



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

**FINANCIAL STATEMENTS
WITH INDEPENDENT AUDITOR'S REPORTS THEREON**

JUNE 30, 2011

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MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the annual financial report of Miami Arts, Inc. (the "School") presents management's discussion and analysis of the School's financial performance during the year ended June 30, 2011. Please read it in conjunction with the School's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- For the year ended June 30, 2011, the School's revenues exceeded expenses by \$45,778. This is a decline from the prior year when revenues exceeded expenses by \$69,672.
- Overall, the School's revenues increased to \$4,287,822, or 22%, over the prior year amount of \$3,526,048. The increase in revenues was primarily due to an increase in the student FTE count.
- Overall, the School's expenses increased to \$4,242,044, or 23%, over the prior year amount of \$3,456,376. This increase in expenses is primarily due to increases in the number of employees to accommodate the increase in students.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts – management's discussion and analysis (this section), the basic financial statements and required supplementary information. The basic financial statements include two kinds of statements that present different views of the School:

- The first two statements are *government-wide financial statements* that provide both long-term and short-term information about the School's overall financial status.
- The remaining statements are *fund financial statements* that focus on individual parts of the School, reporting the School's operations in more detail than the government-wide statements.
 - The *governmental funds* financial statements tell how general school services were financed in the short term, as well as what remains for future spending.

The financial statements also include *notes* that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of *required supplementary information* that further explains and supports the information in the financial statements.

This document also includes the independent auditor's report on compliance and internal control required by *Government Auditing Standards*, as well as the management letter required by the Rules of the Auditor General, Chapter 10.850, *Audits of Charter Schools and Similar Entities*.

The following table summarizes the major features of the School's financial statements, including the portion of the School they cover and the types of information they contain. The remainder of this overview section of management's discussion and analysis explains the structure and contents of each of the statements.

	Government-wide Statements	Fund Statements
		Governmental Funds
Scope	Entire School	The activities of the School that are not proprietary or fiduciary
Required financial statements	Statement of net assets Statement of activities	Balance sheet Statement of revenues, expenditures and changes in fund balances
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, and short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets included
Type of inflow/outflow information	All revenues and expenses during the year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and payment is due during the year or soon thereafter

Government-wide Financial Statements

The government-wide financial statements report information about the School as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the School's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities, regardless of when cash is received or paid.

The two government-wide financial statements report the School's net assets and how they have changed. Net assets – the difference between the School's assets and liabilities – is one way to measure the School's financial condition. Over time, increases or decreases in the School's net assets are an indicator of whether its financial condition is improving or deteriorating, respectively. To assess the overall health of the School, one needs to consider additional nonfinancial factors such as changes in the School's student base.

The government-wide financial statements of the School are generally divided into three categories:

- *Governmental activities* – most of the School's basic services are included here, such as instruction and school administration. Funds received through the Florida Education Finance Program ("FEFP") and state and federal grants finance most of these activities.
- *Business-type activities* – in certain instances, the School may charge fees to help it cover the costs of certain services it provides. The School currently has no business-type activities.
- *Component units* – there currently are no component units included within the reporting entity of the School.

Fund Financial Statements

The fund financial statements provide more detailed information about the School's most significant funds, not the School as a whole. A fund is a self-balancing set of accounts which the School uses to keep track of specific sources of funding and spending for particular purposes. Some funds are required by state law, and the School may establish other funds to control and manage money for particular purposes, such as for federal grants.

The School has one type of fund:

- *Governmental funds* – most of the School's basic services are included in governmental funds, which focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps one determine whether there are more or fewer financial resources that can be spent in the near future to finance the School's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information on the subsequent page that explains the differences between them.

FINANCIAL ANALYSIS OF THE SCHOOL AS A WHOLE

Net Assets

The School's total net assets increased from fiscal years 2010 to 2011 (see table below).

	Governmental Activities		Increase (Decrease)
	2010	2011	
Current and other assets	\$ 181,244	\$ 463,698	156%
Capital assets, net	556,341	499,264	-10%
Total assets	\$ 737,585	\$ 962,962	31%
Current and other liabilities	\$ 319,113	\$ 498,712	56%
Long-term liability	348,800	348,800	0%
Total liabilities	\$ 667,913	\$ 847,512	27%
Net assets:			
Invested in capital assets, net of related debt	\$ 120,341	\$ 63,264	-47%
Unrestricted	(50,669)	52,186	-203%
Total net assets	\$ 69,672	\$ 115,450	66%

The increase in current and other assets was due to a larger cash balance at the end of the year as a result of the net operating surplus and the security deposit on the operating lease recorded in the current year. The decrease in capital assets, net was the result of an increase in depreciation cost due to depreciating assets for the full year rather than only part of the prior year as they were acquired. The increase in current and other liabilities was due to the increase in accrued salaries and benefits for teachers, which resulted from additional teachers hired for the increased enrollment. The decrease in the amount invested in capital assets, net of related debt was due to the increased amount of depreciation. Changes in net assets are the result of operations.

