



**SILVA OF SOUTH FLORIDA, INC., D/B/A
PATHWAYS ACADEMY CHARTER SCHOOL,
A CHARTER SCHOOL AND COMPONENT UNIT OF THE
SCHOOL BOARD OF BROWARD COUNTY, FLORIDA**

**BASIC FINANCIAL STATEMENTS AND
SUPPLEMENTAL INFORMATION**

JUNE 30, 2014

**SILVA OF SOUTH FLORIDA, INC., D/B/A
PATHWAYS ACADEMY CHARTER SCHOOL,
A CHARTER SCHOOL AND COMPONENT UNIT OF THE
DISTRICT SCHOOL BOARD OF BROWARD COUNTY, FLORIDA
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JUNE 30, 2014**

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Silva of South Florida, Inc., d/b/a Pathways Academy Charter School
a Charter School and Component Unit of
the School Board of Broward County, Florida
Lauderdale Lakes, Florida

We have audited the accompanying financial statements of the governmental activities and each major fund of Silva of South Florida, Inc., d/b/a Pathways Academy Charter School a component unit and charter school of the School Board of Broward County, Florida (the "Academy") as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Academy's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Governmental Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of Silva of South Florida, Inc., d/b/a Pathways Academy Charter School a component unit and charter school of the School Board of Broward County, Florida, as of June 30, 2014, and the respective changes in financial

position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

In accordance with *Governmental Auditing Standards*, we have also issued our report dated September 25, 2014 on our consideration of the School's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Governmental Auditing Standards* and should be considered in assessing the results of our audit.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3-7 and 24-25 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.



Indian Shores, Florida
September 25, 2014

**SILVA OF SOUTH FLORIDA, INC., D/B/A
PATHWAYS ACADEMY CHARTER SCHOOL,
A CHARTER SCHOOL AND COMPONENT UNIT OF THE
DISTRICT SCHOOL BOARD OF BROWARD COUNTY, FLORIDA
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2014**

Our discussion and analysis of Silva of South Florida, Inc., d/b/a Pathways Academy Charter School a component unit and charter school of the District School Board of Broward County, Florida, (the "Academy") financial program provides an overview of the Academy's financial and non-financial activities for the year ended June 30, 2014. In addition, the discussion and analysis will also provide the following information:

- How the basic financial statements relate to each other and the significant differences of information they provide.
- A comparative analysis of current and prior year financial information to provide reasons for significant changes that significantly affected current year operations.
- An analysis of fund financial information and a review of significant changes in fund balances.
- An analysis of significant variations between original and final budgeted amounts and actual results of operations.
- A description of currently known facts, decisions, or conditions that are expected to have a significant effect on the Academy's prospects for the future.

OVERVIEW OF THE BASIC FINANCIAL STATEMENTS:

The basic financial statements consist of three components:

1. Government-wide financial statements
2. Fund financial statements
3. Notes to the basic financial statements

Government-Wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the Academy's financial position. Included in these statements are assets and liabilities using the accrual method of accounting.

The Statement of Net Position presents information on all of the Academy's assets and liabilities, with the difference reported as net position. Over time, increases or decreases in net position may be an indicator of improving or deteriorating financial conditions.

The Statement of Activities presents information about the change in net position and results of operations during the most recent fiscal year. All results of operations, changes in net position, and results of operations are reported when the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows.

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MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2014**

OVERVIEW OF THE BASIC FINANCIAL STATEMENTS (continued):

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Academy uses fund accounting to demonstrate compliance with finance related legal requirements and prudent fiscal management. Fund financial statements provide more detailed information about financial activities focusing on its most significant funds. The Academy has reported fund balance in classifications which clarifies the presentation of fund balance, a key indicator of inter period equity.

Notes to the Basic Financial Statements

The notes to the basic financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 14-23 of this report.

Government-Wide Financial Analysis:

As noted earlier, net position may over time serve as a useful indicator of the Academy's financial position when the current and prior years are compared.

	<u>Net Position</u>
	<u>2014</u>
Current and other assets	\$ 132,718
Capital assets, net of accumulated depreciation	<u>60,048</u>
Total assets	<u>192,766</u>
 Current liabilities	 <u>205,544</u>
 Net assets:	
Invested in capital assets	60,048
Unrestricted	<u>(72,826)</u>
Total net position	<u>\$ (12,778)</u>

The Academy's net position has decreased due to expenses exceeding revenues across total government functions and programs in its inaugural year of operation.

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MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2014**

OVERVIEW OF THE BASIC FINANCIAL STATEMENTS (continued):

Revenues for governmental activities totaled \$1,991,379 for the year ended June 30, 2014. The main source of revenue was from the Florida Education Finance Program ("FEFP"). FEFP revenue of \$1,298,361 represented approximately 65% of total revenue for the 2014 fiscal year.

Revenue Source	Amount	Percent of Total
Federal sources	\$ 267,360	13.42%
State sources	1,706,945	85.72%
Food service-local	938	0.05%
Child care	12,385	0.62%
Local sources	3,751	0.19%
Total	<u>\$ 1,991,379</u>	<u>100.00%</u>

Expenses exceeded revenue during the inaugural year of operation due primarily to cost of capital assets, transportation and administrative expenses.

