

**LINCOLN-MARTI CHARTER SCHOOLS, INC.**

(HIALEAH CAMPUS CHARTER SCHOOL)

(A COMPONENT UNIT OF  
THE SCHOOL BOARD OF MIAMI-DADE COUNTY)

FOR THE FISCAL YEARS ENDED JUNE 30, 2011 AND 2010

**LINCOLN-MARTI CHARTER SCHOOLS, INC.**  
 (HIALEAH CAMPUS CHARTER SCHOOL)  
 (A COMPONENT UNIT OF THE SCHOOL BOARD OF MIAMI-DADE COUNTY)

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## INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Officers of  
Lincoln-Marti Charter Schools, Inc.  
(Hialeah Campus Charter School)  
(A Component Unit of the School Board of Miami-Dade County)  
Miami, Florida

We have audited the accompanying special purpose financial statements of the governmental activities and major fund of Lincoln-Marti Charter Schools, Inc. (Hialeah Campus Charter School) (the "School"), (a component unit of the School Board of Miami-Dade County), as of and for the fiscal years ended June 30, 2011 and 2010. These special purpose financial statements are the responsibility of the School's management. Our responsibility is to express opinions on these financial statements based on our audits.

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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the special purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the special purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinions.

As explained in Note 1 to the special purpose financial statements, the financial statements being presented are only for the School referred to above, which is a Charter School of Lincoln-Marti Charter Schools, Inc. The special purpose financial statements do not include the statement of financial position, activities, and cash flows of Lincoln-Marti Charter Schools, Inc. (a nonprofit organization). Accordingly, the accompanying special purpose financial statements are not intended to present the financial position of Lincoln-Marti Charter Schools, Inc. as of June 30, 2011 and 2010 and its changes in net assets and cash flows for the fiscal years then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the special purpose financial statements referred to above present fairly, in all material respects, the financial position of the School as of June 30, 2011 and 2010 and the changes in its financial position thereof for the years 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 a report dated August 31, 2011 on our consideration of the School's internal control over financial reporting and our tests of their compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing in 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.

To the Board of Directors and Officers of  
Lincoln-Marti Charter Schools, Inc.  
(Hialeah Campus Charter School)  
(A Component Unit of the School Board of Miami-Dade County)

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3 through 7 and 23 through 24 be presented to supplement the special purpose financial statements. Such information, although not a part of the special purpose financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the special purpose 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 special purpose financial statements, and other knowledge we obtained during our audit of the special purpose 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.

*GLS& Company PLLC*

August 31, 2011

## MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of Lincoln-Martí Charter Schools, Inc. (Hialeah Campus) (the "School"), we offer readers this narrative overview and analysis of the financial activities of the School for the fiscal year ended June 30, 2011.

Management's discussion and analysis is included at the beginning of the audited financial statements to provide, in layman's terms, the past and current position of the School's financial condition. This summary should not be taken as a replacement for the audit, which consists of the financial statements and other supplementary information that presents all of the School's revenue and expenditures by program for the General Fund, which is the School's only fund.

### FINANCIAL HIGHLIGHTS

Our special purpose financial statements provide these insights into the results of this year's operations.

The School's current year of operations generated net assets of \$65,441 compared to an increase of last year net assets of \$71,482. The overall condition of the funds and governmental activities remains stable for the School.

The net assets of the School exceeded its liabilities at June 30, 2011 by approximately \$136,923. Of this amount, approximately \$509,422 was invested in capital assets and there is a deficit of unrestricted net assets in the amount of \$372,499.

### USING THIS ANNUAL REPORT

This discussion and analysis is intended to serve as an introduction to the School's special purpose financial statements. The School's special purpose financial statements are comprised of three components: 1) Government-wide financial statements, 2) fund financial statements, and 3) notes to the special purpose financial statements. This report also contains other supplementary information in addition to the special purpose 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 the School's assets and liabilities, with the difference between the two reported as *net assets*). Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the School is improving or deteriorating.

The *statement of activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected revenues and services rendered but unpaid).

The government-wide financial statements include all *governmental activities* that are principally supported by grants and entitlements from the State for full-time equivalent funding. The School does not have any *business-type activities*. The governmental activities of the School primarily include instructional and support services.

The government-wide financial statements can be found on pages 8 through 10 of the report.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### USING THIS ANNUAL REPORT (CONTINUED)

#### Fund Financial Statements

A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The School, like state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The School's only fund is the General Fund, a governmental fund type.

#### Governmental Funds

*Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflow and outflow of spendable resources*, as well as on balances of *spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a School's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the School's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balance provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The School maintains only one governmental fund type, which is the General Fund. Information is presented in the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund.

The School adopts an annual budget for its governmental fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with the budget.

The special purpose governmental fund financial statements can be found on pages 11 through 14 of this report.

#### Notes to the Financial Statements

The notes 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 15 through 22 of this report.

