

# ACADEMY OF ARTS AND MINDS CHARTER HIGH SCHOOL

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## SPECIAL PURPOSE FINANCIAL STATEMENTS

JUNE 30, 2005

MORRISON, BROWN, ARGIZ & FARRA, LLP  
***Certified Public Accountants***

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EDUCATION

# ACADEMY OF ARTS AND MINDS CHARTER HIGH SCHOOL

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Board of Directors of  
Academy of Arts and Minds Charter High School

We have audited the accompanying special purpose financial statements of Academy of Arts and Minds Charter High School (the "Academy") as of and for the fiscal year ended June 30, 2005 as listed in the table of contents. These special purpose financial statements are the responsibility of the Academy's management. Our responsibility is to express an opinion on these special purpose financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards 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 provide a reasonable basis for our opinion.

As explained in Note 1 to the special purpose financial statements, the financial statements being presented are only for the Academy. The financial statements, disclosure and account classification are presented pursuant to the accounting regulations promulgated by Miami-Dade County Public Schools. The special purpose financial statements do not include the statement of financial position, activities and cash flows of Acting for All, Inc. (a not-for-profit organization). Accordingly, the accompanying special purpose financial statements are not intended to present the financial position of Acting for All, Inc. as of June 30, 2005 or its results of operations and cash flows for the fiscal year then ended in conformity with U.S. generally accepted accounting principles.

In our opinion, the special purpose financial statements referred to above present fairly, in all material respects, the financial position of the Academy as of June 30, 2005, and the results of its operations and its cash flows for the fiscal year then ended, in conformity with special purpose financial statements as required by the Miami-Dade County Public Schools.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 7, 2005 on our consideration of the Academy'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.

*Morrison, Brown, Argiz & Farra, LLP*

Miami, Florida

October 7, 2005

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# ACADEMY OF ARTS AND MINDS CHARTER HIGH SCHOOL

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## SPECIAL PURPOSE FINANCIAL STATEMENTS STATEMENT OF FINANCIAL POSITION JUNE 30, 2005

### **ASSETS**

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Cash	\$ 3,812
Other assets	73,600
Fixed assets, net	<u>81,672</u>
<b>TOTAL ASSETS</b>	<b><u>\$ 159,084</u></b>

### **LIABILITIES AND NET DEFICIT**

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Accounts payable	\$ 51,205
Salaries and wages payable	6,525
Payroll deductions and withholdings	2,251
Due to related parties	238,103
Deferred rent	<u>288,000</u>
<b>TOTAL LIABILITIES</b>	<b><u>586,084</u></b>
<b>NET DEFICIT</b>	
Unrestricted	<u>(427,000)</u>
<b>TOTAL LIABILITIES AND NET DEFICIT</b>	<b><u>\$ 159,084</u></b>

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

# ACADEMY OF ARTS AND MINDS CHARTER HIGH SCHOOL

## SPECIAL PURPOSE FINANCIAL STATEMENTS STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2005

### CHANGES IN UNRESTRICTED NET DEFICIT

#### SUPPORT AND REVENUES:

State	\$ 646,450
Local	<u>10,256</u>

TOTAL SUPPORT AND REVENUES	<u>656,706</u>
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#### EXPENSES

Instruction (Teachers)	231,952
Pupil personnel services	900
Instructional media service	275
Instructional and curriculum development services	28,566
Board	8,500
General administration	37,633
School administration	216,277
Facilities acquisition / construction	179,433
Fiscal services	8,375
Central services	40,530
Operation of plant	312,913
Maintenance of the plant	960
Community services	530
Depreciation	<u>16,862</u>

TOTAL EXPENSES	<u>1,083,706</u>
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DECREASE IN UNRESTRICTED NET ASSETS	<u>(427,000)</u>
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NET ASSETS, BEGINNING	<u>-</u>
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NET DEFICIT, ENDING	<u>\$ (427,000)</u>
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The accompanying notes are an integral part of these special purpose financial statements.