Change in Net Assets

The School's change in net assets is summarized as follows:

	<u>Governmental Activities</u>		<u>Increase</u>
	<u>2010</u>	<u>2011</u>	<u>(Decrease)</u>
Revenues:			
Federal sources	\$ 249,730	\$ 7,867	-97%
State and local sources	3,132,154	3,943,522	26%
Contributions and other revenue	144,164	336,433	133%
Total revenues	<u>3,526,048</u>	<u>4,287,822</u>	<u>22%</u>
Expenses:			
Instruction and instruction-related services	1,456,939	2,120,480	46%
Pupil personnel services	91,236	143,905	58%
Board	500	16,700	3240%
General administration	146,455	74,911	-49%
School administration	363,110	378,561	4%
Facilities acquisition and construction	832,906	828,909	0%
Fiscal services	40,485	54,978	36%
Food services	34,008	10,040	-70%
Central services	3,530	35,597	908%
Pupil transportation	10,499	28,305	170%
Operation of plant	330,592	286,190	-13%
Maintenance of plant	62,714	126,492	102%
Administrative technology services	40,722	50,699	25%
Unallocated depreciation expense	42,680	86,277	102%
Total expenses	<u>3,456,376</u>	<u>4,242,044</u>	<u>23%</u>
Change in net assets	<u>\$ 69,672</u>	<u>\$ 45,778</u>	<u>-34%</u>

The reduction in federal grant revenue was primarily due to the close out of the prior year grant which only applied to that year. The increase in state and local sources was due to increased enrollment. The increase in contributions and other revenue was due to contributions for students' trip to Europe.

The increase in instruction cost was due to an increase in the instructional staff in proportion to the increase in enrollment. The increase in pupil personnel services is due to the addition of a full-time attendance person and an activities director. The increase in board cost was due to the cost of the annual audit. The decrease in general administration is due to the decrease in the administrative fee charged to the School. The increase in fiscal services is due to the additional salary for the business manager for the entire year rather than only part of the prior year. The decrease in food services cost was the result of the elimination of start-up cost incurred in the prior year. The increase in central services was due to the security officer hired during fiscal 2011. The increase in pupil transportation was due to a larger number of field trips. The

decrease in operation of plant is due to the elimination of nonrecurring start-up cost incurred during the prior year. The increase in maintenance of plant is due to adding a full-time employee to handle building maintenance. The increase in administrative technology services was due to a salary increase for the Information Technology Specialist. The increase in depreciation expense was due to depreciating assets for the full year rather than only part of the prior year when they were acquired.

FINANCIAL ANALYSIS OF THE SCHOOL'S FUNDS

As the School completed the year, its governmental funds reported a combined fund balance of \$52,186, which was above the prior year. Both revenues and expenditures increased overall for the same reasons described above.

General Fund Budgetary Highlights

Over the course of the year, the School did not revise the operating budget. Budget amendments, if necessary, generally fall into two categories:

- Changes made to account for the increase in student enrollment.
- Increases in appropriations to prevent certain budget overruns.

For the year ended June 30, 2011, actual general fund revenues were approximately \$560,000 above the final budgeted amounts, which represents a 15% budget variance. This variance is primarily due to the fact that contributions and other revenue are not budgeted. Actual general fund expenditures were approximately \$537,000 above the final budgeted amounts due to expenditures for certain student activities that were not budgeted and unexpected expenditures for maintenance and operation of plant and capital outlay, which represents a 15% budget variance.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of fiscal 2011, the School has invested \$628,221 in a broad range of capital assets, including leasehold improvements and furniture, fixtures and equipment (see table below).

	<u>Governmental Activities</u>		<u>Increase</u>
	<u>2010</u>	<u>2011</u>	<u>(Decrease)</u>
Leasehold improvements	\$ 185,749	\$ 185,749	\$ -
Furniture, fixtures and equipment	413,272	442,472	29,200
Total capital assets	<u>\$ 599,021</u>	<u>\$ 628,221</u>	<u>\$ 29,200</u>

This year's major capital asset additions included the following:

- Air conditioning unit - \$12,775
- Fire cabinets - \$4,879
- LED lighting - \$2,400

There were no capital asset disposals in the current year. The School's fiscal year 2012 capital budget does not include significant spending for capital assets. More detailed information about the School's capital assets is presented in Note 2 to the financial statements.

Long-Term Liability

At year-end, the School had \$436,000 in a note payable outstanding. The School completed the renovation of a leased building and purchased a significant amount of assets to begin school operations in the prior year. More detailed information about the School's long-term liability is presented in Note 4 to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

When adopting the general fund budget for fiscal year 2012, the School considered the expected increase in student enrollment and resulting increase in salaries due to additional teachers.

Amounts available for appropriation in the general fund are approximately \$4,105,000, a decrease of 4% from the final 2011 amount of \$4,279,955. The decrease is the result of state FEFP revenue decreases.

Budgeted expenditures are expected to decrease overall by 5% from the final 2011 amount to approximately \$3,988,000 to accommodate the decrease in revenues.

If these estimates are realized, the School's budgetary general fund balance is expected to increase by the close of fiscal 2012.

CONTACTING THE SCHOOL'S FINANCIAL MANAGEMENT

This financial report is designed to provide interested parties with a general overview of the School's finances and to demonstrate the School's accountability for the money it receives. Should additional information be required, please contact the School's administrative offices at 3900 Biscayne Boulevard, Miami, Florida 33137.

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

To the Board of Directors of Miami Arts, Inc., a Charter School
and Component Unit of the District School Board of Miami-Dade County, Florida

We have audited the accompanying financial statements of the governmental activities, the major fund and the aggregate remaining fund balance of Miami Arts, Inc. (the "School"), a charter school and component unit of the District School Board of Miami-Dade County, Florida, as of and for the year ended June 30, 2011, which collectively comprise the School's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the School's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the major fund and the aggregate remaining fund balance of Miami Arts, Inc. as of June 30, 2011, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 25, 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 and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 1 through 7 and 26, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

BKHM, P.A.

