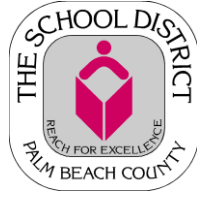


Audit of
Eagle Arts Academy Charter School
September 30, 2016

Report #2016-07



MISSION STATEMENT

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Audit of
Eagle Arts Academy Charter School
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**Audit of
Eagle Arts Academy Charter School**

EXECUTIVE SUMMARY

In response to the request of School District staff, we have performed the audit of Eagle Arts Academy Charter School (EAA) for the Fiscal Year ended June 30, 2015. The primary objectives of this audit were to determine (1) whether the school's 2014-15 Student FTE Surveys 2 and 3 were accurate, (2) the extent to which EAA properly recorded and reported the revenues and expenditures, and (3) the extent of compliance with the financial and governance requirements of the *Charter Contract*. Please see page iii for the *Chronology of Events* for this audit. This audit produced the following major conclusions:

1. Over-Reporting of Student Full Time Equivalent (FTE) Count

We reviewed the enrollment and withdrawal records in the District's TERMS System and the Attendance Records maintained by EAA for 82 sample students during FTE Survey 2 (October 2014) and Survey 3 (February 2015). We found that nine students reported in Survey 2 were not eligible for FTE funding. We estimated that the District overpaid EAA \$29,934.91 in FTE funds. Subsequently, the school located the attendance records for one of the 10 students. (*Please see page 3.*)

2. Payment of \$38,779.70 in Start-Up Costs to EAA's Founder

The Governing Board authorized the payment of \$38,779.70 in start-up costs incurred by Sound Tree Entertainment, Inc. (STE), a corporation solely owned by the EAA Founder. However, these payments were supported only by check copies and ledger sheets maintained by EAA's founder, without the original loan agreements, paid invoices, and receipts. Moreover, all payments were made to STE when the submitted documentation indicated that \$5,777.20 of the \$38,779.70 in start-up costs were incurred by another entity, EMPPAC Foundation, Inc.

Based on the documentation submitted by EAA's Founder, it appeared EAA overpaid Sound Tree Entertainment, Inc. \$3,398 which included an overstatement of one payment and costs incurred after the School had opened for operations. Moreover, start-up costs only include those incurred after the charter is approved by the School Board. (*Please see page 6.*)

3. Internal Control Weaknesses

The review of disbursement records noted the following three internal control weaknesses:

- a. Expenditures With No or Inadequate Documentation
- b. Checks Missing and Issued Out-of-Sequence
- c. Expenditures not recorded in the school's accounting system

It appeared that EAA's former management company, iSchools, kept some blank check stock in their office away from EAA's campus which caused checks to be issued out-of-sequence. Without adequate supporting documentation, there is no assurance that disbursements were appropriate. *(Please see page 10.)*

4. Related Party Transactions

a. EAA's Management Company (iSchools) and Its Vendor (The School Store, LLC) Owned by the Same Persons

iSchools was the management company for EAA during June 12, 2014, through May 18, 2015. During Fiscal Year 2015, iSchools purchased, on behalf of EAA, curriculum, furniture, and classroom and office supplies totaling \$467,164 through The School Store, Inc. However, both iSchools and The School Store, Inc., shared the same address and phone number, and were owned by the same persons. Available invoices also indicated payments to The School Store included payroll reimbursements for iSchools' employees and hotel lodging for the school's principal. *(Please see page 12.)*

b. EAA's Vice-Chairman Signed Consulting Contract, Approved Payments, and Signed Checks to His Business Partner

EAA's former Vice-Chairman signed "for the chairman" a *Consulting Contract* with Reese-Marshall Communications, LLC to provide public relations, creation of marketing materials, and crisis management. Payments totaled \$25,500 from September 29, 2014 through February 6, 2015. EAA received an email dated April 22, 2015, from the former Chairman during the time the *Consulting Contract* was issued. He wrote he had no knowledge of a contract with Reese-Marshall and he did not approve or sign any agreement with that company. The OIG concluded that the *Consulting Contract* initiated and signed by the former Vice-Chairman with his business partner represented a potential conflicting contractual relationship, prohibited by *Florida Statute 112.313(3)*. The EAA Governing Board subsequently investigated the contract and removed the former Vice-Chairman from the Board. *(Please see page 13.)*

5. Lease Agreement

EAA executed a 25 year lease agreement, with annual payments based on a minimum imputed number of student enrollment. The lease states the second year's (FY 2016) lease payment calculation is based on 850 students, regardless of the actual enrollment. While EAA's enrollment has increased, the actual student enrollment in October 2015 was 681, which was 169 students below the 850 students required in the lease agreement. The \$177,450 annual rental payments for the additional 169 unfunded students would have a significant financial burden on the school. *(Please see page 16.)*

Overall Comments from School District’s Chief Financial Officer (CFO) and Director of Charter Schools

EAA’s Board of Directors is (1) solely responsible for the operations of the School and should exercise continuing oversight over the School’s operations, and (2) responsible for developing and adopting the annual fiscal solvency and accountability, receipt and expenditure of funds, business management services, audit services and purchasing decisions, (3) responsible for monitoring and ensuring the proper fiscal management of the organization in order to ensure a sustainable foundation, and (4) ultimately responsible for the financial management and oversight of the school. EAA Governing Board’s lack of oversight is directly and ultimately responsible for all of the issues raised in the five audit findings.

(Please see page 18.)

Superintendent’s Letter of Notification of Non-Compliance to the EAA’s Governing Board Chair, Principal, and Legal Counsel

On September 7, 2016, Superintendent Avossa sent a *Letter of Notification of Non-Compliance with Charter School Contract and Statute* to EAA’s governing board chair, principal, and legal counsel.

The *Letter of Notification* indicated EAA’s lack of Governing Board’s oversight and governance in the following six areas:

1. Governance
2. Reimbursement of Start Up Costs to STE and EMPPAC
3. Missing Financial Documentation
4. Inadequate Information on the EAA Website
5. Lease Agreement
6. Related Party Transactions

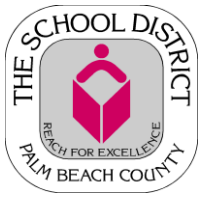
The *Letter of Notification* also requests EAA to cure the contractual or statutory deficiencies within 30 days following the date of the Letter.

(Please see pages 21 through 33.)

EAA’s Management’s Response is on pages 34 through 70.

Chronology of Events

Date	Event
July 2015	District staff (Chief Academic Officer) requested an audit of Eagle Arts Academy Charter School.
October 30, 2015	<p>A Management Advisory Memo was issued to District staff for immediate action regarding over-reported October 2014 FTE by Eagle Arts.</p> <p>The Memo was sent to Former Chief Operating Officer, with copy to Superintendent, Deputy Superintendent, Assistant Superintendent, Director of Charter Schools, and Director of FTE & Student Reporting.</p>
November 2015	Finance and Charter Schools Departments requested OIG to expand the audit to include February 2015 FTE reported by Eagle Arts.
February 2016	Fieldwork substantially completed.
Mid-April 2016	Auditor completed the 1 st draft report, pending additional clarification from Eagle Arts.
June 1, 2016	Draft report was sent to Eagle Arts for management response.
July 7, 2016	Received the management response from Eagle Arts.
July 7 - 20, 2016	Reviewed additional documentation and management response provided by Eagle Arts. Clarified preliminary audit findings based on response and clarification from Eagle Arts.
July 21, 2016	Draft report, with Eagle Arts response, was sent to Chief Financial Officer and Director of Charter Schools for comments, with copy to Deputy Superintendent.
July 27, 2016	Accounting, Budget, and Charter Schools Departments requested input from Legal Department on actions that the District must undertake to address the audit findings.
August 18, 2016	OIG attended the meeting with Accounting, Budget, Charter Schools and Legal Departments to discuss District actions to address the audit findings.
September 2, 2016	Received the comments from District's Chief Financial Officer and Director of Charter Schools Department.
September 7, 2016	Superintendent's <i>Letter of Notification of Non-Compliance With Charter School Contract and Statute</i> to Eagle Arts Academy's Board Chair, Principal, and Legal Counsel.
September 30, 2016	Final draft report, with management responses, presented to the Audit Committee at its September 30, 2016, meeting.



THE SCHOOL DISTRICT OF
PALM BEACH COUNTY, FLORIDA

OFFICE OF INSPECTOR GENERAL
3318 FOREST HILL BLVD., C-306
WEST PALM BEACH, FL 33406

(561) 434-7335 FAX: (561) 434-8652
www.palmbeachschools.org

LUNG CHIU, CIG, CPA
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MEMORANDUM

TO: Honorable Chair and Members of the School Board
Robert M. Avossa, Ed.D., Superintendent of Schools
Chair and Members of the Audit Committee

FROM: Lung Chiu, CPA, Inspector General

DATE: September 30, 2016

SUBJECT: Audit of Eagle Arts Academy Charter School

PURPOSE AND AUTHORITY

In response to the request of School District staff, we have performed the audit of Eagle Arts Academy Charter School (EAA). The primary objectives of this audit were to determine (1) whether the school's 2014-15 Student FTE Surveys 2 and 3 were accurate, (2) the extent to which EAA properly recorded and reported the revenues and expenditures, and (3) the extent of compliance with the financial and governance requirements of the *Charter Contract*.

SCOPE AND METHODOLOGY

This audit was conducted in accordance with *Generally Accepted Government Auditing Standards*. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

This audit covered the fiscal year ended June 30, 2015. To accomplish the audit objectives, we performed the following procedures:

- Reviewed applicable sections of *Florida Statutes*, *School Board Policies* and the *Charter Contract*.
- Reviewed EAA *Accounting Procedures and Policy Manual*.
- Evaluated the internal controls and extent of compliance with the established procedures.
- Reviewed contracts and agreements executed by the EAA.
- Reviewed Fiscal Year 2015 Full-time Equivalent (FTE) reporting.

Draft findings were sent to the EAA's Governing Board and District staff for review and comments. We appreciate the courtesy and cooperation extended to us by EAA and District staff during the audit. The final draft report was presented to the Audit Committee at its September 30, 2016, meeting.

BACKGROUND

School Opened One Year Early

On October 2, 2013, the School Board approved the EAA's charter school application with an anticipated opening date of August 2015. The target opening date would allow EAA more time to search for a location in the western Delray Beach area and develop the proposed Artademics curriculum. In June 2014, EAA leased a former private school facility in Wellington and opened school in August 2014.

On July 30, 2014, the School Board approved a new, five-year Charter Contract (Charter) with EAA effective July 1, 2014, through June 30, 2019.

Contracted Educational Service Provider

To facilitate opening the school with a shortened preparation time, the School contracted with an educational services provider, iSchools, LLC (iSchools) on June 12, 2014. The *Management Agreement* indicated iSchools would be responsible for management, operation, accounting and the educational program of the school. Base compensation was set at 14% of revenues, payable in equal monthly installments.

On May 18, 2015, iSchools emailed the District that it would terminate its contract with EAA effective May 12, 2015. EAA's Business Manager, who was hired in May 2015, expressed concern to the District that iSchools' staff spent several days shredding documents prior to exiting the campus. EAA staff were left locked out of the accounting office without a key. When EAA staff were finally able to enter the office, they determined that some business documents were missing.

The June 30, 2015, EAA Governing Board minutes indicated that EAA's management was attempting to rebuild an entire year's accounts receivable and payable records. The Board voted to place iSchools in material default of the *Management Agreement*.

CONCLUSIONS

The audit produced the following major findings:

1. Over-Reporting of Student Full Time Equivalent (FTE) Count

FTE Count and FEFP Funding

As required by Florida Department of Education (FDOE), the number of students counted (actual student enrollment and attendance) during the specific FTE survey periods provides the basis for the school to receive the amount of Florida Education Finance Program (FEFP) funding. To qualify for FEFP funding, a student must attend the school at least one day during the survey period or the six school days prior to the survey period, and be enrolled at the school at least one day of the survey period.

Audit Samples

We reviewed the records for student enrollment dates, withdrawal dates, and withdrawal codes in the District's student information system (TERMS) for students who were included in the October 2014 (Survey 2) FTE Report but not in the February 2015 (Survey 3) FTE Report, and vice versa. A total of 82 sample students were selected for detailed examination:

- (1) 22 students (seven for Survey 2 and 15 for Survey 3) with questionable enrollment or withdrawal dates based on our review.
- (2) 60 students (30 students each from Surveys 2 and 3) selected randomly.

Nine Students Not Eligible For FEFP Funding

The review of enrollment and withdrawal records in the District's TERMS System, and the Attendance Records maintained by EAA for the 82 sample students (37 students for Survey 2; and 45 students for Survey 3) found that nine of the Survey 2 sample students were not eligible for FEFP funding (see Table 1):

- Seven students with questionable enrollment or withdrawal dates were ineligible for FEFP funding because their attendance record indicated that they did not attend the school during the survey period or the six school days prior to the survey period.
- Two (7%) of the 30 randomly sampled students from Survey 2 were withdrawn from the school in the TERMS system after the survey period. However, the attendance records maintained by the teachers indicated that these three students withdrew from the school prior to the survey period.

Table 1
Sampling Results of FTE Testing

	Number of Student	
	Survey 2 (October 2014)	Survey 3 (February 2015)
Total Number of Students Enrolled	647	584
<i>Audit Samples</i>		
Students with questionable enrollment or withdrawal dates	7	15
Random Samples	30	30
Total Number of Audit Samples	37	45
<i>Number of Students Ineligible for FEFP Funding</i>	9	-

District Overpaid EAA An Estimated \$29,934.91 in FEFP Funding Due to EAA’s Over-Reporting of Enrollment

According to the District’s Department of FTE & Student Reporting, these nine ineligible students were included as part of the FTE reported to FDOE in Survey 2 (October 2014) for FEFP funding. These nine students were enrolled and counted in the following programs (see Table 2).

Table 2
Ineligible Students by Program (Survey 2)

Program #	Program	No. of Students
101/102	Basic K-3 / Basic 4-8	8
111/112	Basic K-3 / Basic 4-8 with ESE services	1

Based on the programs these nine students were enrolled, the over-reporting resulted in an estimated overpayment of \$29,934.91 in FTE funding to the EAA during Fiscal Year 2015.

Recommendation

On October 30, 2015, OIG advised District management of the over-reporting and recommended recouping the estimated \$29,934.91 of the FEFP overpayment from the school. **Section IV(A)(1)(c)** of the **Charter Contract** with EAA states, “*If the School submits data relevant to FTE funding that is later determined through audit procedures to be inaccurate, the School shall be responsible for any reimbursement to the Sponsor for any errors, omissions, misrepresentations, or inaccurate projections.*” As an alternative, the District should consider making an adjustment to the school’s future FEFP funding. Subsequent to our October 30, 2015, Management Advisory, because of the high error rate of the original sample, it was determined we would test an additional 30 students selected randomly from Survey 2. This additional testing identified no additional errors.

Management's Response from Eagle Arts Academy:

We do not concur with 1 of the 10 ineligible students sampled from Survey 2 (October 2014). We were able to locate the teacher's roster, which shows the student was present during the FTE window. Please see Exhibit A. There were two other students who were enrolled and should have been eligible for FTE funding. For those two students, we were unable to locate all the supporting documentation that had been misplaced by the previous school data processor or possibly shredded by the previous management company (iSchools LLC). To rectify this, our Governing Board took action and terminated our relationship with the previous management company, re-trained our teachers on daily student attendance procedures, hired a new school data processor and new Principal. We are committed to training and retraining our staff to fully comply with the Florida State Statutes, as well as the attendance policies and procedures set forth by the School District of Palm Beach County, which govern student attendance reporting and record retention.

We Concur with the remaining 7 of the 10 ineligible students sampled from Survey 2 (October 2014). The Governing Board took immediate action to correct this serious deficiency in our FTE process. We terminated our management company (iSchools LLC) for numerous mismanagement practices including unauthorized shredding of documents, which violates Florida record retention rules. We hired a new data processor, school principal, and new back office services provider. We since have retrained our teachers and support staff on the proper FTE reporting procedures and record retention practices. We will retrain and reinforce the attendance procedures during our upcoming August 2016 in-service staff meeting.