# ACADEMY OF ARTS AND MINDS CHARTER HIGH SCHOOL

## SPECIAL PURPOSE FINANCIAL STATEMENTS STATEMENT OF CASH FLOWS FOR THE YEAR ENDED JUNE 30, 2005

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### CASH FLOWS FROM OPERATING ACTIVITIES:

Decrease in unrestricted net assets	\$ (427,000)
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Adjustments to reconcile decrease in unrestricted net assets  
to net cash used in operating activities:

Depreciation	16,862
Increase in:	
Accounts payable	51,205
Salaries and wages payable	6,525
Payroll deductions and withholdings	2,251
Deferred rent	<u>288,000</u>

TOTAL ADJUSTMENTS	<u>364,843</u>
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NET CASH USED IN OPERATING ACTIVITIES	<u>(62,157)</u>
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### CASH FLOWS FROM INVESTING ACTIVITIES:

Other assets	(73,600)
Purchase of property and equipment	<u>(98,534)</u>

NET CASH USED IN INVESTING ACTIVITIES	<u>(172,134)</u>
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### CASH FLOWS FROM FINANCING ACTIVITIES

Advances from related parties	<u>238,103</u>
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NET INCREASE IN CASH AND CASH EQUIVALENTS	3,812
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CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>-</u>
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CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 3,812</u>
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The accompanying notes are an integral part of these special purpose financial statements.

# ACADEMY OF ARTS AND MINDS CHARTER HIGH SCHOOL

## NOTES TO SPECIAL PURPOSE FINANCIAL STATEMENTS JUNE 30, 2005

### **NOTE 1. NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

#### *Nature of Activities*

On November 19, 2003, the Miami-Dade County School Board approved the application submitted by the Board of Directors of Acting for All, Inc. (the "Parent"), for Academy of Arts and Minds Charter High School (the "Academy"). The Parent is a non-profit organization incorporated under the laws of Florida to provide community development, and promote special programs and events including operating a charter school organized pursuant to Section 228.056 of the Florida Statutes (2001).

The Academy operates under a charter of the sponsoring school district, the Miami-Dade County School Board (the "School Board"). The Academy's charter was approved by the Board of Directors on February 12, 2004 and is effective until June 30, 2015. The charter may be renewed for up to an additional fifteen (15) years by mutual written agreement between the Academy 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 School in writing at least 90 days prior to the charter's termination. Pursuant to Section 228.056(11)(e), Florida Statutes (2001), the charter school contract provides that in the event the Academy 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.

#### Enrollment and Grade Configuration

<u>School Name and Addresses</u>	<u>Grades</u>	<u>Enrollment</u>	<u>School Principal</u>
Academy of the Arts and Minds 3138 Commodore Place Coconut Grove, FL 33133	9 <sup>th</sup>	78	Thomas Shaw

#### Board of Directors (Executive Committee)

The Board of Directors of Academy of Arts and Minds Charter High School consists of the following members:

Manuel Alonso-Poch	President
Ruth Montaner	Secretary
Jorge Guerra Castro	Member
Jose Nay	Member

# ACADEMY OF ARTS AND MINDS CHARTER HIGH SCHOOL

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## NOTES TO SPECIAL PURPOSE FINANCIAL STATEMENTS JUNE 30, 2005

### **NOTE 1. NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

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#### Charter School Advisory Council

Zandra Simms  
Judy Wells  
Alfonso Jugo

Ivette Choing  
Yvonne Perez  
Tere Thunem

Holly Skolnick  
Rolando Barrios

#### ***Basis of Presentation***

The financial statements, disclosure and account classification are presented pursuant to the accounting regulations promulgated by Miami-Dade County Public Schools. The special purpose financial statements present the financial position, activities and cash flows for the Academy of Arts and Minds Charter High School only and does not include the assets, liabilities, net assets and statements of activities and cash flows of Acting for All, Inc.

In addition, the accounts of the Academy are maintained in accordance with the principles of fund accounting. Under fund accounting, resources for various purposes are classified for accounting and reporting purposes into funds established according to their nature and purpose. Separate accounts are maintained for each fund; however, in the accompanying special purpose financial statements, funds from the Academy's programs are presented in accordance with the provisions of Statement of Financial Accounting Standards ("SFAS") No. 117, "Financial Statements of Not-for-Profit Organizations."

