

INTERNATIONAL STUDIES CHARTER
MIDDLE SCHOOL
(A charter school under
International Studies Charter
High School, Inc.)

MIAMI, FLORIDA

FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT

JUNE 30, 2011

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International Studies Charter Middle School
(A charter school under International Studies Charter High School, Inc.)
2480 SW 8th Street
Miami, FL 33135

2010-2011

BOARD OF DIRECTORS

Jean-Michel Caffin, Chair and President
Miriam Rodriguez, Vice Chair
Leonela Rohaidy
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SCHOOL ADMINISTRATOR AND CORPORATE OFFICER (NON-VOTING)

Victor Rodriguez, Principal

INDEPENDENT AUDITORS' REPORT

Board of Directors
International Studies Charter Middle School
Miami, Florida

We have audited the accompanying financial statements of the governmental activities and each major fund of International Studies Charter Middle School (the "School"), a charter school under International Studies Charter High School, Inc., a component unit of the District School Board of Miami-Dade County, as of, and for the year ended June 30, 2011, which collectively comprises the School's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the School's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and 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 International Studies Charter Middle School at June 30, 2011, and the respective changes in financial position for the year then ended, and is not intended to be a complete presentation of International Studies Charter High School, Inc. These financial statements do not purport to and do not present fairly the financial position of International Studies Charter High School, Inc. as of June 30, 2011 and its changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities and each major fund of International Studies Charter Middle School, as of June 30, 2011, 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 August 30, 2011, 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.

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 26 through 27 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.

HLB Grauer, LLP

CERTIFIED PUBLIC ACCOUNTANTS

Coral Gables, Florida
August 30, 2011

Management's Discussion and Analysis
International Studies Charter Middle School
(A charter school under International Studies Charter High School, Inc.)
June 30, 2011

The corporate officers of International Studies Charter Middle School (the "School") have prepared this narrative overview and analysis of the School's financial activities for the period ended June 30, 2011.

Financial Highlights

1. The assets of the School exceeded its liabilities at June 30, 2011 by \$395,352 (net assets).
2. At year-end, the School had current assets on hand of \$305,062.
3. The net assets of the School increased by \$148,276 during the year.
4. The unassigned fund balance at year end was \$75,335.

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, 2011 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 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. *Governmental Funds* are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. Governmental 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.

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 - 25 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. In the case of the School, assets exceeded liabilities by \$395,352 at the close of the fiscal year. A summary of the School's net assets as of June 30, 2011 and 2010 follows:

	2011	2010
Cash	\$ 271,734	\$ 43,503
	25,662	-
Prepaid Expenses	7,666	4,794
Capital Assets	455,432	424,594
Total Assets	<u>\$ 760,494</u>	<u>\$ 472,891</u>
Accounts Payable and Accrued Expenses	49,282	28,274
Due to other schools	172,779	10,713
Leasehold improvements payable	143,081	186,827
Total Liabilities	<u>\$ 365,142</u>	<u>\$ 225,814</u>
Invested in Capital Assets, net of related debt	312,351	237,767
Unrestricted	83,001	9,310
Total Net Assets	<u>\$ 395,352</u>	<u>\$ 247,077</u>

At the end of the fiscal year, the School is able to report positive balances in total net assets.

A summary and analysis of the School's revenues and expenses from inception through June 30, 2011 follows:

	<u>2011</u>	<u>2010</u>
REVENUES		
Program Revenues		
Federal Sources	\$ 72,381	\$ 249,261
Capital Outlay	84,037	-
Lunch Program	43,637	25,772
General Revenues		
FTE nonspecific revenues	1,095,224	716,406
Total Revenues	<u>\$ 1,295,279</u>	<u>\$ 991,439</u>
EXPENSES		
Component Unit Activities:		
Instruction	\$ 531,809	\$ 344,090
Instructional Staff Training Services	1,906	808
Board	14,689	2,218
School Administration	253,335	179,797
Facilities Acquisition	5,935	10,736
Fiscal Services	27,826	18,650
Food Services	49,690	35,822
Central Services	31,002	25,452
Operation of Plant	210,848	118,050
Maintenance of Plant	19,964	8,739
Total Expenses	<u>1,147,003</u>	<u>744,362</u>
Increase in Net Assets	148,276	247,077
Net Assets at Beginning of Year	<u>247,076</u>	<u>-</u>
Net Assets at End of Year	<u>\$ 395,352</u>	<u>\$ 247,077</u>

