

EAGLE ARTS ACADEMY, INC.

A Charter School and Component Unit of the
District School Board of Palm Beach County, Florida

INDEPENDENT AUDITOR'S REPORT
for the nine-month period ended March 31, 2018

King & Walker, CPAs, PL

Certified Public Accountants

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EAGLE ARTS ACADEMY, INC.

A Charter School and Component Unit of the District School Board of Palm Beach County, Florida

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Government Audit Quality Center

2803 W. Busch Blvd Ste 106
Tampa, FL 33618
office (813) 892-4274 fax (813) 932-1913
www.KingandWalker.com

Independent Auditor's Report

To the Board of Directors of the Eagle Arts Academy, Inc.
A Charter School and Component Unit of the District
School Board of Palm Beach County, Florida

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Eagle Arts Academy, Inc., Inc. ("School"), and a component unit of the District School Board of Palm Beach County, Florida, as of and for the nine-month period ended March 31, 2018, and the related notes to the financial statements, which collectively comprise the School'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 School'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 School'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 opinion.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the School, for the nine-month period ended March 31, 2018, and the respective changes in financial position thereof for the year ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

Going Concern

As disclosed in note 14 of the financial statements, the District issued a 90-day notice of termination of the charter school contract on March 16, 2018. The accompanying financial statements have been prepared assuming that the School will continue as a going concern. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, the Budgetary Comparison Schedule, and Notes to Required Supplementary Information, as listed in the table of contents, 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 historic 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 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated May 15, 2018 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 *Government Auditing Standards* in considering the School's internal control over financial reporting and compliance.

Respectfully submitted,



May 15, 2018
Tampa, Florida

EAGLE ARTS ACADEMY, INC.

A Charter School and Component Unit of the District School Board of Palm Beach County, Florida

MANAGEMENT'S DISCUSSION AND ANALYSIS - (Unaudited)

The Management's Discussion and Analysis (MD&A) section of the annual financial report of the Eagle Arts Academy, Inc. ("School") provides an overview of the School's activities for the nine-month period ended March 31, 2018.

Because the information contained in the MD&A is intended to highlight significant transactions, events, and conditions, it should be considered in conjunction with the School's financial statements and notes to financial statements, as listed in the table of contents.

FINANCIAL HIGHLIGHTS

- For the nine-month period ended March 31, 2018, the School's expenses exceeded revenues as shown on the School's statement of activities by \$967,484.
- As shown on the statement of net position, the School reported a deficit total net position balance of \$1,097,193.

Management Offers an explanation of the year's activity and financial future. To date, EAA (Eagle Arts Academy) has paid \$330,011 to ESJ Capital (landlord) for the 2017-18 school year. ESJ Capital has verbally agreed to a rent abatement of \$184,800 due to an overpayment for the 2016-17 school year. This overpayment was created when the landlord required EAA to agree to a sublease with the former church for 3-years at one dollar a year. As part of this sublease to the former church, the church as given dedicated space that the school could not utilize during these three (3) years, which included eight (8) classrooms. The total rent calculation would be a total of \$514,811 (including the rent abatement). For 429 total students, that comes to \$1200 per student, which is considered a reasonable lease rate per charter school standards.

If ESJ Capital accepted that the money paid to date for the 2017-18 school year were satisfactory to the landlord, our fund balance would greatly be increased by \$795,943, but still leave a negative fund balance. This could be done by a lease amendment OR if ESJ Capital would offer the school an end of term lease agreement. If EAA was offered an amended lease agreement, the new agreement with the Boys & Girls Club would greatly help with recruitment for the 2018-19 school year.

In addition, if EAA was offered an amended lease agreement, EAA has donor contributions of \$250,000. These funds are conditionally that EAA would resolve its pending issues with the landlord and the School District of Palm Beach County and move forward with its 5th year. If all of the above was accepted and EAA received the \$250,000, EAA would end up with an estimated overall positive fund balance, as of our 4th year, of \$7884 and \$137,593 for the 2017-18 school year.

OVERVIEW OF THE FINANCIAL STATEMENTS

The basic financial statements consist of three components:

- ✓ Government-wide financial statements
- ✓ Fund financial statements
- ✓ Notes to financial statements

EAGLE ARTS ACADEMY, INC.