Under SFAS No. 117, the Academy is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted. In addition, the Academy is required to present a statement of cash flows.

- Unrestricted net assets consist of net assets that are neither permanently nor temporarily restricted by donor-imposed stipulations.
- Temporarily restricted net assets represent net assets with a donor-imposed restriction that is satisfied either by the passage of time or by actions of the Academy.
- Permanently restricted net assets result primarily from contributions and other inflows of assets whose use by the Academy is limited by donor-imposed stipulations that neither expire by the passage of time nor can be fulfilled or otherwise removed by actions of the Academy.

# ACADEMY OF ARTS AND MINDS CHARTER HIGH SCHOOL

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## NOTES TO SPECIAL PURPOSE FINANCIAL STATEMENTS JUNE 30, 2005

### ***NOTE 1. NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)***

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#### ***Restricted and Unrestricted Revenue***

The Academy follows SFAS No. 116, "Accounting for Contributions Received and Contributions Made." In accordance with SFAS No. 116, contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted.

Support that is restricted by the donor is reported as an increase in unrestricted net assets if the restriction expires in the reporting period in which the support is recognized. All other donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose of the restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. No restricted monies were received by the Academy.

#### ***Cash and Cash Equivalents***

Cash and cash equivalents consist of demand deposit accounts held with financial institutions.

#### ***Property and Equipment, Net***

Property and equipment consist of furniture, fixtures and equipment and are recorded at cost and depreciated using the straight-line method over a three to ten year estimated useful lives.

#### ***Revenue Sources***

Revenues for current operations are received primarily from the School Board pursuant to the funding provisions included in the Academy's charter. In accordance with the funding provisions of the charter and Section 228.056(13), Florida Statutes (2001), the Academy reports the number of full-time equivalent (FTE) students and related data to the School Board. Under the provisions of Section 236.081, Florida Statutes (2001), the School Board reports the number of FTE students and related data to the Florida Department of Education (FDOE) for funding through the Florida Education Finance Program (FEFP). Funding for the Academy is adjusted quarterly during the same fiscal year to reflect the revised calculations by the FDOE under the FEFP and the actual FTE students reported by the Academy during the designated full-time equivalent student survey periods.

# ACADEMY OF ARTS AND MINDS CHARTER HIGH SCHOOL

## NOTES TO SPECIAL PURPOSE FINANCIAL STATEMENTS JUNE 30, 2005

### **NOTE 1. NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

#### ***Income Taxes***

The Academy has filed for exemption from income taxes under Section 501(c)(3) of the Internal Revenue Code and classified by the Internal Revenue Service as a public supported organization as a not-for-profit organization. As of June 30, 2005, the Academy is awaiting the approval of its exemption from the IRS.

#### ***Management Estimates***

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

### **NOTE 2. PROPERTY AND EQUIPMENT**

Property and equipment consist of the following as of June 30, 2005:

Furniture, fixtures, and equipment	\$ 98,534
Less: Accumulated depreciation	<u>16,862</u>
	<u>\$ 81,672</u>

Depreciation expense was \$16,862 for the year ended June 30, 2005.

### **NOTE 3. REVENUE SOURCES**

As explained in Note 1, the School Board provides operating funds from FEFP, on a monthly basis based on FTE students. In addition, the School Board allows for a one-time startup grant of \$250,000 less administrative fees. This startup grant is to aid in the Academy's costs incurred to begin functional operations. Remaining revenue sources are generated by daily operations of the Academy from student activities. These amounts are included in total revenue sources in the statement of activities as follows:

#### Miami-Dade County School Board:

Start up grant	\$ 241,663
Florida Education Finance Program	<u>404,787</u>
TOTAL	<u>646,450</u>

<u>Local Source:</u>	<u>10,256</u>
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TOTAL REVENUES	<u>\$ 656,706</u>
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# ACADEMY OF ARTS AND MINDS CHARTER HIGH SCHOOL