#### Other Information

In addition to the special purpose financial statements and accompanying notes, this report also presents certain required *supplementary information* concerning budgetary information for the School's general fund. Required supplementary information can be found on pages 23 through 24 of this report.

Our auditor has provided reasonable assurance in his independent auditor's report, located immediately preceding this Management's Discussion and Analysis, that the Special Purpose Financial Statements are fairly stated. Varying degrees of assurance are being provided by the auditor regarding the Supplementary Information identified above. A user of this report should read the independent auditor's report carefully to ascertain the level of assurance being provided for each of the other parts listed in the table of contents.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### GOVERNMENT-WIDE FINANCIAL ANALYSIS

This is the second year of operation. The School's net assets were \$136,923 at June 30, 2011. Of this amount, (\$372,499) is unrestricted and \$509,422 is invested in capital assets. The School net assets were \$71,482 at June 30, 2010. Of this amount, \$537,254 was invested in capital asset and the School had an unrestricted deficit of \$465,772.

Our analysis of the special purpose financial statements of the School begins below. The Statement of Net Assets and the Statement of Activities report information about the School's activities that will help answer questions about the position of the School.

#### **Net Assets**

A summary of the School's Net Assets is presented in Table A-1 and a summary of the changes in net assets is presented in Table A-2.

**Table A-1**

*Summary of net assets*

	<u>Fiscal Year</u> <u>2011</u>	<u>Fiscal Year</u> <u>2010</u>
Current assets		
Receivables	\$ 243,228	\$ 55,881
Capital assets, net	780	2,280
Total assets	<u>509,422</u>	<u>537,254</u>
	<u>\$ 753,430</u>	<u>\$ 595,415</u>
Current liabilities		
Due to related Parties	\$ 71,024	\$ 69,768
Total liabilities	<u>545,483</u>	<u>454,165</u>
	616,507	523,933
Investment in capital assets, net of related debt	509,422	537,254
Unrestricted net assets (deficit)	<u>(372,499)</u>	<u>(465,772)</u>
Total net assets	<u>\$ 136,923</u>	<u>\$ 71,482</u>

**Table A-2**

*Summary of changes in net assets*

	<u>Fiscal Year</u> <u>2011</u>	<u>Fiscal Year</u> <u>2010</u>
Revenues:		
State FTE Grants	\$ 2,434,912	\$ 2,270,333
Local Grants and other	543,000	3,940
Total revenues	<u>2,977,912</u>	<u>2,274,273</u>
Expenses:		
Instructional services	1,136,179	754,130
Instructional Materials	38,859	30,312
School administration	434,462	339,866
Central services	52,488	26,292
Operation of non-instructional services	242,268	128,034
Operation and maintenance of plant	<u>1,008,215</u>	<u>924,157</u>
Total expenses	<u>2,912,471</u>	<u>2,202,791</u>
Increase in net assets	<u>\$ 65,441</u>	<u>\$ 71,482</u>

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**GOVERNMENT-WIDE FINANCIAL ANALYSIS (CONTINUED)**

As noted above and in the statement of activities on page 9 and 10, the cost of all governmental activities during the year ended June 30, 2011 and 2010 was \$2,912,471 and \$2,202,791. The majority of these activities were financed through general revenues of \$2,977,912 and \$2,274,273, which consist primarily of FTE funding from the State.

See "Financial Highlights" on page 3 of this report, for a further explanation of the reason for the increase in net assets.

**FINANCIAL ANALYSIS OF THE SCHOOL'S FUNDS**

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

**Governmental funds.** The focus of the School's *governmental fund* 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 School's first fiscal year of operations, fund balance of the general fund was a deficit of (\$372,499). The general fund is the chief operating fund and only fund of the School.

A summary of the general fund's condensed balance sheet and statement of revenues, expenditures and changes in fund balance is presented in Table B-1 and B-2 as of and for the fiscal year ended June 30, 2011 and 2010:

**Table B-1**

*Summary of condensed Balance Sheet*

	Fiscal Year <u>2011</u>	Fiscal Year <u>2010</u>
Total assets	\$ 244,008	\$ 58,161
Total liabilities	<u>616,507</u>	<u>523,933</u>
Total fund balance (deficit)	<u>(372,499)</u>	<u>(465,722)</u>
Total liabilities and fund balance	<u>\$ 244,008</u>	<u>\$ 58,161</u>

**Table B-2**

*Summary of condensed statement of revenues, expenditures, and changes in fund balance*

	Fiscal Year <u>2011</u>	Fiscal Year <u>2010</u>
Total Revenues	\$ 2,977,912	\$ 2,274,273
Total Expenditures	<u>2,884,639</u>	<u>2,740,045</u>
(Deficit) of revenues over expenditures	<u>\$ 93,273</u>	<u>\$ (465,772)</u>



## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

### **MAJOR GOVERNMENTAL FUNDS BUDGETING AND OPERATING HIGHLIGHTS**

An operating budget was adopted and maintained by the governing board for the School pursuant to the requirements of Florida Statutes. The budget is adopted using the same basis of accounting that is used in preparation of the fund financial statements. There were no amendments to the budget during the fiscal year ended June 30, 2011.