A Charter School and Component Unit of the District School Board of Palm Beach County, Florida

MANAGEMENT'S DISCUSSION AND ANALYSIS - (Unaudited)

Government-Wide Financial Statements

The government-wide financial statements provide both short-term and long-term information about the School's overall financial condition in a manner similar to those of a private-sector business. The statements include a statement of net position and a statement of activities that are designed to provide consolidated financial information about the governmental activities of the School presented on the accrual basis of accounting. The statement of net position provides information about the government's financial position, its assets and liabilities, using an economic resources measurement focus. The difference between the assets and liabilities, the net position, is a measure of the financial health of the School. The statement of activities presents information about the change in the School's net position and the results of operations, during the fiscal year. An increase or decrease in net position is an indication of whether the School's financial health is improving or deteriorating. To assess the overall financial position of the School, one needs to consider additional non-financial factors such as changes in the School student base funding level.

Fund Financial Statements

Fund financial statements are one of the components of the basic 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. Fund financial statements provide more detailed information about the School's financial activities, focusing on its most significant funds rather than fund types. This is in contrast to the entity-wide perspective contained in the government-wide statements.

Governmental Funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, the governmental funds utilize a spendable financial resources measurement focus rather than the economic resources measurement focus found in the government-wide financial statements. The 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.

The governmental fund statements provide a detailed short-term view that may be used to evaluate the School's near-term financing requirements. This short-term view is useful when compared to the long-term view presented as governmental activities in the government-wide financial statements. To facilitate this comparison, both the governmental funds balance sheet and the governmental funds statement of revenues, expenditures, and changes in fund balances provide a reconciliation of governmental fund to governmental activities.

The governmental funds balance sheet and statement of revenues, expenditures, and changes in fund balances provide detailed information about the School's most significant funds. The School operates two funds: a General Fund and a Capital Projects Fund. The School has elected to show each fund as a major fund.

EAGLE ARTS ACADEMY, INC.

A Charter School and Component Unit of the District School Board of Palm Beach County, Florida

MANAGEMENT'S DISCUSSION AND ANALYSIS - (Unaudited)

The School adopts an annual budget for its governmental funds. A budgetary comparison schedule, as required, has been provided for the General Fund to demonstrate compliance with the budget.

Notes to Financial Statements

The notes provide additional information that is essential for a full understanding of the data provided in the government-wide and fund financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net Position may serve over time as a useful indicator of a government's financial position. The following is a summary of the School's Net Position as of June 30, 2017 and March 31, 2018.

	Net Position, End of Year		
	Governmental Activities		
	6-30-17	3-31-18	Increase (Decrease)
ASSETS			
Current and Other Assets	\$ 228,638	\$ 63,359	\$ (165,279)
Capital Assets, net	39,711	52,880	13,169
Total Assets	268,349	116,239	(152,110)
LIABILITIES			
Current Liabilities	388,871	1,207,742	818,871
Capital Lease Payable	9,187	5,690	(3,497)
Total Liabilities	398,058	1,213,432	815,374
NET POSITION			
Net Investment in Capital Assets	30,524	47,190	16,666
Unrestricted	(160,233)	(1,144,383)	(984,150)
Total Net Position	\$ (129,709)	\$ (1,097,193)	\$ (967,484)

Current Assets primarily consist of cash and amounts due from other agencies. Liabilities consist of salaries and benefits payable, accounts payable, a temporary overdraft payable, and a short-term loan payable. Total Net Position amounted to a deficit of \$1,097,193.

EAGLE ARTS ACADEMY, INC.

A Charter School and Component Unit of the District School Board of Palm Beach County, Florida

MANAGEMENT'S DISCUSSION AND ANALYSIS - (Unaudited)

The key elements of the changes in the School's Net Position for the fiscal year ended June 30, 2017 and the nine-month period ended March 31, 2018 are as follows:

Operating Results for the Year			
<u>Governmental Activities</u>			
	<u>6-30-17</u>	<u>3-31-18</u>	<u>Increase (Decrease)</u>
Revenues:			
Federal through State and Local	\$ 31,018	\$ -	\$ (31,018)
State Sources	5,042,289	2,461,598	(2,580,691)
Local and Other	318,129	502,342	184,213
Total Revenues	<u>5,391,436</u>	<u>2,963,940</u>	<u>(2,427,496)</u>
Expenses:			
Instruction	2,140,875	1,458,054	(682,821)
Student Support Services	897	-	(897)
Instruction & Curriculum Development	15,173	-	(15,173)
Instructional Staff Training	1,735	613	(1,122)
Instructional Related Technology	60,585	34,152	(26,433)
Board of Education	204,704	169,948	(34,756)
General Administration	88,115	67,519	(20,596)
School Administration	869,956	703,438	(166,518)
Facilities Acq. & Construction	-	50,518	50,518
Fiscal Services	102,401	70,882	(31,519)
Student Transportation	248,678	143,550	(105,128)
Operation of Plant	1,674,640	1,157,518	(517,122)
Administrative Technology	23,387	-	(23,387)
Community Service	130,453	41,490	(88,963)
Interest & Fiscal Charges	1,495	24,536	23,041
Unallocated Depreciation	10,299	9,206	(1,093)
Total Expenses	<u>5,573,393</u>	<u>3,931,424</u>	<u>(1,641,969)</u>
Increase/(Decrease) in Net Position	<u>\$ (181,957)</u>	<u>\$ (967,484)</u>	<u>\$ (785,527)</u>

The largest revenue source for the School is the State of Florida (83%). Revenues from State sources for current operations are primarily received through the Florida Education Finance Program (FEFP) funding formula and Charter School Capital Outlay funds. Both sources utilize student enrollment data to determine the funds available for the School.

The largest concentration of expenses was for Instruction related functions (38%) and facility rent and operational costs (30%), primarily consisted of the school building lease during the fiscal year.

EAGLE ARTS ACADEMY, INC.

A Charter School and Component Unit of the District School Board of Palm Beach County, Florida

MANAGEMENT'S DISCUSSION AND ANALYSIS - (Unaudited)

FINANCIAL ANALYSIS OF THE SCHOOL'S FUNDS

Governmental Funds

As of March 31, 2018, the School's governmental funds reported a combined deficit fund balance of \$1,144,383.

BUDGETARY HIGHLIGHTS

The general fund budget for the fiscal year ended June 30, 2018, was developed based on the School's anticipated revenues and expenditures and the expected student population for the school year. Over the course of the year, the school revised its general fund budget several times. Refer to the Budgetary Comparison Schedule for additional information.

CAPITAL ASSETS

The School's investment in capital assets for its governmental activities as of March 31, 2018, amounts to \$52,880 (net of accumulated depreciation). This investment in capital assets includes furniture, fixtures, and equipment and leasehold improvements. Additional information regarding the School's capital assets can be found in a subsequent note to the financial statements.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the Eagle Arts Academy, Inc.'s finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Director, 1000 Wellington Trace, Wellington, FL 33414.

EAGLE ARTS ACADEMY, INC.
A CHARTER SCHOOL AND COMPONENT UNIT OF THE
DISTRICT SCHOOL BOARD OF PALM BEACH COUNTY, FLORIDA

STATEMENT OF NET POSITION
March 31, 2018

	<u>Governmental Activities</u>
ASSETS	
Cash & Cash Equivalents	\$ 29,485
Due From Other Agencies	33,874
Capital Assets:	
Furniture, Fixtures, and Equipment, Net	14,076
Leasehold Improvements, Net	38,804
Total Capital Assets, Net	<u>52,880</u>
TOTAL ASSETS	<u>116,239</u>
LIABILITIES	
Accounts Payable	831,910
Salaries and Benefits Payable	199,346
Temporary Overdraft Payable	83,327
Short-term Loan Payable	93,159
Long Term Liabilities:	
Capital Lease, due within one year	5,690
TOTAL LIABILITIES	<u>1,213,432</u>
NET POSITION	
Net Investment in Capital Assets	47,190
Unrestricted	<u>(1,144,383)</u>
TOTAL NET POSITION	<u><u>\$ (1,097,193)</u></u>