Operation

International Studies Charter Middle School's total revenue and expenses increased by \$303,840 and \$402,641, respectively, as a result of an increase in student enrollment in the current period. Also, the School has an increase in its net assets of \$ 148,276 for the year.

Lease of Facility

The school leases a facility at 2480 SW 8th Street, Miami, Florida.

Capital Improvement Requirements

The School maintains a continuous capital improvements program to enhance facilities and update fixtures and equipment as required.

Accomplishments

In 2011, International Studies Charter Middle School completed its 2nd year of operations. The School earned a letter grade of "A", and ranked among the top public middle schools in Miami-Dade County, based on the points it received under the State of Florida Accountability Program. This past year, the School's Italian Club earned 2nd place in the District's Language Competition.

ISCMS has an articulation agreement with International Studies Charter High School (ISCHS), which opened in 2004 in partnership with the Spanish, Italian, and French Embassies. The School is in the process of receiving full accreditation by AdvancEd (formerly known as Southern Association of Colleges and Schools).

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 balance of \$83,001. The fund balance unassigned and available for spending at the School's discretion is \$75,335. These funds will be available for the School's future ongoing operations.

Capital Assets

The School's investment in capital assets as of June 30, 2011 amounts to \$455,432 (net of accumulated depreciation). This investment in capital assets includes improvements, textbooks and materials, and furniture, fixtures and equipment. As of June 30, 2011, the School had long term debt totaling \$143,081 associated to its capital assets.

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 the governmental funds to demonstrate compliance with the School's budget.

	Original Budget	Final Budget	Actual
REVENUES			
Program Revenues			
Federal Sources	\$ 25,000	\$ 26,000	\$ 72,381
Capital Outlay	85,350	85,000	84,037
Lunch Program	41,000	43,500	43,637
General Revenues			
FTE nonspecific revenues	825,000	1,141,600	1,095,224
Total Revenues	<u>\$ 976,350</u>	<u>\$ 1,296,100</u>	<u>\$ 1,295,279</u>
CURRENT EXPENDITURES			
Component Unit Activities:			
Instruction	375,000	476,000	475,143
Instructional Staff Training Services	2,000	2,000	1,906
Board	15,000	15,000	14,689
School Administration	150,000	255,000	253,215
Fiscal Services	25,000	29,000	27,825
Food Services	41,000	50,000	49,690
Central Services	30,000	32,000	31,001
Operation of Plant	151,516	210,000	206,952
Maintenance of Plant	20,000	20,000	19,961
Total Current Expenditures	<u>\$ 809,516</u>	<u>\$ 1,089,000</u>	<u>\$ 1,080,382</u>

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 Ms. Ana Martinez at Academica Dade, LLC 6340 Sunset Drive, Miami, Florida 33143.

International Studies Charter Middle School
(A charter school under International Studies Charter High School, Inc.)

Statement of Net Assets
June 30, 2011

Assets

Current assets:

Cash	\$	271,734
Due from other government agencies		25,662
Prepaid expenses		7,666
Total Current Assets		<u>305,062</u>

Capital assets, depreciable		556,853
Less: accumulated depreciation		<u>(101,421)</u>
		<u>455,432</u>

Total Assets	\$	<u><u>760,494</u></u>
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Liabilities and Net assets

Current liabilities:

Salaries and wages payable	\$	42,209
Due to other schools		172,779
Accounts payable		7,073
Current portion of leasehold improvements payable		43,000
		<u>265,061</u>

Leasehold improvements payable		<u>100,081</u>
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Total Liabilities		365,142
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Net assets:

Invested in capital assets, net of related debt		312,351
Unrestricted		83,001
Total Net Assets		<u>395,352</u>

Total Liabilities and Net Assets	\$	<u><u>760,494</u></u>
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The accompanying notes are an integral part of this financial statement.