The general fund actual revenues were \$2,977,912 for the fiscal year ended June 30, 2011. That amount is below the budget estimates due lower FTE students than expected.

The actual expenditures of the general fund were \$2,884,639 for the fiscal year ended June 30, 2011. This is above the budget estimates primarily due to increases in instructional staff and materials. See page 23 for detail of budget vs. actual variance.

### **CAPITAL ASSETS**

As of June 30, 2011, the School had \$638,468 invested in furniture, fixtures, computer equipment, textbooks and leasehold improvements of which approximately \$129,046 has been depreciated, which resulted in a net book value of \$509,422. Total additions for the year were \$52,838.

### **ECONOMIC FACTORS AND NEXT YEAR'S BUDGET**

The State of Florida has reduced education funding for the FEFP program for the fiscal year 2011-2012, by approximately eight percent. Capital outlay revenue is expected to remain roughly the same as the prior year. Student enrollment is expected to increase due to the success of the Lincoln-Marti Charter Schools on the 2011 FCAT. These factors were considered in preparing the School's budget for fiscal year 2011-2012.

### **REQUESTS FOR INFORMATION**

This financial report is designed to provide a general overview of the School's finances for all those with an interest in the School's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Martin Añorga, Lincoln-Marti Charter Schools, Inc. 2700 SW 8<sup>th</sup> Street, Miami, FL 33135.

LINCOLN-MARTI CHARTER SCHOOLS, INC.  
(HIALEAH CAMPUS CHARTER SCHOOL)  
(A COMPONENT UNIT OF THE SCHOOL BOARD OF MIAMI-DADE COUNTY)  
STATEMENTS OF NET ASSETS

June 30,

	Governmental Activities	
<u>ASSETS</u>	<u>2011</u>	<u>2010</u>
Cash		
Receivables	\$ 243,228	\$ 55,881
Capital assets:	780	2,280
Improvements other than buildings	375,263	359,283
Classroom furniture, fixture, equipment and others	263,205	226,347
Less accumulated depreciation	(129,046)	(48,376)
Total assets	753,430	595,415
<u>LIABILITIES</u>		
Accounts payable	15,000	24,005
Due to related parties	545,483	454,165
Wages payable	56,024	45,763
Total liabilities	616,507	523,933
<u>NET ASSETS</u>		
Invested in capital assets	509,422	537,254
Unrestricted net assets (deficit)	(372,499)	(465,772)
Total net assets	\$ 136,923	\$ 71,482

The accompanying notes are an integral part of these special purpose financial statements.

LINCOLN-MARTI CHARTER SCHOOLS, INC.  
(HIALEAH CAMPUS CHARTER SCHOOL)  
(A COMPONENT UNIT OF THE SCHOOL BOARD OF MIAMI-DADE COUNTY)  
STATEMENT OF ACTIVITIES

FOR THE FISCAL YEAR ENDED JUNE 30, 2011

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Charges for Services</u>	<u>Program Revenues Operating Grants and Contributions</u>	<u>Capital Grants</u>	<u>Net (Expenses) Revenues and Changes in Net Assets Governmental Activities Total</u>
Governmental activities:					
Instructional services	\$ (1,136,179)	\$ -	\$ 390,000	\$ -	\$ (746,179)
Instructional materials	(38,859)	-	-	-	(38,859)
School administration	(434,462)	-	-	-	(434,462)
Central services	(52,488)	-	-	-	(52,488)
Operation of plant	(242,268)	-	153,000	-	(89,268)
Maintenance of plant	(1,008,215)	-	-	-	(1,008,215)
Total activities	<u>\$ (2,912,471)</u>	<u>\$ -</u>	<u>\$ 543,000</u>	<u>\$ -</u>	<u>\$ (2,369,471)</u>
General revenues:					
FTE non-specific revenues					2,434,912
Total general revenues					<u>2,434,912</u>
Change in net assets					<u>65,441</u>
Net assets, beginning					71,482
Net assets, ending					<u>\$ 136,923</u>

The accompanying notes are an integral part of these special purpose financial statements.

LINCOLN-MARTI CHARTER SCHOOLS, INC.  
 (HIALEAH CAMPUS CHARTER SCHOOL)  
 (A COMPONENT UNIT OF THE SCHOOL BOARD OF MIAMI-DADE COUNTY)  
 STATEMENT OF ACTIVITIES