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MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2014**

OVERVIEW OF THE BASIC FINANCIAL STATEMENTS (continued):

	<u>Changes in Net Position</u>
	<u>2014</u>
Revenues:	
Program Revenues:	
Operating grants and contributions	\$ 268,298
General revenues:	
Unrestricted grants and contributions	1,723,081
Total revenues	<u>1,991,379</u>
Program expenses:	
Instruction	743,633
Staff training	3,000
Student services	26,942
Food services	223,021
Board	18,072
School administration	311,380
Central services	12,145
Operation of plant	378,728
Maintenance of plant	10,700
School District administartion fee	78,584
Child care	38,613
Fiscal services	44,374
Transportation	115,422
Total program expenses	<u>2,004,614</u>
Increase (decrease) in net assets	<u>\$ (13,235)</u>

Current Year/Prior Year Analysis:

Financial Analysis of Individual Funds

The Academy began education operations July 1, 2013, for the 2013/2014 school year; therefore, there are no comparisons to prior year information.

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MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2014**

OVERVIEW OF THE BASIC FINANCIAL STATEMENTS (continued):

- The fund balance of the General Fund at June 30, 2014 was \$(70,521), a decrease of \$70,978 from June 30, 2013.
- Actual revenue in all funds for 2014 was \$1,991,379.

Capital Assets

- Capital assets' net book value was \$60,048 at June 30, 2014 due to the net effect of acquisition of capital assets of \$78,490 and \$18,442 of depreciation expense in the Academy's inaugural year of operation.
- The Academy made no borrowings during fiscal year 2014.

Budgetary Highlights in the General Fund

Actual revenue in the General Fund was \$1,812,172.

Instruction and other expenditures were over revenue by approximately \$19,916.

The General Fund balance at June 30, 2014 was \$(70,521), a decrease of \$70,978 from June 30, 2013, a year which the Academy was in its developmental stage.

Significant Economic Factors for the Future

Management anticipates the student census will increase to approximately 275 students for the fiscal year ending June 30, 2015. Management has prepared a budget to reflect a projected full-time equivalent (FTE) student population of 275 students. The Academy has reduced administrative staff and certain other employee costs. As a result of the projected FTE, and cost reductions referred to above, the Academy has projected an operating gain of \$128,824 for fiscal year ending June 30, 2015.

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STATEMENT OF NET POSITION
JUNE 30, 2014**

	<u>Governmental Activities</u>
<u>ASSETS</u>	
CURRENT ASSETS:	
Cash	\$ 11,185
Accounts receivable	71,423
Prepaid expenses	<u>6,685</u>
Total current assets	89,293
CAPITAL ASSETS, NET OF ACCUMULATED DEPRECIATION	<u>60,048</u>
OTHER ASSETS:	
Deposits	<u>43,425</u>
Total other assets	<u>43,425</u>
Total assets	<u><u>\$ 192,766</u></u>
<u>LIABILITIES AND NET POSITION</u>	
CURRENT LIABILITIES:	
Accounts payable	88,526
Accrued payroll and related expenses	<u>117,018</u>
Total current liabilities	205,544
NET POSITION:	
Invested in capital assets	60,048
Restricted	-
Unrestricted	<u>(72,826)</u>
Total net position	<u>(12,778)</u>
Total liabilities and net position	<u><u>\$ 192,766</u></u>

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

**SILVA OF SOUTH FLORIDA, INC., D/B/A
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DISTRICT SCHOOL BOARD OF BROWARD COUNTY, FLORIDA
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2014**

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Assets
		Operating Grants and Contributions	Capital Grants and Contributions	
Governmental Activities:				
Instruction	\$ 743,633	\$ 89,091	\$ -	\$ (654,542)
Technology	3,000	-	-	(3,000)
Student services	26,942	-	-	(26,942)
Food services	223,021	179,207	-	(43,814)
Board	18,072	-	-	(18,072)
School administration	311,380	-	-	(311,380)
Central services	12,145	-	-	(12,145)
Operation of plant	378,728	-	-	(378,728)
Maintenance of plant	10,700	-	-	(10,700)
School District administration fee	78,584	-	-	(78,584)
Child care	38,613	-	-	(38,613)
Fiscal services	44,374	-	-	(44,374)
Transportation	115,422	-	-	(115,422)
Total governmental activities	<u>\$ 2,004,614</u>	<u>\$ 268,298</u>	<u>\$ -</u>	<u>(1,736,316)</u>
General Revenues:				
State through local school district				1,706,945
Local				12,385
Other revenue				<u>3,751</u>
Total general revenues				<u>1,723,081</u>
Change in net position				(13,235)
Net position - July 1, 2013 (unaudited)				<u>457</u>
Net position - June 30, 2014				<u>\$ (12,778)</u>

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

**SILVA OF SOUTH FLORIDA, INC., D/B/A
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DISTRICT SCHOOL BOARD OF BROWARD COUNTY, FLORIDA
BALANCE SHEET – GOVERNMENTAL FUNDS
JUNE 30, 2014**

