

Office of Inspector General
The School District of Palm Beach County

Case No. 13-007
(and Related Cases 13-014, 13-079, 14-178)

G-Star School of the Arts for Motion Pictures and Television Charter School

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EXECUTIVE SUMMARY

The Office of Inspector General (OIG) initiated a review in response to allegations raised regarding the Charter School's (1) governance, (2) budgeting, (3) financial management, (4) full time equivalent (FTE) reporting, (5) employment practices, (6) school facilities, (7) Exceptional Student Education (ESE) services, and (8) health, safety, and environmental conditions. The OIG reviewed the first four items and referred the remaining issues to the appropriate agencies and District departments.

The results of our review indicated weaknesses in the area of governance, specifically, G-Star's corporate structure. G-Star's Amended and Restated Articles of Incorporation and Bylaws provide powers to the Sole Member (who is also the founder, Chief Executive Officer, and president of the corporation) that could negatively impact the Governing Board's fiscal oversight and responsibilities. We further determined that G-Star was not in compliance with the *Charter* requirement to maintain five voting members of the Governing Board.

G-Star has both under-budgeted expenditures and over-projected enrollment for several years, resulting in an overestimation of revenues. Accurate comparisons of actual expenditures to approved budgets were not presented to the Governing Board, inhibiting the Board's ability to accurately evaluate the school's financial condition.

Our review of the Governing Board's Financial Policies and Procedures manual revealed potential weaknesses with regard to the Board's fiscal oversight responsibility. A comparison of the Bylaws with the Policies and Procedures revealed inconsistencies including the ability of the Sole Member to spend up to \$100,000 above the approved budget with only post-approval of the Governing Board. Other issues of internal control weaknesses included lack of segregation of duties, no inventory of pre-numbered documents, and absence of a chart of accounts. Additionally, there are no records to substantiate the Board receives and approves disbursement reports as required by the *Charter Agreement*.

We also noted discrepancies existed between the information presented publically in the Independent Auditor's Report and the IRS Form 990 Tax Return with the information provided to us for review in the areas of financial reporting, budgeting, and governance.

Finally, the Sole Member created the G-Star School Foundation, Inc., which is a separate entity from the school. We concluded that responsibilities for a major fundraising project were blurred between the Foundation and G-Star.

With the assistance of District staff, we found no current issues in the area of FTE reporting.

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CHARTER SCHOOL REVIEW

Authority. *School Board Policy 1.092, Inspector General (4)(a)(iv)* provides for the Inspector General to receive and consider complaints, and conduct, supervise, or coordinate such inquiries, investigations, or reviews as the Inspector General deems appropriate. Further, the *Charter School Contract* between the School Board and Students in the Arts TV / G-Star TV, Inc. operating *G-Star School of the Arts for Motion Pictures and Television (Charter)* is the core agreement between the District and the Charter School. The Charter School has the responsibility to meet the *Charter's* requirements; the School District has the responsibility to verify compliance. The District issued an initial five-year *Charter Agreement* in 2002 (Charter) to G-Star School of the Arts for Motion Pictures and Television¹ (G-Star). On August 26, 2007, a *Charter Agreement* renewal with a ten-year term through July 31, 2017, was approved by the School Board.

Purpose and Scope. The Office of Inspector General (OIG) initiated a review in September, 2013 in response to numerous complaints and questions raised related to the Charter School. (Please see Exhibit 1 for related cases and allegations). Certain allegations were similar in nature and have been combined and consolidated to eliminate duplicates. These complaints and allegations were grouped into eight categories:

1. Governance (23 allegations)
2. Budgeting (1 allegation)
3. Financial Management (15 allegations)
4. FTE Reporting (4 allegations)
5. Employment Practices (6 allegations)
6. School Facilities (17 allegations)
7. Exceptional Student Education (ESE) Services (5 allegations)
8. Health, Safety, and Environmental Conditions (15 allegations)

¹ "G-Star School of the Arts for Motion Pictures and Broadcasting" is the actual registered fictitious name (valid through December 31, 2016) of the not-for-profit corporate charter holder, Students in the Arts TV / G-Star TV, Inc.

The OIG reviewed allegations concerning the first four categories: governance, budgeting, financial management, and FTE reporting. Allegations that were substantive are concluded upon in this report. Certain allegations not included in the investigation were either not substantive or lacked apparent violations of laws, rules or policies.

The remaining issues, employment practices, school facilities, ESE services, and health, safety, and environmental conditions were referred to and addressed by the:

- District's Charter School Department
- District's Environmental & Conservation Services
- District General Counsel's Office
- Palm Beach County Department of Health

This review was conducted in compliance with the *Quality Standards for Investigations* within the *Principles and Standards for Offices of Inspector General*, promulgated by the Association of Inspectors General.

REVIEWS PERFORMED

Document Review

- *Section 1002.33 and Chapter 617, Florida Statutes*
- *Sections 6A-1.0081 and 6A-6.0784, Florida Administrative Code*
- *Renewed Charter School Contract, approved August 26, 2007 (Charter)*
- G-Star Financial Policy and Procedure Manual
- Minutes of G-Star Governing Board meetings, March 20, 2012 through May 21, 2014
- G-Star Audited Financial Report, Fiscal Years 2012 and 2013
- G-Star General Ledger, Fiscal Years 2012 and 2013
- G-Star Bank statements, reconciliations, and cancelled checks, FY 2012 and 2013
- Supporting documents for deposits, disbursements, and transfers of funds, FY 2012 and 2013

Interviews

- CEO/President/Founder, G-Star School
- Bookkeeper, G-Star School
- District FTE Specialists
- Complainants

RESULTS OF REVIEW AND CONCLUSIONS**1. Governance****Corporate Structure**

G-Star's corporate structure is a not-for-profit corporation initially organized in 1998. The not-for-profit structure is consistent with *Section 1002.33, Florida Statutes* requirement that "a charter school shall organize as, or be operated by, a nonprofit corporation."

Subsequent to the initial Charter in 2002, *Amended and Restated Articles of Incorporation* (Articles) were filed with the State in 2005 (Exhibit 3). The 2005 *Amended and Restated Articles* created a provision for members and provided powers to the members. More specifically, the CEO of G-Star was declared the initial member and given the power to elect any future members. In 2012, subsequent to the Charter renewal in 2007, G-Star's Board of Directors adopted *Amended and Restated Bylaws* (Bylaws), (Exhibit 4). The 2012 Bylaws were written to be consistent with the 2005 *Amended and Restated Articles*, providing for the Chief Executive Officer as the sole member of the Corporation.

G-Star did not timely provide its amended Articles and related documents to the District. *Charter Section 30.A* requires the Charter School to furnish copies of its Articles, Bylaws, and amendments thereto to the sponsor. At the February 25, 2013 Governing Board meeting, the CEO reported that he would confirm the District had a copy of the current bylaws. The FY 2014 mid-year review conducted by the District's Charter School Department on January 22, 2014, indicated that the copies of the 2005 articles and 2012 bylaws had not been uploaded to the District's online monitoring system. G-Star complied by uploading the documents on March 30, 2014.

Sole Member, CEO, President. As established by the *Amended and Restated Articles of Incorporation and Bylaws*, the Founder of the school is the sole member, Chief Executive Officer (CEO), and president of the corporation (hereafter referred to as Sole Member). Though the provisions in the Articles and Bylaws regarding the Sole Member may not necessarily be typical for a not-for-profit organization, G-Star's *Amended and Restated Bylaws* appear to be consistent with the provisions of *Chapter 617, Florida Statutes*, relative to members.²

² Unlike a for-profit corporation, which has shareholders, a not-for profit corporation in Florida may, but is not required to, have members. A corporation may have one or more classes of members or may have no members.

Ultimately, as required by the *Charter and state laws*, the Governing Board is responsible for the financial and administrative management of the school (See *Charter* General Provision, Section Q and Fla. Stat. 1002.33 (7) – (10), (12), (16), (17), (25) and 1002.345). However, G-Star’s *Amended and Restated Articles and Bylaws* reserves certain specific powers exclusively to the Sole Member, for example, 1) approving transactions involving real estate where the school is located, 2) approving changes in corporate structure and organizational documents, including the dissolution or liquidation of the corporation and 3) approving the borrowing of funds in the name of the corporation.³

Additionally, G-Star’s Bylaws contain a provision allowing the Sole Member to terminate a board member for cause. Specifically, Section 3.14 of the Bylaws provides in part the following: “... *Any Director may be removed for cause, at any time, by the Member, at any regular meeting or special meeting of the Board, or by a written action signed by the Member and delivered to the Board.*”

Chapter 617, Florida Statutes, does not prohibit provisions regarding the powers of a sole member as found in the *Amended and Restated Bylaws*. However, when the powers of the sole member are examined with the powers and duties identified for charter school Governing Board members by state laws and the *Charter*, it is not reasonable to expect the Governing Board to maintain independent oversight of financial and administrative management of the school when the Board’s employee may terminate a Board Member.

The Sole Member terminated the then Board Chair in a letter dated February 8, 2013 delivered to the home of the Board Chair (Exhibit 2). Subsequently, a special meeting of the Board (absent the Board Chair) was held on February 25, 2013, to discuss this action. The remaining two board members expressed concern and questioned the manner in which the Board Chair’s departure was handled and asked the Board’s legal counsel to review and report on the appropriateness of the Chair’s removal. The OIG renders no opinion on the Sole Member’s stated reason(s) for terminating the Board Chair.

The minutes of the Board meeting reflected that the termination letter to the Chair was delivered without prior notice or discussion with the Governing Board. The Board’s counsel advised the termination was in full compliance with the law and G-Star’s bylaws. No vote was taken to remove the Chair. At the same meeting, the remaining two Board members elected a replacement board member.

³ See Article III (Powers) and Article IV (Members of the Amended and Restated Articles of Incorporation).

Conclusion:

G-Star's corporate documents providing for members and designating specific powers to a sole member affects the Governing Board's authority to continuously exercise oversight and fiscal authority relative to the Charter School as required by *Section 1002.33, Florida Statute*.

Governing Board Composition

Charter Section 30.J states "the Charter School shall establish a Charter School Governing Board of at least five members." *Charter Section 30.A* further states "Board Members cannot be employees of the school." This statement is further upheld by *Section 1002.33 (26)(c), Florida Statutes*, which provides that "An employee of the charter school, or his or her spouse, may not be a member of the governing board of the charter school."

Documents submitted by G-Star to the Charter School Department and OIG listed five names and included the Sole Member as a "non-voting" Governing Board member.

Conclusion:

We conclude that G-Star has not been compliant with the *Charter Agreement* of five voting members. The Sole Member, as a paid employee of G-Star, cannot be a member (voting or non-voting) of the school's Governing Board.

Mandated Training

As part of our initial request for documents on September 18, 2013, we asked for verification that all Governing Board Members completed the State-mandated governance training.⁴ We received the following certificates on October 11, 2013. Three of the four Board Members plus the Sole Member did not receive the mandatory training until after our request.

⁴ *Section 1002.33(9)(j)4, Florida Statutes* states "the governing board of the charter school shall be responsible for participating in governance training approved by the department [of education] which must include government in the sunshine, conflicts of interest, ethics, and financial responsibility."

Board Member	Date Joined Board	Date of Certificate
Member #1	1/31/2012	10/29/2012
Member #2	1/31/2012	10/3/2013
Member #3	2/25/2013	10/3/2013
Member #4	9/2/2013	10/4/2013
Sole Member	4/15/2013**	9/29/2013

** Date filed with Department of Corporations

Governing Board Meetings and Minutes

*Section 1002.33 (7)(d)2, Florida Statutes, require that governing board "...meetings be noticed, open, and accessible to the public..." Also, Section 1002.33(16)(b)2, Florida Statutes, requires compliance with Section 286.011 and Chapter 119, Florida Statutes by Charter Schools relating to public meetings, access and retention of public records. Public records are defined in law as "all documents ... regardless of the physical form, characteristics, or means of transmission, made or received ... in connection with the transaction of official business by any agency."*⁵

The Governing Board's official minutes are maintained in a binder and kept in the Sole Member/CEO's office. G-Star does not retain evidence of the meeting notifications to establish compliance with Florida Statutes.

The Sole Member stated that meeting notices are, in fact, posted on the school's website. However, once the meeting has occurred, the notice is removed from the website and no record is kept as to when it was originally posted or for how long. It should also be noted that the meeting notice is not readily evident on the website's home page.

It is difficult to determine what business was conducted by the Governing Board as agendas are not consistently maintained with the official minutes. Documents, if any, presented to the Governing Board for consideration at meetings (i.e., financial reports, contracts, etc.), are not filed with the official minutes.

Conclusion:

Florida Public Records Law requires that notices of the Governing Board meetings be maintained consistent with law. G-Star should establish a method to retain copies of any notices of its governing board meetings, agenda, and presented documents.

⁵ *Section 119.011(12), Florida Statutes*

School's Website

Beginning in Fiscal Year 2014, *Section 1002.33(9)(p), Florida Statutes*, added the requirement that *"each charter school shall maintain a website that enables the public to obtain information regarding the school; the school's academic performance; the names of the governing board members; the programs at the school; any management companies, service providers, or education management corporations associated with the school; the school's annual budget and its annual fiscal audit; the school's grade pursuant to s.1008.34; and, on a quarterly basis, minutes of the governing board meetings."*

Conclusion:

The School's website met most of these new requirements. However, the school's annual budget, annual independent audit, and the Governing Board minutes were not included on the website, as required. Beginning June 10, 2014, and upon the OIG informing G-Star of this requirement, the minutes for one meeting (January 2014) and the FY 2014-2015 Budget were added to the website. A link for accessing these documents should be prominently displayed on the website's home page.

Financial Policies and Procedures

Section 1002.33(9)(i), Florida Statutes require *"the governing body of the charter school shall exercise continuing oversight over charter school operations."* G-Star's Governing Board adopted the *Financial Policy & Procedures Manual (Manual)* on September 25, 2012. Our review of the policies found potential weaknesses with regard to the Board's fiscal oversight responsibility, as outlined below. Pertinent provisions of the Bylaws should be reviewed for consideration as the policy manual should be written consistent with such Bylaws.

Board Authority Over Purchases. The *Manual*, Section XIV – Budgeting of Funds (procedures) permits the Sole Member to *"make financial expense decisions up to \$100,000 above the approved annual budget provided such decision is within the scope of the approved budget and prompt notice of financial expense is provided to the Board of the Directors."* The Manual contradicts the Bylaws provision which allow for both the Sole Member *and* the principal to execute contracts up to \$100,000 for items contemplated in the approved budget.

The Bylaws assign responsibility to the school's Finance Committee to monitor cash flow by recommending priorities to the corporate expenditures in light of available resources.⁶ Additionally, the Governing Board's Treasurer, who is also chair of the Finance Committee, is charged with responsibility for keeping correct and adequate records of the transactions of the corporation.⁷

Charter Agreement, Section 21.N requires the Governing Board to review and approve a *Disbursement Report* at least once a month. As discussed above, documentation of items distributed at Board Meetings is not maintained with the official minutes. Based on our review of the provided minutes, we found that meetings are held at varying intervals. There is no mention of Board review or approval made in the minutes with regard to monthly *Disbursement Reports*.

Conclusion:

There is no evidence G-Star complied with the stated Charter requirement in *Section 21*. Also, the ability of the Sole Member and principal to commit the Charter School up to \$100,000 above the approved budget (or 1.5% of budgeted expenditures) with only post-approval of the Governing Board presents a potential abrogation in the Board's responsibility for fiscal oversight.