It is important to note that an additional 30 students were sampled by the IG and no other students were found to be ineligible. It is also important to note that the PBCSD Charter School Office withheld transportation funds in the amount of \$28,783.68 due to Eagle Arts Academy (EAA) until the IG investigation of this finding was completed. As of today, these funds have not been released to EAA (see Exhibit B-email dated 2/16/16).

(Please see page 35 for EAA's full response.)

OIG Comment: Our initial review identified 10 students who were not eligible for FEFP funding. Subsequently, the school located the attendance records for one of the 10 students. The District's directive regarding withdrawals during FTE week does allow the inclusion of a student in the FTE count if the student is in attendance during any day of FTE week. The roster provided by EAA (Exhibit A) does show the student was in attendance on Monday, October 13, 2014. Based on subsequent information provided by EAA, the OIG revised its finding from 10 students to nine, and reduced the estimated overpayment to \$29,934.91.

Comments from District Staff:

- a) *OIG met with the Departments of Budget and Charter Schools on 11/19/15 about the discovery of Over-Reporting of FTE by EAA totaling \$29,934.91. Immediate action was taken by district staff in December 2015 to withhold FTE while staff further investigated the School's over-reporting of FTE.*
- b) *The FTE report was further analyzed by Budget and OIG and it was determined that there were no other over-reported FTE.*
- c) *Further action was taken to recover the ineligible allocation from EAA in an adjustment to FTE payment for FY 16.*
- d) *This over-reporting of FTE must be addressed by the EAA Governing Board members since they, not the District, are solely responsible for the operation of the School and exercise continuing oversight over the School's operations. (Charter Agreement, Section VIII: **Governance, B. Governing Board Responsibilities** [pursuant to statute] 3. **School Operations**, dated August 5, 2014). Furthermore, under the Charter Agreement, Section VIII, B.6. **School Fiscal Agent**: "the governing board shall be the fiscal agent for the school and shall be involved from the inception in administrative functions..." In addition, in the Application, specifically Section 9: **Governance C. Governing Board**, there is a non-exclusive list of governing board responsibilities. The list includes developing and adopting the annual budget, ensuring fiscal solvency and accountability, receipt and expenditure of funds, business management services, audit services and purchasing decisions. In addition, in the application, specifically, under Section 18: **Financial Management and Oversight, A. Financial Manager** – "the financial management and oversight of the school will ultimately be the responsibility of the Board of Directors. The Board will regularly monitor and ensure the proper fiscal management of the organization in order to ensure a sustainable foundation."*

(Please see page 18 for District staff's comments.)

2. Payment of \$38,779.70 in Start-Up Costs to EAA's Founder

On May 4, 2015, EAA's Governing Board approved a motion to add the payment of \$38,779.70 in start-up costs incurred by Sound Tree Entertainment (STE) to the budget, but the minutes of the meeting do not reflect to which year's budget the payment should be added; FY 2015 or 2016. STE is a Florida for-profit corporation solely owned by EAA's Founder. Four equal payments of \$9,694.93 were paid to STE based on check copies and ledger sheets submitted by EAA's Founder. The submitted documentation, however, was insufficient because it lacked documented justification such as, original loan agreements, paid invoices and receipts.

Although all payments were made to STE, the submitted documentation showed that \$33,002.55 of costs were incurred by STE. The remaining \$5,777.20 of the declared start-up costs were paid by EMPPAC Foundation, Inc., a Florida not-for-profit corporation created by EAA's Founder in June 2013. (See Table 3.)

Table 3
Start-Up Costs Submitted by EAA's Founder

Date	Vendor	For	Paid by	Amount
1/26/2011	K. Summers	Loan to write charter application ^(a)	STE	\$10,000.00
6/27/2011	N. Flinn	Repayment of loan for charter application	STE	1,000.00
6/11/2012	N. Romero	Writing charter application	STE	4,000.00
6/21/2012	L. Knowles	Writing charter application	STE	2,500.00
7/5/2012	N. Romero	Writing charter application	STE	3,000.00
8/9/2012	T. Marshall	Proof reading charter application	STE	1,500.00
8/9/2012	N. Flinn	Repayment of loan for charter application	STE	1,000.00
8/9/2012	N. Romero	Writing charter application	STE	3,000.00
8/9/2012	Charter Schools Corporation	Charter application review	STE	552.50
8/16/2012	Shutts & Bowen	Legal retainer for charter	STE	3,000.00
10/12/2012	N. Flinn	Repayment of loan for charter application	STE	2,500.00 ^(b)
10/12/2012	Baritz & Colman	Legal fee – research for charter application	STE	750.00
1/3/2013	Baritz & Colman	Legal fee – research for charter application	STE	200.00
12/7/2013	Baritz & Colman	Legal fee – research for charter application	EMPPAC	718.75
12/23/2013	Charter Schools Corporation	Charter application rewrite	EMPPAC	2,000.00
12/23/2013	L. Knowles	Florida Educational Technology Conference reimbursement	EMPPAC	280.00
2/24/2014	Charter Schools Corporation	Charter application rewrite	EMPPAC	1,380.45
8/18/2014	PK Graphics	Backdrop for Kids World Event	EMPPAC	550.00 ^(c)
8/19/2014	PK Graphics	Stands & signs for Kids World Event	EMPPAC	424.00 ^(c)
8/20/2014	PK Graphics	Flyers for Kids World Event	EMPPAC	424.00 ^(c)
Total		STE = \$33,002.55 EMPPAC = \$5,777.20		\$38,779.70

Notes to Table 3: Start-up Costs Submitted by EAA Founder

- (a) There was no evidence for the original \$10,000 loan (e.g. loan agreement). Ledger sheets submitted to and approved by the Governing Board indicated repayments to K. Summers totaled \$6,200 as of March 4, 2015. Start-up cost repayment of \$10,000 included an advance payment of \$3,800 to the Founder to complete the loan payments.
- (b) Copy of check indicated payment of \$500. Repayment was overstated by \$2,000.
- (c) Purchases by Foundation noted in Governing Board minutes occurred on August 20, 2014. EAA had already began operations. Consequently, these were not start-up costs related to the application.

Based on the documentation submitted by EAA's Founder, it appeared that STE was over-reimbursed by \$3,398, which included a \$2,000 overstatement incurred by STE and \$1,398 of ineligible costs which were incurred by EMPPAC after EAA opened. It is also unclear as to why STE was reimbursed for \$5,777.20 in expenses incurred by EMPPAC Foundation, Inc.

Recommendation

To ensure proper fiscal accountability, EAA should ensure that purchases are adequately documented and supported by itemized invoices and receipts. Without adequate supporting documentation, there is no assurance that the expenses were appropriate. EAA should recoup the overpayment of \$3,398 from STE.

Management's Response from Eagle Arts Academy:

- a) We do not concur with this finding [referred to audit finding note (a) on page 7]. Before the charter application was approved by the School Board of Palm Beach County, a Founding Board existed before the EAA Governing Board was created. The "Background" section of this memorandum states that EAA also opened one year early. The charter agreement was accepted by the School Board of Palm Beach County only 20 days before the school opened. In order to accomplish this task, the Founding Board needed to incur legitimate startup costs listed in Table 3 on page 6. EAA Founder used personal funds to pay for these necessary startup costs with the expectation of being reimbursed once the school had opened. Since the school was not open, there was no money to pay for these necessary startup costs. It is important to note that the typical startup costs listed within Table 3 are normally paid by awarded Federal Charter School Program funds (CSP). Due to the short timeline to open the school, there was insufficient time to apply for these Federal funds; this left an immediate funding gap that needed to be filled quickly.*

The Founding Board had numerous discussions regarding the startup money. The EAA Founder understood the risks he was taking because if the EAA charter was never approved, he would have been fully responsible for the debt and loans being paid back. Because there was no official Board secretary to record the meeting minutes. Founding Board affidavits are provided Affidavit's A, B and C from three of the members to validate that discussions took place that in fact discussed this arrangement as a loan and not a gift. Further supporting documentation of the startup costs appear on Schedule L of the Balance Sheet and the EAA tax returns for 2011 for \$17,500, 2012 for \$33,003, and 2013 for \$37,482. In addition, as you will see from the Exhibit C, the repayment of the \$10K loan to Katie Summers is indicated in full for \$10K and not the \$6200 that the IG is referencing.

- b) We do not concur [referred to audit finding note (c) on page 7] with the implication that these costs occurred after the school had opened. All these urgent costs were encumbered prior to the dates listed in Table 3 and were startup related costs. These were all marketing materials and brochures that were needed to promote the opening of the school. Exhibit D. As you will see in the attachment, these services were ordered prior to the first day of school.*

OIG Comment: School opened on August 18, 2014. The invoices for reusable marketing materials presented to the Governing Board for reimbursement were dated August 18, 2014, or thereafter. They were prepared for charter application, therefore, not start-up cost of the charter school. Start-up costs only include those incurred after the charter was approved by the School Board.

- c) We concur [referred to audit finding note (b) on page 7] with the clerical error overpayment of \$2,000. Sound Tree has been contacted and will repay EAA in early FY17, and will forward proof of payment to IG office upon completion.

(Please see page 37 for EAA's full response.)

Comments from District Staff:

- a) Table 3 of OIG Audit itemizes Start-Up Costs that total \$38,779.70 that were paid by the Governing Board of EAA to two companies owned by Gregory Blount, Sound Tree Entertainment (STE) and the EMPPAC Foundation. Many of the costs that were reimbursed were for charges connected to preparing the application and not the start-up of the charter school.
- b) The Department of Charter Schools reviewed the Charter Agreement and EAA's Application, approved by the School Board on October 2, 2013, which is incorporated by reference in the Charter Agreement. Per the Application, Section 17: **Budget, B: Start-Up Budget**, such costs do not include the alleged start-up costs reimbursed to Mr. Blount through STE and EMPPAC. It references spending monies "between now and the time FTE funds will begin" and that "the income for the **start-up year** is coming from a loan." They anticipated getting a loan from an organization that supports the development of charter schools, it would be a six-year loan, at a 6% interest rate, with interest only payments for the first two years.
- c) Therefore, the allowable Start-Up costs are only those costs incurred **after** the EAA application was approved by the School Board on October 2, 2013. Prior to that approval, EAA was an **applicant** and not an approved **charter school**.
- d) Allowable reimbursements are limited to the following: the \$280 to Liz Knowles for attendance of the Florida Educational Technology Conference conducted in November 2013, and the last three payments to EMPPAC in August 2014 totaling \$1,398 for expenditures to P K Graphics. Total of allowable Start-Up Costs are \$1678.
- e) EAA must demand reimbursement of all unallowable Start-Up Costs from STE in the amount of \$33,002.50 and from EMPPAC in the amount of \$4,099.20 for a total reimbursement of \$37,101.70. Furthermore, any interest payments made to Mr. Blount must also be reimbursed to the School, and this reimbursement must be completed by the end of this fiscal year, FY 17.

(Please see page 19 for District staff's comments.)

3. Internal Control Weaknesses

During our review of disbursements, we noted the following significant internal control weaknesses.

a. Expenditures With No or Inadequate Documentation

During Fiscal Year 2015, the school’s operating account’s bank statements included a total of \$2,552,970 in 767 disbursements: \$2,453,559 in 628 check disbursements and \$99,411 in 139 debit card payment transactions. However, our review revealed that (1) 258 disbursement and debit card transactions, totaling \$1,132,768, did not have any supporting documentation; and (2) another 15 transactions, totaling \$27,030, had inadequate or no documentation for the business purposes of the expenditures. (See Table 4.)

Table 4
Expenditures with No or Inadequate Documentation

	Total		No Supporting Documentation		Inadequate Documentation	
	Count	\$	Count	\$	Count	\$
Checks	628	\$2,453,559	130	\$1,090,598	4	\$22,406
Debit Card	139	\$99,411	128	\$42,170	11	\$4,624
Total	767	\$2,552,970	258	\$1,132,768	15	\$27,030

b. Checks Missing and Issued Out-of-Sequence

Of the 628 checks issued from the operating account during Fiscal Year 2015:

- Thirty-one (31) checks could not be accounted for and were missing from the school’s records. The review of the account’s bank statements indicated that these checks had not been presented to the bank for payment and were never issued or recorded in the general ledger.
- Eighty-six (86) checks were issued out of order in number and date.

c. Expenditures Not Recorded in the School’s Accounting System

Documentation for seven (7) check disbursements, totaling \$4,664, were not recorded in the school’s general ledger. Although the accounting files contained sufficient documentation to indicate the purpose of these payments, only two (2) check disbursements totaling \$330 were recorded on the bank statements as cleared and paid as of June 30, 2015. The remaining five (5) check disbursements, totaling \$4,334, did not appear as paid by the bank. It is unclear from the available documentation if checks for those five payments were ever issued.

EAA's *Accounting Procedure and Policy Manual (Manual)* does not specifically address the maintenance of blank checks. However, Section 7.2.2 does state that "*proper internal control will be followed to ensure that only valid and authorized payables are recorded and paid.*" The *Manual* further states that "*approved invoices and check request will be entered into the accounting system...*" and "*the attached backup will be returned to the administration office for filing.*"

EAA's Business Manager acknowledged that numerous documents were missing from the school's files. Her understanding was that the former management company stated the documents were kept in their Miami office. It appears that some blank checks were kept at the management company's offices away from the school which caused checks to be issued out-of-sequence. The school subsequently closed the operating bank account and opened a new operating account so that staff can put controls in place over unused or missing checks.

Recommendation

To ensure proper fiscal accountability, EAA should update its *Manual* for documentation of disbursements and retention of records. To ensure that purchases are appropriate, disbursements and debit card purchases should be adequately supported by itemized invoices and receipts.

Management's Response from Eagle Arts Academy:

We concur, and on May 12, 2015 the EAA Governing Board took swift action and initiated termination of the managements company (iSchools LLC) who was hired to oversee all financial transactions, inform the Board, and provide financial compliance and transparency to all Stakeholders. Next, the Board hired an in-house CPA and school business manager to take control of the existing financial situation. We have new procedures in place to ensure proper procedures are in place, i.e. checks and balances, separation of duties, and supporting documentation. The Board also hired a new back office service provider in Fy17 with a highly transparent financial reporting system.

No words can express the deep disappointment we have in selecting a management company who presented themselves as an experienced full service CMO to include back office financial services for charter schools. The secrecy and deception that surrounded the actions of this management company can be found on page 8 under "Additional Issues." The EAA Board is under pending litigation with iSchools LLC.

(Please see page 38 for EAA's full response)

Comments from District Staff:

- a) *Table 4 of the OIG Audit itemizes Expenditures with No or Inadequate Documentation regarding 130 checks that total \$1,090,598 and 128 debit card transactions that total \$42,170. The total combined expenditures without documentation was \$1,132,768 out of the School's \$2,552,970 disbursements.*

b) *Per the provisions in the current Charter Agreement, the Governing Board of EAA is ultimately responsible for the fiscal oversight. As to the missing financial records, numerous provisions exist in the Charter Agreement requiring the charter school, through its Governing Board, to maintain financial records and comply with public records provisions. In addition, under Section IX: **Education Service Provider**, in Sub-section A, 1, h, a default or breach of the contract by the management company, constitutes a default or breach by the Charter School. Therefore, EAA's Governing Board is to be held accountable for this egregious lack of oversight and missing financial records.*

(Please see page 19 for District staff's comments.)

ADDITIONAL ISSUES

During our review of transactions, we became aware of the following issues:

4. Related Party Transactions

a. EAA's Management Company (iSchools) and Its Vendor (The School Store, LLC) Owned by the Same Persons

iSchools, LLC was the management company for EAA during June 12, 2014, through May 18, 2015. The *Management Agreement* provided that iSchools would be solely responsible for approving all expenditures of EAA within the budget and would issue all checks¹. It also required iSchools to disclose to EAA and the District, “*any affiliations it has with individuals or entities (e.g. lessors, vendors, consultants, etc.) doing business with the Charter School.*”²

During Fiscal Year 2015, iSchools purchased, on behalf of EAA, classroom and office supplies, curriculum, and furniture totaling \$467,164 through the vendor, The School Store, Inc. Our review of the corporate registration records³ revealed that iSchools and The School Store, Inc. shared the same address, phone number, and owned by the same persons (See Figure 1). Available invoices also indicated payments to The School Store included payroll reimbursements for iSchools employees and hotel lodging for the school's principal.