FOR THE FISCAL YEAR ENDED JUNE 30, 2010

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Charges for Services</u>	<u>Program Revenues</u>		<u>Capital Grants</u>	<u>Net (Expenses) Revenues and Changes in Net Assets Governmental Activities Total</u>
			Operating Grants and Contributions			
Governmental activities:						
Instructional services	\$ (754,130)	\$ -	\$ -		\$ -	\$ (754,130)
Instructional materials	(30,312)	-	-		-	(30,312)
School administration	(339,866)	-	-		-	(339,866)
Central services	(26,292)	-	-		-	(26,292)
Operation of plant	(128,034)	-	-		-	(128,034)
Maintenance of plant	(924,157)	-	-		-	(924,157)
Total activities	<u>\$ (2,202,791)</u>	<u>\$ -</u>	<u>\$ -</u>		<u>\$ -</u>	<u>(2,202,791)</u>
General revenues:						
FTE non-specific revenues						2,270,333
Unrestricted investment income and miscellaneous						3,940
Total general revenues						<u>2,274,273</u>
Change in net assets						<u>71,482</u>
Net assets, beginning						<u>-</u>
Net assets, ending						<u>\$ 71,482</u>

The accompanying notes are an integral part of these special purpose financial statements.

LINCOLN-MARTI CHARTER SCHOOLS, INC.  
 (HIALEAH CAMPUS CHARTER SCHOOL)  
 (A COMPONENT UNIT OF THE SCHOOL BOARD OF MIAMI-DADE COUNTY)  
 BALANCE SHEETS - GOVERNMENTAL FUND

June 30,

<u>ASSETS</u>	<u>2011</u>	<u>2010</u>
Cash		
Receivables	\$ 243,228	\$ 55,881
Total assets	780	2,280
	\$ 244,008	\$ 58,161
<u>LIABILITIES AND FUND BALANCE (DEFICIT)</u>		
Liabilities:		
Accounts payable	\$ 15,000	\$ 24,005
Due to related parties	545,483	454,165
Wages payable	56,024	45,763
Total liabilities	616,507	523,933
Fund Balance (deficit):		
Unreserved and undesignated (deficit)	(372,499)	(465,772)
Total fund balance (deficit)	(372,499)	(465,772)
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resources and, therefore are not reported in the funds.	509,422	537,254
Net fund balance of governmental activities	\$ 136,923	\$ 71,482

The accompanying notes are an integral part of these special purpose financial statements.

LINCOLN-MARTI CHARTER SCHOOLS, INC.  
 (HIALEAH CAMPUS CHARTER SCHOOL)  
 (A COMPONENT UNIT OF THE SCHOOL BOARD OF MIAMI-DADE COUNTY)  
 STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
 GOVERNMENTAL FUND  
 FOR THE FISCAL YEAR ENDED JUNE 30, 2011

Revenues:	
State FTE Revenues	\$ 2,434,912
Local grants and others	<u>543,000</u>
Total revenues	<u>2,977,912</u>
Expenditures:	
Instructional services	1,136,179
Instructional materials	38,859
School administration	434,462
Central services	52,488
Operation of plant	242,268
Maintenance of plant	<u>980,383</u>
Total expenditures	<u>2,884,639</u>
Excess of revenues over expenditures	<u>93,273</u>
Fund balance (deficit) at beginning of year	(465,772)
Fund balance (deficit) at end of year	<u>\$ (372,499)</u>

The accompanying notes are an integral part of these special purpose financial statements.

LINCOLN-MARTI CHARTER SCHOOLS, INC.  
 (HIALEAH CAMPUS CHARTER SCHOOL)  
 (A COMPONENT UNIT OF THE SCHOOL BOARD OF MIAMI-DADE COUNTY)  
 STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
 GOVERNMENTAL FUND  
 FOR THE FISCAL YEAR ENDED JUNE 30, 2010

Revenues:	
State FTE Revenues	\$ 2,270,333
Local grants and others	<u>3,940</u>
Total revenues	<u>2,274,273</u>
Expenditures:	
Instructional services	\$ 754,130
Instructional materials	30,312
School administration	339,866
Central services	26,292
Operation of plant	21,475
Maintenance of plant	<u>1,567,970</u>
Total expenditures	<u>2,740,045</u>
(Deficit) of revenues over expenditures	(465,772)
Fund balance at beginning of year	<u>-</u>
Fund balance (deficit) at end of year	<u>\$ (465,772)</u>

The accompanying notes are an integral part of these special purpose financial statements.

LINCOLN-MARTI CHARTER SCHOOLS, INC.  
 (HIALEAH CAMPUS CHARTER SCHOOL)  
 (A COMPONENT UNIT OF THE SCHOOL BOARD OF MIAMI-DADE COUNTY)  
 RECONCILIATION OF THE STATEMENTS OF REVENUES,  
 EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUND  
 TO THE STATEMENTS OF ACTIVITIES

FOR THE FISCAL YEARS ENDED JUNE 30, 2011

	<u>2011</u>
Amounts reported for governmental activities in the statement of activities are different because:	
Net change in fund balances- total governmental fund	\$ 93,273
Expenditures for capital assets	52,838
Less current year depreciation	<u>(80,670)</u>
Change in net assets of governmental activities	<u>\$ 65,441</u>
	<u>2010</u>
Amounts reported for governmental activities in the statement of activities are different because:	
Net change in fund balances- total governmental fund	\$ (465,772)
Expenditures for capital assets	585,630
Less current year depreciation	<u>(48,376)</u>
Change in net assets of governmental activities	<u>\$ 71,482</u>

The accompanying notes are an integral part of these special purpose financial statements.