Check-Signing Authority. Section 8.02 of the Bylaws provides that all instruments be signed or endorsed as provided for in the policies and procedures manual. The *Manual* provided the following check-signing authority:

- Section V. – Bank Account Management: Issuing/Signing Checks states that “*all checks are to be signed by the [Sole Member].*”
- Section XI – Accounts Payable further requires that “*all checks under \$2,500 can be signed by the [Sole Member] or principal. Checks over \$2,500 must have two signatures; the [Sole Member] and the principal or one authorized board member.*”

Our review of the bank signature cards for all of the school's 14 bank accounts indicated the Board's secretary, the Sole Member, and principal are all authorized signers on all of the accounts. We examined the canceled checks for Fiscal Years 2012 through 2013 and found the above policy of two signatures on checks for more than \$2,500 consistently applied. However, we saw no instances of the Board Member signing any of the checks.

⁶ See Section 6.03(a) of the Amended and Restated Bylaws.

⁷ See Section 5.9 of the Amended and Restated Bylaws.

Although the Board's Secretary is an authorized signer, it carries little significance without written provisions requiring Board signatures on checks over a certain dollar threshold. Particularly considering there are no records to substantiate the Board receives and approves the disbursement reports required by the *Charter Agreement*, as discussed above.

Conclusion:

The Board's fiscal oversight responsibility could be compromised by allowing the school principal, who is directly supervised by the Sole Member, to co-sign checks above \$2,500 in lieu of a Board Member, when the Board does not receive the Disbursement Reports.

Public Reporting

Form 990 Reporting. G-Star, as a tax-exempt organization,⁸ is required to annually file *IRS Form 990 – Return of Organization Exempt from Income Tax* (Form 990). Form 990 must be available for public inspection as it serves as a mechanism for an organization to present itself and its mission. We reviewed the school's most recent Form 990 for Fiscal Year 2013. Part VI of Form 990 is a questionnaire related to Governance, Management, and Disclosures practices. Several answers presented in this section appear to be inaccurate compared to the information from the corporate *Amended and Restated Articles of Incorporation and Bylaws*.

*Governing Body and Management*Form 990, Section A, Line 6:

Question: Did the organization have members...?

Answer: No

Comment: The school operates as a not-for-profit corporation with the CEO as the Sole Member.

Form 990, Section A, Line 7b:

Question: Are any governance decisions of the organization reserved to (or subject to approval by) members ... other than the governing body?

Answer: No

Comment: G-Star's documents do reserve specific authority to the Sole Member for approving Governing Board decisions and terminating Governing Board members for cause.

⁸ Tax-exempt status is established under Section 501 of the Internal Revenue Code.

Policies

Form 990, Section B requests information concerning the existence of certain written policies and review processes that, while not specifically required by the IRS, do represent sound governance practices. G-Star responded in the following manner regarding the following policies:

Did the organization have a ...	Yes	No
Written conflict of interest policy?	x	
Written whistleblower policy?		x
Written document retention and destruction policy?	x	

G-Star should consider adopting a formal whistleblower policy as a matter of sound business practice and good governance. While whistleblower policies are not specifically required of a charter school by state statute or *Charter Agreement*, such a policy would represent sound governance on the part of G-Star.

*Review and Disclosures*Form 990, Section B, Line 11a:

Question: Has the organization provided a complete copy of this Form 990 to all members of its governing body before filing the form?

Answer: No

Comment: G-Star commented that the president (i.e. Sole Member) and key personnel review the tax return annually. The Governing Board, as administrative and fiscal oversight for the school, should take an active role in the review and presentation of public information.

Form 990, Section C, Line 19:

Question: Describe ... how the organization made its governing documents, conflict of interest policy, and financial statements available to the public during the tax year.

Answer: "No documents available to the public."

Conclusion:

Involvement of the Governing Board in presentation of public information is an important aspect of proper governance and the Board should monitor the school's administration in presenting accurate information of operations. Critical reports and documents should be reviewed and formally approved by the Board.

Charter School Foundation

The G-Star School Foundation, Inc. (Foundation) is an entity separate from the school and does not fall within the jurisdiction of the District's Charter School Department or the OIG. Upon our request, we were provided with a list of donation records, bank statements for a Foundation bank account and the bank account signature card.

Foundation Governance. The Foundation is a Florida not-for-profit corporation established in April 2012. It was organized as a direct support organization under *Section 509 of the Internal Revenue Code*. The *Foundation's Articles of Incorporation* state the Foundation is a non-membership corporation and shall be operated, managed, and controlled solely by its Board of Directors for the sole and exclusive benefit of the school. The Articles also provide that "*the corporation shall at all times be operated, supervised and controlled, directly or indirectly, by the G-Star School.*"

G-Star's Sole Member is the chairman and treasurer of the Foundation. The Foundation's financial records are maintained by the school's bookkeeper. According to the bank's signature card, the authorized signers for the Foundation's checking account are the Sole Member and G-Star's Governing Board Secretary. Considering the Secretary of G-Star's Governing Board is not an appointed member of the Foundation's Board, it would be more appropriate for a sitting Foundation Board Member to co-sign Foundation checks with the Sole Member.

Conclusion:

We examined the Foundation's bank account records from May 24, 2012, through June 30, 2013.⁹ Based upon our examination of the bank statements and supporting schedules provided to us by the bookkeeper, we did not observe any transactions that appeared to indicate Foundation funds were co-mingled with funds of G-Star. However, both G-Star and the

⁹ According to records provided to us, G-Star School had fourteen active bank accounts located at three institutions as of June 30, 2013, plus one brokerage account for bond funding. The Foundation had one active bank account. We have no means to verify whether all bank records were disclosed to the OIG for review.

Foundation should take extreme care in maintaining a clear separation between the school's and the Foundation's financials and operations.

Fundraising Project. The minutes for the February 25, 2013, Special Meeting of G-Star's Governing Board reflect that the Sole Member sought preliminary approval to continue to explore the *Foundation's project* and funding opportunities (*emphasis added*). The goal of the fundraising/construction/educational project is to build a new cafeteria/auditorium facility with World War II themed exhibits from the proceeds while educating the community on the history of World War II.

At the same February 25, 2013 meeting, G-Star's Board authorized further exploration and development of the project with the condition that any funds raised are to be restricted to this project. The Sole Member was directed to come back to the Board for further approvals prior to initiating the project. On November 14, 2013, G-Star's Governing Board approved phase one of a contract with Avatar Company for fundraising on behalf of the Foundation.

The Sole Member's wife is identified on the Foundation's website as Executive Consultant (changed from the previous title of Director of Development). The website for the World War II fundraising project is presently hosted at <http://www.atagency.net>, a website registered to the Sole Member's wife. The project's homepage describes the fundraiser as a school project and provides the school's tax identification number (vs. the Foundation's) for charitable donations. However, the website directs donors to make checks payable to the Foundation. Promotional materials are unclear as to which organization – the school or the Foundation – is operating the fundraiser.

Conclusion:

There is no clear separation between the Foundation and G-Star with regard to the World War II Fundraising Project. G-Star's Governing Board's minutes indicate ongoing awareness and involvement in the project. However, when asked during our review, the Sole Member stated to us that the project belongs to the Foundation.

2. BUDGETING

A budget is a critical planning tool for a charter school and should be consistent with G-Star's mission and goals. The *Manual*, Policy XIV – Budgeting of Funds, requires the Governing Board to approve an annual operating budget for the charter school as mandated by *Section 1002.33(9)(h), Florida Statutes*. Per G-Star policy, adjustments to the budget during the year are

to be approved *“as the Board designates.”* In the published Independent Auditor’s Report for June 30, 2013, the *Notes to the Financial Statements* described the process of budget amendments, as follows: *“Budgets may be amended by resolution at any Board meeting prior to the date for the annual report.”*

Over Budgeted Student Enrollment and Revenue

The Fiscal Year 2012 budget presented to the Governing Board was based on an over projected student enrollment. Again, a nearly identical overestimated budget was presented to the Governing Board for Fiscal Year 2013 based on the same overestimate.

Although the school’s *Independent Auditor’s Report* stated that the budgets *“were developed based on the school’s anticipated revenues and expenditures and the expected student population for the school year,”* actual budgets were based on the enrollment capacity per *Charter Agreement* of 1,130 students instead of a historic enrollment projection.

Enrollment	2012	2013
Budget Enrollment Estimate	1130	1130
Actual Prior Year Enrollment	868	1080
Overestimate of Enrollment	262	50
Per Student Base Funding plus Other Allocations	\$4,983	\$4,797
Overestimation of Revenue	\$1,305,546	\$239,850

Under Budgeted Expenditures

A comparison of actual expenditures to the original board-approved budget reflected a variance indicating that G-Star’s actual expenditures exceeded the budget by \$857,615 in FY 2012 and \$582,819 in FY 2013 (12.1% and 8.5% of actual expenditures, respectively) [Tables 1 and 2 below].

Table 1
Board Approved vs. Reported Budget, FY 2012

(based on 1,130 students)	Board Approved Budget ^(a)	Original Budget Reported on Schedule ^(b)	Actuals	Variance Over/(Under)
	[1]	[2]	[3]	[3]-[1]
Total Revenues	\$7,030,290	\$1,596,241	\$6,535,670	(\$494,620)
Total Expenditures	(\$6,233,630)	(\$1,527,526)	(\$7,091,245)	\$857,615
Excess (Deficit) Revenue over Expenditures	\$796,660	\$68,715	(\$555,575)	(\$1,352,235)
Transfers Out for Bond Debt Service of Studio	(\$528,000)	0	(\$86,008)	\$441,992
Capital Lease Inception	0	0	\$355,963	\$355,963
Net Change in Fund Balance	\$268,660	\$68,715	(\$285,620)	(\$554,280)

Sources: (a) FY 2012 Budget, approved June 11, 2011
 (b) FY 2012 Independent Auditor's Report, Budgetary Comparison Schedule
 (c) Budgeted Capital Outlay Funds of \$350,300 included
 (d) Actual Capital Outlay Funds of \$591,257 used for debt service of bonds

Table 2
Board Approved vs. Reported Budget, FY 2013

(based on 1,130 students)	Board Approved Budget ^(a)	Original Budget Reported on Schedule ^(b)	Actuals	Variance Over/(Under)
	[1]	[2]	[3]	[3]-[1]
Total Revenues	\$7,030,290 ^(c)	\$6,679,990	\$6,689,382	(\$340,908)
Total Expenditures	(\$6,253,930)	(\$6,031,130)	(\$6,836,749)	\$582,819
Excess (Deficit) Revenue over Expenditures	\$776,360	\$648,860	(\$147,367)	(\$923,727)
Transfers Out for Bond Debt Service of Studio	(\$528,000)	(\$528,000)	(\$175,414) ^(d)	352,586
Net Change in Fund Balance	\$248,360	\$120,860	(\$322,781)	(\$571,141)

Sources: (a) FY 2013 Budget, approved May 3, 2012
 (b) FY 2013 Independent Auditor's Report, Budgetary Comparison Schedule
 (c) Budgeted Capital Outlay Funds of \$350,300 included
 (d) Actual Capital Outlay Funds of \$591,257 used for debt service of bonds

Conclusion:

Significant expenditures over budget require the scrutiny and approval of the Governing Board.

Significant Budget Variances Not Reported on Year-End Schedule

The Independent Auditor's Report stated the budget was revised over the course of the year to equal actual expenditures. We found no evidence the Governing Board approved any budget amendments. The Sole Member stated he was unaware of the management statement published in the Independent Auditor's Report referencing budget revisions. He also stated that no amendments were made to the budget throughout the year.

Budget Format Presented to Governing Board Inhibits Comparison

According to the Independent Auditor's Report, general accounting principles require that G-Star publish an unaudited "Budgetary Comparison Schedule" (Schedule) to supplement the basic financial statements in the Independent Auditor's Report. We reviewed the FY 2013 budget information presented in the Independent Auditor's Report, and noted several issues that inhibit Board Members from accurately evaluating the school's financial condition compared to the approved budget.

Format and categories differed between the budget approved by the Board and the published Schedule disallowed full comparison and transparency of information. Total budgeted expenditures approved by the Board were under-reported on the Schedule by \$222,800. A variance of \$100,000 occurred in the category of School Administration. Omissions totaling \$122,800 (International Baccalaureate Program: \$100,000; Professional Services: \$2,800; and Fundraising: \$20,000) were left out of the Expenditure categories of the Schedule.

Conclusion:

Although budgets can be amended due to changes in funding and needs for programs, they should present a clear picture of the school's financial position for the Governing Board to monitor G-Star's true financials and make informed decisions. Budgetary controls are defeated when the year-end budget is amended to match actual expenditures.

3. Financial Management

Decline in Credit Rating by Standard & Poors

On October 9, 2013, the bond rating agency, Standard & Poors (S&P), lowered the school's long-term credit rating from BB to B+. The S&P indicated a negative outlook and stated that in order to prevent the school's rating from experiencing further decline; the school should:

- Demonstrate sound financial practice and policies
- Post adequate (at least 1 times) maximum annual debt service (MADS) coverage
- Stabilize enrollment levels
- Reverse the trend of declining unrestricted liquidity
- Provide data in a complete and timely manner
- Demonstrate a separation of leadership roles
- Demonstrate succession planning

Decline in Unrestricted Cash

The General Ledger reflects a steady decrease (a total of -45%) in the unrestricted cash since June 30, 2011. (Table 3)

Table 3
Balance of Unrestricted Cash at Year-End

Balance as of	Amount**	Annual % Decrease	Cumulative % Decrease
June 30, 2011	\$1,005,792	-	-
June 30, 2012	\$862,366	-14%	-14%
June 30, 2013	\$556,547	-35%	-45%

**Unrestricted cash (not including \$400 Petty Cash Fund)

The Sole Member explained that the school incurred several major expenditures in the past years, including:

- Building repairs, and replacement of multiple large commercial air conditioning units
- A major rewiring and computer upgrade due to the State mandate that required virtual learning by high school students and computerized testing
- Purchase of digital production equipment to prepare students in anticipation of a Florida State University film school to be opened in West Palm Beach by the company Digital Domain. Subsequently, Digital Domain filed bankruptcy and the

planned university program was abandoned. However, the equipment is being used in other programs for students

Conclusion:

Based on our review of the minutes of the Board meetings, there was no evidence that the Governing Board approved these major expenditures as required by G-Star's policy.

Documentation For Disbursements

G-Star's *Manual, Policy V*, requires a pre-approved Purchase Order signed by the Sole Member for all items to be purchased. *Policy XI* mandates that invoices be paid within 30 days unless alternative arrangements are made with the vendors. The school's bookkeeper maintains documentation of disbursements.

We reviewed a sample of disbursements paid by both checks and credit card to determine if expenditures were properly authorized, adequately documented, and had the required Purchase Order. Four of 48 sampled disbursements lacked adequate documentation to identify the business purpose of the expenditure.

- Check #9195, dated August 9, 2012, for \$595 was documented with a *Check Request Form* with the stated purpose as "Pro Fee." Staff explained that this was a payment to a former volunteer who worked for the school and manned the front desk.
- Checks #6923 and #6924, both dated April 23, 2013, for \$650 each had no supporting documentation. Staff explained the disbursement was to a contracted vendor, who provided weekly custodial services. However, there was no contract with the vendor and no invoices to support the disbursements.
- Check #7067, dated June 28, 2013, for \$300 was supported with a hand-written timesheet of dates and hours worked by an individual totaling 30 hours at \$10 per hour. The timesheet included a name, address, and social security number. However, the timesheet neither indicated the type of work performed nor was it signed by a supervisor verifying the work performed. As stated by staff, the individual performed assistance at the X-scream summer camp.