Winter Park, Florida
August 25, 2011

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

STATEMENT OF NET ASSETS

JUNE 30, 2011

	Governmental Activities
ASSETS	
Cash and cash equivalents	\$ 374,490
Accounts receivable	3,270
Security deposit	85,938
Capital assets:	
Leasehold improvements	185,749
Furniture, fixtures and equipment	442,472
Less accumulated depreciation	(128,957)
Total capital assets, net	499,264
Total assets	\$ 962,962
LIABILITIES	
Accounts payable and accrued expenses	\$ 325,574
Obligation under lease	85,938
Long-term liability:	
Portion due or payable within one year:	
Note payable	87,200
Portion due or payable after one year:	
Note payable	348,800
Total liabilities	847,512
NET ASSETS	
Invested in capital assets, net of related debt	63,264
Unrestricted	52,186
Total net assets	115,450
Total liabilities and net assets	\$ 962,962

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

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

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2011

	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 and instruction-related services	\$ 2,120,480	\$ -	\$ 7,867	\$ -	\$ (2,112,613)
Pupil personnel services	143,905	-	-	-	(143,905)
Board	16,700	-	-	-	(16,700)
General administration	74,911	-	-	-	(74,911)
School administration	378,561	-	-	-	(378,561)
Facilities acquisition and construction	828,909	-	-	-	(828,909)
Fiscal services	54,978	-	-	-	(54,978)
Food services	10,040	-	-	-	(10,040)
Central services	35,597	-	-	-	(35,597)
Pupil transportation	28,305	-	-	-	(28,305)
Operation of plant	286,190	-	-	-	(286,190)
Maintenance of plant	126,492	-	-	-	(126,492)
Administrative technology services	50,699	-	-	-	(50,699)
Unallocated depreciation expense	86,277	-	-	-	(86,277)
Total primary government	\$ 4,242,044	\$ -	\$ 7,867	\$ -	\$ (4,234,177)

General revenues:

State and local sources	3,943,522				3,943,522
Contributions and other revenue	336,433				336,433
Total general revenues	4,279,955				4,279,955
Change in net assets				45,778	45,778
Net assets at beginning of year				69,672	69,672
Net assets at end of year				\$ 115,450	\$ 115,450

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

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

BALANCE SHEET - GOVERNMENTAL FUND

JUNE 30, 2011

	<u>General Fund</u>
ASSETS	
Cash and cash equivalents	\$ 374,490
Accounts receivable	3,270
Security deposit	<u>85,938</u>
Total assets	<u><u>\$ 463,698</u></u>
LIABILITIES AND FUND BALANCE	
Accounts payable and accrued expenditures	\$ 325,574
Obligation under lease	<u>85,938</u>
Total liabilities	<u>411,512</u>
Fund balance:	
Unassigned	<u>52,186</u>
Total fund balance	<u>52,186</u>
Total liabilities and fund balance	<u><u>\$ 463,698</u></u>

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

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

RECONCILIATION OF THE GOVERNMENTAL FUND BALANCE SHEET
TO THE STATEMENT OF NET ASSETS

JUNE 30, 2011

Total fund balance - governmental fund	\$ 52,186
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Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds. The cost of assets is \$628,221 and the accumulated depreciation is \$128,957.	499,264
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The long-term liability is not due and payable in the current period and, therefore, is not reported as a liability in the governmental fund. The long-term liability at year-end consisted of:

Note payable	<u>(436,000)</u>
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Total net assets - governmental activities	<u><u>\$ 115,450</u></u>
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The accompanying notes to financial statements are an integral part of this statement.

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

STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS

FOR THE YEAR ENDED JUNE 30, 2011

	<u>General Fund</u>	<u>Other Governmental Fund</u>	<u>Total Governmental Funds</u>
REVENUES			
Federal sources	\$ -	\$ 7,867	\$ 7,867
State and local sources	3,943,522	-	3,943,522
Contributions and other revenue	336,433	-	336,433
Total revenues	<u>4,279,955</u>	<u>7,867</u>	<u>4,287,822</u>
EXPENDITURES			
Current:			
Instruction and instruction-related services	2,112,613	7,867	2,120,480
Pupil personnel services	143,905	-	143,905
Board	16,700	-	16,700
General administration	74,911	-	74,911
School administration	378,561	-	378,561
Facilities acquisition and construction	828,909	-	828,909
Fiscal services	54,978	-	54,978
Food services	10,040	-	10,040
Central services	35,597	-	35,597
Pupil transportation	28,305	-	28,305
Operation of plant	286,190	-	286,190
Maintenance of plant	126,492	-	126,492
Administrative technology services	50,699	-	50,699
Capital outlay	29,200	-	29,200
Total expenditures	<u>4,177,100</u>	<u>7,867</u>	<u>4,184,967</u>
Net changes in fund balances	102,855	-	102,855
Fund deficit at beginning of year	<u>(50,669)</u>	<u>-</u>	<u>(50,669)</u>
Fund balance at end of year	<u>\$ 52,186</u>	<u>-</u>	<u>\$ 52,186</u>

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

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

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES**

FOR THE YEAR ENDED JUNE 30, 2011

Net changes in fund balances - total governmental funds \$ 102,855

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

Governmental funds report capital outlays as expenditures.
However, in the statement of activities, the cost of those assets are
allocated over their estimated useful lives and reported as depreciation
expense. This is the amount by which depreciation expense (\$86,277)
exceeds capital outlays (\$29,200) in the current period.