International Studies Charter Middle School
(A charter school under International Studies Charter High School, Inc.)

Statement of Activities
For the Year Ended June 30, 2011

FUNCTIONS	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Governmental activities:					
Instruction	\$ 531,809	\$ -	\$ 72,381	\$ -	\$ (459,428)
Instructional staff training	1,906	-	-	-	(1,906)
Board	14,689	-	-	-	(14,689)
School administration	253,335	-	-	-	(253,335)
Facilities acquisition	5,935	-	-	-	(5,935)
Fiscal services	27,826	-	-	-	(27,826)
Food services	49,690	11,597	32,040	-	(6,053)
Central services	31,002	-	-	-	(31,002)
Operation of plant	210,848	-	-	84,037	(126,811)
Maintenance of plant	19,964	-	-	-	(19,964)
Total governmental activities	1,147,004	11,597	104,421	84,037	(946,949)
General revenues:					
FTE nonspecific revenues					1,095,224
Contributions and other revenue					-
Change in net assets					148,275
Net assets, beginning					247,077
Net assets, ending					<u>\$ 395,352</u>

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

International Studies Charter Middle School
(A charter school under International Studies Charter High School, Inc.)

Balance Sheet - Governmental Funds
June 30, 2011

	General Fund	Special Revenue Fund	Total Governmental Funds
<u>Assets</u>			
Cash	\$ 271,734	\$ -	\$ 271,734
Due from government agencies	-	25,662	25,662
Prepaid Expenses	7,666	-	7,666
Due from funds	25,662	-	25,662
Total Assets	<u>\$ 305,062</u>	<u>\$ 25,662</u>	<u>\$ 330,724</u>
<u>Liabilities</u>			
Salaries and wages payable	\$ 42,209	\$ -	\$ 42,209
Due to funds	-	25,662	25,662
Due to other schools	172,779	-	172,779
Accounts payable	7,073	-	7,073
Total Liabilities	<u>222,061</u>	<u>25,662</u>	<u>247,723</u>
<u>Fund balance</u>			
Nonspendable, not in spendable form	7,666	-	7,666
Unassigned	75,335	-	75,335
	<u>83,001</u>	<u>-</u>	<u>83,001</u>
Total Liabilities and Fund Balance	<u>\$ 305,062</u>	<u>\$ 25,662</u>	<u>\$ 330,724</u>

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

International Studies Charter Middle School
(A charter school under International Studies Charter High School, Inc.)

Reconciliation of the Governmental Fund Balance Sheet to the Statement of Net Assets to the
Statement of Net Assets
For the Year Ended June 30, 2011

Total Fund Balance - Governmental Funds \$ 83,001

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

Long Term liabilities of \$143,081 were not due and payable in the current period and, therefore, are not reported in the funds. (143,081)

Capital assets of \$556,853 net of accumulated depreciation of \$101,421 used in governmental activities are not financial resources and therefore are not reported in the fund. 455,432

Total Net Assets - Governmental Activities \$ 395,352

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

International Studies Charter Middle School
(A charter school under International Studies Charter High School, Inc.)

Statement of Revenues, Expenditures and Changes in Fund Balance
For the Year Ended June 30, 2011