Conclusion:

To protect the best interests of the school and to ensure that purchases are appropriate, disbursements and purchases should be properly approved, documented, and supported by itemized invoices and receipts. Without adequate supporting documentation, there is no assurance that the expenses were appropriate.

Internal Control Weaknesses

A system of internal controls is a process intended to provide reasonable assurance that transactions are properly authorized, executed, recorded, and accurately reported in a timely manner. Ultimately, the purpose of internal controls is to support the accomplishment of organizational goals including 1) effective and efficient operations, 2) compliance with laws and regulations, and 3) accurate financial reporting. During our review of G-Star's financial procedures, we observed certain weaknesses of internal controls related to the handling of monies, as follows:

Segregation of Duties. G-Star's Manual, *Policy XIII – Mail Management: Incoming Mail* requires that “*all incoming mail is opened and distributed by the bookkeeper.*” To ensure proper fiscal control, staff should not perform incompatible duties. Specifically, the bookkeeper should not handle both functions of receiving and opening incoming mail. A separate employee should be assigned this task and trained on the proper method of recording monies received in the mail prior to remitting to the bookkeeper.

In addition, the bookkeeper also collected Senior class dues directly from students. Even though prenumbered receipts were issued at the time of collection, the bookkeeper is also responsible for preparing the bank deposits and reconciliation of the bank statements.

Conclusion:

Segregation of duties is a key element of effective internal control and fiscal accountability. A separate person should collect money or receive checks, record the collections, and remit the collections to the bookkeeper for deposit.

Inventory of Prenumbered Documents. Prenumbered receipts are used in the collection of certain fees; however, no inventory of the prenumbered documents (i.e. receipts, checks, and event tickets) or records of the assigned users are maintained.

Conclusion:

To ensure proper fiscal control, management should consider developing a procedure requiring that a document custodian (someone who is not a user of the document) be assigned responsibility for the prenumbered documents. A document assignment register should be maintained to track issuance to and return from users. Prenumbered documents should be accounted for by periodic inventory and signed off by a supervisor.

Chart of Accounts. Charter schools are required to maintain their financial records in accordance with the accounts and codes prescribed in *“Financial and Program Cost Accounting and Reporting for Florida Schools”* (Redbook) or reformat the financial information for reporting purposes in accordance with the Redbook.¹⁰ G-Star’s *Financial Policies & Procedures Manual, Policy III – Chart of Accounts* requires that *“the CPA shall develop a corporate Chart of Accounts that accurately reflects budget categories and provides information”* and *“the Bookkeeper shall distribute revenues and expenses according to the Chart of Accounts.”*

The school’s outside accountant has not provided a Chart of Accounts to the school’s bookkeeper. Monthly, the bookkeeper remits a list of financial transactions to the outside accountant to post to the General Ledger and compile monthly financial statements. The bookkeeper provides annotations to assist the accountant classify the revenues and expenditures into the appropriate account categories.

Conclusion:

The school should use a Chart of Accounts with proper classification of transactions as required by the Redbook, and clearly communicate the information to the accountant for proper recording.

¹⁰ Section 1002.33(9)(g), Florida Statutes

Independent Auditor's Report

Section 1002.33(7)(j), Florida Statutes, charges the school's Governing Board with the responsibility of retaining the services of an independent CPA to perform an annual financial audit. The Governing Board is mandated to review and approve the audit report. During our review of the Fiscal Year 2013 financial statements, we noted discrepancies between the expenditures in the audit report and the school's General Ledger. These discrepancies in expenditures were in the categories of 1) Instruction, 2) Instructional Media Services, 3) School Administration, and 4) Operation of Plant. The total expenditures reported in the audited financial statements exceeded the total general ledger expenditures by \$153,100, or 2% of the reported expenditures.

Sound Stage

The school constructed a \$2.5 million sound stage in 2010 using the money obtained from bond issuances that are being repaid with state FEFP¹¹ and Capital Outlay¹² funds. The studio is used for student productions and also leased to outside production companies. Rental contracts and invoices are maintained by the school's bookkeeper.

The rental fee schedule posted on the studio's website included a notice that separate payment is due directly to the stage management company. We have not been provided with any contract document between the school and the stage management company delineating the terms and conditions, benefits and payment terms to the school.

We do note, the Sole Member used the sound stage for his personal wedding without an executed lease agreement with the school in 2011.

4. FTE Reporting

Some complaints expressed concerns regarding the accuracy of Transportation and Student Full Time Equivalent (FTE) reporting. We requested assistance from District staff in the Transportation Department and the FTE & Student Reporting Department. No current issues were reported by either department.

¹¹ The Florida Education Finance Program (FEFP) is the primary mechanism for funding the operating costs of Florida's public schools, including charter schools, and is based on the individual student participating in a particular program.

¹² Charter School Capital Outlay funds are annually allocated to eligible charter schools. G-Star received \$501,257 in FY 2013.

FURTHER ACTION

The OIG received follow-up responses regarding the issues addressed by other District Departments and the Palm Beach County Department of Health as noted on Page 2.

The OIG provided a draft copy of this report to G-Star management and the governing board for review and response. The G-Star response, along with the OIG's rebuttal to the response, is attached hereto as Exhibits 5 and 6, respectively.

<u>Case Number</u>	<u>Category</u>	<u>Allegations</u>
13-007 13-014	Governance	<ul style="list-style-type: none"> • The school does not require two signatures on disbursements of any size. • Sole Member continues to exert excessive influence and control over the Governing Board as evidenced by his removal of the Board Chair. • Sole Member and his wife initiated a capital campaign to construct a World War II commemorative facility without Board consent. • Sole Member refuses to provide financials and other critical records to the Board of Directors. • Sole Member no longer allows Board Members to have signature authority. • Sole Member is President, Chief Financial Officer, and Treasurer of both the school and the Foundation and commingles funds between the two. • Sole Member was given Board authorization to write single signature checks less than \$2,500. • Sole Member improperly removed the Board Chair from the Governing Board. • Sole Member's employment contract carries no termination date. • Board of Directors consists of less than five members, as required by the <i>Charter</i>. • Sole Member placed himself on the school's Board of Directors. School is required to maintain five Board Members but usually have two or three. • The Sole Member and his wife sit on the Foundation Board. • The Sole Member appointed himself as President of the Foundation and appointed his wife as the new Development Director. • Board meetings are not properly/publically noticed, are not posted timely, and scheduled for times that are not convenient for parents. • Board meeting was called on short notice • It is difficult for the public to retain Board minutes

<u>Case Number</u>	<u>Category</u>	<u>Allegations</u>
		<ul style="list-style-type: none"> It is difficult for the public to obtain the identity and contact information of the Board Members.
13-007	Budgeting	<ul style="list-style-type: none"> School budgets are inaccurate and do not include capital improvements or details.
13-007 14-178	Financial Management	<ul style="list-style-type: none"> A portion of the school facilities are used as an office of the Sole Member's wife's for-profit company, AT Agency. Fiscal Year 2012 year-end and six interim financials show declining liquidity, excess debt, and an operating fund deficit over \$550,000. Prior audit findings regarding improper financial reporting and account controls have not been addressed or corrected. Sole Member continues to engage the school in debt obligations. Sole member has access to all depository accounts. The construction of the sound stage incurred large debt vs. the small income generated by the facility calls into question the Sole Member's decision to construct the facility. Fees for the use of soundstage are not paid to the school; funds go to directly to the Sole Member and his wife. Sole Member's wife uses school facilities, at no charge, for the purpose of creating a small film for her own personal gain. Sole Member wrongfully takes money from the G-Star school budget to pay both he and his wife as producers from the studio usage rents.
13-007 13-079	FTE Reporting	<ul style="list-style-type: none"> The Sole Member allows students with lower than the required 2.5 GPA to enroll then subsequently removes them for being below a 2.5 GPA.

<u>Case Number</u>	<u>Category</u>	<u>Allegations</u>
13-007 13-014	Employment Practices	<ul style="list-style-type: none"> • The <i>Charter</i> stipulates the Governing Board appoint a senior administrator with a Florida teaching certificate to carry out day-to-day management of the school while students are in attendance. • The Sole Member, serving as Chief Financial Officer, does not hold finance or accounting degrees from an accredited college or university and/or possess a background in account or finance. • Children and other relatives of the Sole Member and Principal are employed at the school. • The Sole Member hired his wife as a paid employee.
13-007 13-014	School Facilities	<ul style="list-style-type: none"> • School failed routine Health Department inspection and was cited for improper and unsafe lunch facilities for 1100 students. • Portable classrooms are infested with black mold, rotten floors and exposed wiring. Staff was instructed to tuck exposed wiring behind drywall or under carpets for an inspection. • School stairwells are routinely used for storage and blocked. The Sole Member instructs the facilities staff to temporarily relocate boxes in Building B until the conclusion of inspections. • School erected tarpaulin awning not approved by the fire department. • School actively uses buildings for students and events that do not meet code. • The Sole Member directs school administrators to lie to the District and State regarding student use of non-code compliant buildings. • No building permit was obtained for the screening room or for other improvements on campus. • Students eat outdoors in the heat, under busses in the lightning and rain, and return to their classrooms in drenched clothing. • School facilities have an extremely dirty environment

<u>Case Number</u>	<u>Category</u>	<u>Allegations</u>
		<p>including rodents, ripped carpeting, improperly sealed windows, broken blinds, etc.</p> <ul style="list-style-type: none"> • Air conditioning system constantly breaks down because of age and school cannot afford to repair or replace. • School has active beehives which are a threat to students with allergies. • Students and staff use Studio B which is a condemned building. • Ladies bathroom stalls do not have locks. • Cafeteria is overcrowded with a capacity of 300-400 students. • School knowing falsified application to increase enrollment to 1300 for Fiscal Year 2014 by using square footage of Building B declared unusable by the Palm Springs Fire Marshal.
13-007 13-014	Exceptional Student Education (ESE) Services	<ul style="list-style-type: none"> • School's 504 coordinator advised parent he was not allowed to speak to them or give any information. Referred to Sole Member. • Sole Member recruits ESE students to collect extra money but is ill equipped to handle them. • School was cited for having poor or non-existent documentation and implementation protocols related to accommodations, staff in-service training, and parent-teacher conferences.
13-007 13-014 13-079	Health, Safety, and Environmental Conditions	<ul style="list-style-type: none"> • Teachers appear to be getting sick from classroom mold in Building K. • School has one full-time, fully licensed ESE specialist to serve 150 ESE students. • There is not enough food at lunchtime for all students.



G-STAR School of the Arts
for Film, Animation and Performing Arts
Home of the
G-STAR Motion Picture Studios
G-STAR Digital Media Production Studios
G-STAR Acting for Theatre and Film
G-STAR Recording Studios

*Awarded "The Number One High School for Film in the World" by the
Raindance Film Festival, London
The largest Film, Digital Media Production, and Acting high school in the nation*

February 8, 2013

[Redacted]

RE: REMOVAL FROM G-STAR BOARD

Dear [Redacted]:

I regret to inform you that pursuant to the powers granted to me as sole Member under the Amended and Restated Bylaws of STUDENTS IN THE ARTS TV/G-STAR TV, INC. (hereinafter "G-Star"), you are hereby removed as a Director of the Governing Board for cause as herein stated effective immediately. Section 3.14 entitled "Removal of Directors" permits the Member of the corporation to remove any director for cause, defined as, amongst other things, "a direct violation by a board member of the charter, the corporation's conflict of interest policy or board code of ethics." I am also taking this action to remove you for violations of the corporation's Bylaws, State Statutes, and federal law.

The following actions by you violate the Charter of G-Star and constitute grounds for your removal:

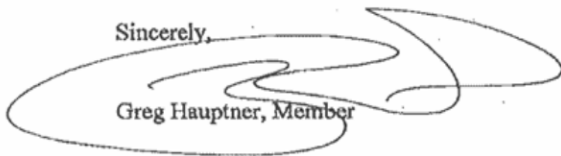
1. Your proposal to have the school discriminate against Students With Disabilities (ESE or 504) by refusing to admit them as documented in the board meeting held on January 23, 2013. This same directive was given to the school's Principal and the school's Founder in a luncheon meeting the next day. This violates not only the Charter, but also state and federal law on the topic.
2. Interfering with the school's handling of discipline of a student with a disability by advocating preferential treatment for the student, which could expose the school to discrimination claims under state and federal law. This was witnessed by all present at the board meeting held on January 23, 2013;
3. As the Chair, giving a directive to set up a Board meeting in violation of the Florida Sunshine Law as shown via emails by you, the Chair, to other Directors while discussing matters in your email that could come before the

Board for vote (also a Sunshine Law violation), and by giving a directive to exclude a Board Member in good standing from said meeting;

4. Meeting with an attorney without board approval and expending monies as such without board approval at a publicly-noticed meeting as required by the corporation's Bylaws and the Sunshine Law;
5. Violation of Florida Statutes and the Charter regarding student confidentiality by meeting/speaking with Palm Beach County School Board member(s) and/or former elected officials about a present and former student.

It is my duty as the sole Member of the Board to ensure the continued success of G-Star. Your actions and proposed actions will not ensure that success and, in fact, may jeopardize the continued success of G-Star, which is something I cannot allow. I thank you for your contributions to date and wish you success in your future endeavors.

Sincerely,



Greg Hauptner, Member

G-STAR ♦ 2065 Prairie Rd., Bldg. J ♦ Palm Springs, FL 33406
Office: (561) 967-2023 Fax: 963-8975 ♦ E-mail: greghauptn@aol.com
www.gstarschool.org

**AMENDED AND RESTATED
ARTICLES OF INCORPORATION**

OF

STUDENTS IN THE ARTS TV/G-STAR TV, INC.

FILED
SECRETARY OF STATE
DIVISION OF CORPORATIONS
05 JUL -7 AM 9:48

The undersigned subscriber to these Amended and Restated Articles of Incorporation, a natural person competent to contract, and the sole member of the not-for-profit corporation known as *Students in the Arts TV/G-Star TV, Inc.*, hereby amends and restates the corporation in accordance with the laws of the State of Florida.

ARTICLE I

Name

The name of the corporation shall be **STUDENTS IN THE ARTS TV/G-STAR TV, INC.** The principal place of business of this corporation shall be 2065 Prairie Road, Building J, West Palm Beach FL 33406.

ARTICLE II

Nature of Business

Students in the Arts TV/G-Star TV, Inc., is a not-for-profit corporation, providing educational opportunity to persons, regardless of race, creed, religion, or national origin, in grades 9 through 12, and is organized to promote the educational opportunity for these students and to help them stay and graduate from high school with superior achievement with an eye toward specialized training in TV and film industrial arts. The corporation has received a Charter School Charter from the School Board of Palm Beach County, Florida

and will be conducting operations as The Gregory E. Hauptner G-STAR School of the Arts for Motion Pictures and Television at the address set forth above. The qualifying educational curriculum within the stated Charter shall be offered and that educational curriculum shall be modified or amended as may be required or mutually agreed by the School and School Board of Palm Beach County, Florida. This School has operated by Charter since the year 2002. In the first year, Grade Level 9 was offered; the second year, Grade Level 10 was offered; and in the year 2005, Grade Level 11 will be offered. Beginning in 2006, Grade Level 12 will be offered. In accordance with the Charter, students are recruited from all ethnic backgrounds, nationalities, races, genders and abilities, and all students with special needs are serviced in accordance with the requirements of the Exceptional Student Educational, ESOL, Drop-Out Prevention, Individuals with Disabilities Act, and all other programs necessary for their successful achievement and graduation. In conducting its specialized training programs, this School will include TV, radio, film, and any other technology and production methods, that may be available. This School will also undertake all other programming and program opportunities that would be consistent with the Charter purpose and provide a general education and specialized education in the arts.