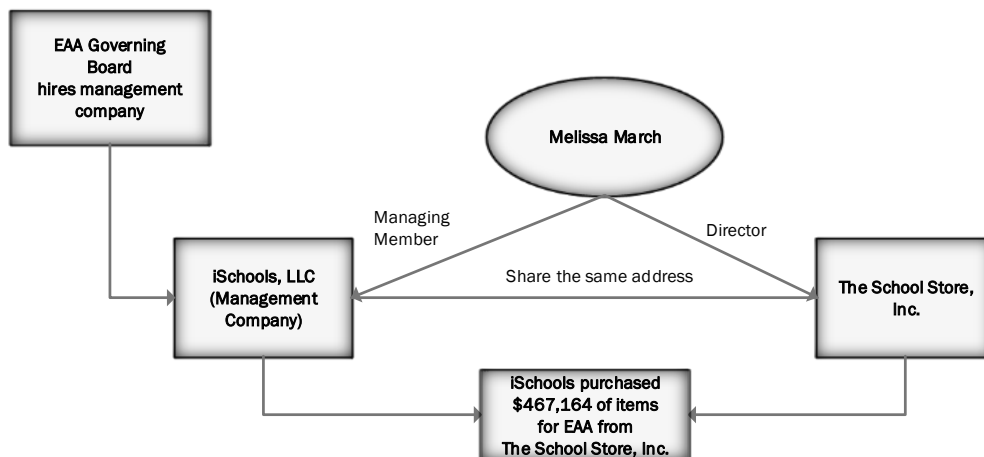
There was no evidence that the relationship between iSchools and The School Store was ever disclosed to the EAA Governing Board as required by the *Management Agreement*. On June 30, 2015, the Governing Board voted to place iSchools in material default of the *Management Agreement*.

¹ *Management Agreement, Article V.B.4*

² *Management Agreement, Article III.E*

³ Based on corporate registration records filed with Florida Secretary of State, Division of Corporations.

Figure 1



b. EAA’s Vice-Chairman Signed Consulting Contract, Approved Payments, and Signed Checks to His Business Partner

On September 29, 2014, EAA’s former Vice-Chair, C. Ron Allen, signed “for the chairman” a *Consulting Contract* with Reese-Marshall Communications, LLC (Reese-Marshall), to provide public relations, creation of marketing materials, and crisis management services to EAA. Compensation was paid at a rate of \$6,000 per month plus an additional \$800 for travel expenses and medical benefits.

The owner of Reese-Marshall and the EAA’s former Vice-Chairman are business partners in CRA Media Group (see Figure 2). From September 29, 2014, through February 6, 2015, Reese-Marshall received five payments totaling \$25,500 for services performed. Four of the five payment requests were approved by the EAA’s former Vice-Chairman. Checks were issued by the management company and co-signed by the EAA’s former Vice-Chairman.

EAA received an email dated April 22, 2015, from EAA’s former Chairman during the time the *Consulting Contract* was issued. He wrote he had no knowledge of a contract with Reese-Marshall and he did not approve or sign any agreement with that company.

Our review of the Board minutes revealed the following:

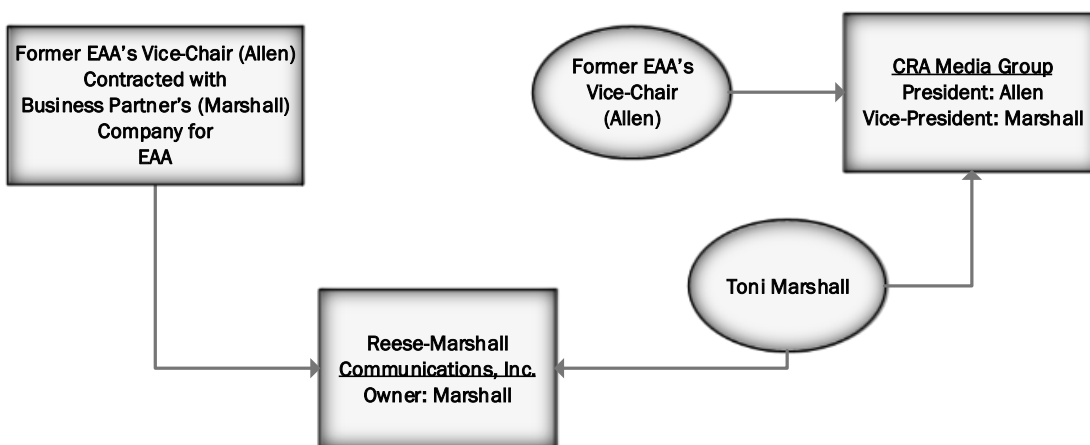
- Minutes did not reflect any indication that the Board approved the *Consulting Contract*.
- There was no evidence that the affiliation between the EAA’s former Vice-Chairman and the owner of Reese-Marshall Communications was ever disclosed to the Governing Board.
- On November 12, 2014, the Board passed a resolution to have the contract between EAA and Reese-Marshall Communications be vetted by an attorney.
- On December 22, 2014, the Governing Board approved a resolution to request the attorney’s findings in writing within two weeks. The Board also passed a motion

to remove Vice-Chair if the contract found to be illegal or the Vice-Chair's actions are found to be unethical.

- On February 4, 2015, EAA's Governing Board approved a motion to terminate the Consulting Contract effective January 31st. The Board also approved the removal of the Vice-Chairman from the Board.

The OIG concluded that the *Consulting Contract* initiated and signed by the former Vice-Chairman with his business partner represented a potential conflicting contractual relationship, prohibited by *Florida Statute 112.313(3)*.

Figure 2



Management's Response from Eagle Arts Academy:

iSchools LLC did not disclose the fact that their same Board members served as Board members for multiple vendor companies that did business directly with EAA. iSchools LLC did not disclose to the EAA Governing Board that common ownership between iSchools and The School Store. In addition, the landlord directly provided EAA with \$400K to assist in the FFE start up costs. This money was directly transferred from ESJ Capital to EAA; however, iSchools purchased desks, chairs and curriculum through the sister company. Because of this, EAA did not receive the continued beneficial curriculum support that typically comes with a curriculum purchase and the free curriculum materials for the additional five (5) years, as we did NOT technically purchase the curriculum. Because of this, EAA learned it was not to receive the continued materials. The School Store purchased and did not pass along these substantial benefits to the school.

The IG report indicates that iSchools resigned as EAA business manager, but the truth is that the EAA Governing Board required iSchools voluntary resignation or it would have removed the management company. A board meeting was held on May 12th, 2015 (Exhibit E), however since the management company was responsible for taking Board Meeting Minutes, these minutes were never provided to EAA. The legal counsel for iSchools provided a letter dated May 12, 2015. (Exhibit F).

Additional Undisclosed Related Party Issues

In February 2015, we discovered the CFO for the landlord ESJ Capital, Fabio D'Ascola was also a secret partner in iSchools, which was never disclosed to the Governing Board of EAA and a serious conflict of interest.

This is important as EAA was told by Fabio D'Ascola and Patricia Aguilar that we could NOT self manage our own school and the landlord required us to hire a management company in May 2014. Both Fabio D'Ascola and Patricia Aguilar strongly recommended iSchools and told EAA's Founding Board that they would be approved by the landlord. Fabio D'Ascola did not convey his conflict of interest.

In the lease agreement, we could not terminate the management company without the permission of the landlord. However in Oct. 2014, EAA attempted to terminate the management company iSchools and met with the CFO of ESJ Capital, Fabio D'Ascola and Patricia Aguilar to advise them. The request was rejected.

On May 19th, 2015, ESJ Capital terminated Fabio D'Ascola as their CFO after finding out he was also an owner in iSchools.

We have Exhibit G the Sunbiz report showing Fabio D'Ascola ownership in iSchools as well as a letter from ESJ indicating Fabio's termination (Exhibit H).

(Please see page 39 for EAA's full response)

Comments from District Staff:

- a) *EAA's former management company, iSchools, LLC, and The School Store, LLC are owned and operated by the same parties. iSchools purchased from The School Store school supplies, equipment, and curriculum materials totaling \$467,164.*
- b) *EAA's former Vice-Chair signed and approved the payments of \$6,000 per month and an additional \$800 of travel expenses totaling \$25,500 to Reese-Marshall Communications, LLC. The former Vice-Chair and the owner of Reese-Marshall Communications were business partners at the time of the transactions.*
- c) *Per the Charter Agreement, specifically Section VIII: **Governance**, Sub-section B **Governing Board Responsibilities**, Paragraph 3 **School Operations**, the Governing Board **shall** be solely responsible for the operation of the school and exercise continuing oversight and is the School's **Fiscal Agent** under Paragraph 6. Therefore, EAA's Governing Board lack of oversight failed to prevent these related party transactions.*

(Please see page 20 for District staff's comments.)

5. Lease Agreement

On June 30, 2014, EAA executed a 25-year lease agreement with Charter PB Wellington 2, LLC (Landlord) effective August 18, 2014. Annual rent is calculated based on a per student rate described below and payable in 12 monthly installments.

The terms of the lease describe the Base Rent as based on a “Rent Per Student Per Year Charge” with imputed minimum number of student plus additional charges per the amount of students enrolled in excess of the imputed minimum amount of students. Commencing in Year 2, the “Rent Per Student Per Year Charge” increased each year by multiplying the prior year charge by the Consumer Price Index (CPI). The rent charge can never decrease, even if the CPI goes down in a future year.

The minimum number of student requirement for base payment calculation will increase in Year 2 from 550 to 850 students and Year 3 to 1,045 students; thereafter the lease charge will remain stable. (See Table 5.) Student enrollment could fluctuate throughout the school year. However, it is unclear in the lease agreement at what point in time student enrollment is measured for the purposes of lease payment calculation. The District’s official enrollment counts based on Survey 2 of the Full Time Equivalent (FTE) report indicated that EAA had 647 FTE students in October 2014, and 681 in October 2015. While EAA’s enrollment has increased, the actual student enrollment in October 2015 was 681, which was 169 students below the 850 students required in the lease agreement. As a result, during Fiscal Year 2016, the school paid an estimated additional rent of at least \$177,450 ($\$1,050 \times 169$) for 169 unfunded students that EAA did not have. This \$177,450 in additional rent payment would have a significant financial burden on the school.

Table 5
Rent Table per Lease Agreement

	Base Rent Per Student Per Year Charge	Charge Per Excess Students Above Imputed	Minimum Imputed Number of Students	Actual Student Count (Oct FTE)
Year 1 (FY 2015)	\$1,050	\$700	550	647
Year 2 (FY 2016)	Year 1 Base Rent + CPI Increase	\$1,050	850	681
Year 3 (FY 2017)	Year 2 Base Rent + CPI Increase	\$1,050	1,045	
Year 4 (FY 2018)	Year 3 Base Rent + CPI Increase	\$1,050	1,045	
Year 5 (and beyond)	Pattern of increase in Base Rent Per Student Per Year charge will continue through 25 year term of lease			

Management’s Response:

EAA did execute a 25-year contract with ESJ Capital; however it is important to state that the lease was never reviewed by EAA’s general counsel before it was executed. iSchools reviewed the lease and sub-lease to the Church and had the former Vice-Chair execute while the EAA Founder was out of town.

In December 2015, the EAA Founder and legal counsel met with the landlord to re-negotiate the terms of the lease. Because of conflict of interest matters, the CEO of ESJ Capital first agreed to adjust the lease, then later his board decided not to alter the lease and keep it as is.

The issue is that during the original deal orchestrated by Patricia Aguilar and ESJ Capital, the sub-lease allowed the Church to stay on the property for up to 3-years and only pay EAA \$1/year and a utility fee allowance of \$1K a month. In addition, it gave up substantial amount of classrooms to be exclusive used by the Church and could not be shared by EAA. In the end, a Managing Member of iSchools admitted they never read the sub-lease before having the Vice-Chair execute the additional agreement.

For the 2016-17 school year, the lease requires EAA to pay the landlord on 1,045 students.

(Please see page 40 for EAA’s response)

Comments from District Staff:

- a) EAA executed a 25 year lease with Charter PB Wellington 2 with terms calculated on a fixed student enrollment set to increase each year without regard of actual enrollment.*
- b) The lease is non-compliant with EAA’s Charter Agreement, specifically under Section V: Facilities, C. Location, 1.b., Leased Facilities, “the lease shall be for the term of this Contract...”. The term of the lease exceeds the Charter Agreement’s 5-year term.*
- c) The EAA Governing Board must renegotiate the lease to be in substantial compliance with the Charter Agreement.*

(Please see page 20 for District staff’s comments.)

Overall Comments from District Staff:

Our overarching comment is an egregious lack of the EAA’s Governing Board oversight is directly and ultimately responsible for all of the issues raised in the five audit findings.

(Please see page 18 for District staff’s comments.)

Comments from School District's Chief Financial Officer and Director of Charter Schools

MEMORANDUM



To: Lung Chiu, Inspector General
Randy Law, Director of Audit
Office of the Inspector General

From: Michael Burke, Chief Financial Officer, Chief Financial Office
Jim Pegg, Director, Department of Charter Schools

Date: September 2, 2016

RE: District Comments to OIG Audit of Eagle Arts Academy

The Office of the Inspector General (OIG) conducted an audit of Eagle Arts Academy Charter School (EAA). The OIG's Director of Audit, Randy Law, provided a copy of the draft report to Mike Burke, Chief Financial Officer, and Jim Pegg, Director of the Department of Charter Schools, on July 21, 2016. Mr. Law requested a written response to the findings of the draft audit from Mr. Burke and Mr. Pegg.

Our overarching comment is an egregious lack of the EAA's Governing Board oversight is directly and ultimately responsible for all of the issues raised in the five audit findings addressed below.

Specific comments and recommendations from the CFO and Department of Charter Schools for each major finding raised in the Audit Report are as follow:

Finding 1: Over-Reporting of FTE

- a) OIG met with the Departments of Budget and Charter Schools on 11/19/15 about the discovery of Over-Reporting of FTE by EAA totaling \$29,934.91. Immediate action was taken by district staff in December 2015 to withhold FTE while staff further investigated the School's over-reporting of FTE.
- b) The FTE report was further analyzed by Budget and OIG and it was determined that there were no other over-reported FTE.
- c) Further action was taken to recover the ineligible allocation from EAA in an adjustment to FTE payment for FY 16.
- d) This over-reporting of FTE must be addressed by the EAA Governing Board members since they, not the District, are solely responsible for the operation of the School and exercise continuing oversight over the School's operations. (Charter Agreement, Section VIII: **Governance, B. Governing Board Responsibilities** [pursuant to statute] 3. **School Operations**, dated August 5, 2014). Furthermore, under the Charter Agreement, Section VIII, B.6. **School Fiscal Agent**: "the governing board shall be the fiscal agent for the school and shall be involved from the inception in administrative functions..." In addition, in the

Comments from School District's Chief Financial Officer and Director of Charter Schools

Application, specifically Section 9: **Governance C. Governing Board**, there is a non-exclusive list of governing board responsibilities. The list includes developing and adopting the annual budget, ensuring fiscal solvency and accountability, receipt and expenditure of funds, business management services, audit services and purchasing decisions. In addition, in the application, specifically, under Section 18: **Financial Management and Oversight, A. Financial Manager** – “the financial management and oversight of the school will ultimately be the responsibility of the Board of Directors. The Board will regularly monitor and ensure the proper fiscal management of the organization in order to ensure a sustainable foundation.”