	General Fund	Special Revenue Fund	Total Governmental Funds
Revenues:			
State passed through local	\$ 1,095,224	\$ -	\$ 1,095,224
State capital outlay funding	-	84,037	84,037
Student lunch fees	-	11,597	11,597
Federal lunch program	-	32,040	32,040
Federal grants	-	72,381	72,381
Total Revenues	1,095,224	200,055	1,295,279
Expenditures:			
Current			
Instruction	402,762	72,381	475,143
Instructional staff training services	1,906	-	1,906
Board	14,689	-	14,689
School administration	253,215	-	253,215
Fiscal services	27,825	-	27,825
Food services	-	49,690	49,690
Central services	31,001	-	31,001
Operation of plant	122,915	84,037	206,952
Maintenance of plant	19,961	-	19,961
Capital Outlay:			
Other capital outlay	97,460	-	97,460
Debt Service:			
Repayment of leasehold improvements	43,746	-	43,746
Total Expenditures	1,015,480	206,108	1,221,588
Excess (deficit) of revenues over expenditures	79,744	(6,053)	73,691
Other financing sources			
Transfers in and (out)	(4,109)	4,109	-
Net change in fund balance	75,635	(1,944)	73,691
Fund Balance at beginning of year	7,366	1,944	9,310
Fund Balance at end of year	<u>\$ 83,001</u>	<u>\$ -</u>	<u>\$ 83,001</u>

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

International Studies Charter Middle School
(A charter school under International Studies Charter High School, Inc.)

Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balance
Governmental Funds to the Statement of Activities
For the Year Ended June 30, 2011

Net Change in Fund Balance - Governmental Funds \$ 73,691

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

The proceeds from debt issuance provide current financial resources to governmental funds, but issuing debt increases long term liabilities in the statement of net assets. Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. This is the amount by which repayments of \$43,746 exceeded proceeds of \$0.

43,746

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 \$97,460 differed from depreciation expense of \$66,622.

30,838

Change in Net Assets of Governmental Activities \$ 148,275

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

INTERNATIONAL STUDIES CHARTER MIDDLE SCHOOL
(A charter school under International Studies Charter High School, Inc.)
Statement of Net Assets - Fiduciary Funds
June 30, 2011

	<u>Agency Funds</u>
<u>Assets</u>	
Cash	\$ 11,280
Total Assets	<u>\$ 11,280</u>
<u>Liabilities</u>	
Due to students and clubs	\$ 11,280
Total Liabilities	\$ 11,280
<u>Net assets</u>	<u>\$ -</u>

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

Note 1 – Organization and Operations

International Studies Charter Middle School (the "School"), is a charter school under International Studies Charter High School, Inc., a not-for-profit corporation organized in the State of Florida. The School 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, 2019 and is renewable for an additional 15 years by a 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 Miami, Florida for students from sixth through eighth grade and is funded by the District.

These financial statements are from inception through June 30, 2011, when approximately 186 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.

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 funds.

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 such as the National School Lunch Program, Federal grants, and other state allocations; and (3) capital grants specific to capital outlay. 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 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 capital outlay funding and federal lunch program that are legally restricted to expenditures for particular purposes.

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

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 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 GASB Codification Section 1600.111 and Section N50 *Accounting and Financial Reporting for Non-Exchange Transactions*. 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. 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. 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.

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.

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.

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:

Building and improvements	20 Years
Furniture, fixtures and equipment	5 Years
Textbooks	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 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.

Note 2 – Summary of Significant Accounting Policies (continued)

Finally, the School also receives 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 days. Full time instructional employees are eligible to one day per month to up to ten days of active work during the ten-month period (a “benefit year”). In the event that available time is not used by the end of the benefit year, employees may “rollover” all unused days for use in future benefit years. There is an opportunity to “cash out” unused sick days however, the employees may only cash out if they have used three days or less of their sick leave in that benefit year. Employees may not cash out more than ten days per school year and are required to always maintain a minimum of twenty-one unused days in order to cash out. The cash out value is eighty percent of their current daily rate. 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.

The School also provides certain days to be used for specific personal matters such as family death and jury duty. Because the use of such days is contingent upon those events taking place and such events are out of the control of both the employer and the employee, there is no accrual for such days.

Income Taxes

International Studies Charter High School, Inc. 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, 2011, which is the date the financial statements were available to be issued.