ARTICLE III

POWERS

In furtherance of its business, the corporation shall have all powers required in order to meet its responsibilities under the Charter School Charter granted by the School Board

of Palm Beach County, Florida, and these powers shall include, but not be limited to, all powers that are specified in Florida Statute 617.0302, effective as of the date of this Amended and Restated Articles of Incorporation, except as to those power reserved to the Members . Certain powers as specifically enumerated shall be reserved to the Member, or Members, and the balance of the powers shall be exercised by a Board of Directors who will serve as the directors of the corporation.

ARTICLE IV

MEMBERS

The initial member of the corporation is Gregory E. Hauptner, the initial organizer of the corporation and of the School. In no case shall there be more than 3 members of this corporation. All future members shall be elected by then current members. The member(s) reserve the power to approve any sale, acquisition, disposition, transfer, mortgaging or financing, or other transaction involving the real estate where the School is located, from time to time; all mergers or corporate acquisitions, dissolutions, and the dissolution or liquidation of this corporation; and changes to the Articles of Incorporation and Bylaws. No funds shall be borrowed in the name of the corporation without the vote and unanimous written approval of the member or members. As to any of the above transactions that the Board of Directors may approve subject to the reserved power of the member(s), the unanimous approval of all members is required for the action to be binding on the corporation. The corporation shall have at least one membership meeting per year to be set on a date agreeable to the member and/or any members subsequently appointed

by the initial member. Notice shall be provided to each Member at least three days in advance of the meeting, but may be waived if the Member or all Members agree to waive such notice.

ARTICLE V

BOARD OF DIRECTORS

The Board of Directors of the corporation shall be the governing Board charged with the responsibility to determine the rules and regulations needed for the effective operation and general improvement of the Charter School. The daily operation of the School shall be the responsibility of the governing board and all meetings of the Board shall be done in accordance with the requirements of the Charter. The governing board shall undertake and meet the requirements of the Charter in all respects, providing the appropriate financial disclosures and other requirements specifically specified in the Charter. The governing board shall be required to annually adopt and maintain an operating budget and shall be responsible for the day to day operating decisions which may be performed through the officers contracted with and appointed by the Board. The Board of Directors shall maintain minutes of all meetings in accordance with the requirements of the By-Laws. The Board of Directors shall be elected in accordance with the By-Laws.

ARTICLE VI

TERM OF EXISTENCE

The corporation is to exist perpetually.

ARTICLE VII

OFFICERS AND DIRECTORS

The corporation shall never have less than five directors and the officers shall be elected by the Board of Directors as provided for in the By-Laws.

ARTICLE VIII

INCORPORATORS

The incorporator of these Amended & Restated Articles shall Gregory E. Hauptner whose address is 2065 Prairie Road, Building J, West Palm Beach, FL 33406.

ARTICLE IX

ADDRESS

The office address of the corporation shall be 2065 Prairie Road, Building J, West Palm Beach FL 33406.

ARTICLE X

REGISTERED ADDRESS, INITIAL REGISTERED AGENT

After restatement of its Articles, the Registered Agent shall be Kathleen J. Loggins, Gibson & Loggins, P.A., 303 Banyan Boulevard, Suite 400, West Palm Beach FL 33401.

ARTICLE XI

RESTATEMENT

The intention of the restatement of these Articles of Incorporation are that they shall supersede in their entirety the original Articles of Incorporation and all amendments thereto.

ARTICLE XII

AMENDMENT OF ARTICLES

These Articles of Incorporation may only be amended after unanimous amendment approval by the Member or Members, and approval by the Board of Directors. A special meeting of the Members and the Board of Directors will be required to consider any amendment. Notice and vote requirements are set forth in the By-Laws.

ARTICLE XIII

MEMBERSHIP

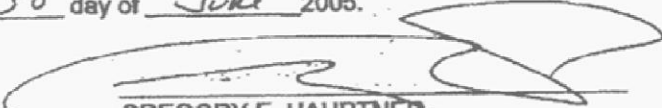
Membership in the corporation will be determined by the Member, or Members, by election on an annual basis.

ARTICLE XIV

INDEMNIFICATION

The corporation shall indemnify any officer or Director, or any former officer or Director and any Member or former Members, to the full extent permitted by law.

IN WITNESS WHEREOF, the undersigned subscriber has executed these Amended Articles of Incorporation, this 30 day of June 2005.

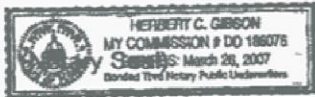

GREGORY E. HAUPTNER,
Incorporator, Sole Member
President

STATE OF FLORIDA
COUNTY OF PALM BEACH

BEFORE ME, a Notary Public authorized to take acknowledgments in the State and County set forth above, appeared GREGORY E. HAUPTNER, Incorporator, Sole Member personally known to me or [] who has produced a Florida Driver's License as

proof of identification and known by me to be the person who executed the foregoing Articles of Incorporation, and he/she acknowledged before me that he/she executed those Articles of Incorporation.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed my official seal, in the State and County aforesaid, this 30 day of June, 2005.



Herbert C. Gibson
Print Name of Notary
NOTARY PUBLIC
Commission Number: _____
Commission Expires: _____

ACCEPTANCE BY REGISTERED AGENT

I HEREBY CERTIFY that I am a permanent resident of Palm Beach County, Florida, with my residence located at 230 Avila Road, West Palm Beach, FL 33405. I do hereby accept the foregoing designation of Registered Agent.

I further agree to comply with the provisions of all statutes relative to the proper and complete performance of my duties, and I accept the duties and obligations of Florida Statute §807.0501.

DATED at West Palm Beach, Florida, this 30 day of June, 2005.

By: K. J. Loggins
Kathleen J. Loggins, as Registered Agent

**CERTIFICATION OF DESIGNATION
REGISTERED AGENT/REGISTERED OFFICE**

Pursuant to the provisions of Fla. Stat. § 607.325, the undersigned corporation, organized under the laws of the State of Florida, submits the following statement in designating the registered office/registered agent, in the State of Florida.

1. The name of the corporation is:

STUDENTS IN THE ARTS TV/G-STAR TV, INC.

2. The name and address of the registered agent and office is

Kathleen J. Loggins, Esq.
303 Banyan Boulevard, Suite 400
West Palm Beach, Florida 33401


Incorporator
Gregory E. Hauptner

Date: June 30 2005

HAVING BEEN NAMED TO ACCEPT SERVICE OF PROCESS FOR THE ABOVE STATED CORPORATION, AT THE PLACE DESIGNATED IN THIS CERTIFICATE, I HEREBY AGREE TO ACT IN THIS CAPACITY. I AM FAMILIAR WITH AND ACCEPT THE DUTIES AND RESPONSIBILITIES AS REGISTERED AGENT FOR SAID CORPORATION, AND I FURTHER AGREE TO COMPLY WITH THE PROVISIONS OF ALL STATUTES RELATIVE TO THE PROPER AND COMPLETE PERFORMANCE OF MY DUTIES, AND I ACCEPT THE DUTIES AND OBLIGATIONS OF §607.325, FLORIDA STATUES.

K. J. Loggins
KATHLEEN J. LOGGINS

Date: 6-30-05

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FINAL
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**AMENDED AND RESTATED
BYLAWS**

OF

STUDENTS IN THE ARTS TV/G-STAR TV, INC.

A FLORIDA NON-PROFIT CORPORATION
(a Membership Corporation)

ARTICLE I
GENERAL

SECTION 1.01. Scope. Subject to limitations provided by law, the Articles of Incorporation of STUDENTS IN THE ARTS TV/G-STAR TV, INC. (the "Corporation"), or that certain Charter School Contract ("Charter") entered into by the Corporation and The School Board of Palm Beach County, Florida (the "Sponsor"), as may be amended from time to time, these Amended and Restated Bylaws, as amended from time to time, shall contain the provisions for regulation and management of the affairs of the Corporation. All references herein to the Articles of Incorporation shall be construed to mean the Articles of Incorporation of the Corporation as they may be amended from time to time and all references to the Charter shall be construed to mean the Charter of the G-Star School as entered into by the Sponsor. These Bylaws shall amend and restate in their entirety the Bylaws of the Corporation adopted as of May 3, 2012.

SECTION 1.02. Purpose. Said Corporation is organized without capital stock and is organized and shall be operated exclusively for charitable, educational and/or scientific purposes within the meaning of Section 501(c)(3) of the Internal Revenue Code of 1986, as amended, or the corresponding provision of any future United States Internal Revenue Law (the "Code"), and specifically, to prepare and educate high school students to achieve academic excellence, to excel in the arts, motion pictures and broadcasting, and to successfully implement their career goals and strategies by, at a minimum, operating the Charter School (as defined and contemplated in the Charter) and to provide the educations services contemplated in the Charter. It is intended that the Corporation be an exempt organization under Section 501(c)(3) of the Code.

SECTION 1.03. Powers. The Corporation shall have the power, either directly or indirectly, either alone or in conjunction or cooperation with others, to do any and all lawful acts and things to engage in any and all lawful activities which may be necessary, or convenient to effect any or all of the purposes for which the Corporation is organized, and to aid or assist other organizations whose activities are such as to further accomplish, foster, or attain any of such purposes. The powers of the Corporation shall include, but not be limited to, the acceptance of

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contributions from both the public and private sectors, whether financial or in-kind contributions. Notwithstanding anything herein to the contrary, the Corporation shall exercise its powers only in furtherance of exempt purposes as such terms are defined in Section 501(c)(3) of the Code and the regulations promulgated thereunder.

SECTION 1.04. Non-Profit Status. The Corporation is a non-profit organization, and no part of the net earnings of the Corporation shall inure to the benefit of or be distributable to, any Director, officer, or other private person, except that the Corporation shall be authorized and empowered to pay reasonable compensation for services rendered and to make payments and distributions in furtherance of the purposes set forth in the Articles of Incorporation and these Bylaws. In the event of any liquidation or dissolution of the Corporation, the Board of Directors shall distribute all of the assets of the Corporation for one or more exempt purposes within the meaning of Section 501(c)(3) of the Code, or to the United States of America, any State thereof, or any political subdivision of any State, for exclusively public purposes, as the Board of Directors of the Corporation shall determine.

ARTICLE II MEMBERSHIP

SECTION 2.01. Powers. The member shall have the right to enjoy and exercise all rights and powers conferred on members of non-profit corporations under the laws of the State of Florida. The member shall have such other powers as are specified in the Articles of Incorporation and in these Bylaws.

SECTION 2.02. Number of Members. The Corporation shall have one member. Greg Hauptner, the founder of the Charter School, shall be the sole member of the Corporation (the "Member").

SECTION 2.03. Membership Book. The Corporation shall keep a membership book in accordance with the provisions of the Florida Not for Profit Corporation Act.

SECTION 2.04. Resignation or Removal. The Member may resign at any time upon written notice to the Board of Directors.

ARTICLE III BOARD OF DIRECTORS

SECTION 3.01. General Powers. The property, affairs and business of the Corporation shall be managed by a Board of Directors, and the Board shall have, and may exercise, all of the powers of the Corporation.

SECTION 3.02. Number. The Board shall consist of not less than three (3) nor more than ten (10) Directors, as shall be determined by the Board of Directors.

SECTION 3.03. Advisory, Honorary and Emeritus Directors. The Board of Directors may appoint one or more advisory, honorary or emeritus directors who shall serve at the discretion of the Board and give such guidance and assistance in furthering the purposes of the Corporation as the Officers of the Corporation may request. Advisory, honorary or emeritus directors shall be invited to attend all meetings of the Board of Directors, but shall have no vote on any matter brought before the Board. Advisory, honorary or emeritus directors may serve on committees of the Board and may vote as a member of such committees, but shall have no vote on any such committee having and exercising any of the authority of the Board. Any advisory, honorary or emeritus director may resign at any time by written notice to the Board of Directors. The sole Member shall serve as an advisory member of the Board of Directors and shall have all rights set forth in this Section 3.03.

SECTION 3.04. Election. The Directors shall be elected at each annual meeting as defined in Section 3.10 hereof, or at any special meeting held in place thereof, except as provided in Section 3.03 regarding any advisory, honorary or emeritus director, herein, or in Section 3.15 regarding vacancies. In case of any increase in the number of Directors, the additional Director or Directors may be elected either at the meeting at which such increase is voted, or at any subsequent regular, annual or special meeting, provided that any special meeting at which such additional Director or Directors shall be elected shall have been called for said purpose.

SECTION 3.05. Term of Office and Qualification. The term of office of the Board shall terminate at the Annual Meeting in the year after the initial adoption of these Bylaws; and until his or her successor is elected and qualified or until his or her earlier resignation or removal. Except as set forth herein, each Director shall hold office for a term of two (2) years or until his or her successor is elected and qualified or until his or her earlier resignation. The names of the members of the Board in office on the date of adoption of these Bylaws and the respective expiration dates of their terms of office are set forth on Exhibit A hereto.

SECTION 3.06. Quorum and Manner of Acting. A majority of the total number of Directors at the time in office shall constitute a quorum for the transaction of business at any meeting. Except as otherwise provided by law, the Articles of Incorporation or by these Bylaws, a majority vote of all Directors present, at any meeting at which a quorum is present, shall be the act of the Board of Directors. In the absence of a quorum, a majority of the Directors present may adjourn any meeting from time to time until there is a quorum. Notice of any adjourned meeting need not be given. The Directors shall act only as a Board and the individual Directors shall have no power as such.

SECTION 3.07. Place of Meetings. The Board of Directors may hold its meetings at any place within or without the State of Florida as it may from time to time determine or shall be specified or fixed in the respective notices or waivers of notice thereof.

SECTION 3.08. Regular Meetings. Regular meetings of the Board of Directors shall be held at such times as the Board and the Member shall determine from time to time. If any day fixed for a regular meeting shall be a legal holiday at the place where the meeting is to be held,

then the meeting which would otherwise be held on that day shall be held at the same hour on the next succeeding business day not a legal holiday.

SECTION 3.09. Special Meetings. Special meetings of the Board of Directors shall be held whenever called by the Chairman of the Board, any two (2) Board members or the Member.

SECTION 3.10. Annual Meetings. The annual meeting of the Directors for the election of Directors of the Corporation and for the transaction of such other business relating to the Corporation as may come before the meeting shall be held on such day during the month of [May] of each year and at such hour and place as the Board of Directors and the Member from time to time may determine. If such annual meeting is omitted by oversight or otherwise on the day herein provided therefor, any and all business which might have been transacted at that annual meeting may be transacted at the next succeeding meeting, whether special or annual.

SECTION 3.11. Notice of Meetings. Written notice stating the place, day and hour of a regular or special meeting and the annual meeting shall be delivered to each of the Directors by mail not less than five (5) days before the date of the meeting, by or at the direction of the Secretary. Such mailed notice shall be deemed to be delivered when deposited in the United States mail addressed to the Director's residence or usual place of business, with postage prepaid thereon. Alternatively, notice of such meetings stating the place, day and hour of the meeting may be given personally by delivery or by telephone or telegraph or electronic mail ("email") by or at the direction of the Secretary not fewer than twenty-four (24) hours prior to the time of the meeting. Neither the business to be transacted at, nor the purpose of, any meeting of the Board of Directors need be specified in any notice or written waiver of notice except as otherwise herein expressly provided.

A statement contained in the minutes of any meeting of the Directors over the signature of the Secretary to the effect that due notice of such meeting has been given shall be conclusive evidence that proper notice of such meeting has been given in one of the ways provided herein. Any meeting of the Board of Directors may be held by means of a telephone conference circuit, and connection to such circuit shall constitute attendance at such meeting.