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

EAGLE ARTS ACADEMY, INC.
A CHARTER SCHOOL AND COMPONENT UNIT OF THE
DISTRICT SCHOOL BOARD OF PALM BEACH COUNTY, FLORIDA

STATEMENT OF ACTIVITIES
For the Nine-Month Period Ending March 31, 2018

		Program Revenues			Net (Expenses) Revenue and Changes in Net Assets
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
Governmental Activities:					
Instruction	\$ 1,458,054	\$ -	\$ -	\$ -	\$ (1,458,054)
Instructional Staff Training	613				(613)
Instructional Related Technology	34,152				(34,152)
Board of Education	169,948				(169,948)
General Administration	67,519				(67,519)
School Administration	703,438				(703,438)
Facilities Acquisition & Construction	50,518				(50,518)
Fiscal Services	70,882				(70,882)
Student Transportation	143,550				(143,550)
Operation of Plant	1,157,518			279,390	(878,128)
Community Service	41,490				(41,490)
Debt Service - Interest & Fiscal Charges	24,536				(24,536)
Unallocated Depreciation	9,206				(9,206)
Total Governmental Activities	\$ 3,931,424	\$ -	\$ -	\$ 279,390	(3,652,034)
General Revenues:					
State Sources					2,399,964
Local and Other					284,586
Total General Revenues					2,684,550
Change in Net Position					(967,484)
Net Position - July 1, 2017					(129,709)
Net Position - March 31, 2018					\$ (1,097,193)

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

EAGLE ARTS ACADEMY, INC.

**A CHARTER SCHOOL AND COMPONENT UNIT OF THE
DISTRICT SCHOOL BOARD OF PALM BEACH COUNTY, FLORIDA**

BALANCE SHEET - GOVERNMENTAL FUNDS

March 31, 2018

	<u>General Fund</u>	<u>Capital Projects Fund</u>	<u>Total Governmental Activities</u>
ASSETS			
Cash & Cash Equivalents	\$ 29,485	\$ -	\$ 29,485
Due From Other Agencies	29,183	4,691	33,874
Due From Other Funds	4,691		4,691
Total Assets	<u>\$ 63,359</u>	<u>\$ 4,691</u>	<u>\$ 68,050</u>
LIABILITIES			
Accounts Payable	\$ 831,910	\$ -	\$ 831,910
Salaries and Benefits Payable	199,346		199,346
Temporary Overdraft Payable	83,327		83,327
Due to Other Funds		4,691	4,691
Short-term Loan Payable	93,159		93,159
Total Liabilities	<u>1,207,742</u>	<u>4,691</u>	<u>1,212,433</u>
FUND BALANCE			
Spendable - Unassigned	<u>(1,144,383)</u>	<u>-</u>	<u>(1,144,383)</u>
Total Fund Balances	<u>(1,144,383)</u>	<u>-</u>	<u>(1,144,383)</u>
Total Liabilities and Fund Balances	<u>\$ 63,359</u>	<u>\$ 4,691</u>	<u>\$ 68,050</u>

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

EAGLE ARTS ACADEMY, INC.
A CHARTER SCHOOL AND COMPONENT UNIT OF THE
DISTRICT SCHOOL BOARD OF PALM BEACH COUNTY, FLORIDA
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
March 31, 2018

Total Fund Balances - Governmental Funds	\$	(1,144,383)
<p>Amounts reported for governmental activities in the statement of net position are different because:</p>		
<p>Long-term liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds. Long-term liabilities at year-end consist of a capital lease.</p>		(5,690)
<p>Capital assets, net of accumulated depreciation, used in governmental activities are not financial resources and therefore, are not reported as assets in governmental funds.</p>		<u>52,880</u>
Total Net Position - Governmental Activities	\$	<u><u>(1,097,193)</u></u>

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

EAGLE ARTS ACADEMY, INC.

**A CHARTER SCHOOL AND COMPONENT UNIT OF THE
DISTRICT SCHOOL BOARD OF PALM BEACH COUNTY, FLORIDA**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS
For the Nine-Month Period Ending March 31, 2018**