(57,077)

Change in net assets of governmental activities

\$ 45,778

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

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

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2011

1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

Miami Arts, Inc. (the "School") is a not-for-profit corporation organized pursuant to Chapter 617, Florida Statutes, the Florida Not For Profit Corporation Act and Section 1002.33, Florida Statutes. The governing body of the School is the not-for-profit corporation Board of Directors, which is composed of three members. The School began operations in fiscal 2010.

The general operating authority of the School is contained in Section 1002.33, Florida Statutes. The School operates under a charter of the sponsoring school district, the District School Board of Miami-Dade County, Florida (the "School Board"). The current charter is effective until June 30, 2014 and may be renewed by mutual written agreement between the School 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 this case, the School Board is required to notify the School in writing at least 90 days prior to the charter's expiration. During the term of the charter, the School Board may also terminate the charter if good cause is shown. In the event of termination of the charter, any property purchased by the School with public funds and any unencumbered public funds revert back to the School Board. The School is considered a component unit of the School Board and meets the definition of a governmental entity under the Governmental Accounting Standards Board's ("GASB") accounting guidance; therefore, for financial reporting purposes, the School is required to follow generally accepted accounting principles applicable to state and local governmental units.

Criteria for determining if other entities are potential component units of the School which should be reported with the School's basic financial statements are identified and described in the GASB *Codification of Governmental Accounting and Financial Reporting Standards*. The application of these criteria provides for identification of any entities for which the School is financially accountable and other organizations for which the nature and significance of their relationship with the School are such that exclusion would cause the School's basic financial statements to be misleading or incomplete. Based on these criteria, no component units are included within the reporting entity of the School.

Recently adopted accounting pronouncements

During fiscal year 2011, the School adopted guidance issued by the GASB that established fund balance classifications that comprise a hierarchy based primarily on the extent to which an entity is bound to observe constraints imposed upon the use of the resources reported in governmental funds. This guidance improves the usefulness of fund balance information by clarifying the definitions of existing governmental fund types and providing additional classifications of fund balance.

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

**NOTES TO FINANCIAL STATEMENTS
(continued)**

Basis of presentation

The School's financial statements have been prepared in accordance with generally accepted accounting principles as prescribed by the GASB. Accordingly, both government-wide and fund financial statements are presented.

The government-wide financial statements report information about the School as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the School's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The government-wide financial statements of the School are generally divided into three categories:

- *Governmental activities* – most of the School's basic services are included here, such as instruction and school administration. Funds received through the Florida Education Finance Program ("FEFP") and state and federal grants finance most of these activities.
- *Business-type activities* – in certain instances, the School may charge fees to help it cover the costs of certain services it provides. The School currently has no business-type activities.
- *Component units* – there currently are no component units included within the reporting entity of the School.

The fund financial statements provide more detailed information about the School's most significant funds, not the School as a whole. A fund is an accounting entity having a self-balancing set of accounts for recording assets, liabilities, fund balance, revenues, expenditures, and other financing sources and uses. Resources are allocated to and accounted for in individual funds based on the purposes for which they are to be spent and the means by which spending activities are controlled. The funds in the financial statements of this report are as follows:

Governmental Funds:

- General Fund - to account for all financial resources not required to be accounted for in another fund.
- Special Revenue Fund - to account for the proceeds of specific revenue sources and Federal grants that are restricted by law or administrative action to expenditure for specific purposes.

For purposes of these statements, the general fund constitutes a major fund. The special revenue fund is considered non-major and is presented as the other governmental fund.

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

NOTES TO FINANCIAL STATEMENTS
(continued)

Basis of accounting

Basis of accounting refers to when revenues and expenses/expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

The government-wide financial statements are presented using the accrual basis of accounting and an economic resources focus. Revenues and expenses are recognized when they occur.

The modified accrual basis of accounting and current financial resources focus is followed by the governmental funds. Under the modified accrual basis, revenues are recognized when they become measurable and available. Available means collectible within the current year or soon enough thereafter to pay current liabilities. The School considers revenues to be available if they are collected within 60 days of the end of the fiscal year. Under the modified accrual basis of accounting, expenditures are generally recognized when the related fund liability is incurred. The principal exceptions to this general rule are: (1) interest on general long-term debt is recognized when due and (2) expenditures related to liabilities reported as general long-term debt are recognized when due.

Budgetary basis accounting

Budgets are presented on the modified accrual basis of accounting. During the fiscal year, expenditures were controlled at the object level (e.g., salaries, purchased services and capital outlay).

Cash and cash equivalents

The School's cash consists primarily of demand deposits with financial institutions. All amounts are fully insured within the Federal Deposit Insurance Corporation limits.

Capital assets and depreciation

Expenditures for capital assets acquired for general School purposes are reported in the governmental fund that financed the acquisition. Purchased capital assets are reported at cost, net of accumulated depreciation, in the government-wide financial statements. For purposes of recording capital assets, the School has a capitalization threshold of \$1,000. The School considers all capital assets to be shared by all functions; therefore depreciation expense is not directly allocated but is presented in the statement of activities as unallocated depreciation expense.

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

**NOTES TO FINANCIAL STATEMENTS
(continued)**

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

	<u>Years</u>
Leasehold improvements	10
Furniture, fixtures and equipment	4 - 7

Information relative to changes in capital assets is described in Note 2.