SECTION 3.12. Meeting Attendance. Directors must make a good faith effort to attend Board meetings. Any Director who fails to attend three (3) consecutive Board meetings, unless such absences are excused by the Board of Directors through its chair, shall be automatically removed as a member of the Board. Attendance by telephone is not considered absence from a meeting.

SECTION 3.13. Resignation. Any Director of the Corporation may resign at any time by giving written notice to the Board of Directors, the Chairman, or the Secretary of the Corporation. The resignation of any Director shall take effect at the time specified therein; and, unless otherwise specified therein, the acceptance of such resignation shall not be necessary to make it effective.

SECTION 3.14. Removal of Directors. Any Director may be removed, either with or without cause, at any time, by the two-thirds vote of the other Directors, at any regular meeting or special meeting called and held for said purpose. Any Director may be removed for cause, at any time, by the Member, at any regular meeting or special meeting of the Board, or by a written action signed by the Member and delivered to the Board. For purposes of this Section 3.14, cause shall mean (a) a direct violation by a Board Member of the Charter, the Corporation's Conflict of Interest Policy or Board Code of Ethics, (b) dishonesty of a material nature (including, but not limited to, theft or embezzlement of Corporation funds or assets), (c) imprisonment, (d) conviction or pleading guilty or *nolo contendere* to a felony or other crime involving moral turpitude, or (e) inability to continue to perform the essential functions of the position with or without reasonable accommodation as a result of a mental or physical disability for a period of ninety (90) or more days (whether or not consecutive) during any twelve (12) months.

SECTION 3.15. Vacancies. Any vacancy in the Board of Directors caused by death, resignation, removal, disqualification, an increase in the number of Directors, or any other cause, may be filled by the remaining Directors then in office, though less than a quorum, at any regular meeting or special meeting of the Board of Directors, including the meeting at which any such vacancy may arise, or the next annual meeting or any special meeting, provided that any special meeting at which any such vacancy shall be filled shall have been called for said purpose; and each Director so elected shall hold office for the term of the vacancy which he or she is filling, and until his or her successor is duly elected and qualified, or until he or she is deceased, resigns, or is removed pursuant to Section 3.13, whichever is earlier.

SECTION 3.16. Agenda and Records. There shall be an agenda for any meeting of the Board of Directors. The Directors shall cause a fair, accurate and complete record of their meetings to be kept.

ARTICLE IV
WAIVER OF NOTICE; UNANIMOUS CONSENT

SECTION 4.01. Waiver of Notice. Notice of the time, place and purpose of any meeting of the Board of Directors of the Corporation may be waived in writing by any Director of the Corporation either before or after such meeting; and attendance in person at a meeting of the Board of Directors shall be equivalent to having waived notice thereof.

SECTION 4.02. Unanimous Consent. Insofar as permitted by law and unless otherwise restricted by the Articles of Incorporation or these Bylaws, any action required or permitted to be taken at any meeting of the Board of Directors or the Member of the Corporation may be taken without a meeting if prior to such action a written consent thereto is signed by all Directors or Members, as the case may be, and such written consent is filed with the records of the Corporation.

ARTICLE V
OFFICERS

SECTION 5.01. Number. The officers of the Corporation shall be a Chairman, a Secretary, a Treasurer and such other officers as the Board of Directors may from time to time designate, including one or more vice-chairman. One (1) person may hold the offices and perform the duties of any two (2) or more of said offices.

SECTION 5.02. Election, Qualification and Term of Office. The officers shall be elected annually by the Board of Directors of the Corporation at its first meeting following the annual meeting by a majority vote of the directors or as described in Section 4.02 hereof. Each officer shall be elected or appointed to serve until a successor shall have been duly elected and qualified, or until he or she is deceased, resigns, or is removed in the manner hereinafter provided, whichever is earlier.

SECTION 5.03. Term Limits. No officer shall serve in any one office of the Corporation for more than **[three (3)]** consecutive one-year terms.

SECTION 5.04. Removal. Any officer may be removed either with or without cause, by the vote of two-thirds of the whole Board of Directors at a special meeting called for said purpose. Such removal will be without prejudice to the contract rights, if any, of the person so removed. Election or appointment of an officer shall not of itself create contract rights.

SECTION 5.05. Resignation. Any officer may resign at any time by giving written notice to the Board of Directors or to the Chairman. Any such resignation shall take effect at the date of receipt of such notice or at any later time specified therein; and unless otherwise specified therein the acceptance of such resignation shall not be necessary to make it effective.

SECTION 5.06. Vacancies. A vacancy in any office because of death, resignation, removal, disqualification or any other cause shall be filled for the unexpired portion of the term by the Board of Directors at any regular or special meeting.

SECTION 5.07. The Chairman. The Chairman shall preside at all meetings of the Board of Directors at which he or she is present. The Chairman also shall have such other powers and perform such other duties as are designated by the Board of Directors.

SECTION 5.08. The Secretary. The Secretary shall record or cause to be recorded all the proceedings of the meetings of the Board of Directors of the Corporation and meetings of all committees to which a secretary shall not have been appointed; shall see that all notices are duly given in accordance with the provisions of these Bylaws and as required by law; shall be custodian of the records and of the seal of the Corporation; and have such other powers and perform such other duties as the Board of Directors of the Corporation may from time to time prescribe.

SECTION 5.9. The Treasurer. The Treasurer shall have charge and custody of, and be responsible for, all funds and credits and property of the Corporation, render a statement of the condition of the finances of the Corporation at all regular meetings and upon request of the Board of Directors of the Corporation. The Treasurer shall also have charge of the books and records of account of the Corporation, which shall be kept at such office or offices of the Corporation as the Board of Directors shall from time to time designate; be responsible for the keeping of correct and adequate records of the assets, liabilities, business and transactions of the Corporation and at all reasonable times exhibit the books and records of account to any of the Directors of the Corporation; review the Corporation's budget annually; be responsible for monitoring the budget; and, in general, perform all the duties incident to the office of Treasurer and such other duties as from time to time may be assigned by the Board of Directors of the Corporation or the Chairman.

SECTION 5.10. General Powers. Each officer shall, subject to these Bylaws, have, in addition to the duties and powers herein set forth, such duties and powers as are commonly incident to its office, and such duties and powers as the Board of Directors shall from time to time designate.

ARTICLE VI COMMITTEES

SECTION 6.01. Executive Committee. The Corporation shall have an Executive Committee of the Board of Directors consisting of the Chairman, the Vice Chair, if any, the Secretary, the Treasurer, plus such other Directors who shall have been approved by a majority of the Board of Directors. The Executive Committee shall have and may exercise all of the powers of the Board of Directors in the management of the affairs of the Corporation between meetings of the Board of Directors, and subject to the limitations imposed by the Florida Not-for-Profit Corporation Act.

SECTION 6.02. General. In addition to the Executive Committee of the Board of Directors the membership of which is provided for herein, the Chairman shall appoint the chairman of each committee. The committee chairman shall select committee members. Each Standing and Special Committee shall consist of at least two (2) members. The Chairman and the Member shall serve as members of each Standing and Special Committee of the Board.

SECTION 6.03. Standing Committees. The Corporation shall have the following committees, which shall have the following duties, except as modified or expanded by the Board of Directors:

(a) Finance Committee. The Finance Committee shall have the following duties, except as modified or expanded by vote of the Board of Directors: The Finance Committee shall consist of the Treasurer, who shall be the Chairperson, and such other Directors or persons as the Board shall determine. The Finance Committee shall make recommendations to the Board of Directors which will safeguard the assets of the Corporation as follows: (i) cause an annual budget to be prepared and submitted to the Board of Directors for approval at the

second regular meeting of the board in each fiscal year, and (ii) monitor cash flow by recommending priorities to the corporate expenditures in light of available resources.

(b) Audit Committee. The Audit Committee shall, if necessary, cause the books and records of the Corporation to be audited and certified by a firm of certified public accountants and approved by the Board, shall review the audit and shall make recommendations to the Board regarding the quality and acceptability of the Corporation's accounting principles, procedures and internal controls and to report any issues identified to the Board. The policies and procedures of the Audit Committee shall be governed by a written Audit Committee Charter, which shall be periodically reviewed by the committee and approved by the Board.

(c) Nominating Committee. The Nominating Committee shall prepare slates of potential members of the Board of Directors for election at annual meetings and shall secure acceptances by the nominees before submitting the slate. The committee shall review and evaluate current members of the Board of Directors' service and commitment to the Corporation. It shall also nominate individuals for vacancies on the Board. The Nominating Committee shall prepare slates of potential officers of the Board of Directors for election at annual meetings.

SECTION 6.04. Special Committees. The Corporation may have other committees as the need arises which shall be established by the Chairman with the approval of a majority of the full Board of Directors and the Member. Special Committees shall serve for such a period as shall be designated by the Chairman or Board of Directors.

SECTION 6.05. Committee Powers and Procedures. All Committees established by the Board of Directors shall conduct their activities in accordance with the provisions of these Bylaws applicable to the notice, quorum and voting requirements for the Board of Directors. Except as specifically approved by the Board of Directors, the actions and recommendations of any such Committee (other than the Executive Committee) shall be advisory only and subject to the approval or ratification of the Board of Directors. Committees shall not act independently. All committee motions are reported to the Board, and all motions pertaining to expenditures or other financial matters go first to the Finance Committee.

ARTICLE VII

CHIEF EXECUTIVE OFFICER; PRINCIPAL; OTHER PROFESSIONAL STAFF

SECTION 7.01. Duties and Responsibilities of Chief Executive Officer. The principal executive and operational authority of the Corporation shall vest in the Chief Executive Officer subject to the oversight of the Board of Directors. The Chief Executive Officer shall have general supervision, direction and control of the business of the Corporation and of all persons employed by the Corporation. The duties of the Chief Executive Officer shall include the hiring, setting pay rates for (within budget parameters), training and termination of employees, including the principal of the Charter School; the maintenance, preservation and custodianship of all building, property and equipment; the establishment and implementation of administration policies and procedures; the supervision and direction of the Corporation's programs in furtherance of its

purposes; and the preparation, oversight and implementation of the budget for each fiscal year. The Member shall be the initial Chief Executive Officer.

SECTION 7.02. Duties and Responsibilities of Principal. The duties and responsibilities of the principal of the Charter School shall conform to those duties generally performed by such person in secondary schools in Palm Beach County, Florida, shall conform to any duties required in the Charter and shall ultimately be determined by the Chief Executive Officer, but shall include, at a minimum, the establishment and implementation of the educational direction of the Charter School and its programs, and the management and oversight of the educators and staff of the Charter School. The principal shall conduct his or her duties with an emphasis on the core values of the Corporation and the Charter School and subject to the terms and conditions of the Charter.

SECTION 7.03. Termination. The Chief Executive Officer may be dismissed and his or her employment by the Corporation terminated only with the unanimous approval of the members of the full Board given by a roll-call vote at a the meeting of the Board of Directors given with due notice as to the purpose of such meeting. Notwithstanding the above, in the event of the Chief Executive Officer's (a) dishonesty of a material nature (including, but not limited to, theft or embezzlement of Corporation funds or assets), (b) imprisonment, (c) conviction or pleading guilty or *nolo contendere* to a felony or other crime involving moral turpitude, or (d) inability to continue to perform the essential functions of the position with or without reasonable accommodation as a result of a mental or physical disability for a period of ninety (90) or more days (whether or not consecutive) during any twelve (12) months, then the services of the Chief Executive Officer may be terminated with the approval of a Majority of the members of the full Board of Directors.

SECTION 7.04. Staff; Delegation of Duties. The Chief Executive Officer shall be responsible for the engagement and hiring of all staff members of the Corporation, within the limits provided for in the budget. The Chief Executive Officer may delegate such duties and responsibilities to staff members as the Chief Executive Officer may determine.

ARTICLE VIII EXECUTION OF DOCUMENTS

SECTION 8.01. Contract, etc., How Executed. The Chief Executive Officer or principal may enter into any contract or execute any contract or other instrument contemplated in the approved budget of the Corporation, the execution of which is not otherwise specifically provided for, in the name and on behalf of the Corporation. Any contract or other instrument may be executed by the Chief Executive Officer or principal, unless the aggregate dollar value of such instrument is greater than **[\$100,000]**, in which case authorization of the Board of Directors and Member is required. The Board may authorize any other additional officer or officers, agent or agents, of the Corporation to enter into any contract or execute and deliver any contract or other instrument in the name and on behalf of the Corporation, and such authority may be general or confined to specific instances. Unless authorized to do so by these Bylaws or by the Board, no officer, agent or employee shall have any power or authority to bind the Corporation by any

contract or engagement, or to pledge its credit, or to render it liable pecuniarily for any purpose or to any amount.

SECTION 8.02. Checks, Drafts, etc. All checks, drafts, bills of exchange or other orders for the payment of money, obligations, notes, or other evidences of indebtedness, bills of lading, warehouse receipts and insurance certificates of the Corporation (each an "Instrument"), shall be signed or endorsed by the appropriate director(s), officer(s) or employee(s) provided for in the Corporation's policies and procedures manual, or if not provided for, as approved by the Board of Directors.

ARTICLE IX INDEMNIFICATION

The Corporation will, pursuant to Section 617.0831 of the Florida Not-For-Profit Corporation Act or any successor indemnification provision, and to the extent legally permissible and only to the extent that the status of the Corporation as a corporation exempt under Section 501(c)(3) of the Code is not affected thereby, indemnify any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative by reason of the fact that he or she is or was a Director, committee members, officer, employee or agent of the Corporation (or is or was serving at the request of the Corporation as a trustee, director, officer, partner, employee or agent of another corporation, partnership, joint venture, trust or other enterprise), against all liabilities and expenses (including attorneys' fees), judgments, penalties, fines, settlements and reasonable expenses actually incurred by the person in connection with any such action, suit or proceeding. Expenses, including counsel fees, reasonably incurred by any such Director, committee members, officer, employee or agent in connection with the defense or disposition of any such action, suit or other proceeding may be paid from time to time by the Corporation in advance of the final disposition thereof upon receipt of an undertaking by such Director, committee members, officer, agent or employee to repay the amounts so paid to the Corporation if it is ultimately determined that indemnification is not authorized hereunder. The right of indemnification hereby provided shall not be exclusive of or affect any other rights to which any Director, committee members, officer, employee or agent may be entitled. Nothing contained herein shall affect any rights to indemnification to which corporate personnel other than Directors or officers may be entitled by contract or otherwise under law. As used in this paragraph, the terms "Director" and "officer" include their respective heirs, executors and administrators, and a "disinterested" director is one against whom in such capacity the proceeding in question or another proceeding of the same or similar grounds is not then pending. The Board of Directors of the Corporation may authorize the Corporation to purchase and maintain insurance on behalf of any person who is or was a Director, committee members, officer, employee or agent of the Corporation, or is or was serving at the request of the Corporation as a trustee, director, officer, partner, employee or agent of another foreign or domestic corporation, partnership, joint venture, trust or other enterprise, against any liability asserted against such person and incurred by such person in any such capacity or arising out of his or her status as such.

No Director or officer of the Corporation shall be liable to the Corporation for monetary damages for breach of fiduciary duty as a Director or officer, except to the extent such exemption from liability or limitation thereof is not permitted under the Florida Statutes as the same exist or may hereafter be amended. As used in this paragraph, the terms "Director" and "officer" include their respective heirs, executors and administrators.