Finding 2: Payment of Start-Up Costs

- a) Table 3 of OIG Audit itemizes Start-Up Costs that total \$38,779.70 that were paid by the Governing Board of EAA to two companies owned by Gregory Blount, Sound Tree Entertainment (STE) and the EMPPAC Foundation. Many of the costs that were reimbursed were for charges connected to preparing the application and not the start-up of the charter school.
- b) The Department of Charter Schools reviewed the Charter Agreement and EAA's Application, approved by the School Board on October 2, 2013, which is incorporated by reference in the Charter Agreement. Per the Application, Section 17: **Budget, B: Start-Up Budget**, such costs do not include the alleged start-up costs reimbursed to Mr. Blount through STE and EMPPAC. It references spending monies “between now and the time FTE funds will begin” and that “the income for the **start-up year** is coming from a loan.” They anticipated getting a loan from an organization that supports the development of charter schools, it would be a six-year loan, at a 6% interest rate, with interest only payments for the first two years.
- c) Therefore, the allowable Start-Up costs are only those costs incurred **after** the EAA application was approved by the School Board on October 2, 2013. Prior to that approval, EAA was an **applicant** and not an approved **charter school**.
- d) Allowable reimbursements are limited to the following: the \$280 to Liz Knowles for attendance of the Florida Educational Technology Conference conducted in November 2013, and the last three payments to EMPPAC in August 2014 totaling \$1,398 for expenditures to P K Graphics. Total of allowable Start-Up Costs are \$1678.
- e) EAA must demand reimbursement of all unallowable Start-Up Costs from STE in the amount of \$33,002.50 and from EMPPAC in the amount of \$4,099.20 for a total reimbursement of \$37,101.70. Furthermore, any interest payments made to Mr. Blount must also be reimbursed to the School, and this reimbursement must be completed by the end of this fiscal year, FY 17.

Finding 3: Internal Control Weaknesses

- a) Table 4 of the OIG Audit itemizes Expenditures with No or Inadequate Documentation regarding 130 checks that total \$1,090,598 and 128 debit card transactions that total \$42,170. The total combined expenditures without documentation was \$1,132,768 out of the School's \$2,552,970 disbursements.

Comments from School District's Chief Financial Officer and Director of Charter Schools

- b) Per the provisions in the current Charter Agreement, the Governing Board of EAA is ultimately responsible for the fiscal oversight. As to the missing financial records, numerous provisions exist in the Charter Agreement requiring the charter school, through its Governing Board, to maintain financial records and comply with public records provisions. In addition, under Section IX: **Education Service Provider**, in Sub-section A, 1, h, a default or breach of the contract by the management company, constitutes a default or breach by the Charter School. Therefore, EAA's Governing Board is to be held accountable for this egregious lack of oversight and missing financial records.

Finding 4: Related Party Transactions

- a) EAA's former management company, iSchools, LLC, and The School Store, LLC are owned and operated by the same parties. iSchools purchased from The School Store school supplies, equipment, and curriculum materials totaling \$467,164.
- b) EAA's former Vice-Chair signed and approved the payments of \$6,000 per month and an additional \$800 of travel expenses totaling \$25,500 to Reese-Marshall Communications, LLC. The former Vice-Chair and the owner of Reese-Marshall Communications were business partners at the time of the transactions.
- c) Per the Charter Agreement, specifically Section VIII: **Governance**, Sub-section B **Governing Board Responsibilities**, Paragraph 3 **School Operations**, the Governing Board **shall** be solely responsible for the operation of the school and exercise continuing oversight and is the School's **Fiscal Agent** under Paragraph 6. Therefore, EAA's Governing Board lack of oversight failed to prevent these related party transactions.

Finding 5: Lease Agreement

- a) EAA executed a 25 year lease with Charter PB Wellington 2 with terms calculated on a fixed student enrollment set to increase each year without regard of actual enrollment.
- b) The lease is non-compliant with EAA's Charter Agreement, specifically under Section V: **Facilities, C. Location, 1.b., Leased Facilities**, "the lease shall be for the term of this Contract...". The term of the lease exceeds the Charter Agreement's 5-year term.
- c) The EAA Governing Board must renegotiate the lease to be in substantial compliance with the Charter Agreement.

Letter of Notification of Non-Compliance
From the Superintendent to Eagle Arts Academy's Board Chair, Principal, and Legal Counsel



THE SCHOOL DISTRICT OF
PALM BEACH COUNTY, FL

ROBERT M. AVOSSA, Ed.D.
SUPERINTENDENT

CHUCK SHAW
CHAIRMAN

OFFICE OF THE SUPERINTENDENT
3300 FOREST HILL BOULEVARD, C-316
WEST PALM BEACH, FL 33406-5869

FRANK A. BARBIERI, JR., ESQ.
VICE-CHAIRMAN

PHONE: 561-629-8566 / FAX: 561-649-6837
WWW.PALMBEACHSCHOOLS.ORG/SUPERINTENDENT

MARCIA ANDREWS
KAREN M. BRILL
DEBRA ROBINSON, M.D.
ERICA WHITFIELD



Delivered via US certified Mail and email
tquinn@eaawellington.org
michael.smith@pbcharterschools.org
pdicomo@haileshaw.com

September 7, 2016

Tim Quinn, Board Chair
Eagle Arts Academy, Inc.
1000 Wellington Trace
Wellington, FL 33414

Michael Smith, Principal
Eagle Arts Academy, Inc.
1000 Wellington Trace
Wellington, FL 33414

Philip M. DiComo, Esq.
Haile, Shaw & Pfaffenberger, P.A.
660 US Highway One, Third Floor
North Palm Beach, FL 33408

RE: WRITTEN NOTIFICATION OF NON-COMPLIANCE WITH CHARTER SCHOOL CONTRACT AND STATUTE

Dear Mr. Quinn, Mr. Smith, and Attorney DiComo:

The School District of Palm Beach County (SDPBC) is providing written notification of non-compliance to the Governing Board of Eagle Arts Academy, Inc. (EAA) pursuant to the Charter School Contract dated August 5, 2014 and Statute regarding the following deficiencies¹:

LACK OF GOVERNING BOARD OVERSIGHT AND GOVERNANCE

1. GOVERNANCE:

As previously discussed with EAA on July 11, 2016, a review of the EAA Board Meeting Minutes from July 8, 2014 to February 18, 2016, as submitted to the District by Mr. DiComo on April 7, 2016, reveals that EAA has in the past failed to comply with governance structures set forth in the Charter School's 2012 Bylaws, Application, and Charter School Contract.

Specifically, the areas of non-compliance dealt with 1) Number of Directors; 2) Election of Directors; 3) Term of Directors; 4) Resignation or Removal of Directors; 5) Quorum and Action of the Board; and 6) Officers of the Board of Directors. Attached for your reference as Attachment "1", is a breakdown of the areas of non-compliance noted in the Governing Board Meeting minutes received from EAA.

¹ The revised Charter School Budget was submitted on September 5, 2016 and has not yet been approved by the Governing Board. Therefore, this letter does not address the currently proposed Charter School Budget. In addition, the Charter School has received separate notification from the SDPBC relating to the required submittal of a School Improvement Plan because the Charter School earned a school grade of "D" for this past school year.

Letter of Notification of Non-Compliance

From the Superintendent to Eagle Arts Academy's Board Chair, Principal, and Legal Counsel

Page 2 of 5

September 7, 2016

WRITTEN NOTIFICATION OF NON-COMPLIANCE WITH CHARTER SCHOOL CONTRACT AND STATUTE

As of this date, there are no other minutes of the Governing Board meetings either posted on Charter Tools and/or EAA's website. In order to determine if EAA has complied with the previously noted deficiencies, please promptly submit the complete set of Governing Board Meeting minutes from February 18, 2016 to the present and provide an explanation of compliance therein.

If the above items have not been cured, they would be a material breach of the Charter School's Contract which could constitute "good cause" basis to terminate the Charter School Contract.

2. REIMBURSEMENT OF START UP COSTS TO STE AND EMPPAC :

Start-Up Costs totaling approximately \$38,779.70 were approved to be paid by the Governing Board of EAA at the Board Meeting of May 4, 2015, to two companies owned by Gregory Blount, Sound Tree Entertainment (STE), and the EMPPAC Foundation. The payments were then made to STE.

The Department of Charter Schools reviewed the Charter Agreement and EAA's Application, approved by the School Board on October 2, 2013, which is incorporated by reference in the Charter Agreement. Per the Application, Section 17: **Budget, B: Start-Up Budget**, such costs do not include the alleged start-up costs reimbursed to Mr. Blount through STE and EMPPAC. It references spending monies "between now and the time FTE funds will begin" and that "the income for the start-up year is coming from a loan". EAA anticipated getting a loan from an organization that supports the development of charter schools, it would be a six-year loan, at a 6% interest rate, with interest only payments for the first two years. This did not occur since EAA decided to open in 2014 instead. Furthermore, the alleged loan by STE and EMPPAC was never formalized by an agreement and EAA has yet to produce any written documentation evidencing the loan's existence.

Many of the costs that were reimbursed were for charges connected to preparing the Application and not the start-up of EAA. Whereby, the allowable Start-Up costs are only those costs incurred after EAA's application was approved by the School Board on October 2, 2013. Prior to that approval, EAA was an applicant and not an approved charter school.

Therefore, allowable reimbursements are limited to the following: the \$280 to Liz Knowles for attendance of the Florida Educational Technology Conference conducted in November 2013, and the last three payments to EMPPAC in August 2014, totaling \$1,398 for expenditures to PK Graphics. The total of allowable Start-Up Costs are only \$1,678 out of the approximately \$38,800 that has been reimbursed to STE and EMPPAC.

Wherefore, EAA has materially breached the Charter School's Contract which could constitute "good cause" basis to terminate the Charter School Contract. To cure this defect, the District hereby requests that EAA immediately demand reimbursement of all unallowable Start-Up Costs from STE in the amount of \$33,002.50 and from EMPPAC in the amount of \$4,099.20, for a total reimbursement of \$37,101.70. Furthermore, any interest payments made to Mr. Blount must also be reimbursed to the School, and the entire reimbursement must be completed by the end of this fiscal year, FY17.

Letter of Notification of Non-Compliance

From the Superintendent to Eagle Arts Academy's Board Chair, Principal, and Legal Counsel

Page 3 of 5

September 7, 2016

WRITTEN NOTIFICATION OF NON-COMPLIANCE WITH CHARTER SCHOOL CONTRACT AND STATUTE

3. MISSING FINANCIAL DOCUMENTATION:

For FY15, there was no or inadequate financial documentation regarding 130 checks that total \$1,090,598 and 128 debit card transactions that total \$42,170. The total combined expenditures without documentation was \$1,132,768 out of the School's \$2,552,970 disbursements at that time. This equates to approximately 44% of the total expenditures. Accordingly, the Charter School **failed to meet generally accepted standards of fiscal management.**

Per the provisions in the current Charter School Contract, the Governing Board of EAA is ultimately responsible for the **fiscal oversight** of the Charter School. As to the missing financial records, numerous provisions exist in the Charter School Contract requiring the Charter School, through its Governing Board, to **maintain financial records** and **comply with public records** provisions, including the State-mandated records retention schedule. In addition, EAA's Application, Section 18: **Financial Management and Oversight** requires retention of these records and their storage at the School's site as backup.

Although EAA contracted with iSchools for management services, any issues of non-compliance by iSchools does not relieve EAA of its contractual responsibilities. Under the Charter School Contract, Section IX: **Education Service Provider**, in Sub-section A, 1, h, a default or breach of the contract by the management company, constitutes a default or breach by the Charter School.

Again, EAA has materially breached the Charter School's Contract which could constitute "good cause" basis to terminate the Charter School Contract. EAA must produce any and all financial records in its possession, custody, and/or control, as well as, promptly request from its former management company iSchools or other persons or entity that has these financial documents/records.

4. INADEQUATE INFORMATION ON THE EAA WEBSITE:

Per Section 1002.33, Florida Statutes and/or the Charter School Contract, charter schools are required to maintain certain specific information on their websites. A review of EAA's website reveals several deficiencies including the failure to post the following: 1) academic performance; 2) ESP/management company information; 3) school grade; 4) Governing Board Meeting minutes; 5) schedule of Governing Board Meeting dates; 6) adequate parent liaison contact information; and 7) current year Budget.

The Charter School Contract specifically requires the Charter School to abide by all State laws applicable to charter schools, and to abide by the terms and conditions of the Charter School Contract. Charter School Contract, Section I, Sub-Section D. **Non-Renewal/Cancellation and Termination.**

Again, EAA has materially breached the Charter School's Contract which could constitute "good cause" basis to terminate the Charter School Contract. The Charter School needs to cure the defects relating to its website promptly within the timeframe prescribed by this letter.

5. LEASE AGREEMENT:

EAA executed a 25-year lease with Charter PB Wellington 2 with terms calculated on a fixed student enrollment set to increase each year without regard of actual enrollment.

Letter of Notification of Non-Compliance

From the Superintendent to Eagle Arts Academy's Board Chair, Principal, and Legal Counsel

Page 4 of 5

September 7, 2016

WRITTEN NOTIFICATION OF NON-COMPLIANCE WITH CHARTER SCHOOL CONTRACT AND STATUTE

The lease is non-compliant with EAA's Charter School Contract, specifically under Section V: **Facilities, C. Location, 1.b., Leased Facilities**, "the lease shall be for the term of this Contract...". The term of the lease far exceeds the Charter School Contract's five-year term.

Again, EAA has materially breached the Charter School's Contract which could constitute "good cause" basis to terminate the Charter School Contract. EAA's Governing Board must renegotiate the lease to be in substantial compliance with the Charter School Contract.

6. RELATED PARTY TRANSACTIONS:

There are two Related Party Transactions at issue.

First, EAA's former management company, iSchools, LLC, and the former management company's vendor, The School Store, LLC, are owned and operated by the same parties. iSchools purchased from The School Store for EAA school supplies, equipment, and curriculum materials totaling \$467,164.

Secondly, EAA's former Vice-Chair signed and approved the payments of \$6,000 per month and an additional \$800 of travel expenses totaling \$25,500 to Reese-Marshall Communications, LLC. The former Vice-Chair and the owner of Reese-Marshall Communications were business partners at the time of the transactions.

Per the Charter School Contract, Section VIII: **Governance**, Sub-section B. **Governing Board Responsibilities**, Paragraph 3. **School Operations**, the Governing Board shall be solely responsible for the operation of the school and exercise continuing oversight and is the School's **Fiscal Agent** conflicts of interest and Code of Ethics regarding Board members.

The above two transactions demonstrate EAA's Governing Board lack of oversight that failed to prevent their occurrence. This lack of oversight must not be repeated. Accordingly, the Charter School **failed to meet generally accepted standards of fiscal management** as required by the Charter School Contract and Florida Statute. Continued lack of Governing Board oversight constitutes "good cause" basis for termination of the Charter School Contract.

CONCLUSION

Pursuant to the terms of the Charter School Contract, the SDPBC is providing you an opportunity to cure the contractual or statutory deficiencies within **30 days** from the date of this letter, unless this letter specifies a different time frame.

1. GOVERNANCE:

Please promptly submit the complete set of Governing Board Meeting minutes from February 18, 2016 to the present and provide an explanation of compliance therein.

2. REIMBURSEMENT OF START UP COSTS TO STE AND EMPPAC :

To cure this defect, the District hereby requests that EAA immediately demand reimbursement of all unallowable Start-Up Costs from STE in the amount of \$33,002.50 and from EMPPAC in the amount of

Letter of Notification of Non-Compliance

From the Superintendent to Eagle Arts Academy's Board Chair, Principal, and Legal Counsel

Page 5 of 5

September 7, 2016

WRITTEN NOTIFICATION OF NON-COMPLIANCE WITH CHARTER SCHOOL CONTRACT AND STATUTE

\$4,099.20, for a total reimbursement of \$37,101.70. Furthermore, any interest payments made to Mr. Blount must also be reimbursed to the School, and the entire reimbursement must be completed by the end of this fiscal year, FY17.

3. MISSING FINANCIAL DOCUMENTATION:

EAA must produce any and all financial records in its possession, custody, and/or control, as well as, promptly request from its former management company iSchools or other persons or entity that has these financial documents/records.

4. INADEQUATE INFORMATION ON THE EAA WEBSITE:

The Charter School needs to cure the defects relating to its website promptly within the timeframe prescribed by this letter.

5. LEASE AGREEMENT:

EAA's Governing Board must re-negotiate the lease to be in substantial compliance with the Charter School Contract.

6. RELATED PARTY TRANSACTIONS:

This lack of oversight by EAA's Governing Board must not be repeated in order to avoid "good cause" termination of the Charter School Contract.

If you wish to discuss these matter or have any questions, please contact James T. Pegg at 561-434-8779 to schedule a meeting.