	General Fund	Special Revenue Fund	Total Governmental Funds
<u>ASSETS</u>			
CURRENT ASSETS:			
Cash	\$ 11,185	\$ -	\$ 11,185
Accounts receivables	71,423	-	71,423
Prepaid expenses	5,500	1,185	6,685
Total current assets	<u>88,108</u>	<u>1,185</u>	<u>89,293</u>
OTHER ASSETS:			
Deposits	43,425	-	43,425
Total other assets	<u>43,425</u>	<u>-</u>	<u>43,425</u>
Total assets	<u><u>\$ 131,533</u></u>	<u><u>\$ 1,185</u></u>	<u><u>\$ 132,718</u></u>
<u>LIABILITIES AND FUND BALANCES</u>			
LIABILITIES:			
Accounts payable	\$ 88,526	\$ -	\$ 88,526
Accrued payroll and related expense	113,528	3,490	117,018
Total current liabilities	<u>202,054</u>	<u>3,490</u>	<u>205,544</u>
FUND BALANCES:			
Nonspendable			
Prepaid expenses	5,500	1,185	6,685
Deposits	43,425	-	43,425
Unassigned	(119,446)	(3,490)	(122,936)
Total fund balances	<u>(70,521)</u>	<u>(2,305)</u>	<u>(72,826)</u>
Total liabilities and fund balances	<u><u>\$ 131,533</u></u>	<u><u>\$ 1,185</u></u>	<u><u>\$ 132,718</u></u>

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

**SILVA OF SOUTH FLORIDA, INC., D/B/A
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DISTRICT SCHOOL BOARD OF BROWARD COUNTY, FLORIDA
RECONCILIATION OF THE BALANCE SHEET OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF NET POSITION
JUNE 30, 2014**

Fund Balances - Governmental Funds	\$ (72,826)
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Amounts reported for governmental activities in the statement of net position are different because:

Capital assets, net of accumulated depreciation, used in governmental activities are not financial resources and therefore are not reported in the governmental funds.

60,048

Total net position - Governmental activities	<u>\$ (12,778)</u>
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The accompanying notes to the basic financial statements are an integral part of this statement.

**SILVA OF SOUTH FLORIDA, INC., D/B/A
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DISTRICT SCHOOL BOARD OF BROWARD COUNTY, FLORIDA
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES – GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2014**

	General Fund	Special Revenue Fund	Total Governmental Funds
REVENUES:			
Federal passed through local school district	\$ 89,091	\$ -	\$ 89,091
State passed through local school district	1,706,945	-	1,706,945
Food service	-	179,207	179,207
Child care	12,385	-	12,385
Local	3,751	-	3,751
Total revenues	1,812,172	179,207	1,991,379
EXPENDITURES:			
Current:			
Instruction	778,319	-	778,319
Technology	3,000	-	3,000
Student services	26,942	-	26,942
Food services	-	232,574	232,574
Board	18,072	-	18,072
School administration	314,598	-	314,598
Central services	12,145	-	12,145
Operation of plant	391,319	-	391,319
Maintenance of Plant	10,700	-	10,700
School District administration fee	78,584	-	78,584
Child care	38,613	-	38,613
Fiscal Services	44,374	-	44,374
Transportation	115,422	-	115,422
Total expenditures	1,832,088	232,574	2,064,662
Excess (deficiency) of revenues over (under) expenditures	(19,916)	(53,367)	(73,283)
Other financing sources (uses):			
Transfers in	-	51,062	51,062
Transfers out	(51,062)	-	(51,062)
Total other financing sources (uses)	(51,062)	51,062	-
Net change in fund balance	(70,978)	(2,305)	(73,283)
Fund balance - July 1, 2013 (unaudited)	457	-	457
Fund balance - June 30, 2014	<u>\$ (70,521)</u>	<u>\$ (2,305)</u>	<u>\$ (72,826)</u>

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

**SILVA OF SOUTH FLORIDA, INC., D/B/A
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RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO
THE STATEMENT OF ACTIVITIES
JUNE 30, 2014**

Net Change in Fund Balances - Governmental Funds	\$ (73,283)
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Amounts reported for governmental activities in the statement of net position are different because:

Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives as depreciation and amortization expense. The amount by which capital outlay exceeds depreciation expense in the current period is:

	<u>60,048</u>
Change in net position of governmental activities	<u><u>\$ (13,235)</u></u>

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

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NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Reporting Entity

Silva of South Florida, Inc., d/b/a Pathways Academy Charter School a component unit and charter school of the School Board of Broward County, Florida (the “Academy”) is a not-for-profit corporation and operates as a Charter School pursuant to a Charter School Contract (the “Contract”) with the School Board of Broward County, Florida (the “District”). Under the Contract the Academy provides a kindergarten through eighth grade elementary and middle school education to children who reside in Broward County, Florida. The Academy is governed by a Board of Directors composed of four members.

The general operating authority of the Academy is contained in Section 1002.33, Florida Statutes. The current charter is for a term of five years ending June 30, 2017. The charter may be renewed as provided in Section 1002.33 (7)(b)(1), Florida Statutes, upon mutual consent between the Academy and the District and execution of a written renewal. At the end of the term of the charter, the District may choose not to renew the charter under grounds specified in the charter, in which case the District is required to notify the Academy in writing at least ninety days prior to the charter’s expiration. The Academy contract provides in the event the Academy is dissolved or terminated, any unencumbered funds and all Academy property purchased with public funds revert to the District. During the term of the charter, the District may also terminate the charter if good cause is shown.