Income taxes

The School is in the process of completing the application to become an organization exempt from income taxation under Section 501(a) as an entity described in Section 501(c)(3) of the Internal Revenue Code of 1986, as amended. The School plans to file the application for tax exempt status under the exceptions for organizations not filing within 27 months of formation. Management has taken the position that the School will be approved and considered tax exempt on a retroactive basis to the date of formation. Accordingly, no provision for federal income taxes is included in the accompanying financial statements.

The School has adopted guidance related to accounting for uncertainty in income taxes, which prescribes a recognition threshold and measurement attribute for financial statement recognition and measurement of a tax position that an entity takes or expects to take in a tax return. This guidance is applicable to not-for-profit organizations that may be conducting unrelated business activities, which are potentially subject to income taxes, including state income taxes.

The School assesses its income tax positions, including its continuing tax status as a not-for-profit entity, and recognizes tax benefits only to the extent that the School believes it is "more likely than not" that its tax positions will be sustained upon an examination by the Internal Revenue Service ("IRS") or the applicable state taxing authority. Accordingly, there is no provision for federal income taxes in the School's financial statements, as the School believes all tax positions, including its continuing status as a not-for-profit entity, have a greater than 50% chance of realization in the event of an IRS audit. State income taxes, which may be due in certain jurisdictions, have been evaluated following the same "more likely than not" measurement threshold.

Long-term liability

Long-term obligations that will be financed by resources to be received in the future by the General Fund are reported in the government-wide financial statements, not in the General Fund. Changes in the long-term liability for the current year are reported in Note 4.

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

NOTES TO FINANCIAL STATEMENTS
(continued)

Revenue sources

Revenues for current operations are received primarily from the District School Board of Miami-Dade County, Florida pursuant to the funding provisions included in the School's charter. As such, the School's revenue stream is largely dependent upon the general state of the economy and the amounts allotted to the Florida Department of Education ("FDOE") by the state legislature. In accordance with the funding provisions of the charter and Section 1002.33(18), Florida Statutes, the School reports the number of full-time equivalent students and related data to the School Board.

Under the provisions of Section 1011.62, Florida Statutes, the School Board reports the number of full-time equivalent students and related data to the FDOE for funding through the Florida Education Finance Program ("FEFP"). Funding for the School is adjusted during the year to reflect the revised calculations by the FDOE under the FEFP and the actual weighted full-time equivalent students reported by the School during the designated full-time equivalent student survey periods. The School Board receives a 5% administrative fee from the School, which is reflected as a general administration expense/expenditure in the accompanying statement of activities and statement of revenues, expenditures and changes in fund balances - governmental funds. This administrative fee is calculated on the FEFP revenue up to 250 students. The difference between the actual fee and the fee as calculated on total FEFP for fiscal 2011 was approximately \$120,000 and was expended for capital outlay expenditures as required.

The School receives federal awards for the enhancement of various educational programs. This assistance is generally received based on applications submitted to and approved by various granting agencies. For federal awards in which a claim to these grant proceeds is based on incurring eligible expenditures, revenue is recognized to the extent that eligible expenditures have been incurred.

Fund balance spending policy

The School's adopted spending policy is to spend from restricted fund balance first, followed by committed, assigned, then the unassigned fund balance. Most funds were designated for one purpose at the time of their creation. Therefore, expenditures made out of the fund will be allocated to the applicable fund balance classifications in the order of the aforementioned spending policy. If expenditures are incurred that meet the purpose of more than one fund, they will be allocated to restricted fund balance first and then follow the order above. Funds can only be committed by formal action of the Board. The Board has delegated authority to the Principal to assign funds up to the amount of \$50,000. There are no minimum fund balance requirements for any of the School's funds.

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

**NOTES TO FINANCIAL STATEMENTS
(continued)**

Use of estimates

In preparing the financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the balance sheet and affect revenues and expenditures for the year presented. Actual results could differ significantly from those estimates.

Subsequent events

The School has adopted guidance that requires the disclosure of the date through which an entity has evaluated subsequent events and the basis for that date (that is, whether that date represents the date the financial statements were issued or were available to be issued). The School has evaluated subsequent events through August 25, 2011, which is the date the financial statements were available to be issued.

2 CHANGES IN CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2011 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental activities:				
Leasehold improvements	\$ 185,749	\$ -	\$ -	\$ 185,749
Furniture, fixtures and equipment	413,272	29,200	-	442,472
Total capital assets at historical cost	<u>599,021</u>	<u>29,200</u>	<u>-</u>	<u>628,221</u>
Less accumulated depreciation for:				
Leasehold improvements	(34,700)	(67,702)	-	(102,402)
Furniture, fixtures and equipment	(7,980)	(18,575)	-	(26,555)
Total accumulated depreciation	<u>(42,680)</u>	<u>(86,277)</u>	<u>-</u>	<u>(128,957)</u>
Governmental activities capital assets, net	<u>\$ 556,341</u>	<u>\$ (57,077)</u>	<u>\$ -</u>	<u>\$ 499,264</u>

Depreciation expense is not charged by function but is included in the statement of activities as unallocated depreciation expense.