Sincerely,



Robert M. Avossa, Ed.D.
Superintendent



James T. Pegg
Director, Charter Schools

RMA/DWC/KO/ER/JTP:jw/du
Attachment

cc: JulieAnn Rico, Esq., General Counsel
David W. Christiansen, Ed.D., Deputy Superintendent
Mark Howard, Chief of Performance Accountability
Mike Burke, Chief Financial Officer
A. Denise Sagerholm, Esq., Assistant General Counsel

Letter of Notification of Non-Compliance

From the Superintendent to Eagle Arts Academy's Board Chair, Principal, and Legal Counsel

**SUMMARY OF NONCOMPLIANCE GOVERNANCE BY EAA'S GOVERNING BOARD
FROM BOARD MEETING MINUTES DATED JULY 8, 2014 –FEBRUARY 18, 2016**

This Summary was prepared after a review of receipt of the documents requested from Philip DiComo, Esq., General Counsel for EAA by the District on March 2, 2016, a copy of that correspondence is attached hereto for reference. The documents furnished were the minutes of the EAA Governing Board meetings from July 8, 2014 through February 18, 2016.

EAA has failed to comply with the **governance structures** set forth in EAA's 2012 Bylaws, their Charter Application and the Contact between the School District of Palm Beach County dated August 5, 2014. Upon review of the documents provided we have found that EAA has failed to comply with the following provisions:

1. The number of Directors sitting on the Board has fallen below the requisite minimum of three (3) Directors and has increased above or decreased below the stated amount of five (5) Directors without a proper vote.
2. EAA has failed to comply with the proper protocol for the election of new Directors.
3. Some Directors have retained their position on the Board for longer than the maximum term of 3 years without a vote of renewal from the Board.
4. EAA has not followed the proper procedure for the resignation or removal of Directors.
5. The Board has conducted business without the requisite quorum present and has transacted business without an affirmative vote of two (2) directors.
6. The election of officers has also occurred out of compliance with the stated process for new officers.

I. Number of Directors

a. EAA is out of compliance as the number of Directors on the Board has dropped below three (3) persons.

- i. Charter School Application (Application): Section 9- Governance, part D
 1. "The Board shall be made up of three (3) to eleven (11) members drawn from the community at large."
- ii. Charter School Bylaws (Bylaws): Article III, section 3.2
 1. "The initial Board shall consist of five (5) Directors... The number of Directors may be increased to no more than eleven (11) and decreased to no fewer than three (3) by a majority vote of the Board."
- iii. Minutes
 1. May 4, 2015
 - a. Blount moved for Ironstone to act as parent liaison while Director Havrilla was "out". With Havrilla's absence at this time, the Board was made up of only two (2) directors (Paczkowski and Quinn), prior to the election of Blount.

Letter of Notification of Non-Compliance

From the Superintendent to Eagle Arts Academy's Board Chair, Principal, and Legal Counsel

When Paczkowski resigned, the Board was again left with only two (2) Directors (Blount and Quinn).

- b. EAA is out of compliance as the Board did not specifically vote for an increase or decrease in the number of Directors who sit on the Board. These changes only occurred through the resignation or removal of a Director without a Board vote to timely replace the vacant seat.**
 - i. Bylaws: Article III, section 3.2
 - 1. "The initial Board shall consist of five (5) Directors... The number of Directors may be increased to no more than eleven (11) and decreased to no fewer than three (3) by a majority vote of the Board."
 - ii. Amended Annual Reports
 - 1. June 26, 2014
 - a. As stated on the Amended Annual Report, the Board consisted of Allen, Quinn, and Nichols. No evidence was provided that shows that the Board voted to have a Board of three (3) directors, rather than five (5).
 - 2. February 10, 2015
 - a. This Amended Annual Report shows a decrease from five (5) directors in the previous report (1/8/15) to three (3) directors (Paczkowski, Havrilla, and Quinn). There was no specific vote for this decrease in the minutes for the December 22, 2014, January 12, 2015, or February 4, 2015 meetings.
 - 3. May 9, 2015
 - a. The number of directors increased from three (3) to nine (9). However, the minutes from May 4, 2015 do not show a vote for this increase above 5 Directors.

II. Election of Directors

- a. EAA is out of compliance as the proper procedure for the election of Directors was not followed.**
 - i. Application: Section 9- Governance, part D
 - 1. "Board member positions will be elected at the annual meeting or as needed due to open seats on the Board throughout the year"
 - ii. Bylaws: Article III, section 3.4
 - 1. "Directors shall be elected by the Board at any meeting when there is an open seat on the board from a slate of nominees"
 - iii. Minutes
 - 1. ~June 2014
 - a. As stated by Mr. DiComo, no record of the election of Dr. Nate Nichols has been provided, other than estimates of the time he was elected. Additionally, no recorded has been

Letter of Notification of Non-Compliance

From the Superintendent to Eagle Arts Academy's Board Chair, Principal, and Legal Counsel

provided for the resignation or removal of Blount as Chairman of the Board during this same time.

2. October 13, 2014

- a. The election of new Directors that occurred during this meeting was for "three openings on the Board", where previously, there were only two openings. The vote to fill the vacancy created by the resignation of Nichols was made prematurely, prior to his actual resignation and Board approval.

III. Term of Directors

a. EAA is out of compliance as some Directors have retained their position on the Board for longer than the specified term of three (3) years.

i. Application: Section 9- Governance, part D

- 1. "Board members will be elected to serve three year terms."

ii. Bylaws: Article III, Section 3.4

- 1. "All current Directors or their elected replacements shall hence forth serve a term of three (3) years."

a. Section 3.5

- i. "Except for a Director elected due to the natural expiration of his predecessor's term, a Director so elected to fill a vacancy shall hold office of the remainder of his predecessor's term."

iii. Minutes

- 1. As shown in all of the minutes provided, Quinn is a founding member of the Board and has remained on the Board since 2012. While Quinn is currently a Board member, his term should have expired in 2015. There is no evidence of a vote of renewal for Quinn in the minutes.
- 2. Additionally, the reinstatement of Robertson as a founding Board member is out of compliance, as his term would have expired. Conversely, if he was replacing Bedard after her resignation from the Board or his election to the Board was for a new term, EAA is still out of compliance as no slate of candidates was presented at the February 16, 2016 Board meeting
 - a. (*See* Bylaws Article III, Section 3.3 that states, "The nomination committee will compile and submit to the Board a slate of candidates for the directorships and offices to be filled at the upcoming meeting"; *see also* Charter Application Section 9, part D that states, "The Board shall appoint a nominating committee who shall present a slate of potential candidates to the Board when an opening exists on the Board").

Letter of Notification of Non-Compliance

From the Superintendent to Eagle Arts Academy's Board Chair, Principal, and Legal Counsel

IV. Resignation or Removal of Directors

a. EAA is out of Compliance as the resignation and removal of directors has been handled inappropriately.

i. Bylaws: Article III, Section 3.6

1. "A Director of the Corporation may resign at any time by tendering his resignation in writing to the Corporation... Any elected Director may be removed at any time, with or without cause, by a majority vote of other directors".

ii. Minutes

1. There is no evidence provided that Blount resigned or was removed from his position when Nichols became chair in approximately July 2014.
2. August 12, 2014, September 17, 2014
 - a. There are only three (3) Board members listed in these minutes, with no evidence of the removal or resignation of Blount, Roberston, or Diaz. This improper removal procedure is further evidenced when Nichols makes mention of vacant seats at the September 17, 2014 Board meeting when no votes have occurred to accept the resignation or to terminate a Director.

iii. Amended Annual Report

1. May 7, 2015
 - a. Per this report, Havrilla was still listed as a member of the Board; however her name was not contained on the list of Board Members for the minutes of the June 30, 2015 meeting.
2. August 11, 2015
 - a. Havrilla's name was then removed from this Annual Report; however, there is no evidence of her resignation or removal in the minutes.

V. Quorum and Action of the Board

a. The EAA Board of Directors has also acted out of compliance by conducting business without a quorum present.

i. Application: Section 9- Governance, part D

1. "Quorum shall be comprised of at least 51% of the currently serving Board Members."

ii. Bylaws: Article III, Section 3.11

1. "Fifty one percent (51%) of the Directors must be present in person at a meeting to constitute a quorum for the transaction of business at such meeting."

iii. Minutes

1. December 22, 2015

Letter of Notification of Non-Compliance

From the Superintendent to Eagle Arts Academy's Board Chair, Principal, and Legal Counsel

- a. These minutes show that only three (3) of six (6) members of the Board were present (Packowski, Jaffe, Quinn), whereas quorum would require 4 of 6 members be present in order to vote as a Board. Therefore, the business that was transacted was out of order and compliance:
 - i. Approval of minutes,
 - ii. Removal due to non-compliance,
 - iii. Approval of parent liaison as voting position,
 - iv. Approval to make tele/video-conferencing allowed, and
 - v. Election of officers
- b. EAA is also out of compliance, as the Board did not follow the proper procedure when voting with at least two (2) Directors voting in the affirmative to transact business.**
 - i. Bylaws: Article III, Section 3.11
 - 1. "Except as otherwise provided by law, the Articles of Incorporation, or these Bylaws, the affirmative vote of at least two (2) Directors present at a meeting at which quorum is present shall be necessary for an action of the Board."
 - ii. Minutes
 - 1. May 4, 2015
 - a. At this meeting, a motion was made for Blount to become Board chair; however, it is unclear who made the motion that was seconded by Quinn. This situation is further convoluted by the sentiments offered and immediate resignation of Paczkowski, as a possible sign of disagreement with the actions of the Board.
 - 2. February 18, 2016
 - a. Non-compliance to this application stipulation is also evidenced when Blount makes a motion to adjourn and seconds his own motion at the conclusion of this meeting.

VI. Officers of the Board

- a. EAA is out of Compliance, as the Board has not followed the procedures for the election of officers.**
 - i. Bylaws: Article IV- Officers, section 4.1
 - 1. "The Corporation may have a President, Vice president, Secretary, and Treasurer, each of whom shall be elected by the Board."
 - ii. Amended Annual Report
 - 1. June 24, 2014
 - a. There is no evidence in the minutes that the Board voted Nichols for the position of chairman or Allen as the Vice President.

Letter of Notification of Non-Compliance

From the Superintendent to Eagle Arts Academy's Board Chair, Principal, and Legal Counsel

- b.
- iii. Minutes
 - 1. September 17, 2015
 - a. Ironstone presented as treasurer and the August 11, 2015 Amended Annual Report shows that the Directors have new offices; however, there is no evidence that these positions were voted on by the Board in the minutes.

These issues of non-compliance with the Charter Application and EAA Bylaws are a violation of the Charter Contract between EAA and the Palm Beach County School District.

Letter of Notification of Non-Compliance
From the Superintendent to Eagle Arts Academy's Board Chair, Principal, and Legal Counsel



THE SCHOOL DISTRICT OF
PALM BEACH COUNTY, FLORIDA
OFFICE OF GENERAL COUNSEL TO THE SCHOOL BOARD
3300 FOREST HILL BOULEVARD, C-323
WEST PALM BEACH, FL 33406-5813
561-434-8500 FAX: 561-434-8105
www.palmbeachschools.com/chiefcounsel/

JULIEANN RICO, ESQ.
GENERAL COUNSEL

CHUCK SHAW
CHAIRMAN

FRANK A. BARBIERI, JR., ESQ.
VICE CHAIRMAN

MARCIA ANDREWS
KAREN BRILL
MIKE MURGIO
DEBRA L. ROBINSON, M.D.
ERICA Z. WHITFIELD

March 2, 2016

Sent via U.S. Mail and email

Philip M. DiComo, Esq.
Haile Shaw & Pfaffenberger
660 U.S. Highway One, 3rd Floor
North Palm Beach, Florida 33408

Re: Proposed request to amend the Bylaws and Articles of Incorporation regarding governance structure/membership of Eagle Arts Academy, Inc.

Dear Mr. DiComo:

This is in response to your client, Eagle Arts Academy, Inc.'s recent email of February 8, 2016, from Gregory Blount to Jim Pegg, Director of the Department of Charter Schools regarding the governance structure of Eagle Arts Academy, Inc. and whether it is allowed under the current terms of the Charter Contract to change it to allow "members" under the corporation.

We have reviewed the proposed amendments to the charter school's legal entity, Eagle Arts Academy, Inc.'s Articles of Incorporation and Bylaws as well as the summary review provided by you, the General Counsel of Eagle Arts Academy, Inc. dated February 3, 2016. We have also reviewed the current Charter Contract dated July 1, 2014, and the Application with Appendixes, dated August 1, 2013, which were incorporated into the Charter Contract. (Note that the Appendixes are the initial Articles of Incorporation dated July 25, 2012 and the initial Bylaws).

The current Charter Contract, the Application and Appendixes specifically state that the Corporation "shall have no members." And as you referenced in the summary review, the Charter specifically states in **Section VIII: GOVERNANCE, paragraph B, Governing Board Responsibilities, section 2, Organizational Plan**, that the charter school "shall implement the organizational plan as described in the approved Application. As stated in the By-Laws and the Articles of Incorporation, the Corporation *shall be non-membership organization, and a board of directors shall manage its activities.*" Therefore, the proposed Amended Articles of Incorporation and Bylaws are not in compliance with the current Charter.

We have also reviewed the history of the annual reports and amendments therein that have been filed with the State of Florida on behalf of Eagle Arts Academy, Inc. since 2012. We

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A Top-Rated District by the Florida Department of Education Since 2005
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Letter of Notification of Non-Compliance
From the Superintendent to Eagle Arts Academy's Board Chair, Principal, and Legal Counsel

Page | 2

noted that there have been numerous changes, specifically in 2015, of the Board of Directors and Officers of Eagle Arts Academy, Inc.

Therefore, we are requesting the appropriate documentation required under the Charter that would substantiate compliance therein. For example, it states in the application that one of the list of responsibilities of the Board of Directors is to "nominate replacements to the Board when terms of members expire or they resign" and it also states in the Bylaws, under Article III, "Board of Directors" that "Directors shall be elected by the Board at any meeting when there is an open seat on the board from a slate of nominees." Do you have the minutes of the meetings that were held every time you amended the Annual Report and the required Notices under the Sunshine Law for such meetings? Were these actions taken by a majority vote of the Board of Directors?

Therefore, we have informed you that we are not in agreement with the proposed amendments to the Articles of Incorporation and Bylaws since they are not in compliance with the terms of the Charter. In addition, we are requesting the appropriate documentation of the various changes in the Board of Directors since Eagle Arts Academy, Inc. entered into the Charter with the School Board of Palm Beach County, Florida on July 1, 2014. We would appreciate receipt of this documentation within the next ten (10) business days and if more time is needed, please inform us of such.

Please forward this response to your client and feel free to contact my office through my assistant, Linda Flower at 561/969-5847, if necessary. Thank you for your attention and assistance in this matter.

Sincerely,



A. Denise Sagerholm, Esq.
Assistant General Counsel

ADS/lf

Cc: James T. Pegg, Director of the Dept. of Charter Schools
JulieAnn Rico, Esq., General Counsel, School Board of Palm Beach County

Management's Response
Eagle Arts Academy Charter School



1000 Wellington Trace
Wellington, FL 33414 USA

July 7, 2016

Lung Chiu
Office of Inspector General
The School District of
Palm Beach County, Florida
3318 Forest Hill Boulevard C-306
West Palm Beach, Florida 33406

RECEIVED
JUL - 7 2016
INSPECTOR GENERAL

Dear Mr. Chiu:

This letter represents the combined response of the board of directors and administration of Eagle Arts Academy Charter School (EAA) to the draft report for audit provided by you on June 1, 2016. On behalf of the board and management, we appreciate the time and effort put forth by your staff in completion of this review. Being that EAA opened its doors a year earlier than originally planned and only 20 days after the charter contract was finalized by the PBCSD with 685 children, we feel strongly that although young, EAA represents the best of the charter school system, and we have made continued efforts to improve the school since its establishment.

Walt Disney believed in the power of an arts education and how it inspires a child's creativity and imagination. At EAA, our teachers and staff continue to find innovative ways to engage a child in learning by infusing not only arts and technology into our classrooms, but also offer 40-minutes a day in the performing and production arts through the six (6) encore areas we offer. At EAA, our children are exposed to real job skills and are given the opportunity to find their "true" passion.

Enclosed herewith are responses to the specific major conclusions of your office in the draft audit (organized in the order they appear in your report).