Criteria for determining if other entities are potential component units which should be reported within the Academy’s basic financial statements are identified and described in the Governmental Accounting Standards Board’s (GASB) *Codification of Governmental Accounting and Financial Reporting Standards*, Section 2100 and 2600. The application of these criteria provide for identification of any entities for which the Academy is financially accountable and other organizations for which the nature and significance of their relationship with the Academy are such that exclusion would cause the Academy’s basic financial statements to be misleading or incomplete. Based on these criteria, no component units are included within the reporting entity of the Academy.

Basis of Presentation

Government-Wide Financial Statements

**SILVA OF SOUTH FLORIDA, INC., D/B/A
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DISTRICT SCHOOL BOARD OF BROWARD COUNTY, FLORIDA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued):

The government-wide financial statements provide information about the Academy's overall financial condition in a manner similar to a private-sector business. A Statement of Net Position and Statement of Activities report on the accrual basis of accounting using an economic resources measurement focus for governmental activities as the Academy does not engage in any business type activities. The Statement of Net Position provides information about the Academy's financial position, with the difference between assets and liabilities reported as net position. The Statement of Activities presents information about the change in the Academy's net position and the results of its operations during the fiscal year. An increase or decrease in net position is an indication of improving or deteriorating financial condition.

Fund Financial Statements

The Academy's financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board. Accordingly, the financial statements are organized on the basis of funds. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives using the current financial resources measurement focus on a modified accrual basis of accounting. The Academy uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements and prudent fiscal management. The current financial resources measurement focus allows the governmental fund statements to provide information on near-term inflows and outflows of spendable resources as well as balances of spendable resources available at the end of the fiscal year. Consequently, the governmental fund statement provides a detailed short-term view that may be used to evaluate the Academy's near-term financing requirements. The Academy considers revenues collected within sixty days from year-end to be available for revenue recognition in the governmental and fund financial statements.

The Academy has no Internal Service Fund, or Debt Service Fund.

The Academy utilizes the following major governmental funds:

Special Revenue Fund – Accounts for the proceeds of specific revenue sources and grants that are restricted by law or administrative action to expenditures for a specific purpose and to provide a single source of accountability for monies received.

General Fund – Accounts for all financial activity not required to be accounted for in another fund.

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NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued):

The Academy's fund balance reporting model is designed to clarify fund balance into classifications, nonspendable fund balance, restricted fund balance, committed fund balance, assigned fund balance, and unassigned fund balance. See Note 5 for a detailed presentation of fund balance.

Budgetary Basis of Accounting

The Academy's annual budgets are adopted for the entire operations and presented on the modified accrual basis of accounting and may be amended by the Board of Directors. Since the budgetary basis differs from GAAP, budgetary and actual amounts in the accompanying required supplementary information are presented on the budgetary basis. A reconciliation of a surplus of revenues over expenditures presented in conformity with GAAP is set forth in the adjustments to the required supplementary information.

Cash

Cash deposits consist primarily of demand deposits included in pooled cash, held by banks which are qualified as public depositories under Florida law. Deposits on hand at financial institutions are insured by the Federal Depository Insurance Corporation (the "FDIC") and collateralized with securities held in Florida's multiple financial institution collateral pool as required by Chapter 280, Florida Statutes.

Capital Assets

Expenditures for capital assets acquired for Academy purposes are reported in Governmental Funds that financed the acquisition; whereas the acquired capital assets are capitalized (recorded) at cost in the Statement of Net Position. Donated capital assets are recorded at their estimated fair market value at the date of donation. The Academy's policy is to capitalize all capital assets having a useful life of more than one year and an initial cost of \$1,000 or greater.

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NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued):

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

	Estimated Useful Lives (years)
Improvements other than buildings	10
Leasehold improvements	5
Furniture, fixtures and equipment	10
Software	3

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

Income Taxes

The Academy is a not-for-profit Florida Corporation and no unrelated income was recognized in 2014; therefore, no provision for income taxes has been made in these financial statements. The Academy has evaluated its tax position for all open tax years and has not identified any uncertain tax positions and is not subject to any Internal Revenue Service examination prior to year ending June 30, 2014. The Academy is in the process of applying for exemption from income taxes under the provisions of Section 501(c)(3) of the Internal Revenue Code.

Use of Estimates

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

Comparative Data

Comparative data for the prior year has not been presented for certain sections of the accompanying basic financial statements because the Academy was in its inaugural year of operation.

**SILVA OF SOUTH FLORIDA, INC., D/B/A
PATHWAYS ACADEMY CHARTER SCHOOL,
A CHARTER SCHOOL AND COMPONENT UNIT OF THE
DISTRICT SCHOOL BOARD OF BROWARD COUNTY, FLORIDA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued):

Revenue Sources

Revenues for current operations are received primarily from the State of Florida passed through the District to the Academy pursuant to the funding provisions included in the charter. Under the provisions of Section 1011.62, Florida Statutes the number of full-time equivalent (FTE) students and related data are reported to the Florida Department of Education (FDE) for funding through the Florida Education Finance Program (FEFP). Funding for the Academy is adjusted during the year to reflect revised calculations by the FDE under the FEFP and actual weighted FTE students reported by the Academy during designated FTE student survey periods.