	General Fund	Capital Projects Fund	Total Governmental Funds
Revenues			
Intergovernmental:			
State Sources	\$ 2,399,964	\$ 61,634	\$ 2,461,598
Local and Other	284,586	217,756	502,342
Total Revenues	<u>2,684,550</u>	<u>279,390</u>	<u>2,963,940</u>
Expenditures			
Current - Education:			
Instruction	1,458,054		1,458,054
Instructional Staff Training	613		613
Instructional Related Technology	34,152		34,152
Board of Education	169,948		169,948
General Administration	67,519		67,519
School Administration	703,438		703,438
Facilities Acquisition & Construction	50,518		50,518
Fiscal Services	70,882		70,882
Student Transportation	143,550		143,550
Operation of Plant	878,128	279,390	1,157,518
Community Service	41,490		41,490
Fixed Capital Outlay:			
Facilities Acquisition & Construction	22,375		22,375
Debt Service:			
Principal	3,497		3,497
Interest & Fiscal Charges	24,536		24,536
Total Expenditures	<u>3,668,700</u>	<u>279,390</u>	<u>3,948,090</u>
Net Change in Fund Balances	(984,150)	-	(984,150)
Fund Balances, July 1, 2017	(160,233)	-	(160,233)
Fund Balances, March 31, 2018	<u>\$ (1,144,383)</u>	<u>\$ -</u>	<u>\$ (1,144,383)</u>

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

EAGLE ARTS ACADEMY, INC.

**A CHARTER SCHOOL AND COMPONENT UNIT OF THE
DISTRICT SCHOOL BOARD OF PALM BEACH COUNTY, FLORIDA**

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

For the Nine-Month Period Ending March 31, 2018

Net Change in Fund Balances - Governmental Funds \$ (984,150)

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

Repayment of debt principal is an expenditure in the governmental funds, but the payment reduces long-term liabilities in the statement of net assets. 3,497

Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount of capital outlays (\$22,375) in excess of depreciation expense (\$9,206) in the current period. 13,169

Change in Net Position - Governmental Activities \$ (967,484)

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

EAGLE ARTS ACADEMY, INC.

A Charter School and Component Unit of the District School Board of Palm Beach County, Florida

NOTES TO FINANCIAL STATEMENTS

March 31, 2018

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

➤ Reporting Entity

Eagle Arts Academy, Inc., Inc. (“School”) is a not-for-profit corporation organized pursuant to Chapter 617, Florida Statutes, the Florida Not-For-Profit Corporation Act. The governing body of the School is the Board of Directors, which is comprised of not less than three members.

The general operating authority of the School is contained in Section 1002.33, Florida Statutes. The School operates under a charter of the sponsoring school district, the District School Board of Palm Beach County, Florida, (“District”). The current charter is effective until June 30, 2019 and is subject to annual review and may be renewed by mutual agreement between the School and the District. 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 this case, the District is required to notify the school in writing at least 90 days prior to the charter’s expiration. During the term of the charter, the District may also terminate the charter if good cause is shown. In the event of termination of the charter, the District shall assume operation of the School. The School is considered a component unit of the District; therefore, for financial reporting purposes, the School is required to follow generally accepted accounting principles applicable to state and local governmental units.

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

➤ Basis of Presentation

Government-wide Financial Statements - Government-wide financial statements, including the statement of net position and the statement of activities, present information about the School as a whole.

Government-wide financial statements are prepared using the economic resources measurement focus. The statement of activities presents a comparison between direct expenses and program revenues for each function or program of the School’s governmental activities. Direct expenses are those that are specifically associated with a service, program, or department and are thereby clearly identifiable to a particular function.

EAGLE ARTS ACADEMY, INC.

A Charter School and Component Unit of the District School Board of Palm Beach County, Florida

NOTES TO FINANCIAL STATEMENTS

March 31, 2018

Program revenues include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of the School.

Fund Financial Statements - Fund financial statements report detailed information about the School in the governmental funds. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major fund is reported in a separate column. Because the focus of governmental fund financial statements differs from the focus of government-wide financial statements, a reconciliation is presented with each of the governmental fund financial statements.

The School's major governmental fund is as follows:

- General Fund – to account for all financial resources not required to be accounted for in another fund, and for certain revenues from the State that are legally restricted to be expended for specific current operating purposes.
- Capital Projects Fund – to account for all resources for the acquisition of capital and related items purchased by the School with capital outlay funds.

➤ **Basis of Accounting**

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

The government-wide financial statements are prepared using the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when a liability is incurred, regardless of the timing of the related cash flows. Revenues from grants, entitlements, and donations are recognized in the fiscal year in which all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are prepared using the modified accrual basis of accounting. Revenues, except for certain grant revenues, are recognized when they become measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. The School considers revenues to be available if they are collected within 30 days of the end of the current fiscal year. When grant terms provide that the expenditure of resources is the prime factor for determining eligibility for Federal, State, and other grant resources, revenue is recognized at the time the expenditure is made. Under the modified accrual basis of accounting, expenditures are generally recognized when the

EAGLE ARTS ACADEMY, INC.