We appreciate the opportunity to respond to the OIG report, and based on the enclosed, we respectfully request this review be closed in its totality.

Sincerely,

Tim Quinn
Chairman of the Board

Greg James Blount
Executive Director

Enclosures
cc: Ann Simone, Principal

www.EagleArtsAcademy.com

Management's Response
Eagle Arts Academy Charter School

1. Over-Reporting of Student Full Time Equivalent (FTE) Count

Recommendation

On October 30, 2015, OIG advised District management of the over-reporting and recommended recouping the estimated \$33,548.94 of the FEFP overpayment from the school. **Section IV(A)(1)(c)** of the **Charter Contract** with EAA states, "If the School submits data relevant to FTE funding that is later determined through audit procedures to be inaccurate, the School shall be responsible for any reimbursement to the Sponsor for any errors, omissions, misrepresentations, or inaccurate projections." As an alternative, the District should consider making an adjustment to the school's future FEFP funding. Subsequent to our management advisory, because of the high error rate of the original sample, it was determined we would test an additional 30 students selected randomly from Survey 2. This additional testing identified no additional errors.

Management's Response:

We do not concur with 1 of the 10 ineligible students sampled from Survey 2 (October 2014). We were able to locate the teacher's roster, which shows the student was present during the FTE window. Please see **Exhibit A**. There were two other students who were enrolled and should have been eligible for FTE funding. For those two students, we were unable to locate all the supporting documentation that had been misplaced by the previous school data processor or possibly shredded by the previous management company (iSchools LLC). To rectify this, our Governing Board took action and terminated our relationship with the previous management company, re-trained our teachers on daily student attendance procedures, hired a new school data processor and new Principal. We are committed to training and retraining our staff to fully comply with the Florida State Statutes, as well as the attendance policies and procedures set forth by the School District of Palm Beach County, which govern student attendance reporting and record retention.

We Concur with the remaining 7 of the 10 ineligible students sampled from Survey 2 (October 2014). The Governing Board took immediate action to correct this serious deficiency in our FTE process. We terminated our

Management's Response
Eagle Arts Academy Charter School

management company (iSchools LLC) for numerous mismanagement practices including unauthorized shredding of documents, which violates Florida record retention rules. We hired a new data processor, school principal, and new back office services provider. We since have retrained our teachers and support staff on the proper FTE reporting procedures and record retention practices. We will retrain and reinforce the attendance procedures during our upcoming August 2016 in-service staff meeting.

It is important to note that an additional 30 students were sampled by the IG and no other students were found to be ineligible. It is also important to note that the PBCSD Charter School Office withheld transportation funds in the amount of \$28,783.68 due to Eagle Arts Academy (EAA) until the IG investigation of this finding was completed. As of today, these funds have not been released to EAA (see Exhibit B-email dated 2/16/16).

2. Payment of \$38,779.90 in Start-Up Costs to EAA Founder

Notes to Table 3: Start-up Costs Submitted by EAA Founder

- a. There was no evidence for the original \$10,000 loan. Ledger sheets submitted indicated repayments to K. Summers totaled \$6,200 to date. Start-up cost repayment of \$10,000 advanced Founder \$6,800.
- b. Copy of check indicated payment of \$500. Repayment was overstated by \$2,000.
- c. Purchases by Foundation noted in Governing Board minutes occurred on August 20, 2014. EAA had already began operations. Consequently, these are not start-up costs related to the application.

Based on the documentation submitted by EAA's Founder, it appeared that STE was over-reimbursed by \$3,398, which included a \$2,000 overstatement and \$1,398 of ineligible costs, which were incurred after EAA opened. It is also unclear as to why STE was reimbursed for \$5,747.20 in expenses incurred by EMPPAC Foundation, Inc.

Recommendation

Management's Response
Eagle Arts Academy Charter School

To ensure proper fiscal accountability, EAA should ensure that purchases are adequately documented and supported by itemized invoices and receipts. Without adequate supporting documentation, there is no assurance that the expenses were appropriate. EAA should recoup the overpayment of \$3,398 from STE.

Management's Response:

a) **We do not concur with this finding.** *Before the charter application was approved by the School Board of Palm Beach County, a Founding Board existed before the EAA Governing Board was created. The "Background" section of this memorandum states that EAA also opened one year early. The charter agreement was accepted by the School Board of Palm Beach County only 20 days before the school opened. In order to accomplish this task, the Founding Board needed to incur legitimate startup costs listed in Table 3 on page 5. EAA Founder used personal funds to pay for these necessary startup costs with the expectation of being reimbursed once the school had opened. Since the school was not open, there was no money to pay for these necessary startup costs. It is important to note that the typical startup costs listed within Table 3 are normally paid by awarded Federal Charter School Program funds (CSP). Due to the short timeline to open the school, there was insufficient time to apply for these Federal funds; this left an immediate funding gap that needed to be filled quickly.*

*The Founding Board had numerous discussions regarding the startup money. The EAA Founder understood the risks he was taking because if the EAA charter was never approved, he would have been fully responsible for the debt and loans being paid back. Because there was no official Board secretary to record the meeting minutes. Founding Board affidavits are provided **Affidavit's A, B and C** from three of the members to validate that discussions took place that in fact discussed this arrangement as a loan and not a gift. Further supporting documentation of the startup costs appear on Schedule L of the Balance Sheet and the EAA tax returns for 2011 for \$17,500, 2012 for \$33,003, and 2013 for \$37,482. In addition, as you will see*

Management's Response
Eagle Arts Academy Charter School

from the **Exhibit C**, the repayment of the \$10K loan to Katie Summers is indicated in full for \$10K and not the \$6200 that the IG is referencing.

b) We do not concur with the implication that these costs occurred after the school had opened. All these urgent costs were encumbered prior to the dates listed in Table 3 and were startup related costs. These were all marketing materials and brochures that were needed to promote the opening of the school. **Exhibit D**. As you will see in the attachment, these services were ordered prior to the first day of school.

c) We concur with the clerical error overpayment of \$2,000. Sound Tree has been contacted and will repay EAA in early FY17, and will forward proof of payment to IG office upon completion.

3. Internal weakness-

1. Expenditures With No or Inadequate Documentation,
2. Checks Missing and Issued Out-of-Sequence
3. Expenditures Not Recorded in the School's Accounting System

We concur, and on May 12, 2015 the EAA Governing Board took swift action and initiated termination of the managements company (iSchools LLC) who was hired to oversee all financial transactions, inform the Board, and provide financial compliance and transparency to all Stakeholders. Next, the Board hired an in-house CPA and school business manager to take control of the existing financial situation. We have new procedures in place to ensure proper procedures are in place, i.e. checks and balances, separation of duties, and supporting documentation. The Board also hired a new back office service provider in Fy17 with a highly transparent financial reporting system.

No words can express the deep disappointment we have in selecting a management company who presented themselves as an experienced full service CMO to include back office financial services for charter schools. The secrecy and deception that surrounded the actions of this management company can be found on page 8 under "Additional Issues." The EAA Board is under pending litigation with iSchools LLC.

Management's Response
Eagle Arts Academy Charter School

Additional Issues

4) Related Party Transactions

Management Response:

iSchools LLC did not disclose the fact that their same Board members served as Board members for multiple vendor companies that did business directly with EAA. iSchools LLC did not disclose to the EAA Governing Board that common ownership between iSchools and The School Store. In addition, the landlord directly provided EAA with \$400K to assist in the FFE start up costs. This money was directly transferred from ESJ Capital to EAA; however, iSchools purchased desks, chairs and curriculum through the sister company. Because of this, EAA did not receive the continued beneficial curriculum support that typically comes with a curriculum purchase and the free curriculum materials for the additional five (5) years, as we did NOT technically purchase the curriculum. Because of this, EAA learned it was not to receive the continued materials. The School Store purchased and did not pass along these substantial benefits to the school.

The IG report indicates that iSchools resigned as EAA business manager, but the truth is that the EAA Governing Board required iSchools voluntary resignation or it would have removed the management company. A board meeting was held on May 12th, 2015 (Exhibit E), however since the management company was responsible for taking Board Meeting Minutes, these minutes were never provided to EAA. The legal counsel for iSchools provided a letter dated (Exhibit F).

Additional Undisclosed Related Party Issues

In February 2015, we discovered the CFO for the landlord ESJ Capital, Fabio D'Ascola was also a secret partner in iSchools, which was never disclosed to the Governing Board of EAA and a *serious* conflict of interest.

This is important as EAA was told by Fabio D'Ascola and Patricia Aguilar that we could NOT self manage our own school and the landlord required us to hire a management company in May 2014. Both Fabio D'Ascola and Patricia Aguilar strongly recommended iSchools and told EAA's Founding Board that they would be approved by the landlord. Fabio D'Ascola did not

Management's Response
Eagle Arts Academy Charter School

convey his conflict of interest.

In the lease agreement, we could not terminate the management company without the permission of the landlord. However in Oct. 2014, EAA attempted to terminate the management company iSchools and met with the CFO of ESJ Capital, Fabio D'Ascola and Patricia Aguilar to advise them. The request was rejected.

On May 19th, 2015, ESJ Capital terminated Fabio D'Ascola as their CFO after finding out he was also an owner in iSchools.

We have **Exhibit G** the Sunbiz report showing Fabio D'Ascola ownership in iSchools as well as a letter from ESJ indicating Fabio's termination (**Exhibit H**).

5: Lease Agreement

Management Response:

EAA did execute a 25-year contract with ESJ Capital; however it is important to state that the lease was never reviewed by EAA's general counsel before it was executed. iSchools reviewed the lease and sub-lease to the Church and had the former Vice-Chair execute while the EAA Founder was out of town.

In December 2015, the EAA Founder and legal counsel met with the landlord to re-negotiate the terms of the lease. Because of conflict of interest matters, the CEO of ESJ Capital first agreed to adjust the lease, then later his board decided not to alter the lease and keep it as is.

The issue is that during the original deal orchestrated by Patricia Aguilar and ESJ Capital, the sub-lease allowed the Church to stay on the property for up to 3-years and only pay EAA \$1/year and a utility fee allowance of \$1K a month. In addition, it gave up substantial amount of classrooms to be exclusive used by the Church and could not be shared by EAA. In the end, a Managing Member of iSchools admitted they never read the sub-lease before having the Vice-Chair execute the additional agreement.

For the 2016-17 school year, the lease requires EAA to pay the landlord on 1,045 students.

Management's Response
Eagle Arts Academy Charter School – Exhibit B

From: **Jim Pegg** jim.pegg@palmbeachschools.org
Subject: Re: Eagle Arts Academy Question
Date: February 16, 2016 at 11:23 AM
To: Philip DiComo pdicomo@haleshaw.com
Cc: Gregory James Blount gblount@eagleartsacademy.com, Ariel Alejo ariel.alejo@palmbeachschools.org, Mark Stenner mark.stenner@palmbeachschools.org, A Denise Sagerholm adenise.sagerholm@palmbeachschools.org, Sean Fahey sean.fahey@palmbeachschools.org



Mr. DiComo,
The amount of \$28,783.68 is the final adjustment of the FY 15 (last year) FTE as determined by FDOE. That amount is being held pending the results of the investigation being conducted by the Office of the Inspector General (OIG) of the School District of Palm Beach County of Eagle Arts Academy regarding financial management. There may be some findings regarding the filing of the FTE for FY 15 by Eagle Arts Academy that may impact distribution of the FY 15 final adjustment.

Eagle Arts Academy, specifically Mr. Blount, has been included in communication with this department via email and in face-to-face conferences regarding the OIG investigation and what is being reviewed including the FY 15 final adjustment. Section IV of the school's charter provides for adjustments and revisions of the distribution of funds. It is possible that Eagle Arts Academy will have an adjustment of distribution of funds as a result of the findings of the OIG investigation.

It is expected that the OIG investigation will be concluded within the next 30-40 days. A meeting will be established to review the conclusions made through the investigation. At that time any funding adjustments will be reviewed and explained.

Should you or Mr. Blount require further explanation or if there are other questions, please contact me. I am always willing to meet with representatives of the school or governance. I have copied the District staff from this department and the Office of General Counsel, as well as Mr. Blount.

Thank you.

Jim Pegg, Director
Department of Charter Schools
The School District of Palm Beach County, Florida
Phone: 561-434-8779
PX#: 48779

The Department of Charter Schools Core Principles:

- *Maintain High Standards*
- *Uphold Charter School Autonomy*
- *Protect Student and Public Interests*

On Fri, Feb 12, 2016 at 12:11 PM, Philip DiComo <pdicomo@haleshaw.com> wrote:

Jim,

I believe you know that my firm has been retained by Eagle Arts Academy in a general counsel capacity. I am writing specifically at this time to inquire on behalf of my client about an outstanding balance related to EAA's transportation reimbursement. The amount in question is \$28,783.68 which should have been paid in December 2015, but I understand that a school district employee told an EAA staff member that

Management's Response
Eagle Arts Academy Charter School – Exhibit B

this is being held up due to Auditor General's investigation of the school. Can you clarify if this is the case, and on what grounds the funds are being held? Thank you.

Phil

Philip M. DiComo, Esq.
Haile, Shaw & Pfaffenberger, P.A.
660 U.S. Highway One, Third Floor
North Palm Beach, FL 33408
Telephone: [561.627-8100](tel:561.627.8100)
Facsimile: [561.622-7603](tel:561.622.7603)
Email: pdicomo@haileshaw.com

The information contained in this transmission is privileged and confidential information intended for use of the addressee. If the reader of this message is not the intended recipient, you are hereby notified that any dissemination, distribution or copying of this communication is strictly prohibited. If you have received this transmission in error, do not read it. Please immediately reply to the sender that you received this communication in error and then delete it. Thank you.

Disclaimer: Under Florida law, e-mail addresses are public records. If you do not want your e-mail address released in response to a public records request, do not send electronic mail to this entity. Instead, contact this office by phone or in writing.