**LINCOLN-MARTI CHARTER SCHOOLS, INC.  
(HIALEAH CAMPUS CHARTER SCHOOL)  
(A COMPONENT UNIT OF THE SCHOOL BOARD OF MIAMI-DADE COUNTY)  
NOTES TO SPECIAL PURPOSE FINANCIAL STATEMENTS**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**a. Reporting Entity**

On January 14, 2009, the Miami-Dade County School Board approved the application submitted by the Board of Directors of Lincoln-Marti Charter Schools, Inc. for the creation of Lincoln-Marti Charter School (Hialeah Campus Charter School) (the "School"). Lincoln-Marti Charter School, Inc. (the "Organization") is a non-profit organization incorporated under the laws of Florida to operate charter schools organized pursuant to Section 228.056 of the Florida Statutes. The governing body of the School is the Organization's Board of Directors.

The School operates under a charter of the sponsoring school district, the Miami-Dade County School Board (the "School Board"). The School's charter was approved by the Board of Directors on January 14, 2009 and is effective until June 30, 2019. The charter may be renewed for up to an additional fifteen (15) years by mutual written agreement between the Organization and the School Board. At the end of the term of the charter, the School Board may choose not to renew the charter under grounds specified in the charter in which case the School Board is required to notify the Organization in writing at least 90 days prior to the charter's termination. Pursuant to Section 228.056(10)(e), of the Florida Statutes, the charter school contract provides that in the event the School is dissolved or terminated, any unencumbered funds and all school property purchased with public funds automatically revert to the School Board. During the term of the charter, the School Board may also terminate the charter if good cause is shown. For financial reporting purposes, the School is considered a component unit of the School Board of Miami-Dade County and is included in the School Board's comprehensive annual financial report.

**Enrollment and Grade Configuration**

<u>School Name and Addresses</u>	<u>Grades</u>	<u>Enrollment</u>
Lincoln-Marti Charter Schools (Hialeah Campus Charter School) 3500 W 84 Street, Hialeah, FL 33018	K- 8	327

**Board of Directors**

The Board of Directors of the Lincoln-Marti Charter School, Inc. consists of the following members:

Martin Añorga	Chairperson
Cruz Rodriguez	Board Member
Gil Beltran	Board Member

**LINCOLN-MARTI CHARTER SCHOOLS, INC.**  
**(HIALEAH CAMPUS CHARTER SCHOOL)**  
**(A COMPONENT UNIT OF THE SCHOOL BOARD OF MIAMI-DADE COUNTY)**  
**NOTES TO SPECIAL PURPOSE FINANCIAL STATEMENTS**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**a. Reporting Entity (Continued)**

**Financial Statements Presentation**

For financial reporting purpose, Hialeah Campus Charter School is a Charter School operated by Lincoln-Marti Charter School, Inc.

The special purpose financial statements present the government-wide statements, balance sheet and statement of revenues, expenditures and changes in fund balance for Lincoln-Marti Charter Schools, Inc. (Hialeah Campus Charter Schools) only and do not include the assets, liabilities, net assets, statement of activities and cash flows of Lincoln-Marti Charter Schools, Inc (a nonprofit organization). Accordingly, the accompanying special purpose financial statements are not intended to present the financial position, changes in net assets and cash flows of Lincoln-Marti Charter Schools, Inc. as of June 30, 2011 and for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

**b. Government-Wide and Fund Financial Statements**

The School's government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the School. Governmental activities are supported by Full-Time Equivalent (FTE) dollars and intergovernmental revenues.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include 1) charges to customers who purchase, use or directly benefit from goods, services or privileges provided by a given function or segment, 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function and 3) capital grants and contributions that are restricted to meeting the capital requirements of a particular function. FTE dollars and other items not properly included among program revenues are reported instead as general revenues.

Major individual governmental funds are reported as separate columns in the fund financial statements. The School's financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board.

**c. Measurement Focus, Basis of Accounting and Financial Statement Presentation**

The School's government-wide financial statements are reported using the economic resources measurement focus and the 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. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

LINCOLN-MARTI CHARTER SCHOOLS, INC.  
(HIALEAH CAMPUS CHARTER SCHOOL)  
(A COMPONENT UNIT OF THE SCHOOL BOARD OF MIAMI-DADE COUNTY)  
NOTES TO SPECIAL PURPOSE FINANCIAL STATEMENTS

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

c. **Measurement Focus, Basis of Accounting and Financial Statement Presentation**  
(Continued)

The School's fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the School considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures are recorded when a liability is incurred, as under accrual accounting.

FTE dollars, grants and interest associated with the current fiscal period are all considered to be susceptible to accrual and have been recognized as revenues of the current fiscal period. All other revenues items are considered to be measurable and available only when cash is received by the School.