## NOTES TO SPECIAL PURPOSE FINANCIAL STATEMENTS JUNE 30, 2005

### **NOTE 4. DEFERRED RENT**

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The Academy has an operating lease agreement with an entity owned by the President of the Board of Directors, (the "BOD"), where rent is to be deferred until September 1, 2007 (Note 7). Deferred rent includes facilities rent, parking rent and common area maintenance expenses. As of June 30, 2005, the Academy recorded deferred rent of \$288,000, which includes a deposit of \$24,000 and related expenses of \$264,000. These amounts are reflected under Deferred Rent in the statement of financial position and Operation of Plant in the statement of activities.

### **NOTE 5. RELATED PARTY TRANSACTIONS**

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The Academy has several related parties which include the Parent, the President of the BOD, and Commodore Parking Plaza, ( the "Plaza"), an entity owned by the President of the BOD. The Parent provided financial resources to the Academy for startup costs and other operating expenses. The President also funded monies for the operational needs of the school during the year. In addition, the Plaza has provided advances to the Academy for operating expenses as well as deferring rental payments for the Academy's facilities as described in Note 4.

During the initial startup of the Academy and throughout the course of the fiscal year ended June 30, 2005, the Academy received the following advances from the related parties mentioned above, which are located at 3138 Commodore Plaza, Suite 317, Coconut Grove, Florida 33133:

Acting for All, Inc.	\$ 103,103
President of the Board of Directors	85,000
Commodore Parking Plaza, L.C.	<u>50,000</u>
<b>TOTAL DUE TO RELATED PARTIES</b>	<b><u>\$ 238,103</u></b>

Amounts owed are not subject to interest and the balances are not expected to be paid in the subsequent period.

### **NOTE 6. MANAGEMENT AGREEMENT**

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The Parent company entered into a management agreement with Charter Schools USA, Inc. ("CSUSA") located at 6245 North Federal Highway, Fort Lauderdale, Florida 33308, on behalf of the Academy effective January 1, 2004 for a four and a half year term. CSUSA was to provide the Academy with management and operating consulting services required to properly organize, develop, staff, manage, operate and administer a charter school. Expenses paid to CSUSA for services provided are recorded among several functional categories in the statement of activities and totaled approximately \$391,000, which includes amounts paid for instructional and administrative salaries. In May, 2005, both parties agreed to terminate the agreement due to lack of performance on behalf of CSUSA and obligations were canceled. CSUSA continued providing management information system services to the Academy for an undefined period of time.

# ACADEMY OF ARTS AND MINDS CHARTER HIGH SCHOOL

## NOTES TO SPECIAL PURPOSE FINANCIAL STATEMENTS JUNE 30, 2005

### **NOTE 7. COMMITMENTS AND CONTINGENCIES**

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#### ***School Facility Operating Lease***

Effective August 1, 2004, the Parent entered into a twenty-year operating lease with Commodore Plaza Parking, L.C. for the Academy's school facilities in Coconut Grove, Florida. The monthly lease payments are \$24,000 for year one, and then increases by 4% on a yearly basis. In addition, the Academy pays for all property taxes, insurance, common area maintenance and parking spaces. Parking spaces will vary depending on the number of spaces occupied during the fiscal year.

The minimum future rentals to be paid by the Academy are as follows:

<u>June 30,</u>	
2006	\$ -
2007	300,000
2008	300,000
2009	300,000
2010	300,000
Thereafter	<u>4,560,000</u>
	<b><u>\$ 5,760,000</u></b>

As noted in Note 4, rent expense is deferred until September 1, 2007. However, subsequent to June 30, 2005, the Academy began making monthly payments for rent on facilities (Note 10).

### **NOTE 8. RISK MANAGEMENT**

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Insurance for general liability, automotive liability, and property coverages are being provided through purchased commercial insurance with minimum deductibles for each line of coverage.

### **NOTE 9. PLANS FOR CONTINUED OPERATIONS**

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The Academy of Arts and Minds opened in the summer of 2004 to 85 ninth grade students. In partnership with Charter Schools USA, the school decided not to open with a 10<sup>th</sup> grade in place as originally intended. This fact, along with not being able to receive capital funding, created hardships with balancing the first year budget.