Management's Response
Eagle Arts Academy Charter School – Exhibit C

Report: Transaction Report 6/30/16, 8:57 AM

Sound Tree Entertainment
Transaction Report
All Dates

Date	Transaction Type	Num	Name	Memo/Description	Account	Split	Amount	Balance
Loan Payable Katie Summers								
01/26/2011	Journal Entry	16		Clear out for error in recording loan	Loan Payable Katie Summers	-Split-	10,000.00	10,000.00
09/13/2012	Check	905	Summers, K	Loan payment	Loan Payable Katie Summers	Checking Wells Fargo 2164	-250.00	9,750.00
09/28/2012	Check	939	Summers, K	Loan Payment	Loan Payable Katie Summers	Checking Wells Fargo 2164	-250.00	9,500.00
10/15/2012	Check	949	Summers, Katie	Loan Payment	Loan Payable Katie Summers	Checking Wells Fargo 2164	-250.00	9,250.00
11/05/2012	Check	976	Summers, K	Loan Payment	Loan Payable Katie Summers	Checking Wells Fargo 2164	-250.00	9,000.00
01/04/2013	Check	1017	Summers, K	Loan Payment	Loan Payable Katie Summers	Checking Wells Fargo 2164	-250.00	8,750.00
02/07/2013	Check	1086	Summers, K	Loan Payment	Loan Payable Katie Summers	Checking Wells Fargo 2164	-250.00	8,500.00
03/06/2013	Check	1138	Summers, K	Loan Payment	Loan Payable Katie Summers	Checking Wells Fargo 2164	-250.00	8,250.00
01/23/2014	Check	1522	Summers, Katie	Loan Payment	Loan Payable Katie Summers	Checking Wells Fargo 2164	0.00	8,250.00
02/20/2014	Check	1597	Summers, Katie	Loan Payment	Loan Payable Katie Summers	Checking Wells Fargo 2164	-500.00	7,750.00
03/10/2014	Check	1585	Summers, Katie	Loan Payment	Loan Payable Katie Summers	Checking Wells Fargo 2164	-250.00	7,500.00
04/10/2014	Check	1637	Summers, Katie	Loan Payment	Loan Payable Katie Summers	Checking Wells Fargo 2164	-250.00	7,250.00
05/09/2014	Check	DP	Summers, Katie	Loan Payment	Loan Payable Katie Summers	Checking Wells Fargo 2164	-250.00	7,000.00

file:///private/var/folders/rg/x6m0y0112dv7x0f7dygplkqh0000gn/T/com.apple.mail/com.apple.mail/compose/attach/report.html Page 1 of 3

Management's Response
 Eagle Arts Academy Charter School – Exhibit C

Report: Transaction Report							6/30/16, 8:57 AM	
06/03/2014	Check	DP	Summers, Katie	Loan Payment	Loan Payable Katie Summers	Checking Wells Fargo 2164	-250.00	6,750.00
06/12/2014	Check	DP	Summers, Katie	Loan Payment	Loan Payable Katie Summers	Checking Wells Fargo 2164	-100.00	6,650.00
07/02/2014	Check	DP	Summers, Katie	Loan Payment	Loan Payable Katie Summers	Checking Wells Fargo 2164	-250.00	6,400.00
07/23/2014	Check	DP	Summers, Katie	Loan Payment	Loan Payable Katie Summers	Checking Wells Fargo 2164	-100.00	6,300.00
08/05/2014	Check	DP	Summers, Katie	Loan Payment	Loan Payable Katie Summers	Checking Wells Fargo 2164	-250.00	6,050.00
08/28/2014	Check	DP	Summers, Katie	Loan Payment	Loan Payable Katie Summers	Checking Wells Fargo 2164	-100.00	5,950.00
09/05/2014	Check	DP	Summers, Katie	Loan Payment	Loan Payable Katie Summers	Checking Wells Fargo 2164	-250.00	5,700.00
10/02/2014	Check	DP	Summers, Katie	Loan Payment	Loan Payable Katie Summers	Checking Wells Fargo 2164	-250.00	5,450.00
10/21/2014	Check	DP	Summers, Katie	Loan Payment	Loan Payable Katie Summers	Checking Wells Fargo 2164	-100.00	5,350.00
11/04/2014	Check	DP	Summers, Katie	Loan Payment	Loan Payable Katie Summers	Checking Wells Fargo 2164	-250.00	5,100.00
11/28/2014	Check	DP	Summers, Katie	Loan Payment	Loan Payable Katie Summers	Checking Wells Fargo 2164	-100.00	5,000.00
12/04/2014	Check	DP	Summers, Katie	Loan Payment	Loan Payable Katie Summers	Checking Wells Fargo 2164	-250.00	4,750.00
01/06/2015	Check	DP	Summers, Katie	Loan Payment	Loan Payable Katie Summers	Checking Wells Fargo 2164	-250.00	4,500.00
01/22/2015	Check	DP	Summers, Katie	Loan Payment	Loan Payable Katie Summers	Checking Wells Fargo 2164	-100.00	4,400.00
02/03/2015	Check	DP	Summers, Katie	Loan Payment	Loan Payable Katie	Checking Wells Fargo	-250.00	4,150.00

Management's Response
Eagle Arts Academy Charter School – Exhibit C

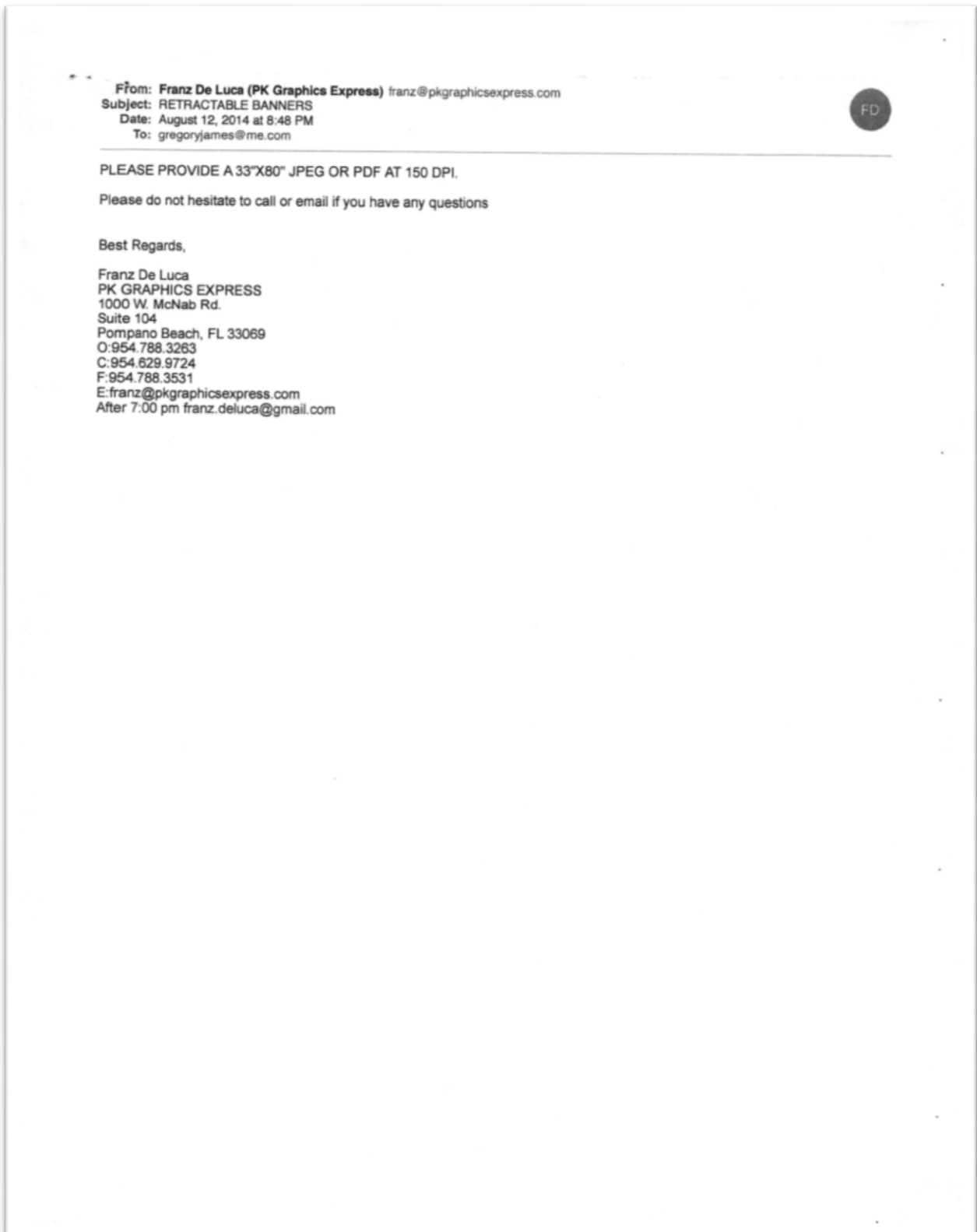
Report: Transaction Report							6/30/16, 8:57 AM	
					Summers	2164		
02/20/2015	Check	DP	Summers, Katie	Loan Payment	Loan Payable Katie Summers	Checking Wells Fargo 2164	-100.00	4,050.00
03/04/2015	Check	DP	Summers, Katie	Loan Payment	Loan Payable Katie Summers	Checking Wells Fargo 2164	-250.00	3,800.00
03/23/2015	Check	DP	Summers, Katie	Loan Payment	Loan Payable Katie Summers	Checking Wells Fargo 2164	-100.00	3,700.00
04/03/2015	Check	DP	Summers, Katie	Loan Payment	Loan Payable Katie Summers	Checking Wells Fargo 2164	-250.00	3,450.00
05/05/2015	Check	DP	Summers, Katie	Loan Payment	Loan Payable Katie Summers	Checking Wells Fargo 2164	-250.00	3,200.00
05/20/2015	Check	DP	Summers, Katie	Loan Payment	Loan Payable Katie Summers	Checking Wells Fargo 2164	-640.00	2,560.00
06/15/2015	Check	DP	Summers, Katie	Loan Payment	Loan Payable Katie Summers	Checking Wells Fargo 2164	-640.00	1,920.00
07/15/2015	Check	DP	Summers, Katie	Loan Payment	Loan Payable Katie Summers	Checking Wells Fargo 2164	-640.00	1,280.00
08/13/2015	Check	DP	Summers, Katie	Loan Payment	Loan Payable Katie Summers	Checking Wells Fargo 2164	-640.00	640.00
09/11/2015	Check	DP	Summers, Katie	Loan Payment - Final Payment	Loan Payable Katie Summers	Checking Wells Fargo 2164	-640.00	0.00
Total for Loan Payable Katie Summers							\$0.00	
TOTAL							\$0.00	

Wednesday, Jun 29, 2016 04:07:13 PM PDT GMT-4 - Accrual Basis

This report was created using QuickBooks Online Plus.

file:///private/var/folders/rg/x6m0y0112dv7x0f7dygplkqh0000gn/T/com.apple.mail/com.apple.mail/compose/attach/report.html Page 3 of 3

Management's Response
Eagle Arts Academy Charter School – Exhibit D



Management's Response
Eagle Arts Academy Charter School – Exhibit D

From: **Jeff Greenwald** jeff.greenwald@palmbeach-broadcasting.com
Subject: FW: Exhibitor Set-up Packet
Date: August 13, 2014 at 10:30 AM
To: Gregory James Blount gregoryjames@me.com
Cc: Judy Wickwire Judy.Wickwire@palmbeach-broadcasting.com



Not sure if I sent you this yet or not...

Jeffrey Greenwald
General Sales Manager
Palm Beach Broadcasting
97.9 WRMF / Sunny 107.9 WEAT
(561) 541-3387 Cell – Best Number
701 Northpoint Parkway
Suite 500
West Palm Beach, FL. 33407



8/13/2014



Management's Response
Eagle Arts Academy Charter School – Exhibit D

From: Franz De Luca (PK Graphics Express) franz@pkgraphicsexpress.com
Subject: Re: 8x8 Banner
Date: August 18, 2014 at 5:01 PM
To: Gregory James Blount gregoryjames@me.com



FILE IS GOOD BUT IF YOU NEED FOR THURSDAY NEED TO SPEAK TO YOU BEFORE 7PM PLEASE.

On 8/18/14 12:54 PM, "Gregory James Blount" <gregoryjames@me.com> wrote:

Franz

Here is the 8x8 banner. Please confirm it is okay and please advise how it stands up. Does it stand independently?

I am working on the other 2 retractable stands, now. I need by Thursday. Please confirm for all.

Call me for a new credit card for the school.

Greg James
561-706-1203

Management's Response
Eagle Arts Academy Charter School – Exhibit D



date	Invoice
8.18.14	17225

PK Graphics Express
1621 SW 5TH CT, POMPANO BEACH FL 33069
TEL: 954.629.9724
FAX: 954.788.3531
franz@pkgraphicsexpress.com

PAID

Name	Description	Size	UV / NO UV	Quantity	Total
EAGLE ARTS ACADENMY GREG JAMES	WALT DISNEY STEP&REPEAT	8'X8'	VINYL	1	\$550.00
					\$550.00

Tax:	6.00%
Total:	\$583.00

Phone : 561.706.1203

Instructions:

Management's Response
Eagle Arts Academy Charter School – Exhibit D



date	Invoice
8.19.14	17226

PK Graphics Express
1621 SW 5TH CT, POMPANO BEACH FL 33069
TEL: 954.629.9724
FAX: 954.788.3531
franz@pkgraphicsexpress.com

PAID

Name	Description	Size	UV / NO UV	Quantity	Total
EAGLE ARTS ACADEMY GREG JAMES	EAGLE ARTS ACADEMY	33X80	VINYL	2	\$400.00

\$400.00

Tax:	6.00%
Total:	\$424.00

Phone : 561.706.1203

Instructions:

Management's Response
Eagle Arts Academy Charter School – Exhibit D



date	Invoice
8.20.14	17235

PK Graphics Express
1621 SW 5TH CT, POMPANO BEACH FL 33069
TEL: 954.629.9724
FAX: 954.788.3531
frank@pkgraphicsexpress.com

PAID

Name	Description	Size	UV / NO UV	Quantity	Total
EAGLE ARTS ACADEMY GREG JAMES		8.5X11	UV	1000	\$400.00
					\$400.00

Tax:	6.00%
Total:	\$424.00

Phone : 561.706.1203

Instructions:

Management's Response
Eagle Arts Academy Charter School – Exhibit E



Governing Board Meeting Agenda
May 12, 2015
5:00 PM and 6:00 PM

- I. Roll Call and Establishment of Quorum**
- II. Approval of May 4th Meeting Minutes**
- III. New Business**
 - A. Confirmation of Legal Counsel**
 - B. TCE Demand Letter**
 - C. Acceptance of Brooke Havrilla resignation**
 - D. Election of Officers**
 - E. PNC Bank Account – Resolution of new signers**
- IV. Old and Unfinished Business**
 - A. Review of updated budget**
- V. Public Comment**
- VI. Board Comment**
- VII. Adjournment**

Management's Response
Eagle Arts Academy Charter School – Exhibit F

THE ARNOLD LAW FIRM

Shawn A. Arnold, Esq.**
Melissa Gross-Arnold, Esq.**
John P. Leombruno, Esq.*

Offices in Jacksonville, FL
and Brunswick, GA

* Board Certified Criminal Trial Attorney
* Licensed in Florida and Georgia
* Board Certified City, County & Local
Government Law
∞ Board Certified - Education Law
* Florida Supreme Court Certified Family
Mediator

May 12, 2015

Greg Blount, Governing Board Chair
Eagle Arts Academy, Inc.
1000 Wellington Trace
Wellington, Florida 33414

VIA E-MAIL

RE: Management Agreement between iSchools, LLC, and Eagle Arts Academy, Inc.,
dated June 13, 2014

Dear Mr. Blount:

This letter is written to follow-up on your phone call to me yesterday evening. The contents of this letter are meant to constitute settlements talks between the parties to the above-referenced Agreement, and as such, they are not admissible against either party under Florida Statutes, Section 90.408. As we discussed, a couple of months ago iSchools and Eagle Arts began discussions about a mutual, voluntary termination of the Agreement. These talks were initiated by iSchools out of a belief that there appeared to be irreconcilable differences in approach and personalities between it and Eagle Arts, and that it would be in the best interests of both parties to focus efforts on a mutually agreeable settlement and transition. My understanding is that you share this belief.

iSchools' offer to voluntarily terminate the Agreement remains open. The proposal is that termination of the Agreement take place no later than June 30, 2015 and would require resolution on repayment of the loan between iSchools and Eagle Arts. Details of a transition plan and transition assistance would also need to be worked out. iSchools would remain on campus and provide services until the Agreement is terminated. My understanding from you is that Eagle Arts does not intend to hire a new management company for comprehensive charter school management but will instead hire staff to perform these services in-house with limited contracts for outside services. iSchools would provide assistance to transition to this new model and would also be available to answer questions of auditors for Eagle Arts' independent financial audit for the 2014-15 school year.

6279 Dupont Station Ct. | Jacksonville, FL 32217 | www.floridaschoolattorneys.com
Office 904 -731-3800 | Fax 904-731-3807 | Georgia Office 912-638-1121

Management's Response
Eagle Arts Academy Charter School – Exhibit F

May 12, 2015
Page | 2

My understanding is that the Board will be voting on hiring legal counsel at its meeting this afternoon. If the Board is amenable to the proposal in this letter, we would ask that it name a representative of the Board to work with Eagle Arts' new legal counsel and iSchools to develop the specifics of the termination, loan repayment and transition plan to bring back to the Board for approval. We would like to schedule a meeting within the next week to begin these discussions.

If the parties are unable to come to a mutually acceptable agreement, they would each be able to pursue their individual remedies under the Management Agreement. However, this offer is made in the hopes of resolving this amicably. I look forward to hearing back from you.