The general fund is the school's operating fund and is considered its only major fund. It accounts for all financial resources of the school.

d. **Assets, Liabilities and Net Assets**

1. **Cash and Cash Equivalents**

The School considers all highly liquid investments with a maturity of three months or less when purchased to be cash and cash equivalents. The School has no cash equivalents at June 30, 2011 and 2010.

2. **Receivables**

All intergovernmental receivables are considered to be collectible. No allowance for uncollectible is considered necessary.

3. **Capital Assets**

Capital assets, which include improvements other than buildings and classroom furniture, fixture, equipment, textbooks and others, are reported in the government activities columns in the government-wide financial statements. Capital assets are defined by the School as assets with an initial, individual or collectively cost of more than \$750 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

**LINCOLN-MARTI CHARTER SCHOOLS, INC.**  
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**NOTES TO SPECIAL PURPOSE FINANCIAL STATEMENTS**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**d. Assets, Liabilities and Net Assets (Continued)**

**3. Capital Assets (Continued)**

Capital assets of the School are depreciated using the straight-line method over the following estimated useful lives:

	<u>Years</u>
Improvement other than buildings	10
Classroom furniture, fixtures, equipment and others	3-7

**4. Fund Equity/Net Assets**

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

The government-wide financial statements utilize a net asset presentation. Net asset are categorized as investment in capital assets (net of related debt) and restricted and unrestricted.

*Investment in Capital Assets (net of related debt)* - is intended to reflect the portion of net assets which are associated with non-liquid capital assets less outstanding capital asset related debt. The net related debt is debt less the outstanding liquid assets and any associated unamortized cost.

*Restricted Net Assets* – represent liquid assets (generated from revenues and not bond proceeds) which have third party (statutory, bond covenant or granting agency) limitations on their use. The School would typically use restricted net assets first, as appropriate opportunities arise, but reserve the right to selectively defer the use thereof to a future project or replacement equipment acquisition.

*Unrestricted Net Assets* - represent unrestricted liquid assets.

When both restricted and unrestricted resources are available for use, it is the School's policy to use restricted resources first, then unrestricted resources as they are needed.

**e. Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Although these estimates are based on management's knowledge of current events and actions it may undertake in the future, they may differ from actual results.

**LINCOLN-MARTI CHARTER SCHOOLS, INC.**  
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**NOTES TO SPECIAL PURPOSE FINANCIAL STATEMENTS**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**f. Revenue Sources**

Revenues for current operations are received primarily from the Miami-Dade County District School Board pursuant to the funding provisions included in the School's charter. In accordance with the funding provisions of the charter, the School reports the number of full-time equivalent students and related data to the District. Under the provisions of Section 1011.62, of the Florida Statutes, the District reports the number of full-time equivalent 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 full-time equivalent students reported by the School during the designated full-time equivalent student survey periods.

**g. Date of Management Review**

The Organization has evaluated subsequent events through August 31, 2011.

**2. DEPOSITS**

The School's cash includes cash on hand and demand deposits. At June 30, 2011, the carrying amount of the School's deposits was 243,228, while the bank balances of such deposits were \$353,605. The School's deposit are insured up to \$250,000 by the Federal Deposit Insurance Corporation ("FDIC"), all cash in the bank is held in banking institutions approved by the State of Florida, State Treasurer, to hold public funds.

**3. CAPITAL ASSETS**

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets, being depreciated:				
Improvements other than buildings	\$ 359,283	\$ 15,980	\$ -	\$ 375,263
Classroom furniture, fixtures, equipment and others	<u>226,347</u>	<u>36,858</u>	<u>-</u>	<u>263,205</u>
Total capital assets being depreciated	585,630	52,838	-	638,468
Less accumulated depreciation for:				
Improvements other than buildings	(17,011)	(37,009)	-	(54,020)
School furniture, fixtures, equipment and others	<u>(31,365)</u>	<u>(43,661)</u>	<u>-</u>	<u>(75,026)</u>
Total accumulated depreciation	<u>(48,376)</u>	<u>(80,670)</u>	<u>-</u>	<u>(129,046)</u>
Total capital assets being depreciated, net	<u>\$ 537,254</u>	<u>\$ (27,832)</u>	<u>\$ -</u>	<u>\$ 509,422</u>

**LINCOLN-MARTI CHARTER SCHOOLS, INC.**  
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**NOTES TO SPECIAL PURPOSE FINANCIAL STATEMENTS**

**3. CAPITAL ASSETS (CONTINUED)**

Depreciation expense was charged to functions/programs of the School as follows:

	<u>2011</u>	<u>2010</u>
Governmental activities:		
Operation of plant	<u>\$ 80,670</u>	<u>\$ 48,376</u>

**4. COMMITMENTS AND CONTINGENCIES**

***Lease Agreement with DP Real Estate Holdings, LLC***

The Organization entered into a lease agreement for the School premises with D.P. Real Estate Holdings, LLC ("DP"). The School is responsible for the leasehold improvements, repairs and maintenance, and the insurance of the properties. The lease term is for a period of seven years, expiring in 2017, and includes a provision for escalating annual rentals based on a rate of 4% per year. The School's rent expense for the years ended June 30, 2011 and 2010 was approximately \$744,000 and \$742,000, respectively.