Note 2 – Summary of Significant Accounting Policies (continued)

Net assets and Fund balance classifications

Government-wide financial statements

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

- a) Invested in capital assets, net of related debt - 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 assets - consists of net assets with constraints placed on their use either by external groups such as creditors, grantors, contributors or laws or regulations of other governments. There are no restricted net assets at year end.
- c) Unrestricted net assets - all other net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

Fund financial statements

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 - 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). All nonspendable fund balances at year end relate to not in spendable form assets.
- 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. There are no restricted fund balances at year end.
- 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 - fund balance is the residual classification for the School's general fund and includes all spendable amounts not contained in the other classifications

Note 2 – Summary of Significant Accounting Policies (continued)

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.

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 –Capital Assets

The following schedule provides a summary of changes in capital assets, acquired substantially with public funds, for the year ended June 30, 2011:

	Balance 7/1/10	Additions	Retirements	Balance 6/30/11
Capital Assets:				
Computer equipment	\$ 156,991	\$ 56,101	\$ -	\$ 213,092
Building Improvements	236,851	5,356	-	242,207
Furniture, equipment and textbooks	65,551	36,003	-	101,554
Total Capital Assets	<u>459,393</u>	<u>97,460</u>	<u>-</u>	<u>556,853</u>
Less Accumulated Depreciation:				
Computer equipment	(15,750)	(35,894)	-	(51,644)
Building Improvements	(10,736)	(6,002)	-	(16,739)
Furniture, equipment and textbooks	(8,313)	(24,725)	-	(33,038)
Total Accumulated Depreciation	<u>(34,799)</u>	<u>(66,622)</u>	<u>-</u>	<u>(101,421)</u>
Capital Assets, net	<u>\$ 424,594</u>	<u>\$ 30,838</u>	<u>\$ -</u>	<u>\$ 455,432</u>

International Studies Charter Middle School
(A charter school under International Studies Charter High School, Inc.)
Notes to Financial Statements
June 30, 2011

Note 3 –Capital Assets (continued)

For the fiscal year ended June 30, 2011, depreciation expense is allocated in the Statement of Activities by function as follows:

Instruction	\$	56,666
School administration		121
Facilities acquisition and construction		5,936
Operation of plant		3,900
Total Depreciation Expense	\$	<u>66,622</u>

Note 4 –Management Agreement

Academica Dade, LLC, a professional charter school management company, provides management and administrative services to the School including, but not limited to, facility design, staffing recommendations, human resource coordination, regulatory compliance, legal and corporate upkeep, maintenance of the books and records, bookkeeping, budgeting and financial reporting. The agreement between the School and the management company calls for a fee of \$450 per full time equivalent (FTE) student per year. The agreement is for a period of five years, through June 30, 2014, and unless terminated by the board shall be renewed along with any renewals to the charter agreement. During the year ended June 30, 2011, the School incurred approximately \$83,000, in management fees. As of June 30, 2011, the school had prepaid approximately \$7,000 in management fees.

Academica Dade, LLC is located at 6340 Sunset Drive, Miami, Florida 33143 and its officers are:

Fernando Zulueta, President
Magdalena Fresen, Vice President and Treasurer
Ignacio Zulueta, Vice President
Collette Papa, Secretary

Note 5 – Related Party Transactions

The School's facility is shared with International Studies Charter High School (another charter schools under International Studies Charter High School, Inc.). Management allocates a proportionate share of leases, salaries, lunch receipts, food and supplies, and other expenses to each school individually based on student enrollment and usage of facilities.

Note 5 – Related Party Transactions (continued)

During 2011, the School received short term non-interest bearing advances from International Studies Charter High School for working capital purposes totaling \$175,000. The balance due to International Studies Charter High School at June 30, 2011 was \$172,000.

The School's lunch program is shared with International Studies Charter High School. Revenues and expenses related to such program have been allocated based on FTE equivalent for purposes of presentation in the financial statements.

Pursuant to the Charter School contract with the School District, the District withholds an administrative fee of 5% of the qualifying revenues of the School. For the year ended June 30, 2011, administrative fees withheld by the School District totaled \$54,467.

Note 6 – 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, 2011, the carrying amount of the School's deposits was \$271,734 and the respective bank balances totaled \$323,533.