Sincerely,




Melissa Gross-Arnold
Melissa@ArnoldLawFirmLLC.com

C: Eagle Arts Academy, Inc. Governing Board Members
Melissa March
Robert Cambo

Management's Response
Eagle Arts Academy Charter School – Exhibit G

L17000055672

<p>_____ (Requestor's Name)</p> <p>_____ (Address)</p> <p>_____ (Address)</p> <p>_____ (City/State/Zip/Phone #)</p> <p><input type="checkbox"/> PICK-UP <input type="checkbox"/> WAIT <input type="checkbox"/> MAIL</p> <p>_____ (Business Entity Name)</p> <p>_____ (Document Number)</p> <p>Certified Copies _____ Certificates of Status _____</p> <div style="border: 1px solid black; padding: 5px; margin-top: 10px;"><p>Special Instructions to Filing Officer:</p> </div> <p style="text-align: center; font-size: 10px;">Office Use Only</p>	 <p style="font-size: 24px; font-weight: bold;">200271034052</p> <p style="font-size: 12px;">03/26/15--01024--020 **25.00</p> <div style="text-align: right; margin-top: 20px;"><p style="font-size: 18px; font-weight: bold;">FILED</p><p style="font-size: 12px;">15 MAR 26 AM 9:19</p><p style="font-size: 8px;">SECRETARY OF STATE GENERAL SERVICES DIVISION</p></div> <div style="text-align: right; margin-top: 20px;"><p style="font-size: 14px; font-weight: bold;">J. Chivers APR 16 2015</p></div>
--	--

Management's Response
Eagle Arts Academy Charter School – Exhibit G

COVER LETTER

**TO: Registration Section
Division of Corporations**

iSchools, LLC

SUBJECT: _____
Name of Limited Liability Company

The enclosed Articles of Amendment and fee(s) are submitted for filing.

Please return all correspondence concerning this matter to the following:

Nanyu Barbosa

Name of Person

Firm/Company

2977 McFarlane Road Suite 303

Address

Coconut Grove, Florida 33133

City/State and Zip Code

nb@alliancecos.com

E-mail address: (to be used for future annual report notification)

For further information concerning this matter, please call:

Nanyu Barbosa at (**305**) **500-9440**

Name of Person Area Code Daytime Telephone Number

Enclosed is a check for the following amount:

- \$25.00 Filing Fee
- \$30.00 Filing Fee & Certificate of Status
- \$55.00 Filing Fee & Certified Copy
(additional copy is enclosed)
- \$60.00 Filing Fee, Certificate of Status & Certified Copy
(additional copy is enclosed)

MAILING ADDRESS:
Registration Section
Division of Corporations
P.O. Box 6327
Tallahassee, FL 32314

STREET/COURIER ADDRESS:
Registration Section
Division of Corporations
Clifton Building
2661 Executive Center Circle
Tallahassee, FL 32301

Management's Response
Eagle Arts Academy Charter School – Exhibit G

ARTICLES OF AMENDMENT
TO
ARTICLES OF ORGANIZATION
OF

iSchools, LLC

(Name of the Limited Liability Company as it now appears on our records,
(A Florida Limited Liability Company))

The Articles of Organization for this Limited Liability Company were filed on 04/22/2013 and assigned
Florida document number L13000058672

This amendment is submitted to amend the following:

A. If amending name, enter the new name of the limited liability company here:

The new name must be distinguishable and end with the words "Limited Liability Company," the designation "LLC" or the abbreviation "L.L.C."

Enter new principal offices address, if applicable:

2506 Ponce De Leon Blvd

(Principal office address MUST BE A STREET ADDRESS)

Coral Gables, Florida 33134

Enter new mailing address, if applicable:

2506 Ponce De Leon Blvd

(Mailing address MAY BE A POST OFFICE BOX)

Coral Gables, Florida 33134

B. If amending the registered agent and/or registered office address on our records, enter the name of the new
registered agent and/or the new registered office address here:

Name of New Registered Agent:

New Registered Office Address:

Enter Florida street address

City, Florida

New Registered Agent's Signature, if changing Registered Agent:

I hereby accept the appointment as registered agent and agree to act in this capacity. I further agree to comply with the
provisions of all statutes relative to the proper and complete performance of my duties, and I am familiar with and
accept the obligations of my position as registered agent as provided for in Chapter 605, F.S. Or, if this document is
being filed to merely reflect a change in the registered office address, I hereby confirm that the limited liability
company has been notified in writing of this change.

If Changing Registered Agent, Signature of New Registered Agent

Management's Response
Eagle Arts Academy Charter School – Exhibit G

• If amending the Managers or Authorized Member on our records, enter the title, name, and address of each Manager or Authorized Member being added or removed from our records:

MGR = Manager
AMBR = Authorized Member

<u>Title</u>	<u>Name</u>	<u>Address</u>	<u>Type of Action</u>
AMBR	Fabio D'Ascola	1050 Palermo Ave	<input type="checkbox"/> Add
		Coral Gables, FL 33134	<input checked="" type="checkbox"/> Remove
			<input type="checkbox"/> Add
			<input type="checkbox"/> Remove
			<input type="checkbox"/> Add
			<input type="checkbox"/> Remove
			<input type="checkbox"/> Add
			<input type="checkbox"/> Remove
			<input type="checkbox"/> Add
			<input type="checkbox"/> Remove

15 MAR 6 AM 9:29
FILED
CLERK OF DISTRICT COURT
MIAMI, FLORIDA

Management's Response
Eagle Arts Academy Charter School – Exhibit G

D. If amending any other information, enter change(s) here: *(Attach additional sheets, if necessary.)*

E. Effective date, if other than the date of filing: _____ (optional)

(The effective date must be specific, cannot be prior to date of receipt or filed date and cannot be more than 90 days after the date this document is filed by the Florida Department of State)

Dated 3/25 2015

X Robert Cambo

Signature of a member or authorized representative of a member

Robert Cambo

Typed or printed name of signee

Page 3 of 3
Filing Fee: \$25.00

STATE OF FLORIDA
DEPARTMENT OF STATE
RECEIVED

15 MAR 26 AM 9:29

FILED

Management's Response
Eagle Arts Academy Charter School – Exhibit H



VIA Email

Aventura, May 21, 2015

TO: Eagle Arts Academy Inc.
1000 Wellington Trace
Wellington
FL. 33414

Re: Termination of Employment of Fabio D'Ascola

Mr. Blount,

We are writing to advise you that, effective May 19, 2015, Mr. D'Ascola's employment with ESJ Capital Partners, LLC (hereinafter the "Company") was terminated.

Ms. Marine Pecket, our controller, will assume certain duties previously performed by Mr. D'Ascola, and Mr. Elie Mimoun our COO will assume other duties performed by Mr. D'Ascola. As the principal officers of the Company, we will assume the balance of Mr D'Ascola's duties pending the appointment of a new CFO.

This letter is for informational purposes only, as there will be no business interruption.

If you have any questions, please feel free to contact any of us.

Thank you.

Very truly yours,

A handwritten signature in blue ink, appearing to read "Gabriel Amiel". The signature is stylized and fluid.

Gabriel Amiel

One Aventura - 20900 NE 30th Avenue, Suite 311 - Aventura, FL 33180
Tel: +1 305 600 5001 - Fax: +1 305 402 8069 - info@esjcp.com - www.esjcp.com

Management's Response
Eagle Arts Academy Charter School – Affidavit A

AFFIDAVIT OF DR. JON ROBERTSON

STATE OF FLORIDA)SS
COUNTY OF PALM BEACH)

BEFORE ME appeared **DR. JON ROBERTSON**, who after being sworn under oath deposes and says:

1. I am the affiant herein and have personal knowledge of the facts contained in this affidavit.

2. This Affidavit is being prepared in connection with results of the Audit of Eagle Arts Academy Charter School requested by The School District of Palm Beach County.

3. I am one of the Founding Members of the Founding Board of the Eagle Arts Academy and am currently on the Governing Board of the Eagle Arts Academy.

4. The Founding Board members were Gregory James Blount, Tim Quinn, C. Ron Allen, Ana Diaz and myself.

5. The Founding Board of Eagle Arts Academy is different than the Governing Board of Eagle Arts Academy.

6. The Founding Board conducted regular meetings during the pre-development stages prior to opening Eagle Arts Academy.

7. The Founding Board meetings were to discuss the developments in opening Eagle Arts Academy, including, but not limited to, writing the charter application, hiring consultants, and retaining legal counsel.

Management's Response
Eagle Arts Academy Charter School – Affidavit A

8. The Founding Board meetings also included numerous meetings about acquiring land and building a new campus for Eagle Arts Academy.

9. The Former Vice-Chairman, C. Ron Allen, was responsible for keeping and drafting the Founding Board meeting minutes, but failed to do so.

10. Gregory James Blount, as the Founder of Eagle Arts Academy, applied for a start-up grant, but due to the fact that no physical location for the school was secured, the start-up grant application was denied.

11. It was understood by the Founding Board that Sound Tree Entertainment, to which Gregory James Blount is a principal, would fund and/or secure funding to start Eagle Arts Academy as the Founding Board continued through the pre-development stages.

12. The decisions regarding the development of Eagle Arts Academy were made as a group by the Founding Board after numerous meetings and discussions.

13. None of the Founding Board acted alone in any decisions and acted in accordance with the decisions of the Founding Board as a group.

14. The decision of interviewing potential consultants and legal firms, including negotiating rates and fees were not made by Gregory James Blount, but were made by the Founding Board.

15. Gregory James Blount did not receive any compensation from June 2011 through July 2014 for his efforts in writing the 421 page charter application.

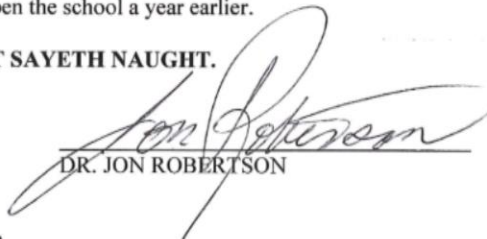
16. Eagle Arts Academy did not become an official charter school until July 30, 2014, only twenty (20) days prior to opening the school with six hundred eight-five (685) enrolled students.

Management's Response
Eagle Arts Academy Charter School – Affidavit A

17. Once Eagle Arts Academy was opened, then a Governing Board was established.

18. Eagle Arts Academy was originally scheduled to open in August 2015, but since the current Wellington campus property became available earlier, the Founding Board decided as a group to open the school a year earlier.

FURTHER AFFIANT SAYETH NAUGHT.


DR. JON ROBERTSON

STATE OF FLORIDA
COUNTY OF PALM BEACH

Sworn to or affirmed and signed before me on this 30th day of June, 2016 by DR. JON ROBERTSON who is personally known to me or produced FL. Driver's License as identification.


NOTARY PUBLIC
STATE OF FLORIDA



Management's Response
Eagle Arts Academy Charter School – Affidavit B

AFFIDAVIT OF TIM QUINN

STATE OF FLORIDA)SS
COUNTY OF PALM BEACH)

BEFORE ME appeared **TIM QUINN**, who after being sworn under oath deposes and says:

1. I am the affiant herein and have personal knowledge of the facts contained in this affidavit.

2. This Affidavit is being prepared in connection with results of the Audit of Eagle Arts Academy Charter School requested by The School District of Palm Beach County.

3. I am one of the Founding Members of the Founding Board of the Eagle Arts Academy and am currently on the Governing Board of the Eagle Arts Academy.

4. The Founding Board members were Gregory James Blount, Dr. Jon Robertson, C. Ron Allen, Ana Diaz and myself.

5. The Founding Board of Eagle Arts Academy is different than the Governing Board of Eagle Arts Academy.

6. The Founding Board conducted regular meetings during the pre-development stages prior to opening Eagle Arts Academy.

7. The Founding Board meetings were to discuss the developments in opening Eagle Arts Academy, including, but not limited to, writing the charter application, hiring consultants, and retaining legal counsel.

Management's Response
Eagle Arts Academy Charter School – Affidavit B

8. The Founding Board meetings also included numerous meetings about acquiring land and building a new campus for Eagle Arts Academy.

9. The Former Vice-Chairman, C. Ron Allen, was responsible for keeping and drafting the Founding Board meeting minutes, but failed to do so.

10. Gregory James Blount, as the Founder of Eagle Arts Academy, applied for a start-up grant, but due to the fact that no physical location for the school was secured, the start-up grant application was denied.

11. It was understood by the Founding Board that Sound Tree Entertainment, to which Gregory James Blount is a principal, would fund and/or secure funding to start Eagle Arts Academy as the Founding Board continued through the pre-development stages.

12. The decisions regarding the development of Eagle Arts Academy were made as a group by the Founding Board after numerous meetings and discussions.

13. None of the Founding Board acted alone in any decisions and acted in accordance with the decisions of the Founding Board as a group.

14. The decision of interviewing potential consultants and legal firms, including negotiating rates and fees were not made by Gregory James Blount, but were made by the Founding Board.

15. Gregory James Blount did not receive any compensation from June 2011 through July 2014 for his efforts in writing the 421 page charter application.

16. Eagle Arts Academy did not become an official charter school until July 30, 2014, only twenty (20) days prior to opening the school with six hundred eight-five (685) enrolled students.

Management's Response
Eagle Arts Academy Charter School – Affidavit B

17. Once Eagle Arts Academy was opened, then a Governing Board was established.

18. Eagle Arts Academy was originally scheduled to open in August 2015, but since the current Wellington campus property became available earlier, the Founding Board decided as a group to open the school a year earlier.

FURTHER AFFIANT SAYETH NAUGHT.



TIM QUINN

STATE OF FLORIDA
COUNTY OF PALM BEACH

Sworn to or affirmed and signed before me on this 30th day of June, 2016 by TIM QUINN who is personally known to me or produced FL. Drivers License as identification.



NOTARY PUBLIC
STATE OF FLORIDA



Management's Response
Eagle Arts Academy Charter School – Affidavit C

AFFIDAVIT OF GREGORY JAMES BLOUNT

STATE OF FLORIDA)SS
COUNTY OF PALM BEACH)

BEFORE ME appeared **GREGORY JAMES BLOUNT**, who after being sworn under oath deposes and says:

1. I am the affiant herein and have personal knowledge of the facts contained in this affidavit.

2. This Affidavit is being prepared in connection with results of the Audit of Eagle Arts Academy Charter School requested by The School District of Palm Beach County.

3. I am one of the Founding Members of the Founding Board of the Eagle Arts Academy and am currently the Executive Director of the Eagle Arts Academy.

4. The Founding Board members were Dr. Jon Robertson, Tim Quinn, C. Ron Allen, Ana Diaz and myself.

5. The Founding Board of Eagle Arts Academy is different than the Governing Board of Eagle Arts Academy.

6. The Founding Board conducted regular meetings during the pre-development stages prior to opening Eagle Arts Academy.

7. The Founding Board meetings were to discuss the developments in opening Eagle Arts Academy, including, but not limited to, writing the charter application, hiring consultants, and retaining legal counsel.

Management's Response
Eagle Arts Academy Charter School – Affidavit C

8. The Founding Board meetings also included numerous meetings about acquiring land and building a new campus for Eagle Arts Academy.

9. The Former Vice-Chairman, C. Ron Allen, was responsible for keeping and drafting the Founding Board meeting minutes, but failed to do so.

10. As the Founder of Eagle Arts Academy, I also applied for a start-up grant, but due to the fact that no physical location for the school was secured, the start-up grant application was denied.

11. It was understood by the Founding Board that Sound Tree Entertainment, to which I am a principal, would fund and/or secure funding to start Eagle Arts Academy as the Founding Board continued through the pre-development stages.

12. The decisions regarding the development of Eagle Arts Academy were made as a group by the Founding Board after numerous meetings and discussions.

13. I did not act alone in any decisions and acted in accordance with the decisions of the Founding Board.

14. The decision of interviewing potential consultants and legal firms, including negotiating rates and fees were not made by me, but were made by the Founding Board.

15. I did not receive any compensation from June 2011 through July 2014 for my efforts in writing the 421 page charter application.

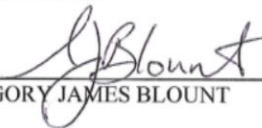
16. Eagle Arts Academy did not become an official charter school until July 30, 2014, only twenty (20) days prior to opening the school with six hundred eight-five (685) enrolled students.

Management's Response
Eagle Arts Academy Charter School – Affidavit C

17. Once Eagle Arts Academy was opened, then a Governing Board was established.

18. Eagle Arts Academy was originally scheduled to open in August 2015, but since the current Wellington campus property became available earlier, the Founding Board decided as a group to open the school a year earlier.

FURTHER AFFIANT SAYETH NAUGHT.



GREGORY JAMES BLOUNT

STATE OF FLORIDA
COUNTY OF PALM BEACH

Sworn to or affirmed and signed before me on this 30th day of June, 2016 by GREGORY JAMES BLOUNT who is personally known to me or produced FL. Drivers License as identification.



NOTARY PUBLIC
STATE OF FLORIDA