# ACADEMY OF ARTS AND MINDS CHARTER HIGH SCHOOL

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## NOTES TO SPECIAL PURPOSE FINANCIAL STATEMENTS JUNE 30, 2005

### ***NOTE 9. PLANS FOR CONTINUED OPERATIONS (CONTINUED)***

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The not-for-profit parent company, Acting for All, Inc., loaned the school operating revenue for its first year ending June, 2005. Several factors are in place to insure that the school will be able to operate and meet all of its needs without incurring further debt:

1. There is no longer an existing partnership with CSUSA, and no management fees will be paid by the school.
2. As per the terms of the lease agreement, Acting for All, Inc., agreed to defer the lease due from the school for up to three years in order to provide support.
3. The 2005-2006 approved budget balances operations and requires the beginning of a partial payment of the lease to the parent company, two years in advance of the required time schedule. The 5 year plan includes beginning payment of deferred debt in 2006-2007.
4. The school has doubled its population in one year's time by adding another ninth grade class, and intends to add a class each year until it is a 9-12 high school with a population of approximately 350 students. It is anticipated that next year's revenues will allow the school to operate with a balanced budget.
5. The school has begun an accreditation process with a goal of completion this year, thus insuring capital revenue for future years.
6. Acting for All, Inc., has sufficient funds and credit to support the ongoing operations of the school.

The Governing Board of the Academy, recognizing the long term commitment involved in opening a new charter school, has a plan in place to both reduce the current deficit over a 3 to 5 year period, and that no new operating debt will be incurred other than the deferment of the lease according to the terms of the charter, and that existing debt will be paid beginning with the 2006-2007 school year.

### ***NOTE 10. SUBSEQUENT EVENT***

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Beginning August, 2005, the Academy made payments to Commodore Plaza Parking, L.C. on its deferred rent for use of its school facilities. Although rent payments are not required to be paid until September 1, 2007, the Academy has paid monthly rent payments and will continue as long as the Academy has sufficient cash flow to do so.

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

Board of Directors of  
Academy of Arts and Minds Charter High School

We have audited the special purpose financial statements of Academy of Arts and Minds Charter High School (the "Academy") as of and for the year ended June 30, 2005, and have issued our report thereon dated October 7, 2005. We conducted our audit in accordance with U.S. generally accepted auditing standards 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 Academy's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Academy's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described in the accompanying schedule of findings as item 2005-1.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error of fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, the reportable condition described in the accompanying schedule of findings, is considered to be a material weakness. We also noted other matters involving the internal control over financial reporting, which we have reported to the management of the Academy in a separate letter dated October 7, 2005.

Compliance and other matters

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

This report is intended solely for the information and use of the Board of Trustees, 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 these specified parties.

*Morrison, Brown, Angus & PMAA, LLP*  
Miami, Florida  
October 7, 2005

# ACADEMY OF ARTS AND MINDS CHARTER HIGH SCHOOL

## SCHEDULE OF FINDINGS FOR THE YEAR ENDED JUNE 30, 2005

### SECTION I – SUMMARY OF AUDITOR’S RESULTS

#### **Financial Statements**

Type of auditor’s report issued: Unqualified

Internal control over financial reporting:

Material weakness(es) identified?   X   Yes        No

Reportable condition(s) identified that are not considered to be material weaknesses?   X   Yes        No

Noncompliance material to financial statements noted?        Yes   X   No

### SECTION II – FINANCIAL STATEMENT FINDINGS

#### **2005- 1 FINANCIAL REPORTING**

##### ***Condition Found***

The Academy hired a third party record keeper to maintain its accounting records during the year. However, through our audit, we noted that in certain cases incorrect record keeping was posted to the ledger and corrections needed to be done.

##### ***Recommendation***

The Academy should establish and maintain books, records, and documents in accordance with U.S. generally accepted accounting principles and practices as well as the requirements of the Miami-Dade County Public School Board. The necessary procedures should be implemented in order to execute the complete and accurate recording of financial information in order to prevent possible deficiencies in financial reporting.