Under the Dodd-Frank Act, non-interest bearing deposits at FDIC-insured institutions are fully insured through December 31, 2012. All accounts held by the School are non-interest bearing and therefore fully insured by the FDIC as of June 30, 2011.

Note 7 – Commitments, Contingencies, and Leasehold Improvements Payable

The School entered into a sublease with Southwest Eight Property, LLC for its 27,754 square feet building including all ancillary facilities, outdoor areas and other improvements. Presently, members of the landlord are also stockholders of the entity which is the sole owner of Academica Dade, LLC, the School's management company (See Note 4). This facility is shared with International Studies Charter High School (a charter school under International Studies Charter High School, Inc.). Initial fixed annual payments under this agreement (based on \$22.00 per square foot) are approximately \$610,588 adjusted annually based on the greater of 3% or the Consumer Price Index (CPI) plus additional property costs including repairs, maintenance and insurance. The agreement continues through October 2013 with an option to renew for three additional five-year terms.

Under the agreement, the School will reimburse the landlord for tenant improvements. As of June 30, 2011, the School capitalized approximately \$237,000 of tenant improvements, of which approximately \$143,000 were payable at year end over the remaining term of the lease.

Note 7 – Commitments, Contingencies, and Leasehold Improvements Payable (continued)

In addition, under the terms of the lease, the landlord agreed to certain enrollment period discounts. The discount for the year ended June 30, 2011 was approximately \$249,975. The School must also meet certain requirements and covenants under the lease agreement including maintaining a “Lease Payment Coverage Ratio” of not less than 1.10 to 1.00.

Lease payments are allocated among the two schools net of enrollment period discounts based on enrollment and usage of facility. The allocation used for 2011, was approximately 34% for the School, 66% for International Studies Charter High School.

For 2011, rent expense totaled \$143,818, of which approximately \$142,000 related to the facility lease. Future minimum payments for the full lease net of enrollment period discounts (to be shared with International Studies Charter High School) are as follows:

Year	Base Rent	Discounts	Net
2012	\$648,263	(170,000)	\$478,263
2013	\$667,711	(124,988)	\$542,723

Future minimum maturities on leasehold improvements payable based on tenant invoice terms are as follows:

Year	Total
2012	\$ 43,000
2013	100,081
	<u>\$ 143,081</u>

Contingencies

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 participates in a number of federal, state and local grants which are subject to financial and compliance audits. It is the opinion of management that the amount of revenue, if any, which may be remitted back to the state due to errors in the FTE student data or the amount of grant expenditures which may be disallowed by grantor agencies would not be material to the financial position of the School.

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 for the past years. In addition, there were no reductions in insurance coverage from those in the prior year.

Note 9 – Defined Contribution Retirement Plan

The School's personnel, who are leased through ADP TotalSource Group, Inc., are eligible to participate in a defined contribution 401(k) plan sponsored by the leasing company, covering employees who meet certain age and tenure requirements. Under the ADP TotalSource Retirement Savings Plan (the "Plan"), the School provides a match of 50% of the employee's contribution up to 4% of the employee's compensation. The School contributed to the Plan \$2,905 for the year ended June 30, 2011. The School does not exercise any control or fiduciary responsibility over the Plans' assets, which are administered by MassMutual Financial Group.

REQUIRED SUPPLEMENTARY INFORMATION

International Studies Charter Middle School
(A charter school under International Studies Charter High School, Inc.)