ARTICLE X
MISCELLANEOUS

SECTION 10.01. Fiscal Year. Except as from time to time otherwise provided by the Board of Directors, the fiscal year of the Corporation shall end on the last day of June of each year.

SECTION 10.02. Amendments. All Bylaws of the Corporation shall be subject to alteration or repeal, and new Bylaws may be adopted by the vote of a majority of the Board of Directors and the sole Member, provided that notice of the proposed alteration or repeal or of the proposed new Bylaws be included in the notice of the meeting at which such alteration, repeal or adopting is acted upon.

Date Adopted: May 3, 2012.

EXHIBIT A

BOARD OF DIRECTORS

Name	Term Expires in Annual Meeting in Year:
Cindy D'Agostino	2014
Phil DiComo	
Anita Mitchell	

RECEIVED
SEP 19 2014

INSPECTOR GENERAL

Dear Mr. Chiu:

This letter represents the combined response of the board of directors and administration of G-Star School of the Arts for Film, Animation and Performing Arts. On behalf of the board and management, we appreciate the time and effort put forth by your staff in completion of this review. We feel that G-Star represents the best of the charter school system, and we strive to continue to improve the school every day.

It is important to point out that G-Star School of the Arts is an "A" rated charter high school which operates as a non-profit organization and is designated a "High Performing School" by the Florida Department of Education. It is ranked academically in the top 1.2% of all high schools in the nation by the Washington Post; given the "Silver School Award for Academic Excellence" and "America's Best High Schools 2014" award by the US News & World Report; and named "The Number One High School for Film in the World" in London by the Raindance Film Festival, Europe's largest independent film festival. Additionally, it is noteworthy that the biographies of our students reveal that 46% are on the free and reduced lunch program and 52% of the student population is comprised of minorities. Also, G-Star School also has the third highest graduation rate in Palm Beach County (94%).

As we understand, there are four levels of focus in the Office of Inspector General (OIG) audit. In order of importance they are:

1. Financial malfeasance, misappropriation of funds, theft of funds (criminal).

We understand that the OIG has determined that there is no financial malfeasance, misappropriation of funds, or theft of funds and that G-Star School of the Arts' finances are in order, properly disbursed, and properly accounted for by the school. The report confirms that no monies have been given to any individual or have been appropriated for use other than solely for the benefit of the school.

2. Compliance or Non-compliance with State Statues.

The report indicates that G-Star has been found to be out of compliance in one category. The non-compliance issue is that the Board of Directors is one Director short of the required five Directors. G-Star had been vetting potential candidates for the remaining Director position and has voted on, approved and welcomed in a new member as of September 10, 2014.

3. "Business Advice".

Other than non-compliance with the fifth Board Director mentioned above, all other descriptions and conclusions by the OIG appear to fall under the category of "business advice." The OIG has verbally discussed with G-Star the fact that

these are suggestions for better business practices. However, the OIG stated that it is solely in G-Star's own discretion whether or not to follow any of the advice; and that it is solely up to the charter school Board to decide which recommendations it may use, if any. Please know that we take your advice seriously, and the board of directors have already taken certain corrective actions to improve organizational governance (as discussed further below).

Notwithstanding the above, some of the business advice in the OIG's conclusions has left out significant information and facts, thereby giving negative impressions of the G-Star School governance and operations. We also believe that some of the business advice draws inaccurate conclusions due to the lack of facts or a possibly the misinterpretation of appropriate guidelines.

Finally, it appears that some of the business suggestions that the OIG has proposed in this audit would be in violation of State Board of Education Rule 6A-1.006 which specifically states that "no expenditure shall be authorized or obligations incurred which is in excess of a budgetary appropriation." (see 2. BUDGETING, page 12; for the King & Walker Auditors letter: exhibit 1 reference: Significant Budget Variances Not Reported on Year-End Schedule and Budget Format Presented to Governing Board Inhibits Comparison). Therefore, G-Star cannot follow those particular recommendations.

4. "Eight Categories".

There were eight categories (1-8) with complaints (page 1 of the OIG audit). Four of the eight categories numbers 5,6,7,8 (please see page 2) were dismissed verbally in a meeting with G-Star administrative personnel as being "without merit and of no concern." G-Star concurs with this assessment by the OIG since these were old complaints proven to be false by the same agencies the IG released them to for further investigation. Category #4, "FTE Reporting" is dismissed in this report as having "no current issues". The remaining three categories numbers 1, 2, 3 are the subject of this audit.

In a meeting at the OIG on August 5, 2014 at 3300 Forest Hill Blvd., C-306 West Palm Beach, FL 33406, G-Star CPA and Bookkeeper Richard Gurevitz and G-Star School Founder/CEO Greg Hauptner were present with lead OIG auditor Susy Miller Kay and OIG Director of Investigations Joanie Loehrig. In this meeting the OIG representatives stated that the last four categories, numbers 5,6,7,8 were baseless and without merit, and would not be entered into the OIG audit. Those items were fully investigated and dismissed as false prior to this OIG audit. Therefore, we request that the above mentioned items be closed along with this audit.

Below are specific responses, in order of appearance in the report:

The OIG audit is referred to below by page number and paragraph number:

1. Governance (pages 3-5)

The report concludes that the powers given to the sole member affect the governing board's "authority to continuously exercise oversight and fiscal authority". However, we are not aware that the board's authority has ever been compromised.

1. Page 3, 1. GOVERNANCE. The OIG correctly states, "The not-for-profit structure (of the school) is consistent with *Section 1002.33, Florida Statutes.*"

Page3, Paragraph 3: The report states that the school did not timely provide copies of the governing documents to the School District.

The documents have been regularly inspected and read by the school district's representative at each Mid-year Review and End-of-year Review. Initially the governing documents were not required to be uploaded to the District's online monitoring system. After we were notified that the documents were not uploaded for review (January 22, 2014), the documents were uploaded on March 30, 2014. Also, the Articles of Incorporation were always available for public inspection on the state web site sunbiz.org and all documents were available for inspection at school offices.

Page 3, Paragraph 4: The OIG correctly states, "... *G-Star's Amended and Restated Articles of Incorporation and Bylaws* appear to be consistent with the provisions of Chapter 617, Florida Statutes, relative to members."

The G-Star School's non-profit charter school governance structure is in compliance with Florida State Statutes and has the legal standing to carry out the duties prescribed in its *Amended and Restated Bylaws: Article I, SECTION 1.03. Powers: "The Corporation shall have the power, either directly or indirectly, either alone or in conjunction with others, to do any and all lawful acts and things to engage in any and all lawful activities which may be necessary, or convenient to effect any or all of the purposes for which the Corporation is organized..."*

2. Page 4, Paragraph 2: The OIG references "...certain specific powers exclusively to the sole member..." The report notes three powers reserved for the member in the Articles of Incorporation (which are not mentioned in the Bylaws.)

These three specific powers were given to the sole member as a Board Director (which is separate from a Founding Member) when the corporation was first formed and have never been exercised by the sole member in the 11 years the school has been in existence. The sole member has always worked with the full approval of the Board of Directors. To solidify this fact and to avoid any inference of impropriety, the sole member has resigned as a non-voting director as of August 28, 2014, and rescinded the three powers so named in the *Amended and Restated Articles*. The sole member will continue on as the Founding Member of the Board. To that end, the Board of Directors

has adopted a new amended and restated Articles of Incorporation which has removed the three specific powers reserved but never exercised by the sole member. A copy of these revised Articles is attached for your review.

3. Page 4, Paragraph 3: The OIG correctly states, "... Chapter 617, Florida Statutes, does not (underline our emphasis) prohibit provisions regarding the powers of a sole member as found in the *Amended and Restated Bylaws*..."

The OIG report indicates that it is not typical for not for profit organizations to have members. It is the belief of the Board that Florida law authorizes such members as Section 617.0601 Fla. Stat., (the Not For Profit Corporation Act) states that "a corporation may have one or more classes of members...". Additionally, the report suggests that the sole member has broad, over-reaching power to arbitrarily remove board members of the organization. This is not accurate. The report fails to mention that the sole member has only the specific and narrow power given in the Bylaws to remove a Board Director for cause as such term is specifically defined in the Bylaws. "Cause" is defined in the *Amended and Restated Bylaws* as, "...Section 3.14, cause shall mean (a) a direct violation by a Board Director of the Charter, the Corporation's Conflict of Interest Policy or Board Code of Ethics, (b) dishonesty of a material nature (including, but not limited to, theft or embezzlement of Corporation funds or assets), (c) imprisonment, (d) conviction or pleading guilty or *nolo contendere* to a felony or other crime involving moral turpitude, or (e) inability to continue to perform the essential functions of the position with or without reasonable accommodation as a result of a mental or physical disability for a period of ninety (90) days (whether or not consecutive) during any twelve (12) months." The sole member can only remove a director for a material and substantial violation of law or policy, not for any arbitrary or irrational reason. It is important to note that this power was created for the sole member and approved by the Board to ensure compliance by Board members with State law and provide further oversight of any Board member who may act in contradiction to the mission of the school or the school's best interest.

4. Page 5, Paragraph 2: The OIG report quotes, "Charter Section 30.A further states 'Board Members cannot be employees of the school.'"

Charter Section 30.A is comprised of a total of five sentences. Sentence five of Charter Section 30.A on page 46 of the G-Star School charter school charter states, "*The Principal or Headmaster of the school from July 1, 2007 forward shall serve in an advisory capacity to the Board as a Founding Board Member but will not and cannot be a voting member of the Board.*" (emphasis added.)

The sole member is the school's Founder, Founding Board Member, CEO and Headmaster since its inception in August, 2003, and continues in those capacities today. The sole member of the Board is not a voting member of the Board.

The OIG report additionally states, "This statement is further upheld by *Section 112.313(10)(a), Florida Statutes* which provides that "No employee...shall hold office as a member of the governing board,...which is his or her employer while, at the same time, continue as an employee of such employer."

The OIG report quotes a section of the Florida Statutes which does not apply to charter schools and has omitted the language which supports our conclusion. Statute (10)(a) is below in its entirety:

(10) EMPLOYEES HOLDING OFFICE.—

(a) No employee of a state agency or of a county, municipality, special taxing district, or other political subdivision of the state shall hold office as a member of the governing board, council, commission, or authority, by whatever name known, which is his or her employer while, at the same time, continuing as an employee of such employer.

Charter schools are not a state agency or of a county, municipality, special taxing district, or other political subdivision of the state. G-Star School is designated as a High-performing Charter School by the Florida Department of Education. Charter Schools, as defined in the 2014 Florida Statutes under *Section 1002.332 (1)(a) High-performing charter school system* states a charter school is: "...a private, nonprofit corporation with tax-exempt status under Section 501(c)(3) of the Internal Revenue Code..." In addition, *Section 501(c)(3) of the IRS Code* states that "501(c)(3) are public charities."

Under the *IRS Code, Part 4. Examining Process, Chapter 76. Exempt Organizations Examination Guidelines; Section 8. Private and Charter Schools, 4.76.8.8 (07-01-2003) Charter Schools, 2.* "...what is different is that charter schools generally are not operated directly by the public school district but under a separate charter, a contract with a state or local agency that provides them with public funds."

G-Star School of the Arts charter school is a public charity, and not a state agency.

G-Star's Conclusion:

In reference to the G-Star School Amended and Restated Articles of Incorporation and Bylaws, the OIG has determined that G-Star is in compliance with the following statutes:

1. "The not-for-profit structure (of the school) is consistent with *Section 1002.33, Florida Statutes.*"
2. "...G-Star's *Amended and Restated Articles of Incorporation and Bylaws* appear to be consistent with the provisions of *Chapter 617, Florida Statutes*, relative to members."
3. "...*Chapter 617, Florida Statutes*, does not prohibit provisions regarding the powers of a sole member as found in the *Amended and Restated Bylaws...*"

In addition, G-Star School's charter school charter, *Section 30.A*, states: "The Principal or Headmaster of the school from July 1, 2007 forward shall serve in an advisory

capacity to the Board as a Founding Board Member, but will not and cannot be a voting member of the Board." G-Star's sole member is a non-voting Founding Board Member. The OIG quotes *Section 112.313(10)(a), Florida Statutes* that do not apply to charter schools since they are charities and not state agencies and it has omitted the language of the statute in their report that shows it is not applicable to its conclusion.

The G-Star School finds these omissions in the OIG report of *Charter Section 30.A* (last sentence) and in *Section 112.313(10)(a), Florida Statutes* to be prejudicial. We would request that the OIG reexamine Charter Section 30.A and section 112.313(10)(a), Fla. Stat., and amend its report.

The G-Star Board sole member's position is legal in its structure and the sole member holds the power to execute the duties of his office as prescribed in the *G-Star Amended and Restated Articles of Incorporation and Bylaws*.

5. Page 6, Paragraph 2: "G-Star does not retain any evidence of meeting notifications..." G-Star has not been consistent in placing all of the meeting agendas in the corporate book. We will do so consistently in the future.

Paragraph 3: The OIG states: "...the meeting notice is not readily evident on the website's home page." However, there is a link on the home page to "Main Menu" which takes viewers directly to the meeting date, location and time.

Paragraph 4: The OIG states: "It is difficult to determine what business was conducted by the Governing Board as agendas are not consistently maintained with the official minutes. Documents (i.e., financial reports, contracts, etc.), are not filed with the official minutes." The Board Minutes clearly state the business of the Board that was conducted at each meeting. Documents are uploaded into the School District's computer system and are kept in the bookkeeper's office available for public viewing and are easily matched to the Board meeting minutes.

G-Star's Conclusion:

On page 6, paragraph 5, the report concludes that G-Star should do a better job of maintaining meeting notices, agendas and presented documents. The Board will do so, and will retain a copy of each agenda and notice. However, we disagree with the assumption that because agendas have not always been retained that it is difficult to determine what transpires at each board meeting. We strive to record each meeting with detailed minutes (which the OIG has examined without further comment) which serves as a record of all business conducted at such meetings, even those items which may come up which are outside the scope of any notice or agenda.

6. Page 7, Paragraph 1 & 2: This has been accepted and done.

Paragraph 4: Board Authority Over Purchases. This has been corrected and entered into the Policy & Procedures on Page 4, Paragraph 1, *Procedures*.

7. Page 8, Paragraph 2: The OIG states: "*Charter Agreement, Section 21.N* requires the Governing Board to review and approve a *Disbursement Report* (capitalization and italics are by the OIG) at least once a month."

While the *Section 21.N* mentions a disbursement report, there is no official "*Disbursement Report*" in the School District's online "Forms" access; nor is there a definition of a disbursement report anywhere in the charter school charter or Florida State Statutes. A disbursement report indicates a statement showing expenditures in each given month. The monthly G-Star Financial Statements sent to the Board before the Board meeting for the Director's analysis and then discussed at the Board meeting is the disbursement report. This disbursement report shows expenditures and disbursements which are backed up by the General Ledger and Check Register available to the Board Directors at their request.

Conclusion:

The OIG's conclusion on Page 8, Paragraph 3, states: "There is no evidence G-Star complied with the stated Charter requirement in *Section 21*."

This statement is inaccurate. The OIG gives no examples of non-use of a disbursement report. In fact, there is no evidence that such a report is included in the School District "Forms" or that such a report is referenced in State Statutes.

The report additionally states: "Also, the ability of the sole member and the Principal to commit the Charter School up to \$100,000 above the approved budget with only post-approval of the Governing Board presents a potential abrogation in the Board's responsibility for fiscal oversight."

This statement is also inaccurate. The policy was made to ensure the school continued to operate in an emergency that could involve a catastrophic situation such as hurricane damage or a fire to a classroom or building that needed immediate action when the Board may be unable to meet or not be able to have a quorum. In addition, the authorization by the Board to the sole member and the Principal is for items only within the parameters of the Board approved budget.