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

NOTES TO FINANCIAL STATEMENTS
(continued)

3 SCHEDULE OF STATE AND LOCAL REVENUE SOURCES

The following is a schedule of state and local revenue sources and amounts:

District School Board of Miami-Dade County, Florida:	
Florida Education Finance Program	\$ 2,390,429
Class size reduction	598,105
Discretionary millage	240,444
Supplemental academic instruction	220,018
State fiscal stabilization funds	202,314
ESE guaranteed allocation	132,380
Education jobs fund	65,518
Instructional materials	50,738
Reading instruction	23,681
Safe schools	17,564
Discretionary lottery funds	<u>2,331</u>
Total	<u>\$ 3,943,522</u>

The administration fee paid to the School Board during the year ended June 30, 2011 totaled approximately \$75,000, which is reflected as a general administration expense/expenditure in the accompanying statement of activities and statement of revenues, expenditures and changes in fund balances - governmental funds.

4 LONG-TERM LIABILITY

The long-term liability consists of a note payable to a related party, which is secured by the School's capital assets. During 2010, the School financed the renovation of a leased facility and purchases of various furniture, fixtures and equipment to finance the start-up of the School. The original terms of the note include monthly principal only payments of \$7,267, beginning on October 2009 with the remaining principal balance due on or before September 2014. There is no stated rate of interest. The holder of the loan has agreed to defer the loan payments for fiscal 2011.

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

Activity during the current fiscal year was as follows:

Balance outstanding at beginning of year	\$	436,000
Additions		-
Reductions		-
		-
Balance outstanding at end of year	\$	436,000
Amount due within one year	\$	87,200

Future debt service requirements related to the mortgage note payable are as follows:

Year ending June 30,	Principal
2012	\$ 87,200
2013	87,200
2014	261,600
Total	\$ 436,000

5 RISK MANAGEMENT PROGRAM

Workers' compensation coverage, health and hospitalization, general liability, professional liability and property coverages are being provided through purchased commercial insurance with minimum deductibles for each line of coverage. Settled claims resulting from these risks have not historically exceeded commercial coverage.

6 COMMITMENTS AND CONTINGENT LIABILITIES

Grants

The School participates in state and federal grant programs, which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the School has not complied with the rules and regulations governing the grants, refunds of any money received may be required and the collectibility of any related receivable as of June 30, 2011 may be impaired.

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

**NOTES TO FINANCIAL STATEMENTS
(continued)**

In the opinion of the School, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying financial statements for such contingencies.

Legal matters

In the normal course of conducting its operations, the School occasionally becomes party to various legal actions and proceedings. In the opinion of management, the ultimate resolution of such legal matters will not have a significant adverse effect on the accompanying financial statements.

Lease commitments

The School leases certain property under a noncancelable five year operating lease. This lease contains a five year renewal option and requires the School to pay insurance and other costs. Aggregate remaining minimum rental commitments as of June 30, 2011 under this lease are summarized as follows:

Year ending June 30,	Amount
2012	\$ 840,833
2013	890,833
2014	895,000
2015	74,583
Total future minimum lease payments	\$ 2,701,249

Rental expense for the year ended June 30, 2011 was approximately \$795,000.

In addition to the future minimum lease payments above, the lease agreement also requires monthly payments in the amount of \$7,812.50 beginning on August 1, 2010 and continuing through July 1, 2014, which sums shall be retained by the lessor as security for the payment of rent by the School. As of June 30, 2011, the accumulated security deposit due of \$85,938 had not been paid and has been recorded as a liability in the accompanying financial statements.

In connection with the operating lease above, the School entered into a credit enhancement agreement with Charter Schools Development Corporation to provide a standby letter of credit to the landlord in the amount of \$375,000 as collateral security for the School's obligations pursuant to the lease. Per the lease agreement, if as of August 1, 2012, the security deposit delivered by the School is in the amount of at least \$187,500, the letter of credit shall be reduced to the amount of \$187,500.

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

**NOTES TO FINANCIAL STATEMENTS
(continued)**

7 RELATED PARTY TRANSACTIONS

New Way Schools, Inc.

The School has a management agreement ("Agreement") with New Way Schools, Inc. ("NWS"), a Florida corporation, to provide certain educational services and management to the School. The President of NWS serves as the Director of the School. The Agreement calls for the School to pay NWS a management fee of 12% of the School's gross receipts, excluding any proceeds from borrowings undertaken by the School. In fiscal year 2011, the management fees were waived and no payments were made. NWS is also the holder of the note payable discussed in Note 4.

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

REQUIRED SUPPLEMENTARY INFORMATION

BUDGETARY COMPARISON SCHEDULE - GENERAL FUND

FOR THE YEAR ENDED JUNE 30, 2011

	Budgeted Amounts		Actual	Variance with Final Budget- Positive (Negative)
	Original	Final		
REVENUES				
State and local sources	\$ 3,720,170	\$ 3,720,170	\$ 3,943,522	\$ 223,352
Contributions and other revenue	-	-	336,433	336,433
Total revenues	3,720,170	3,720,170	4,279,955	559,785
EXPENDITURES				
Current:				
Instruction and instruction-related services	1,707,315	1,707,315	2,112,613	(405,298)
Pupil personnel services	79,772	79,772	143,905	(64,133)
Instructional staff training	5,000	5,000	-	5,000
Instruction and curriculum development	2,200	2,200	-	2,200
Board	14,000	14,000	16,700	(2,700)
General administration	71,434	71,434	74,911	(3,477)
School administration	411,873	411,873	378,561	33,312
Facilities acquisition and construction	814,500	814,500	828,909	(14,409)
Fiscal services	50,386	50,386	54,978	(4,592)
Food services	10,000	10,000	10,040	(40)
Central services	39,886	39,886	35,597	4,289
Pupil transportation	-	-	28,305	(28,305)
Operation of plant	222,484	222,484	286,190	(63,706)
Maintenance of plant	66,282	66,282	126,492	(60,210)
Instructional related technology	51,282	51,282	-	51,282
Administrative technology services	93,750	93,750	50,699	43,051
Capital outlay	-	-	29,200	(29,200)
Total expenditures	3,640,164	3,640,164	4,177,100	(536,936)
Net changes in fund balance	80,006	80,006	102,855	22,849
Fund deficit at beginning of year	(50,669)	(50,669)	(50,669)	-
Fund balance at end of year	\$ 29,337	\$ 29,337	\$ 52,186	\$ 22,849