Statement of Revenues, Expenditures, and Changes in Fund Balance
For the Year Ended June 30, 2011

	General Fund		
	Original Budget	Final Budget	Actual
REVENUES			
State passed through local	\$ 825,000	\$ 1,141,600	\$ 1,095,224
EXPENDITURES			
Current:			
Instruction	350,000	450,000	402,762
Instructional Staff Training Services	2,000	2,000	1,906
Board	15,000	15,000	14,689
School Administration	150,000	255,000	253,215
Fiscal Services	25,000	29,000	27,825
Central Services	30,000	32,000	31,001
Operation of Plant	66,166	125,000	122,915
Maintenance of Plant	20,000	20,000	19,961
Total Current Expenditures	<u>658,166</u>	<u>928,000</u>	<u>874,274</u>
Excess of Revenues Over Current Expenditures	<u>166,834</u>	<u>213,600</u>	<u>220,950</u>
Debt Service:			
Repayment of leasehold improvements	43,000	43,750	43,746
Capital Outlay:			
Other Capital Outlay	<u>80,000</u>	<u>97,500</u>	<u>97,460</u>
Total Capital Outlay and Debt Service Expenditures	<u>123,000</u>	<u>141,250</u>	<u>141,206</u>
Total Expenditures	<u>781,166</u>	<u>1,069,250</u>	<u>1,015,480</u>
Excess of Revenues Over Expenditures	43,834	72,350	79,744
Other financing sources:			
Transfers in and (out)	<u>(4,000)</u>	<u>(4,000)</u>	<u>(4,109)</u>
Net change in fund balance	39,834	68,350	75,635
Fund Balance at beginning of year	<u>7,366</u>	<u>7,366</u>	<u>7,366</u>
Fund Balance at end of year	<u>\$ 47,200</u>	<u>\$ 75,716</u>	<u>\$ 83,001</u>

International Studies Charter Middle School
(A charter school under International Studies Charter High School, Inc.)

Statement of Revenues, Expenditures, and Changes in Fund Balance
For the Year Ended June 30, 2011

	Special Revenue Fund		
	Original Budget	Final Budget	Actual
REVENUES			
State capital outlay funding	\$ 85,350	\$ 85,000	\$ 84,037
Student lunch fees	11,000	11,500	11,597
Federal lunch program	30,000	32,000	32,040
Federal grants	25,000	26,000	72,381
Total Revenues	\$ 151,350	\$ 154,500	\$ 200,055
EXPENDITURES			
Current:			
Instruction	25,000	26,000	72,381
Food Services	45,000	50,000	49,690
Operation of Plant	87,294	84,444	84,037
Total Current Expenditures	157,294	160,444	206,108
Excess of Revenues Over Current Expenditures	(5,944)	(5,944)	(6,053)
Other financing sources:			
Transfer in and (out)	4,000	4,000	4,109
Fund Balance at beginning of year	1,944	1,944	1,944
Fund Balance at end of year	\$ -	\$ -	\$ -



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
International Studies Charter Middle School
Miami, Florida

We have audited the financial statements of the governmental activities and each major fund of International Studies Charter Middle School (the "School") as of, and for the year ended June 30, 2011, and have issued our report thereon dated August 30, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the School's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

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

This report is intended solely for the information and use of management, 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.

HUB Granen, LLP

CERTIFIED PUBLIC ACCOUNTANTS

Coral Gables, Florida
August 30, 2011

MANAGEMENT LETTER

Board of Directors of
International Studies Charter Middle School
Miami, Florida

We have audited the accompanying basic financial statements of International Studies Charter Middle School as of and for the year ended June 30, 2011 and have issued our report thereon dated August 30, 2010.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. We have issued our Independent Auditors' Report on Internal Control over Financial Reporting and Compliance and Other Matters. Disclosure in those reports, which are dated August 30, 2010, 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.

Corrective actions have been taken to address findings and recommendations made in the preceding annual financial audit report, as noted below under the heading "Status of Prior Year Findings and Recommendations."

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.

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

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 conditions described in Section 218.503(1), Florida Statutes, and identification of the specific condition(s) met.

In connection with our audit, no such conditions were noted.

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 no deteriorating financial condition has been noted.

Status of Prior Year Findings and Recommendations

2010-01: Errors in calculation of depreciation expense: This finding was reported in the previous audit for the year ended June 30, 2010. During the current audit, we noted that the School utilized the correct lives and formulas to compute depreciation expense.

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.

HUB Gramer, CP

CERTIFIED PUBLIC ACCOUNTANTS

Coral Gables, Florida
August 30, 2011