The basic amount of funding through the FEFP under Section 1011.62 is the product of the (1) unweighted FTE, multiplied by (2) the cost factor for each program, multiplied by (3) the base student allocation established by the legislature. Additional funds for exceptional students who do not have a matrix of services are provided through the guaranteed allocation designated in Section 1011.62(1)(e)2, Florida Statutes. For the 2013-2014 school year the Academy reported 263.5 unweighted FTE. Weighted funding represents approximately 6% of total state funding.

FEFP funding may also be adjusted as a result of subsequent FTE audits conducted by the Auditor General pursuant to Section 1010.305, Florida Statutes, and Rule 6A-1.0453, Florida Administrative Code (FAC). Schools are required to maintain the following documentation for three years or until the completion of an FTE audit:

- Attendance and membership documentation (Rule 6A-1.044, FAC)
- Teacher certificates and other certification documentation (Rule 6A-1.0503, FAC)
- Procedural safeguards for weighted programs (Rule 6A-603411, FAC)
- Evaluation and planning documents for weighted programs (Sections 1011.62(1)(e), FS, and Rule 6A-6.03411, FAC)

The Academy, from time to time, also receives federal grant awards and State financial assistance for the enhancement of various educational programs. Federal awards and State financial assistance are generally received based on an application submitted to and approved by various granting agencies. For federal awards and state financial assistance in which a claim to these grant proceeds is based on incurring eligible expenditures, revenue is recognized to the extent that eligible expenditures have been incurred. This activity is recorded in the Special Revenue Fund.

Additionally, other revenues may be derived from various fundraising activities and certain other programs.

**SILVA OF SOUTH FLORIDA, INC., D/B/A
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NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE 2 – CAPITAL ASSETS:

Capital assets activity for the year ended June 30, 2014 is as follows:

	Balance at July 1, 2013	Additions	Deletions	Balance at June 30, 2014
Capital assets depreciated:				
Improvements other than buildings	\$ -	\$ 11,436	\$ -	\$ 11,436
Furniture, fixtures and equipment	-	54,706	-	54,706
Software	-	12,348	-	12,348
Total capital assets depreciated	<u>-</u>	<u>78,490</u>	<u>-</u>	<u>78,490</u>
Less accumulated depreciation:				
Improvements other than buildings	-	(2,287)	-	(2,287)
Furniture, fixtures and equipment	-	(12,039)	-	(12,039)
Software	-	(4,116)	-	(4,116)
Total accumulated depreciation	<u>-</u>	<u>(18,442)</u>	<u>-</u>	<u>(18,442)</u>
Total capital assets, net	<u>\$ -</u>	<u>\$ 60,048</u>	<u>\$ -</u>	<u>\$ 60,048</u>

For the year ended June 30, 2014 depreciation expense of \$18,442 was charged to the instruction and the operation of plant functions in the Statement of Activities.

NOTE 3 - RISK MANAGEMENT:

The Academy is exposed to various risks of loss in the normal course of operations which are related to theft, damage or destruction of assets, errors and omissions, injuries to others and natural disasters. The Academy purchases commercial insurance for, general liability, commercial property, motor vehicle, and errors and omissions coverage.

For year ending June 30, 2014 (inaugural year of operation) the Academy incurred no liability or casualty losses in excess of insurance coverage.

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**SILVA OF SOUTH FLORIDA, INC., D/B/A
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NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE 4 - REVENUE SOURCES:

The Academy receives revenues for current operations primarily from the State of Florida through the District as detailed in the following schedule of revenue sources and amounts:

<u>Sources</u>	<u>General Fund</u>
Federal passed through the local school district	
National School Lunch Program	\$ 178,269
Title I Funding	89,091
State and local sources passed through the school district	
Florida Education Finance Program (FEFP)	1,298,361
Instruction materials	19,159
SAI categorical	52,355
Class size reduction	332,787
Teacher lead program	4,283
Local	
Child care	12,385
Other	4,689
	<hr/>
Total state and local sources	<u>\$ 1,991,379</u>

* Not subject to the District's administrative fee.

An administrative fee, equivalent to 5% of certain funding up to two hundred and fifty (250) students was withheld by the District totaling \$78,584 for 2014. The administrative fee of \$78,584 is reported in the Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds for the year ended June 30, 2014.

NOTE 5 – FUND BALANCE:

The Academy's fund balance reporting model is designed to clarify fund balance reporting into classifications; nonspendable fund balance, restricted fund balance, committed fund balance, assigned fund balance, and unassigned fund balance.

Nonspendable Fund Balance

Generally means assets not expected to be converted to cash.

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NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE 5 – FUND BALANCE (continued):

The Academy has purchased certain insurance policies on an annual basis including periods that extend beyond the current period. The Academy has paid deposits for certain lease agreements. The nonspendable fund balance of \$6,685 and \$43,425 is reported as prepaid expenses and deposits, respectively, on the balance sheet.

In the governmental fund financial statements fund balance is reported in five classifications.