##### ***Management Response***

The Academy of Arts and Minds used the accounting manual and procedures created by Charter Schools USA since original disbursements and payroll were being done by them. When this relationship ended in May of 2005, the school decided to follow the guidelines of the Dade County School Manual of Accounting Procedures which is available online for all public schools. An independent accountant, who was a former DCPS employee responsible for monitoring all Dade Charter schools for compliance, was hired for the school year 2005-2006 to implement and review all procedures.

**MANAGEMENT LETTER IN ACCORDANCE WITH SECTION 10.850,  
RULES OF THE AUDITOR GENERAL OF THE STATE OF FLORIDA**

Board of Directors of  
Academy of Arts and Minds Charter School

We have audited the special purpose financial statements of the Academy of Arts and Minds Charter School ( the "Academy") as of and for the fiscal year ended June 30, 2005, and have issued our report thereon date October 7, 2005. We conducted our audit in accordance with U.S. generally accepted auditing standards 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 internal control over financial reporting and on compliance and other matters, which is dated October 7, 2005 and should be considered in conjunction with this management letter.

In connection with our audit of the special purpose financial statements of the Academy for the fiscal year ended June 30, 2005, we report the following in accordance with Chapter 10.850 Rules of Auditor General, Charter School Audits which requires that this report specifically address but not be limited to the matters outlined in Rule 10.854(1)(d):

1. No inaccuracies, shortages, defalcations, fraud and/or violations of laws, rules, regulations and contractual provisions were reported.
2. Recommendations to improve the Academy's present financial management, accounting procedures and internal controls are accompanying this report in the Schedule of Recommendations.
3. During the course of our audit, we did not find any:
  - a. Violation of any laws, rules, regulations, contracts, and grant agreements or abuse that: (1) have occurred, or are likely to have occurred; (2) were discovered within the scope of the financial audit; and (3) may or may not have a materially affected the financial statements.
  - b. Improper expenditures discovered within the scope of the financial audit which may or may not materially affect the financial statements.

We noted one matter involving the internal control over financial reporting and its operation that we considered to be a material weakness during the 2005 audit, which is included in our schedule of findings. Additionally, we noted certain matters that are opportunities for strengthening internal controls and operating efficiency as noted below.

## 2005-1 PAYROLL

### Observation:

The organization maintains a checking account with a financial institution, which is utilized for both operating and payroll.

### Recommendation:

We recommend that the organization set up a separate imprest payroll account, whereby the account has a zero balance and transfers are made from the operating account for the payroll checks and payroll taxes.

### Management Response:

Management will set up a separate account for payroll purposes. Because the school continues to experience frequent delays in funding by the County, we may, from time to time, reserve the right to access the operating account for timely payments to staff. If this occurs, we will reimburse the salary account with notation as soon as payment from the County is made.

### Observation:

We noted that payroll is processed by the office manager and approved by the principal; however, no approval by the President or other board member is performed.

### Recommendation:

We recommend that after payroll is processed, a designated board member, more appropriately the President, review and approve the bi-weekly payroll to verify any fluctuations in the payroll amounts in total or changes in employee rates.

### Management Response:

There will always be fluctuations in payroll amounts due to changing duties, replacement of staff, substitutes, and varying schedules with regard to hourly employees. It is the duty of the governing board to set policies for the school, not provide for operations. The Board approves a budget each year for the operation of the school. In keeping with governing board required procedures, the principal will review with the board the budget at its regularly scheduled meetings and bring any needed budget amendments to the Board for consideration. Before any changes to the approved budget are made, including salaries or new hires, the principal will bring before the board an amended budget with such changes for approval prior to implementing them.

The Board will designate one of its members to review payroll to assure that any unusual fluctuations are justified.

## **2005-2 FILE DOCUMENTATION**

### Observation:

The organization maintains files for each employee. We observed that some employee files did not have complete payroll and employment documentation (ie. Employee application, W-4, I-9, salary record).