Minimum required future rental payments under this operating lease as of June 30, 2011 are as follows:

2012	\$ 811,200
2013	843,650
2014	877,400
2015	912,500
2016	948,900
2017	65,000

***Credit Agreement***

The School together with other companies, which are affiliated directly or indirectly (collectively referred to as "affiliated companies"), entered in a Corporate Guarantee Agreement where the affiliated companies irrevocably and unconditionally guarantee the full payment and performance of all the guarantees and obligations as a primary obligor in case of nonperformance by the Borrowers (DP Real Estate Holdings, LLC and other limited liability companies) under the term of the Credit Agreement with the bank.

The Credit Agreement is for a total of approximately \$24 million and contains restrictive covenants including maintaining certain financial ratios as well as other quarterly and yearly reporting requirements. As of December 31, 2011, the balance owed by the Borrowers was approximately \$23,316,000.

**LINCOLN-MARTI CHARTER SCHOOLS, INC.  
(HIALEAH CAMPUS CHARTER SCHOOL)  
(A COMPONENT UNIT OF THE SCHOOL BOARD OF MIAMI-DADE COUNTY)  
NOTES TO SPECIAL PURPOSE FINANCIAL STATEMENTS**

**4. COMMITMENTS AND CONTINGENCIES (CONTINUED)**

***Management Services Agreement***

The School entered into a five year management agreement with a charter management company (Lincoln-Marti Management Services, LLC.) to provide management and administrative services to the School. The agreement expires on July 31, 2012. As defined under term of the agreement under section 25, Base Compensation, the School will pay, as compensation to Lincoln-Marti Management Services, LLC, a management fee of \$450 per Full Time Equivalent (FTE) per annum during the term of the agreement. The School's management fee expenses were approximately \$153,000 for the fiscal year ended June 30, 2011. During the fiscal year ended June 30, 2010, the management company waived its fees to the School; therefore, no fees were paid. (See note 5 Related Party Transactions).

Management Company Information:

Name and Address:

Lincoln-Marti Management Services, LLC  
2700 SW 8<sup>th</sup> Street  
Miami, FL 33315

List of Principal Officers:

Maria Denia Vasallo, Manager

***Risk Management***

The School is exposed to various risks of loss related torts, theft of, damage to and destruction of assets, errors and omissions and natural disasters for which the School carries property and liability insurance. Settlement amounts do not exceed insurance coverage. In addition, there have been no reductions of insurance coverage during the year.

**5. RELATED PARTY TRANSACTIONS**

Related party transactions occurred during the year with various related entities, with the exception of the School Board.

***School Board***

Pursuant to the Charter School Agreement with the School Board, the School Board is paid an administrative fee of five percent (5%) of the qualifying revenues of the School. During the years ended June 30, 2011 and 2010, approximately \$121,745 and \$108,028 were paid to the School Board for administrative fees, respectively. Pursuant to the Charter School Agreement with the School Board, the School receives from the School Board an FTE for each full-time equivalent student enrolled. There were 327 full time students enrolled during the fiscal year ended June 30, 2011. The School also receives other allowances based upon students enrolled.

***Lincoln-Marti Community Agency, Inc.***

During the year ended June 30, 2011, Lincoln-Marti Community Agency, Inc. made advances to help with the cash flows of the School. The balance outstanding at June 30, 2011 was approximately \$217,223. These amounts were unsecured non-interest bearing and due on demand.

**LINCOLN-MARTI CHARTER SCHOOLS, INC.  
(HIALEAH CAMPUS CHARTER SCHOOL)  
(A COMPONENT UNIT OF THE SCHOOL BOARD OF MIAMI-DADE COUNTY)  
NOTES TO SPECIAL PURPOSE FINANCIAL STATEMENTS**

**5. RELATED PARTY TRANSACTIONS (CONTINUED)**

***Lincoln-Marti Charter Schools, Inc (Little Havana Charter School)***

During the year ended June 30, 2011, Lincoln-Marti Charter Schools, Inc. (Little Havana Campus Charter Schools) advanced approximately \$400,000 to provide cash flows for the Hialeah Charter of which approximately \$143,000 was owed as of June 30, 2011. These amounts were unsecured non-interest bearing and due on demand.

***DP Real Estate Holdings, LLC***

During the fiscal years ended June 30, 2011 and 2010, lease expenses for the rental of the school property between DP and the School were \$744,000 and \$741,773, respectively, of which \$185,634 and \$233,333 were owed as of June 30, 2011 and 2010, respectively. (See note 4 Commitment and Contingencies).

***Lincoln-Marti Management Services***

During the years ended June 30, 2011 and 2010, the School incurred expenses under the term of the agreement for approximately \$153,000 and \$120,000, respectively. The fees were waived by the management company. (See note 4 Commitment and Contingencies).