- **Nonspendable fund balance**, generally means fund balance not expected to be converted to cash. The Academy has purchased certain insurance policies providing coverage beyond the current accounting period and prepaid rent. The prepaid expenses of \$6,685 are reported as nonspendable fund balance. Deposits paid subject to certain leases of \$43,425 are not expected to be refunded during the next fiscal year.
- **Restricted fund balance** is a portion of fund balance that constraints have been placed on the use of resources by external parties such as creditors, grantors, contributors, or laws and regulations of other governments. There is no restricted fund balance.
- **Committed fund balance** is used for a specific purpose pursuant to constraints imposed by formal action of the Academy's highest level of decision making authority. There is no committed fund balance.
- **Assigned fund balance** are amounts constrained by the Academy's intent to be used for specific purposes, but are neither restricted nor committed. Assignment ability can be delegated by the board of directors to the Academy's Principal. There is no assigned fund balance.
- **Unassigned fund balance** is the lowest classification for the General Fund. This is fund balance that has not been reported in any other classification. The unassigned fund balance at June 30, 2014 is \$(122,936).

Spending Policies of the Academy

The Academy considers restricted or unrestricted amounts to have been spent when an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available and committed, assigned, or unassigned amounts are considered to have been spent when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

Silva of South Florida, Inc., d/b/a Pathways Academy Charter School a component unit and charter school of the District School Board of Broward County, Florida has a revenue spending policy that provides guidance for programs with multiple revenue sources. The finance officer will use resources in the following hierarchy: debt proceeds, federal funds,

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NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE 5 – FUND BALANCE (continued):

state funds, local non- city funds, city funds, and funds passed through the District. For purposes of fund balance classification, expenditures are to be spent from restricted fund balance first, followed in-order by committed fund balance, assigned fund balance and lastly unassigned fund balance. The finance officer has the authority to deviate from this policy if it is in the best interest of the Academy.

NOTE 6 – INTERFUND TRANSFERS:

During fiscal year 2014 the General Fund transferred \$51,062 to the Special Revenue Fund due to expenditures exceeding revenue in the Special Revenue Fund of \$53,367

NOTE 7 – COMMITMENTS:

The Academy leased property from Ideal Adventures, LLC during the year for its administrative, cafeteria and classroom space under a non-cancelable operating lease that expires June 30, 2018. Under the terms of the lease agreement the minimum monthly lease payments are \$20,000 to \$23,397 per month, plus common area maintenance. The Academy amended its lease with Ideal Adventures, LLC for five hundred fifty-seven (557) additional square feet of office space in September 2015. Additional monthly rent expense until June 30, 2018 is \$949.17. Base property rental cost and common area maintenance costs for the Academy for the year ended June 30, 2014 was \$284,600.

The Academy also leases a copy machine which expires August 2015. The operating lease agreement for the copy machine requires monthly payments of \$348 per month.

Future minimum lease payments under these operating lease agreements are:

<u>Fiscal Year</u>	<u>Amount</u>
2015	\$ 264,818
2016	271,322
2017	281,354
2018	292,154
2019	-
	<u>\$ 1,109,648</u>

**SILVA OF SOUTH FLORIDA, INC., D/B/A
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NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE 8 – SUBSEQUENT EVENTS:

Management has evaluated all events subsequent to the balance sheet date of June 30, 2014 through September 25, 2014, which is the date these financial statements were available to be issued.

Beginning September 1, 2014 the Academy has amended its lease with Ideal Adventures, LLC for an additional five hundred fifty-seven (557) square feet of office space. The term of this lease amendment is concurrent with the original lease and expires June 30, 2018. See Note 7 for additional details.

NOTE 9 – DEFICIT:

The Academy's unassigned fund balance is a deficit of \$(122,936) and total fund balance is a deficit of \$(72,826) as of June 30, 2014. The net position at June 30, 2014 was a deficit of \$(12,778) and the unrestricted net position was a deficit of \$(72,826). The Academy has prepared a budget for fiscal year 2015 which projects a surplus of \$128,824.

In response to the deficit fund balance the Academy has increased the student population for fiscal year 2015, reduced administrative staff, significantly reduced capital expenditures, and reduced certain other employment costs. The corrective action described above is projected to return the Academy to financial stability.

REQUIRED SUPPLEMENTARY INFORMATION

**SILVA OF SOUTH FLORIDA, INC., D/B/A
PATHWAYS ACADEMY CHARTER SCHOOL,
A CHARTER SCHOOL AND COMPONENT UNIT OF THE
DISTRICT SCHOOL BOARD OF BROWARD COUNTY, FLORIDA
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES - BUDGET AND ACTUAL – GOVERNMENTAL FUNDS
JUNE 30, 2014**