A Charter School and Component Unit of the District School Board of Palm Beach County, Florida

NOTES TO FINANCIAL STATEMENTS

March 31, 2018

related fund liability is incurred, except for principal and interest on long-term debt, claims and judgments, and compensated absences, which are recognized when due. Allocations of cost, such as depreciation, are not recognized in governmental funds.

➤ **Cash and Cash Equivalents**

Cash and cash equivalents are defined as demand deposits, money market accounts, and short term investments with original maturities of eight months or less from date of acquisition. The School considers all demand accounts and money market funds which are not subjected to withdrawal restrictions to be cash and cash equivalents.

The School’s deposits must be placed with banks and savings and loans which are qualified as public depositories, prior to receipt of public monies, under Chapter 280, Florida statutes and the School’s policy. The School maintains its cash accounts with one qualified public depository. The accounts routinely exceed the federally insured limit of \$250,000. Monies deposited in amounts greater than the insurance coverage are secured by the bank’s pledging securities with the state treasurer in the collateral pool. The School has not experienced any losses in such accounts and does not believe it is exposed to any significant credit or custodial risk.

➤ **Capital Assets**

Expenditures for capital assets acquired or constructed for general School purposes are reported in the governmental fund that financed the acquisition or construction. The capital assets so acquired are reported at cost in the government-wide statement of net position but are not reported in the governmental fund financial statements. Capital assets are defined by the School as those costing more than \$750. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated assets are recorded at fair value at the date of donation.

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

<u>Description</u>	<u>Estimated Lives</u>
Furniture, Fixtures and Equipment	5 years
Leasehold Improvements	10 years

➤ **Deferred Outflows/Inflows of Resources**

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/expenditure) until then. The School does not have any items that qualify for reporting in this category.

EAGLE ARTS ACADEMY, INC.

A Charter School and Component Unit of the District School Board of Palm Beach County, Florida

NOTES TO FINANCIAL STATEMENTS

March 31, 2018

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until then. The School does not have any items that qualify for reporting in this category.

➤ **Net Position and Fund Balance Classification**

Government-wide Financial Statements

Net Position are classified and reported in three components:

- Net Investment in Capital Assets – consists of capital assets, net of accumulated depreciation, and reduced by the outstanding balances of any borrowings that are attributed to the acquisition or improvement of those assets.
- Restricted Net Position – consists of net position with constraints placed on their use either by external groups such as creditors, contributors, or laws or regulations of other governments.
- Unrestricted Net Position – all other net position that does not meet the definition of “restricted” or “net investment in capital assets.”

Fund Financial Statements

GASB Codification Section 1800.142, *Fund Balance Reporting and Governmental Fund Type Definitions*, defines the different types of fund balances that a governmental entity must use for financial reporting purposes. GASB requires the fund balance amounts to be reported within one of the following fund balance categories:

- Nonspendable – fund balance associated with inventories, prepaid expenses, long-term loans and notes receivable, and property held for resale (unless the proceeds are restricted, committed or assigned). All nonspendable fund balances at year end relate to assets that are in nonspendable form.
- Restricted – fund balance that can be spent only for the specific purposes stipulated by the constitution, external resource providers, or through enabling legislation.
- Committed – fund balance that can be used only for the specific purposes determined by a formal action of the School’s Board of Governance.
- Assigned – fund balance that is intended to be used by the School’s management for specific purposes but does not meet the criteria to be classified as restricted or committed.
- Unassigned – fund balance that is the residual amount for the School’s general fund and includes all spendable amounts not contained in the other classifications.

EAGLE ARTS ACADEMY, INC.

A Charter School and Component Unit of the District School Board of Palm Beach County, Florida

NOTES TO FINANCIAL STATEMENTS

March 31, 2018

➤ Order of Fund Balance Spending Policy

The School's policy is to apply expenditures against nonspendable fund balance, restricted fund balance, committed fund balance, assigned fund balance, and unassigned fund balance at the end of the fiscal year. First, nonspendable fund balances are determined. Then restricted fund balances for specific purposes are determined (not including nonspendable amounts). Any remaining fund balance amounts for the non-general funds are to be classified as restricted fund balance. It is possible for the non-general funds to be classified as restricted fund balance. It is possible for the non-general funds to have negative unassigned fund balance when nonspendable amounts plus the amount of restricted fund balances for specific purposes exceed the positive fund balance for non-general fund.