**6. CURRENT VULNERABILITY DUE TO CONCENTRATION**

During fiscal year 2011, the School received most of its support from the Miami-Dade School Board. It is reasonably possible that in the near term these programs could decrease due to budget cuts at the School Board, which could affect the School and its ability to continue operations. The School has considered this possibility and would seek other funding sources to continue its operations if such circumstances were to occur.



**SUPPLEMENTARY SCHEDULE**

**LINCOLN-MARTI CHARTER SCHOOLS, INC.**  
**(HIALEAH CAMPUS CHARTER SCHOOL)**  
**(A COMPONENT UNIT OF THE SCHOOL BOARD OF MIAMI-DADE COUNTY)**  
**NOTE TO BUDGETARY COMPARISON SCHEDULE**  
**JUNE 30, 2011**

**1. BUDGETS AND BUDGETARY ACCOUNTING**

Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America for all governmental funds. All annual appropriations lapse at fiscal year end. The original budget and any subsequent amendments are approved by the Board of Directors. For the fiscal year ended June 30, 2011, there were no amendments to the original budget.

**SUPPLEMENTARY AUDITORS' REPORTS**

**INDEPENDENT AUDITORS' 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**

To the Board of Directors and Officers of  
Lincoln-Marti Charter Schools, Inc.  
(Hialeah Campus Charter School)  
(A Component Unit of the School Board of Miami-Dade County)

We have audited the special purpose financial statements of the governmental activities and major fund of Lincoln-Marti Charter Schools, Inc. (Hialeah Campus Charter School) (the "School") (a component unit of the School Board of Miami-Dade County), as of and for the fiscal year ended June 30, 2011, and have issued our report dated August 31, 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 entity's financial statements will not be prevented, or detected and corrected on a timely basis.


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

To the Board of Directors and Officers of  
Lincoln-Martí Charter Schools, Inc.  
(Hialeah Campus Charter School)  
(A Component Unit of the School Board of Miami-Dade County)

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the School's special purpose financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, non-compliance 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 non-compliance or other matters that are required to be reported under *Government Auditing Standards*.

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

A handwritten signature in cursive script that reads "G L S C and Company PLLC".

August 31, 2011

**MANAGEMENT LETTER IN ACCORDANCE WITH THE RULES  
OF THE AUDITOR GENERAL OF THE STATE OF FLORIDA**

To the Board of Directors and Officers of  
Lincoln-Martí Charter Schools, Inc.  
(Hialeah Campus Charter School)  
(A Component Unit of the School Board of Miami-Dade County)

We have audited the special purpose financial statements of the governmental activities and major fund of The Lincoln-Martí Charter Schools, Inc. (Hialeah Campus Charter School) (the "School"), (a component unit of the School Board of Miami-Dade County), as of and for the fiscal year ended June 30, 2011, and have issued our report thereon dated August 31, 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. We have also issued our report on compliance and on internal control over financial reporting; which is dated August 31, 2011, and should be considered in conjunction with this management letter.

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

1. The School has met one or more of the conditions described in Section 218.503(1), Florida Statute.
2. There were no recommendation to improve the school's financial management, accounting procedures, and internal controls.
3. There were no violations of contracts or grant agreements or abuse that has an effect on the financial statements that is less than material but more than inconsequential.
4. Based on our professional judgment, we may report on the following matters that are inconsequential on the financial statement, considering both quantitative and qualitative factors:  
(a) violations of provisions of contracts or grant agreements, fraud, illegal acts or abuse, (b) control deficiencies that are not significant deficiencies. In connection with our audit, we did not have any such findings.
5. The name of the charter school is Lincoln-Martí Charter Schools Hialeah Campus, a component unit of the School Board of Miami-Dade County.

To the Board of Directors and Officers of  
Lincoln-Marti Charter Schools, Inc.  
(Hialeah Campus Charter School)  
(A Component Unit of the School Board of Miami-Dade County)

6. The auditor applied financial condition assessment procedures in accordance with Rule 10.855(10) of the Auditor General and it was noted that the School met one of the conditions described in Section 218.503(1)(e), Florida Statutes. The School reported an unreserved fund balance deficit of \$372,499 as of June 30, 2011. The deficiency was due to capital assets expenditures in the amount of approximately \$585,630 during the first year of operations (June 30, 2010) relating to leasehold improvement, school furniture equipments and other items to open the school. The School has been able to pay all taxes withheld, wages and salaries, and all its expenses and creditors. The financial emergency condition was the result of the situation described above. During the year ended June 30, 2011, the School had excess of Revenues over expenditures of \$93,273 reducing the deficit from \$465,772 at the end of June 30, 2010 to \$372,499 and has a positive Net Assets of \$136,923.

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 Miami Dade County School Board, and the Florida Auditor General, and is not intended to be and should not be used by anyone other than these specified parties.

*GLS&C and Company PLLC*  
August 31, 2011