	Governmental Funds			
	General Fund			
	Original Budget	Final Amended Budget	Actual Amount	Variance with Final Budget Positive (Negative)
Revenues:				
Federal passed through the School District of Hillsborough County	\$ -	\$ -	\$ 89,091	\$ 89,091
State and local sources passed through the School District of Hillsborough County	1,987,688	1,987,688	1,706,945	(280,743)
Food service	-	-	-	-
Child care	-	-	12,385	12,385
Local	80,625	80,625	3,751	(76,874)
Total revenues	2,068,313	2,068,313	1,812,172	(256,141)
Expenditures:				
Instruction	966,385	966,385	778,319	188,066
Instruction and curriculum	2,000	2,000	-	2,000
Staff training	1,000	1,000	-	1,000
Technology	23,877	23,877	3,000	20,877
Student services	10,000	10,000	26,942	(16,942)
Food services	-	-	-	-
Board	14,800	14,800	18,072	(3,272)
School administration	261,422	261,422	314,598	(53,176)
Central services	7,300	7,300	12,145	(4,845)
Operation of plant	408,230	408,230	391,319	16,911
Maintenance of plant	4,000	4,000	10,700	(6,700)
School District administration fees	-	-	78,584	(78,584)
Child care	29,535	29,535	38,613	(9,078)
Fiscal services	147,421	147,421	44,374	103,047
Transportation	77,400	77,400	115,422	(38,022)
Debt services	12,000	12,000	-	12,000
Total expenditures	1,965,370	1,965,370	1,832,088	133,282
Expenses under (over) revenues	102,943	102,943	(19,916)	(122,859)
Other financing sources (uses)				
Debt proceeds	-	-	-	-
Transfers in	-	-	-	-
Transfers out	(40,895)	(40,895)	(51,062)	(10,167)
Net change in fund balance	\$ 62,048	\$ 62,048	(70,978)	\$ (133,026)
Fund balance - July 1, 2013 (unaudited)			457	
Fund balance - June 30, 2014			<u>\$ (70,521)</u>	

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

**SILVA OF SOUTH FLORIDA, INC., D/B/A
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DISTRICT SCHOOL BOARD OF BROWARD COUNTY, FLORIDA
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES - BUDGET AND ACTUAL – GOVERNMENTAL FUNDS
JUNE 30, 2014**

Governmental Funds				Total Governmental Funds			
Special Revenue Fund							
Original Budget	Final Amended Budget	Actual Amount	Variance with Final Budget Positive (Negative)	Original Budget	Final Amended Budget	Actual Amount	Variance with Final Budget Positive (Negative)
\$ 136,200	\$ 136,200	\$ -	\$ (136,200)	\$ 136,200	\$ 136,200	\$ 89,091	\$ (47,109)
-	-	-	-	1,987,688	1,987,688	1,706,945	(280,743)
-	-	179,207	179,207	-	-	179,207	179,207
-	-	-	-	-	-	12,385	12,385
3,000	3,000	-	(3,000)	83,625	83,625	3,751	(79,874)
139,200	139,200	179,207	40,007	2,207,513	2,207,513	1,991,379	(216,134)
-	-	-	-	966,385	966,385	778,319	188,066
-	-	-	-	2,000	2,000	-	2,000
-	-	-	-	1,000	1,000	-	1,000
-	-	-	-	23,877	23,877	3,000	20,877
-	-	-	-	10,000	10,000	26,942	(16,942)
180,095	180,095	232,574	(52,479)	180,095	180,095	232,574	(52,479)
-	-	-	-	14,800	14,800	18,072	(3,272)
-	-	-	-	261,422	261,422	314,598	(53,176)
-	-	-	-	7,300	7,300	12,145	(4,845)
-	-	-	-	408,230	408,230	391,319	16,911
-	-	-	-	4,000	4,000	10,700	(6,700)
-	-	-	-	-	-	78,584	(78,584)
-	-	-	-	29,535	29,535	38,613	(9,078)
-	-	-	-	147,421	147,421	44,374	103,047
-	-	-	-	77,400	77,400	115,422	(38,022)
-	-	-	-	12,000	12,000	-	12,000
180,095	180,095	232,574	(52,479)	2,145,465	2,145,465	2,064,662	80,803
(40,895)	(40,895)	(53,367)	(12,472)	62,048	62,048	(73,283)	(135,331)
-	-	-	-	-	-	-	-
40,895	40,895	51,062	10,167	40,895	40,895	51,062	10,167
-	-	-	-	(40,895)	(40,895)	(51,062)	(10,167)
<u>\$ -</u>	<u>\$ -</u>	<u>(2,305)</u>	<u>\$ (2,305)</u>	<u>\$ 62,048</u>	<u>\$ 62,048</u>	<u>(73,283)</u>	<u>\$ (135,331)</u>
		-				457	
		<u>\$ (2,305)</u>				<u>\$ (72,826)</u>	

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

REGULATORY REPORTS

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

To the Board of Directors
Silva of South Florida, Inc., d/b/a Pathways Academy Charter School,
a Charter School and Component Unit of
the District School Board of Broward County, Florida
Lauderdale Lakes, Florida

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities and each major fund of Silva of South Florida, Inc., d/b/a Pathways Academy Charter School, a Charter School and Component Unit of the District School Board of Broward County, Florida, (the "Academy") as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the School's basic financial statements, and have issued our report thereon dated September 25, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the School's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Academy's internal control. Accordingly, we do not express an opinion on the effectiveness of the School's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Indian Shores, Florida
September 25, 2014

MANAGEMENT LETTER

To the Board of Directors
Silva of South Florida, Inc., d/b/a Pathways Academy Charter School,
a Charter School and Component Unit of the
District School Board of Broward County, Florida

Report on the Financial Statements

We have audited the basic financial statements of Silva of South Florida, Inc., d/b/a Pathways Academy Charter School, a charter school and component unit of the District School Board of Broward County, Florida (the "Academy"), as of and for the fiscal year ended June 30, 2014, and have issued our report thereon dated September 25, 2014.