There is no evidence of misuse of funds or abrogation of fiscal oversight.

8. Page 8, Paragraph 4: Check Signing Authority. *Section 8.02, Section V*. has been changed to "Policy: All checks are to be signed by the CEO or the Principal who shall adhere to check signing procedures established in this Policy & Procedures."

9. Page 9, Paragraph 1: The OIG Conclusion states: "...there are no records to substantiate the Board receives and approves the disbursement reports required by the *Charter Agreement*..."

The Board reviews the monthly financial statements and exercises its fiduciary responsibility over all financial actions. The Board grants the responsibility to the sole

member and the Principal only within the school's approved budget parameters and monitors closely the actions of the financial statements.

Again, there is no evidence of financial mismanagement by the Board or misuse of funds by the administration.

10. Page 9, Paragraph 3: Public Reporting, Form 990 Reporting. Please see the letter from Michael Becker & Associates, CPA for the explanation of this report.

11. Page 10, first chart: The Board will discuss the adoption of a "Whistleblower Policy" at the next Board meeting.

12. Page 11, Paragraph 2: The OIG correctly states: "The G-Star School Foundation is an entity separate from the school and does not fall within the jurisdiction of the District's Charter School Department or the OIG."

The OIG has no jurisdiction over the Foundation but requested all documents to which G-Star complied for the sake of good governance and transparency.

Page 11, Paragraph 3: Foundation Governance. The OIG correctly states: "The Foundation...was organized as a direct support organization (to the school) under *Section 509 of the Internal Revenue Code*." "...the Foundation...shall be operated, managed and controlled...for the sole and exclusive benefit of the school."

Page 11, Paragraph 5: The OIG correctly states in its Conclusion: "Based on our examination of the bank statements and supporting schedules provided to by the bookkeeper, we did not observe any transactions that appeared to indicate Foundation funds were co-mingled with funds of G-Star."

In annotation #10 at the bottom of page 11, the OIG notes, "We have no means to verify whether all bank accounts were disclosed to the OIG for review."

G-Star would hope that the notation above is a standard inclusion in all audits prepared by the OIG and not aimed at G-Star for any particular reason. The wording does suggest an appearance of impropriety on behalf of G-Star and/or the Foundation about whether bank accounts exist beyond the OIG's purview. G-Star can attest that there are no bank accounts for either the school or the Foundation that were not revealed to the OIG.

We do appreciate your advice in this area and appreciate your acknowledgement that there are no financial improprieties observed in your review.

On page 12 there is further discussion of the fundraising project where, after correctly describing the Foundation as a designated 509 supporting organization under the IRS code, the report concludes that there is no clear separation between the Foundation and G-Star. However, that separation is defined in the IRS Code under the supporting regulations in Section 509. Pursuant to IRS regulations, a supporting organization must

have some level of involvement by the supported organization, and conversely, the Foundation, as the supporting organization, can only fund-raise and support projects directly related to the mission of the school. The World War II project is exactly that in that it will help the school fulfill its educational mission and provide additional facilities on the G-Star campus, and is structured within the parameters of Section 509 of the IRS Code. The separation and the connection is built in by the parameters of the IRS.

Page 12, Paragraph 4: The OIG states, "The sole member's wife is identified on the Foundation's website as Executive Consultant (changed from the previous title of Director of Development)."

The OIG omits pertinent information, and that information is the sole member's wife is an unpaid volunteer and has never received any financial compensation for her many hours of grant writing and fundraising efforts. In addition, she is a parent volunteer having had four children attend the school. All Foundation Board and staff are unpaid volunteers. No one receives pay from the Foundation. In the August 5, 2014 meeting with the OIG, this question was asked of Mr. Gurevitz and Mr. Hauptner and was clearly answered that this person was an unpaid volunteer. By omitting the person's volunteer status the OIG may lead readers to incorrectly assume that this person, the Foundation or G-Star has done something inappropriate or against its own policies. As we know, this is not the case.

In the same Paragraph 4 the OIG continues that: "The website for the World War II fundraising project is presently hosted by <http://www.atagency.net>, a website registered to the sole member's wife."

To start up the new G-Star School Foundation the Foundation used the [atagency.net](http://www.atagency.net) site temporarily (for no charge) until the new official site was set up. The site is now www.worldwar2experience.net and is owned by the Foundation.

13. Page 13, Paragraph 3: The OIG states: "Although the school's *Independent Auditor's Report* stated that the budgets "were developed based on the school's anticipated revenues and expenditures and the expected student population for the school year," actual budgets were based on the enrollment capacity per *Charter Agreement* of 1130 students instead of a historic enrollment projection."

G-Star School's focus has always been on educational quality. When the Legislature cut \$1.3 billion from the State's education budget, G-Star, just like all other schools, had to create a new business plan. That plan incorporated quality AND growth. The chart on this page is deceptive in that the "prior year" category leads the reader to believe the 2012 projection is a large "over estimate". It is not. The 868 actual number of students enrolled was in the year 2011. We projected a goal of 1130 students in 2012. We actually enrolled 1080 in school year 2012, which was 212 more students from the previous year, proving it was a reasonable goal. The chart does not show the actual number of students in 2013, thus giving the reader the impression that the projected enrollment is not reasonable. However, now that G-Star has exceeded financial

breakeven for our past 2014 school year, we have removed "growth" as an objective from our business plan. Missing from this OIG audit is this year's student projection which is 1062 students. We would additionally note that the school's enrollment capacity is 1300, not 1130.

Page 13, Paragraph 4: For the reasons given above, this variance has been negated by this year's projected student population of 1062.

Page 14, Charts, Table 1 & 2: For the reasons given above, these two rather confusing OIG charts are no longer viable. G-Star's projections of the number of students are 1062 for school year 2015 as stated above.

Page 15, Paragraph 2, 3, 4, 5: The OIG states in its Conclusion: "The year-end budget should not be amended to match the actual expenditures..."

What is recommended by this statement would be in violation of *Florida State Statutes, State Board of Education Rule 6A-1.006*. Please see the attached letter regarding the OIG's report from King & Walker CPAs, Members of the Florida Institute of CPAs, American Institute of CPAs, Government Audit Quality Center. The sole member did not perform any budget amendments. The year-end budget amendment was done by King & Walker for *Florida Statutes* compliance with *State Board of Education Rule 6A-1.006*.

Conclusion:

The OIG has not shown evidence of any issues that inhibit the Board from accurately evaluating the school's financial condition.

The OIG makes an unsupported statement against the school that the G-Star School's *Budgetary Comparison Schedule* is not in a format that is transparent and with enough details; and claims that certain amounts were under reported in several categories/functions.

G-Star's answer: Please see King & Walker Auditor's Letter show this to be an inaccurate statement.

14. Page 16, Paragraph 1 and *Decline in Unrestricted Cash*: Now that G-Star has regained solid positive cash flow and has accomplished the S&P's seven recommendations on this page, and many more positive business practices and controls, we fully expect our S&P bond rating to increase each year.

15. Page 16, Last Paragraph: The OIG sites three major expenditures stating in their Conclusion that "...there was no evidence that the Governing Board approved the major expenditures as required by G-Star's policy. These expenditures (1, 2, 3) are listed below:

(1) "Building repairs, and replacement of multiple large commercial air conditioning units."

G-Star's answer: This is an inaccurate statement by the OIG. All of these repairs and replacements were well within the \$160,000 financial parameters set forth in the approved budget. These expenditures are entered into the minutes of the January 27, 2014 Board meeting and approved by the Board.

(2) "Major rewiring and computer upgrade due to the State mandate that required virtual learning by high school students and computerized testing."

G-Star's answer: Major wiring was not done for the State mandate. Computers and wiring were upgraded on a continuous basis over a period of three years for several programs (such as the IB Program, the E20-20 Program, Digital Imaging Program, etc.) not just the virtual learning program.

(3) "Purchase of digital production equipment in anticipation of a Florida State University film school to be opened in West Palm Beach by the company Digital Domain. Subsequently, Digital Domain filed bankruptcy..."

G-Star's answer: Digital Domain (assisted by FSU) brought in prominent film industry professionals on our school who advised the G-Star Film Department how to create our G-Star 3-D Animation and Digital Imaging Career Path. It is the only program like it in the nation. This program was developed as a stand-alone program and did not rely on the success of the Digital Domain/FSU program. Our program has thrived and grown since its inception.

The OIG states in its Conclusion: "...there was no evidence that the Governing Board approved these major expenditures as required by G-Star's policy."

All of the above three items the OIG states there is "no evidence" of were fully vetted and noted in, but not limited to, the G-Star Board minutes in Board meetings of *January, 18, 2011; March 20, 2011; April 19, 2012; and September 12, 2012*. In addition, all of the items mentioned above were in the annual budget in various categories.

16. Page 17, Documentation For Disbursements: G-Star has improved its supporting documents and contracts policy to meet the standards of the audit recommendation.

17. Page 18, Internal Control Weaknesses: The OIG has identified two areas of concern: 1. The bookkeeper picks up the mail, 2. The bookkeeper collected Senior Class dues with receipts.

G-Star will consider other business options in these two areas.

18. Page 19, Chart of Accounts: Please see letter from Michael Becker & Associates.

19. Page 20, *Independent Auditors Report*: Please see letter from Michael Becker & Associates.

A handwritten signature in blue ink, appearing to be 'Greg Hauptner', is written over a horizontal line. The signature is somewhat stylized and loops around the line.

Greg Hauptner
Founder/CEO
G-Star School of the Arts
2065 Prairie Rd.
Bldg. J
Palm Springs, FL 33406
561-386-6275

**SECOND AMENDED AND RESTATED
ARTICLES OF INCORPORATION**

OF

STUDENTS IN THE ARTS TV/G-STAR TV, INC.

The undersigned subscriber to these Second Amended and Restated Articles of Incorporation, a natural person competent to contract, and the sole member of the not-for-profit corporation known as Students in the Arts TV/G-Star TV, Inc., hereby amends and restates the corporation in accordance with the laws of the State of Florida.

ARTICLE I

NAME

The name of the corporation shall be **STUDENTS IN THE ARTS TV/G-STAR TV, INC.** The principal place of business of this corporation shall be 2065 Prairie Road, Building J, West Palm Beach, Florida 33406.

ARTICLE II

PURPOSE

The corporation is organized and shall be operated exclusively for charitable, and/or educational purposes within the meaning of Section 501(c)(3) of the Internal Revenue Code. Such purposes shall include but shall not be limited to: providing educational opportunity to persons, regardless of race, creed, religion, or national origin, in grades 9 through 12, and to promote the educational opportunity for these students and to help them stay and graduate from high school with superior achievement. The corporation has received a Charter School Charter from the School Board of Palm Beach County, Florida and will be conducting operations as The G-STAR School of the Arts for Film, Animation and Performing Arts at the address set forth

above. The qualifying educational curriculum within the stated Charter shall be offered and that educational curriculum shall be modified or amended as may be required or mutually agreed by the School and School Board of Palm Beach County, Florida. This School has operated by Charter since the year 2002. In accordance with the Charter, students are recruited from all ethnic backgrounds, nationalities, races, genders and abilities, and all students with special needs are serviced in accordance with the requirements of the Exceptional Student Educational, ESOL, Drop-Out Prevention, Individuals with Disabilities Act, and all other programs necessary for their successful achievement and graduation. In conducting its specialized training programs, this School will include training in film, animation and performing arts, and any other technology and production methods, that may be available. This School will also undertake all other programming and program opportunities that would be consistent with the Charter purpose and provide a general education and specialized education in the arts.

ARTICLE III

POWERS

In furtherance of its business, the corporation shall have all powers required in order to meet its responsibilities under the Charter School Charter granted by the School Board of Palm Beach County, Florida, and these powers shall include, but not be limited to, all powers that are specified in Florida Statute § 617, effective as of the date of these Second Amended and Restated Articles of Incorporation, except as to those powers reserved to the Members. Certain powers as specifically enumerated in these Articles or the Bylaws of the corporation shall be reserved to the Member, or Members, and the balance of the powers shall be exercised by a Board of Directors who will serve as the directors of the corporation.

ARTICLE IV

NATURE OF CORPORATION

Provisions for the regulation of the internal affairs of the corporation, including provisions for the distribution of assets on dissolution or final liquidation, are:

(a) The corporation shall be a non-profit corporation and shall have no authority to issue capital stock.

(b) The corporation shall be a membership corporation.

(c) The affairs and business of the corporation shall be managed by a Board of Directors. Each member of the Board of Directors shall have one vote. The directors and officers of the corporation, terms of office, method of selection, respective duties, and all things pertaining thereto, are defined and established by the Bylaws of the corporation.

(d) No part of the assets of the corporation and no part of any net earnings of the corporation shall be divided among or inure to the benefit of any member, officer or director of the corporation or any private individual or be appropriated for any purposes other than the purposes of the corporation as herein set forth; and no substantial part of the activities of the corporation shall be the carrying on of propaganda, or otherwise attempting, to influence legislation except to the extent that the corporation makes expenditures for purposes of influencing legislation in conformity with the requirements of Section 501(h) of the Internal Revenue Code; and the corporation shall not participate in, or intervene in (including the publishing or distributing of statements), any political campaign on behalf of or in opposition to any candidate for public office. Notwithstanding any other provision of these Articles of Incorporation or the Bylaws of the corporation, the corporation shall not carry on any activities not permitted to be carried on (1) by a corporation exempt from federal income tax under

Section 501(c)(3) of the Internal Revenue Code, or (2) by a corporation, contributions to which are deductible under Section 170(c)(2) of the Internal Revenue Code.

(e) Except as otherwise provided by law, the corporation may at any time dissolve by the affirmative vote of two-thirds of the Board of Directors. Upon the liquidation or dissolution of the corporation, after payment of all of the liabilities of the corporation or due provision therefor, all of the assets of the corporation shall be distributed for one or more exempt purposes within the meaning of Section 501(c)(3) of the Internal Revenue Code, or shall be distributed to a federal, state or local government, for a public purpose.

(f) In the event that the corporation is a private foundation as that term is defined in Section 509 of the Internal Revenue Code, then notwithstanding any other provisions of the Articles of Incorporation or the Bylaws of the corporation, the following provisions shall apply:

(i) The corporation shall distribute the income of each taxable year at such time and in such manner as not to become subject to the tax on undistributed income imposed by Section 4942 of the Internal Revenue Code.

(ii) The corporation shall not engage in any act of self-dealing as defined in Section 4941(d) of the Internal Revenue Code; nor retain any excess business holdings as defined in Section 4943(c) of the Internal Revenue Code; nor make any investments in such manner as to incur tax liability under Section 4944 of the Internal Revenue Code; nor make any taxable expenditures as defined in Section 4945(d) of the Internal Revenue Code.

(g) Except as may otherwise be required by law, the corporation may, at any time, by the affirmative vote of two-thirds of the Board of Directors, merge or consolidate with or into any corporation in such manner that the surviving corporation is organized and operated

exclusively for charitable, educational and/or scientific purposes within the meaning of Section 501(c)(3) of the Internal Revenue Code and qualifies as an exempt organization under Section 501(c)(3) of the Internal Revenue Code.

(i) All references herein: (i) to the Internal Revenue Code shall be deemed to refer to the Internal Revenue Code of 1986, as now in force or hereafter amended; and (ii) to particular sections of the Internal Revenue Code shall be deemed to refer to similar or successor provisions hereafter adopted.

