWER POLICY

Observation 1

We noted the School has a whistleblower policy. However, there is no evidence, such as acknowledgment of receipt forms, that the policy is well communicated throughout the organization to all employees

ML – 09-01 FRAUD AND WHISTLEBLOWER POLICY (Continued)

Recommendation

Personnel are often in the best position to identify and report fraud and abuse. Therefore, we recommend that acknowledgment forms be used to ensure that all employees are aware of the policy.

Management's response

Management is in the process of having its entire employee body sign an acknowledgement of receipt forms of its whistle blower policy. Management expects to have received acknowledgement of receipt forms from all of its employees by September 30th, 2009.

ML – 09-02 BANK RECONCILIATIONS

Observation

We noted stale items on the bank reconciliation as of June 30, 2009.

Recommendation

Periodic review of stale items should be performed for proper disposition.

Management's response

We will implement a periodic review of stale items.

ML – 09-03 VOIDED CHECKS

Observation

We noted that the School does not maintain the original defaced checks for those that have been voided.

Recommendation

In order to provide evidence that checks voided in the system are not in circulation, we recommend that the original defaced check be maintained.

Management's response

We will instruct staff to maintain such documentation.

ML 09-04 FTE REVENUE RECOGNITION

Observation

We noted that FTE revenues are recorded net of the 5% Administrative Overhead charged by Dade County Public Schools.

Recommendation

Although this does not impact the Schools fund balance, a better reflection of revenues and costs can be achieved by recording the revenues gross with a corresponding charge administrative fees.

ML – 09-05 BOARD MINUTES

Observation

We found board minutes to lack details compared to other charter schools.

Recommendation

Board minutes should be sufficiently detail to allow users to adequately determine the specifics of the topics discussed including commentary and conclusions.

Management's responses

We will provide further detail on our board minutes.

3. Section 10.854(1)(e)4., Rules of the Auditor General, requires that we address violations of laws, regulations, 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 more than inconsequential.

In connection with our audit, we did not have any such violations.

4. Section 10.854(1)(e)5., Rules of the Auditor General, provides that the auditor may, based on professional judgment, report the following matters that are inconsequential to the determination of financial statement accounts, considering both quantitative and qualitative factors: (1) violations of laws, regulations, contracts or grant agreements, or abuse that have occurred, or are likely to have occurred, and (2) control deficiencies that are not significant deficiencies, including, but not limited to; (a) improper or inadequate accounting procedures (e.g., the omission of required disclosures from the annual financial statements); (b) failures to properly record financial transactions; and (c) inaccuracies, shortages, defalcations, and instances of fraud discovered by, or that come to the attention of, the auditor.

In connection with our audit, we did not have any such findings.

5. Section 10854.(1)(e)6., Rules of the Auditor General, requires the name or official title of the school.

The official title of the school is disclosed in the accompanying financial statements.

6. Section 10.854(1)(e)2., Rules of the Auditor General, requires a statement be included as to whether or not the school has met one or more of the financial emergency conditions described in Section 218.503(1), Florida Statutes, and identification of the specific condition(s) met.

Rise Academy - South Dade Charter School has met the following conditions described in Section 218.503(1) Florida Statutes:

- Failure within the same fiscal year in which due to pay short-term loans or failure to make bond debt service or other long-term payments when due, as a result of a lack of funds.
 - An unreserved or total fund balance or unrestricted or total net assets deficit, as reported on the balance sheet or statement of net assets on the general purpose or fund financial statements, for which sufficient resources of the local governmental entity, as reported on the balance sheet or statement of net assets on the general purpose or fund financial statements, are not available to cover the deficit.
7. Pursuant to Sections 10.854(1)(3)7.a. and 10.855(10)., Rules of the Auditor General, we applied financial condition assessment procedures. It is management's responsibility to monitor the 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 and have determined that the school has met certain of the financial emergency conditions in Florida Statutes Section 218.503(1).

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



CERTIFIED PUBLIC ACCOUNTANTS

Coral Gables, Florida
September 8, 2009