### Recommendation:

We recommend that proper employee documentation be kept current in order to maintain satisfactory records of each employee and record of employee history. Also, written contracts for employees are advised in order to properly communicate employment responsibilities and compensation.

### Management Response:

Proper employee documentation will be kept current by the school's business manager and on file at the school.

## **2005- 3 DISBURSEMENTS**

### Observation:

During expense testing, several invoices were not obtained by management as supporting documentation for disbursements. In addition, check dates were noted to be missing from several checks.

### Recommendation:

We recommend that management keep all documentation of disbursements (ie. Invoices) in order to ensure that disbursements are supported by the appropriate documentation. Also, proper information such as check dates should be included on all written checks in order to maintain a proper trail of disbursements.

### Management Response:

The school business manager will insure that all documentation of disbursements, including recording of all check dates be made and on file at the school for audit purposes.

## **2005- 4 BANK STATEMENTS**

### Observation:-

We observed that no one reviews the bank statements for any unusual transactions and/or review of canceled checks.

#### **2005- 4      BANK STATEMENTS (continued)**

##### Recommendation:

We recommend that all unopened bank statements be reviewed by someone independent of the bank reconciliation and general ledger function. This review should include checking for irregular debits or credits and reviewing the front and back of canceled checks for any irregularities. The signatures on all checks are to be verified for authenticity and the dollar amounts and payees are to be scanned for reasonableness.

##### Management Response:

All monthly bank statements are reviewed and reconciled by the principal of the school and the President of the Board, as required by school and District policy. The school's business manager prepares the reconciliation documentation and is present when the principal makes this review. The monthly reconciliations will be reviewed by the Board to insure separation of duties. In addition, an independent accountant hired by the school for the 2005-2006 school year will review the bank statements monthly to comply with this recommendation.

#### **2005- 5      ACCOUNTING MANUAL**

##### Observation:

The Academy does not have a formal policies and procedures manual for accounting and reporting. However, the financial statements are presented in accordance with the regulations as required by the Miami-Dade County Public Schools.

##### Recommendation:

In order to maintain an effective system of internal controls, the Academy should formally establish a record of accounting policies and procedures designed to provide adequate controls and segregation of duties. A formal policies and procedures manual would help ensure that the internal controls are designed and executed effectively. In addition, there should be a process established to help ensure the manual is updated on a regular basis to adjust to the changing environment in which the Academy operates. These formal policies should include but not be limited to:

- Written job descriptions
- Budgeting and formal financial reporting process;
- Period-end process including accrual policies and cut-off procedures;
- Cost allocation policies;
- Procedures for processing cash receipts, cash disbursements and payroll;
- Segregation of duties; and
- Purchasing

**2005- 5      ACCOUNTING MANUAL (continued)**

Management Response:

The Academy of Arts and Minds used the accounting manual and procedures created by Charter Schools USA since original disbursements and payroll were being done by them. We also used their employee handbook and policy manuals. When this relationship ended in May of 2005, the school decided to follow the guidelines of the Dade County School Manual of Accounting Procedures which is available online for all public schools. An independent accountant, who was a former DCPS employee responsible for monitoring all Dade Charter schools for compliance, was hired for the school year 2005-2006 to implement and review all procedures. The school has also hired ADP to provide all human resource services for the school.

**2005- 6      AUDIT SUBMISSION**

Observation:

The Academy is required to submit audited financial statements no later than September 20 of each year. As of such date, the Academy had not yet submitted the required audit report.

Recommendation:

In order to avoid withholding of subsequent payments from the School Board without penalty of interest, we recommend that the Academy compile all necessary information and complete all accounting to the general ledger within a reasonable period of time after the end of the fiscal year. The required audit should be scheduled accordingly in a timely manner in order to comply with contract requirements and ensure continued funding.

Management Response:

The Academy of Arts and Minds will insure that the required yearly financial audit is scheduled and completed in a timely manner to comply with District and State requirements.

4.      The name of the charter school is as follows:

Academy of Arts and Minds Charter School

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 these specified parties..

*Monson, Brown, Angley & Finnera, LLP*  
Miami, Florida  
October 7, 2005