ARTICLE V

MEMBERS

The Member of the corporation is Gregory E. Hauptner, the founder and initial organizer of the corporation and of the School. In no case shall there be more than three (3) members of this corporation. All future members, if any, shall be elected by then current members. The corporation shall have at least one membership meeting per year to be set on a date agreeable to the member and/or any members subsequently appointed by the Member. Notice shall be provided to each Member at least three days in advance of the meeting, but may be waived if the Member or all Members agree to waive such notice.

ARTICLE VI

BOARD OF DIRECTORS

The Board of Directors of the corporation shall be the governing Board charged with the responsibility to determine the rules and regulations needed for the effective operation and general improvement of the Charter School. The governing board shall undertake and meet the requirements of the Charter in all respects, providing the appropriate financial disclosures and other requirements specifically specified in the Charter. The Board of Directors shall maintain

minutes of all meetings in accordance with the requirements of the Bylaws. The Board of Directors shall be elected in accordance with the Bylaws.

ARTICLE VII

TERM OF EXISTENCE

The corporation is to exist perpetually.

ARTICLE VIII

OFFICERS AND DIRECTORS

The corporation shall have at least three (3) directors, or any other number as may be required by the Charter and the officers shall be elected by the Board of Directors as provided for in the Bylaws.

ARTICLE IX

ADDRESS

The office address of the corporation shall be 2065 Prairie Road, Building J, West Palm Beach, Florida 33406.

ARTICLE X

REGISTERED AGENT

The Registered Agent shall be Gregory E. Hauptner, 2065 Prairie Road, Building J, West Palm Beach, Florida 33406.

ARTICLE XI

RESTATEMENT

The intention of the restatement of these Articles of Incorporation are that they shall supersede in their entirety the original Articles of Incorporation and all amendments thereto.

ARTICLE XII

AMENDMENT OF ARTICLES

These Articles of Incorporation may only be amended after approval by the Board of Directors.

IN WITNESS WHEREOF, the undersigned subscriber has executed these Amended Articles of Incorporation, this 21 day of August, 2014.



GREGORY E. HAUPTNER,
Incorporator, Sole Member, President



Members:
Florida Institute of CPAs
American Institute of CPAs
Government Audit Quality Center

709 W. Azelee St.
Tampa, FL 33606
office (813) 892-4274 fax (813) 253-0951
www.KingandWalker.com

August 27, 2014

Greg Hauptner, Founding Member
2065 Prairie Road, Building "J"
Palm Springs, Florida 33406

Dear Mr. Hauptner:

We have reviewed the Inspector General's report regarding the budget schedule format, the School's budget amendment process, and certain amounts included in the School's Budgetary Comparison Schedule in the annual independent audit report as of June 30, 2013. The conclusion of the report covered three areas of concern. With that in mind we will cover each of those areas separately below:

1. The report states in conclusion that the School should not adjust the budget to equal expenditures:

If the School were to follow that guideline offered by the report, the School would be in direct violation of State Board of Education Rule 6A-1.006. State Board of Education Rule 6A-1.006 Budget Amendments – specifically says "*No expenditure shall be authorized or obligations incurred which is in excess of a budgetary appropriation.*" Thus not amending the budget to at least the amount of the actual expenditures, would be a direct violation of this Rule. This Rule goes on to allow the Charter School the authority to amend its budget no later than the due date of its annual financial report. This revision was performed on the advice of King & Walker, CPAs as a matter of State Statute compliance, and not made by the Charter School's Founder, Greg Hauptner. As indicated in the Board minutes, the audit was accepted and approved which contained the budget schedule referred to in the Inspector General's conclusion. Therefore, this resulted in the School being in compliance with State Board of Education Rule 6A-1.006. Another point that can be made here is that several District School Boards throughout the State of Florida in their Annual Financial Reports also report in their Budgetary Comparison Schedule the final actual expenditure column equaling the final budget column. Districts amend their budgets in this way in order also to be in compliance with Rule 6A-1.006.

2. The report states in the conclusion that the Budgetary Comparison Schedule in the audit report is not in a format that is transparent and with enough details included:

The Governmental Accounting Standards Board (GASB) prescribes the format and requirement of the Budgetary Comparison Schedule as shown in the audit report for the School. It further requires a Budgetary Comparison Schedule for the general fund and major special revenue funds only. The School reports a capital projects fund and a debt service fund for which the School included in its internal budget, however due to the GASB reporting requirements, those funds are not required to be presented in the Budgetary Comparison Schedule in the audit. The School's internal budget format is made in more detail to provide the Board with more detailed

information during the course of the year. The GASB format is established for audit report fiscal year end presentation purposes only and is not intended as a tool for budgetary monitoring during the course of the fiscal year.

3. The report states that certain amounts were under reported in several categories/functions:

The Original Budget Column in the Budgetary Comparison Schedule was derived from the budget approved by the Board on May 3, 2013. The differences noted in the Inspector General's report indicating the Budgetary Comparison Schedule under reported those amounts is absolutely incorrect. The \$100,000 for the IB program was reported in function 6100 pupil personnel services along with the \$2,800 for professional services, and the fund raising expenditures of \$20,000 was reported in function 7300 school administration.

If after your review of the above information you have any questions please do not hesitate to let us know.

Very truly yours,

King & Walker, CPAs

Michael C. Becker & Co.

Certified Public Accountants

400 Columbia Drive
Suite 101
West Palm Beach, Florida 33409

West Palm Beach (561) 689-4093
Boca Raton (561) 391-0945
Miami (305) 266-6691
Fax (561) 697-4359

September 17, 2014

Mr. Greg Hauptner
G-Star School of the Arts
2065 Prairie Road
West Palm Beach, FL 33406

Re: Draft Report of the Inspector General

Dear Greg,

With regard to the above-referenced report and matters within the report that we have knowledge, our responses are as follows:

Form 990 Reporting

The answers to Section A, Line 6 and Line 7b, were an oversight. The same situation occurred with Section C, Line 19.

With regard to Section B policy questions, the whistleblower policy question was answered correctly.

As a result of this matter coming to our attention, we have put into place a policy of second review of all 990 questions by a second CPA.

With regard to Board approval of Form 990, we will issue a draft Form 990 for approval prior to issuing the final Form 990 for signature.

Chart of Accounts

We developed a corporate chart of accounts that reflects budget categories and provides information that is necessary to the management of G-Star to effectively track and monitor income and expenses.

This chart of accounts has been used since the inception of the school and refined over the years to add any detailed accounts that would assist management in cost analysis.

G-Star's detailed financial information is reformatted for reporting purposes in accordance with the Redbook.

On a monthly basis, there is communication between G-Star's bookkeeper and us regarding any transactions that are not routine and require clarification as to proper recording.

On February 11, 2014, we met with G-Star's bookkeeper and you at our office to discuss the chart of accounts and new account detail that would assist with budgeting and monitoring expenses.

In accordance with the Inspector General's suggestion, we have delivered to you a current copy of your complete chart of accounts.

Members, American Institute of Certified Public Accountants

Florida Institute of Certified Public Accountants

Mr. Greg Hauptner
September 17, 2014
Page Two

Independent Auditor's Report

We keep your books on the government-wide basis, thereby capitalizing assets and loans rather than expensing them as would be done on the governmental fund basis of accounting.

The audited statement of activities for the year ended June 30, 2013 shows a total change in net position of \$(326,904).

The last page of the general ledger for the year ended June 30, 2013 shows a total loss for the year of \$(335,637).

The difference between the audited financial statement and the general ledger is \$(8,733).

This amount was the result of audit adjustments.

Should you require any additional information, please do not hesitate to contact us.

Sincerely,

Michael C. Becker & Co.
Michael C. Becker & Co.

OIG COMMENTS TO G-STAR RESPONSE TO THE DRAFT REPORT

G-Star's response to the OIG draft report is attached. We note that the G-Star response contains certain misinterpretations and other incorrect assumptions regarding the OIG's findings. The entirety of the OIG's findings and conclusions are fully encompassed in our investigative report, and the absence of a point-by-point rebuttal by the OIG to the G-Star response should not be construed as agreement by OIG.

OIG comments to the G-Star response:

1. Governing Documents Not Provided Timely

OIG Comment: In its response, G-Star states "after we were notified that the documents were not uploaded for review . . . the documents were uploaded on March 30, 2014." The OIG reiterates our conclusion that G-Star did not timely provide its amended Articles and related documents to the District.

2. Powers of the Sole Member

OIG Comment: Although *Chapter 617, Fla. Stat.*, the "Florida Not For Profit Corporation Act," does not prohibit powers as those provided to the sole member, it is highly unusual to find such a corporate structure with a sole member. Many of the powers provided to the sole member are inconsistent with the powers and duties provided to the governing board members for the administration and financial management of the charter school as provided under the provisions of the *Charter School Statute, Section 1002.33, Fla. Stat.*, and the *Charter* granted by the School Board.

In its *September 2014 Amended and Restated Articles*, G-Star states that it is a "membership corporation". Membership corporations, such as nonprofit social clubs, country clubs, business associations, community associations, and professional associations, tend to be organized to provide for multiple members and for the mutual benefit of its members, not to provide for a sole member.¹³

Chapter 617, specifically *Section 617.0808 (1)(a)*, does provide that a nonprofit corporation may have one or more classes of members, stating:

A corporation may have one or more classes of members or may have no members. If the corporation has one or more classes of members, the designation of such class or classes, the qualifications and rights of the members of each class, any quorum and voting requirements for meetings and activities of the members, and notice requirements sufficient to provide notice of meetings and activities of the members must be set forth in the articles of incorporation or in the bylaws.

¹³ For example, G-Star is unlike Renaissance Charter School, LLC ("Renaissance"). Renaissance is organized as a 501(c)(3) corporation, to further the charitable purposes of its members. However, its members consist solely of organizations exempt from taxation under Section 501 (c)(3). The organization also has a managing member who is Renaissance Charter School, Inc. These provisions are consistent with Florida laws governing limited liability companies and do not empower an individual.

Although the Amended Articles and Bylaws of G-Star provide for members, the documents do not specifically identify a “class of members”, etc., so as to meet the above statutory requirements.

3. Sole Member’s Power to Terminate Board Members

OIG Comment: In its response, G-Star states “the report fails to mention that the sole member has only the specific and narrow power given in the Bylaws to remove a Board Director for cause.” The OIG strongly reiterates our concern that it is not reasonable to expect the Governing Board to maintain independent oversight of financial and administrative management of the school as expected of the *Charter* and *Section 1002.33, Florida Statutes*, when the Board’s employee retains the power to unilaterally terminate board members.

4. Board Member as Employee of the School

OIG Comment: In our draft report, the OIG incorrectly cited *Sec. 112.313(10), Fla. Stat.*, as the authority eliminating the ability of a charter school employee to be a member of the charter school’s governing board. The correct statutory provision is *Sec. 1002.33(26)(c)* which states:

An employee of the charter school, or his or her spouse, or an employee of a charter management organization, or his or her spouse, may not be a member of the governing board of the charter school.

5. G-Star is a Public School and Instrumentality of the State

OIG Comment: In its response, G-Star states that it is “a public charity, and not a state agency.” G-Star, as all Florida charter schools, is a public school and part of the state’s educational program. Florida Statutes 1002.33(1) states in part the following:

(1) Authorization. – Charter schools shall be part of the state’s program of public education. All charter schools in Florida are public schools.

G-Star mistakenly states the Federal Government views charter schools as just public charities. The Federal Government defines a charter school as a public school. *See* 20 USC 7221i. Likewise, the IRS, as a unit of the Federal Government, considers charter schools to be public schools. Specifically, the *Internal Revenue Manual*, Sec. 4.76.8.8., provides in part the following:

Charter schools are considered public schools. What is different is that charter schools generally are not operated directly by the public school district but under a separate charter, a contract with a state or local agency that provides them with public funds. The charter sets forth essential conditions for which the school will be held accountable but leaves the implementation of these terms to the charter school’s board of directors.

Because of its charter school status, G-Star has been able to secure a 501 (c)(3) designation as a public charity from the IRS. Such a designation by the IRS permits G-Star to be exempt from federal income taxation under Sec. 501(c)(3) of the Internal Revenue Code. However, to have qualified for and to keep its IRS designation as a public charity, G-Star must continually maintain certain traits. Some of these traits are:

- Be organized exclusively for “charitable, and/or educational purposes within the meaning of Section 501(c)(3) of the IRC”, as provided in its Articles of Incorporation, so as to restrict G-

Star's activities to its present charter school educational activities or other charitable activities acceptable under Section 501(c)(3).

- Receive a substantial part of its income directly or indirectly from the government or the general public. G-Star receives a substantial part of its income directly from the State through the Florida Education Finance Program.
- Governance of G-Star must be at arms-length and without private benefit (inurement) to members of the board of directors, officers, or employees.

G-Star receives a substantial part of its income directly from the Florida Education Finance Program. G-Star, as all Florida charter schools, is a public school and is part of the State of Florida's public education program.

6. Board Approval of Disbursement Reports

OIG Comment: We reiterate our conclusion regarding the Board's responsibility for fiscal oversight. We further reiterate there were no records to substantiate the Board reviewed and approved disbursement reports at least monthly as required by the Charter.

7. Check Signing Authority

OIG Comment: We reiterate our conclusions regarding written provisions requiring Board signatures on checks over a certain dollar threshold.

8. Public Reporting

OIG Comment: In its publication, *Governance and Related Topics – 501(c)(3) Organizations*, the IRS states the Internal Revenue Code does not require charities to have governance and management policies. However, the IRS reviews an organization's Form 990 return to determine whether the organization has implemented policies related to executive compensation, conflicts of interest, investments, fundraising, documenting governance decisions, document retention and destruction, and whistleblower claims. Form 990 inquires as to whether the form has been provided to the governing body and seeks an explanation as to any form review process by board members or management.

9. G-Star Charter School Foundation

OIG Comment: We reiterate our conclusion that there is no clear separation between the Foundation and G-Star with regard to the World War II Fundraising Project. Public presentation of the fundraising project is unclear as to which organization is responsible for fund collections.

The identity of the sole member's wife's title and her agency's website was to establish another example of the blurred separation between Foundation activities and the school's activities. According to the URL registration of the Foundation, the updated website was established on August 6, 2014, the day after our meeting with the sole member where this issue was addressed. Also, the registration identifies the owner organization as G-Star School of the Arts, not the Foundation. This fact is contrary to what G-Star stated in their response above, and further demonstrates our point of unclear separation between the School and the Foundation with regard to fundraising.

10. Budgeting

OIG Comment: Proper budgeting requires accurate enrollment projections to provide a reasonable estimate of operating revenue for the upcoming year. G-Star projections for both Fiscal Years 2012 and 2013 were 1,130 students, versus actual enrollment of 868 and 1080, respectively. We agree that the budget for Fiscal Year 2015 is based on a more realistic pattern of past enrollment. The corrections made to the current year budget do not negate the activities of the past.

We did not question the format of the CPA's schedule. It complies with Governmental Accounting Standards Board (GASB) guidelines and uses the function categories prescribed by the Florida Department of Education.

The issue relates to a lack of budget control throughout the year. No amendments were presented or approved by the Governing Board during the school year. Acceptance of the annual audit with a budget created to match actual expenditures does not ensure the governing board is made aware of potential overspending. When actual expenditures are compared to the original board-approved budget, then the potential overspending becomes more transparent.

Florida Statute 1002.33 (9)(h) requires the governing board of the charter school to "annually adopt and maintain an operating budget." However, the School did not produce records indicating the governing board approved any budgetary amendments.

11. Expenditure Approval

OIG Comment: Informing the Board of the benefits of the newly installed equipment is not a substitute for the Board passing a resolution approving the purchase of the items prior to the purchase being made.