Auditor's Responsibility

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Other Reporting Required by Government Auditing Standards

We have issued our Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with *Government Auditing Standards*. Disclosures in that report, which is dated September 25, 2014, should be considered in conjunction with this management letter.

Prior Audit Findings

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

Section 10.854(1)(e)1., Rules of the Auditor General, requires that we determine whether or not corrective actions have been taken to address findings and

recommendations made in the preceding annual financial audit report. There were no significant findings reported in the preceding annual financial audit report as this is the first year of operations and there is no prior audit report..

Financial Condition

Pursuant to Sections 10.854(1)(e)2. and 10.855(11)., Rules of the Auditor General, require that we apply appropriate procedures to determine whether or not Silva of South Florida, Inc., d/b/a Pathways Academy Charter School, a charter school and component unit of the District School Board of Broward County, Florida has met one or more of the conditions described in Section 218.503(1), Florida Statutes, and identification of the specific condition(s) met.

In connection with our audit, we determined that Silva of South Florida, Inc., d/b/a Pathways Academy Charter School, a charter school and component unit of the District School Board of Broward County, Florida did not meet any of the conditions described in Section 218.503(1).

Sections 10.854(1)(e) 6.a. and 10.855(12), Rules of the Auditor General, require that we apply financial condition assessment procedures for Silva of South Florida, Inc., d/b/a Pathways Academy Charter School, a charter school and component unit of the District School Board of Broward County, Florida. It is management's responsibility to monitor Silva of South Florida, Inc., d/b/a Pathways Academy Charter School, a charter school and component unit of the District School Board of Broward County, Florida's financial condition, and our financial condition assessment was based in part on representations made by management and the review of financial information provided by same.

Transparency

Section 10.854(1)(e)7. and 10.855(13) Rules of the Auditor General, require that we apply appropriate procedures to determine whether Silva of South Florida, Inc., d/b/a Pathways Academy Charter School, a charter school and component unit of the District School Board of Broward County, Florida maintains on its Web site the information specified in Section 1002.33(9)(p), Florida Statutes. In connection with our audit, we determined that Silva of South Florida, Inc., d/b/a Pathways Academy Charter School, a charter school and component unit of the District School Board of Broward County, Florida did maintain on its Web site the information specified in Section 1002.33(9)(p), Florida Statutes.

Other Matters

Section 10.854(1)(e)3., Rules of the Auditor General, requires that we address in the management letter any recommendations to improve financial management. In connection with our audit, see Exhibit A for our recommendation to management.

Section 10.854(1)(e)4., Rules of the Auditor General, requires that we address noncompliance with provisions of contracts or grant agreements, or abuse, that have occurred, or are likely to have occurred, that have an effect on the financial statements that is less than material but which warrants the attention of those charged with governance. In connection with our audit, we did not have any such findings.

Section 10.854(1)(e)5., Rules of the Auditor General, Section 1002.33(9)(p), Florida Statutes, requires the name or official title of the entity. The official title of the entity is Silva of South Florida, Inc., d/b/a Pathways Academy Charter School, a charter school and component unit of the District School Board of Broward County, Florida.

Purpose of this Letter

Our Management Letter is intended solely for the information and use of the Legislative Auditing Committee, members of the Florida Senate and the Florida House of Representatives, the Florida Auditor General, Federal and other granting agencies, the District School Board of Broward County, Florida, the Board of Directors, and applicable management and is not intended to be and should not be used by anyone other than these specified parties.



Sottile & Company P.A.

Indian Shores, Florida

September 25, 2014

EXHIBIT A
RECOMMENDATIONS TO MANAGEMENT
(Associated with the June 30, 2014 Financial Statement Audit)

CURRENT YEAR RECOMMENDATIONS:

Observation 2014-01:

Criteria or Specific Requirement

Monitor budgeted revenue and expenses to actual results on a continuous basis.

Condition and context

The deficit in unreserved net position and the deficit in unassigned fund balance.

Effect

An unassigned fund balance as reported on the balance sheet of the fund financial statements, is not available to cover the deficit. The unrestricted net position, as reported on the statement of net assets, is not available to cover the deficit. The capital assets, net of depreciation, are not available to cover the deficit as the sale of those assets will impair the Academy's ability to carry out its functions.

The unreserved net position and unassigned fund balance were deficits at June 30, 2014 and liabilities remained unpaid until the following fiscal year due to insufficient cash flow.

Cause

The unreserved net position and unassigned fund balance were deficits because the Academy did not maintain strict adherence to the budget or make necessary adjustments to the budget during the year.

Recommendation

We recommend the Academy more closely monitor the budget and enlist the assistance of the board of directors to provide more oversight of the budget. Amendments to the budget should be made during the year if expenses become out of line with budgeted revenue amounts.

Views of Responsible Officials and Planned Corrective Actions

We concur with Observation 2014-01.

For fiscal year 2015 the Academy has increased the student population and decreased administrative staff and certain other employee expenses. The board of directors will monitor the monthly actual to budget reports closely and the Academy administration is committed to improving for the financial management of the Academy.