See report of independent auditors.

**Report of Independent Auditors on Internal Control Over Financial Reporting
and on Compliance and Other Matters Based on an Audit of Financial Statements
Performed in Accordance with *Government Auditing Standards***

To the Board of Directors of Miami Arts, Inc., a Charter School
and Component Unit of the District School Board of Miami-Dade County, Florida

We have audited the accompanying financial statements of the governmental activities, the major fund and the aggregate remaining fund information of Miami Arts, Inc. (the "School"), a charter school and component unit of the District School Board of Miami-Dade County, Florida, as of and for the year ended June 30, 2011, which collectively comprise the School's basic financial statements and have issued our report thereon dated August 25, 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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the School's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the School's internal control over financial reporting.

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

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

Compliance and Other Matters

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

2011-01: Board Oversight: Florida Statutes, Section 1002.33(9)(i), state that the governing body of the charter school shall exercise continuing oversight over charter school operations. These oversight responsibilities include, but are not limited to, approving and amending the School's budget, reviewing and approving the audit report, including audit findings and recommendations, and monitoring financial performance of the School. During our audit procedures, we noted that the School only had two members of the board and one for at least the last three months of the year. As a result, many of those aspects of board governance which rely upon ongoing review and approval are, for all practical purposes, missing or not documented in the School. We recommend that the board maintain the minimum number of members outlined in the School's bylaws and ensure that regular meetings of the board are held to maintain the appropriate level of oversight.

2011-02: Annual Accountability Report: Florida Statutes, Section 1002.22(9)(k), state that the governing body of the charter school shall report its progress annually to its sponsor, which shall forward the report to the Commissioner of Education at the same time as other annual school accountability reports. The School's June 30, 2010 annual charter school accountability report was not submitted to the District by the deadline. The School submitted the report subsequent to the audit. We recommend that the School revise procedures to ensure that the annual accountability report is submitted before the deadline.

The School's response to the findings identified in our audit is included in the Written Statement of Explanation or Rebuttal on pages 33-35. We did not audit the School's response and, accordingly, we express no opinion on it.

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

BKHM, P.A.

Winter Park, Florida
August 25, 2011

**ADDITIONAL INFORMATION REQUIRED BY
RULES OF THE AUDITOR GENERAL,
CHAPTER 10.850, *AUDITS OF CHARTER SCHOOLS AND SIMILAR
ENTITIES***

To the Board of Directors of Miami Arts, Inc., a Charter School
and Component Unit of the District School Board of Miami-Dade County, Florida

We have audited the financial statements of the governmental activities, the major fund and the aggregate remaining fund information of Miami Arts, Inc., a charter school and component unit of the District School Board of Miami-Dade County, Florida, as of and for the year ended June 30, 2011, and have issued our report thereon dated August 25, 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 issued our Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters. Disclosures in that report, which is dated August 25, 2011, 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:

- Section 10.854(1)(e)1., Rules of the Auditor General, requires that we determine whether or not corrective actions have been taken to address findings and recommendations made in the preceding annual financial audit report. Corrective actions have been taken to address findings and recommendations made in the preceding annual financial audit report, as noted below under the heading "Status of Prior Year Findings and Recommendations."
- Section 10.854(1)(e)3., Rules of the Auditor General, requires that we address in the management letter any recommendations to improve financial management. During our current year audit procedures, we noted that the School had improperly recorded a receivable for a federal grant that it did not meet the requirements to receive. The School should implement procedures to ensure that compliance with granting requirements are routinely monitored and followed.
- Section 10.854(1)(e)4., Rules of the Auditor General, requires that we address violations of provisions of contracts or grant agreements, or abuse that have or are likely to have occurred, that have an effect on the financial statements that is less than material but more than inconsequential. In connection with our audit, we did not have any such findings.

- Section 10.854(1)(e)5., Rules of the Auditor General, provides that the auditor may, based on professional judgment, report the following matters that have an inconsequential effect on the financial statements considering both quantitative and qualitative factors: (1) violations of provisions of contracts or grant agreements, fraud, illegal acts, or abuse and (2) deficiencies in internal control that are not significant deficiencies. In connection with our audit, we did not have any such findings.
- Section 10.854(1)(e)6., Rules of the Auditor General, requires the name or official title of the school. The name of the School is Miami Arts, Inc..
- Section 10.854(1)(e)2., Rules of the Auditor General, requires a statement be included as to whether or not the School has met one or more of the conditions described in Section 218.503(1), Florida Statutes, and identification of the specific condition met. During the course of our audit, nothing came to our attention to indicate that the School had met any of the conditions described in Section 218.503(1), Florida Statutes (“the conditions”). However, in planning and performing our audit, we considered whether the School had met any of the conditions as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion as to whether the School had met any of the conditions. Accordingly, we do not express an opinion as to whether the School had met any of the conditions.
- Pursuant to Sections 10.854(1)(e)7.a. and 10.855(10), Rules of the Auditor General, we applied financial condition assessment procedures as of June 30, 2011, which included calculation and analysis of certain financial indicators we considered relevant to the School. Our financial condition assessment procedures did not include the use of benchmarks. It is management’s responsibility to monitor the School’s financial condition, and our financial condition assessment was based in part on representations made by management and the review of financial information provided by management.

Status of Prior Year Findings and Recommendations

Prior year noncompliance finding 2010-01: Notice for Reporting Alleged Misconduct. During our current year audit procedures, we noted the School had appropriately posted the required item at the School’s site and on its website.

Prior year noncompliance finding 2010-02: Deficit Financial Position. During our current year audit procedures, we noted that the School ending the year with a positive fund balance.

Prior year noncompliance finding 2010-03: Board Training. During our current year audit procedures, we noted that all board members completed the required board governance training.

Prior year noncompliance finding 2010-04: Board Fingerprinting and Background Checks. During our current year audit procedures, we noted that all board members completed the fingerprinting and background checks.

Prior year noncompliance finding 2010-05: Financial Reporting. During the current year, the School's external accountant completed the monthly financial reports for the School Board and the Board of Directors.

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

BKHM, P.A.

Winter Park, Florida
August 25, 2011

Miamiarts

charter school

Response to Report of Independent Auditors on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards

Compliance and Other Matters

2011-01: Board Oversight

The school's governing body recognizes its responsibilities in complying with Florida Statutes, Section 1002.33(9)(i) regarding the role of school oversight.

While the school affirms that a vacant seat on the board existed for an extended period of time beyond the requirements of its own by-laws, the board also affirms that oversight and review of the school's operations were not neglected. This is evident in the positive financial standing of the school and the overall success of the school's academic & arts programs. Stakeholder satisfaction is high and the school consistently exceeds enrollment application expectations, including a waiting list.

The school states the following results as evidence of proper oversight:

- The school remained solvent and the negative fund balance carried over from the previous year was successfully remedied.
- All financial reports were submitted accurately and in a timely fashion to the sponsor.
- All federal requirements regarding special education compliance and provision of student accommodations were met.
- All reports regarding health and safety by local municipal inspectors were found to be in compliance with the law and were submitted to the sponsor as required; including reports from the Florida Department of Health and the City of Miami Fire Department.
- The school did not incur any legal challenges.
- Student academic achievement in Mathematics and Science improved while Reading and Writing scores on the FCAT held steady at relatively high levels.

This success was made possible through the on-going consultation and oversight of the current Governing Board Chair and the school's founding director during a very difficult year.

2010-2011 turned out to be particularly challenging as the school suffered the death of its Governing Board Chair, Mr. Gilberto R. Manresa, after a long struggle with cancer in addition to the death of one its students in a vehicular accident.

Miamiarts

charter school

In order to comply with the requirements of the above-mentioned Florida Statutes, the Governing Board has taken the following steps:

- Elected a new governing board chair of Miami Arts, Inc. on behalf of Miami Arts Charter School.
- Submitted the required board disclosure forms and resolution electing new Governing Board Chair to the sponsor.
- Identified candidates eligible to fill the vacant seat on the governing board of directors for election as per the organization's by-laws, to be confirmed at the earliest possible board meeting, by resolution.
- Selected and published dates, times and locations of all future quarterly governing board meetings.
- Served public notice of the board meeting calendar to stakeholders through conspicuous placement in the school main office bulletin board.
- Identified changes in recent legislation requiring the establishment of a board liaison person accessible to the school's population of students, parents and other stakeholders.
- Established a calendar that clearly addresses deadlines establishing and documenting evidence of board oversight responsibilities such as approving an annual budget, reviewing, approving or enacting budget amendments and reviewing overall financial performance.

2011-02: Annual Accountability Report

The Governing Board of Miami Arts, Inc. on behalf of Miami Arts Charter School acknowledges the requirements under Florida Statutes, Section 1002.22(9) (k). The board recognizes its responsibility to provide a report of the school's progress to its sponsor on a timely annual basis.

However, the board disagrees with this finding because, due to circumstances beyond our control, technical difficulties with accessing the Florida Department of Education's website portal for Miami Arts Charter School's Annual Accountability Report surfaced making it impossible for the report to be submitted. The problem consisted primarily of an authentication issue (unrecognized password) that was difficult to correct after many attempts to contact the DOE. Consequently, the deadline to submit the annual report passed with no way for the report to be submitted because of a persistent problem with the school's password and overall access to the site.

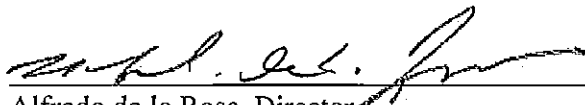
It should be noted that even after contact was made through the independent auditor for access to the report to be unlocked, it took three attempts by the DOE's web developer for our site to

Miamiarts charter school

operate properly over a period of two days. Once access was granted, the report was immediately completed and submitted.

Currently, the password issue has been corrected and the school deems no further action is necessary. All future accountability reports will be submitted as required and on time.

SUBMITTED: September 1st, 2011



Alfredo de la Rosa, Director
Miami Arts Charter School