➤ Revenue Sources

Revenues for current operations are received primarily from the District pursuant to the funding provisions included in the School's charter. In accordance with the funding provisions of the charter and Section 1002.33(17), Florida Statutes, the School reports the number of full-time equivalent students and related data to the District.

Under provisions of Section 1011.62, Florida Statutes, the District reports the number of full-time equivalent students and related data to the Florida Department of Education (FDOE) for funding through the Florida Education Finance Program (FEFP). Funding for the School is adjusted during the year to reflect the revised calculations by the FDOE under the FEFP and the actual weighted full-time equivalent students (FTE) reported by the School during designated full-time equivalent student survey periods. The Department may also adjust subsequent fiscal period allocations based upon an audit of the School's compliance in determining and reporting FTE and related data. Normally, such adjustments are treated as reductions or additions of revenue in the year when the adjustments are made.

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 nine-month period ended March 31, 2018, the School reported 428.82 unweighted FTE and 453.1879 weighted FTE.

FEFP funding may also be adjusted as a result of subsequent FTE audits conducted by the Florida 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).

EAGLE ARTS ACADEMY, INC.

A Charter School and Component Unit of the District School Board of Palm Beach County, Florida

NOTES TO FINANCIAL STATEMENTS

March 31, 2018

- Teacher certificates and other certification documentation (Rule 6A-1.0503, FAC).
- Documentation for instructors teaching out-of-field (Rule 6A-1.0503, FAC).
- Procedural safeguards for weighted programs (Rule 6A-6.03411, FAC).
- Evaluation and planning documents for weighted programs (Section 1010.305, Florida Statutes, and Rule 6A-6.03411, FAC).

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

The School receives state funds through the District under charter school capital outlay funding pursuant to Section 1013.62, Florida Statutes. Funds are based upon a capital outlay plan submitted to the District and are to be used for lease, rent or construction of school facilities. The School also receives funding through donations and fundraising efforts, school lunch sales and local property tax collections.

The School follows the policy of applying restricted resources prior to applying unrestricted resources when an expense is incurred for purposes for which both restricted and unrestricted assets are available.

➤ **Income Taxes**

The School is exempt from Federal tax under Section 501(c)(3) of the Internal Revenue Code. Accordingly, no provision for income taxes has been included in the accompanying financial statements. Additionally, no uncertain tax positions have been made requiring disclosure in the related notes to financial statements. The School's income tax returns for the past three years are subject to examination by tax authorities and may change upon examination.

➤ **Use of Estimates**

In preparing the financial statements in conformity with generally accepted accounting principles in the United States (GAAP) management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the statement of net position and affect revenues and expenditures for the period presented. Actual results could differ from those estimates.

➤ **Subsequent Events**

Management has evaluated all events subsequent to the balance sheet date and through the report date, which is the date these financial statements were available to be issued. Management determined there are no subsequent events which require disclosure.

EAGLE ARTS ACADEMY, INC.

A Charter School and Component Unit of the District School Board of Palm Beach County, Florida

NOTES TO FINANCIAL STATEMENTS

March 31, 2018

2. CASH DEPOSITS

Custodial Credit Risk – Deposits. In the case of deposits, this is the risk that in the event of a bank failure, the School’s deposits may not be returned to the School. The School does not have a custodial credit risk policy. All cash deposits are held in banks that qualify as public depositories under Florida law. All such deposits are insured by federal depository insurance and/or collateralized with securities held in Florida’s multiple financial institution collateral pool as required by Chapter 280, Florida Statutes.

3. DUE FROM OTHER AGENCIES

The amounts due from other agencies included in the accompanying statement of net position and balance sheet – governmental funds consist of amounts due from the School Board of Palm Beach County for the Charter School Capital Outlay Program and FEFP payments. These receivables are considered to be fully collectible and as such, no allowance for uncollectible accounts has been established.

4. CHANGES IN CAPITAL ASSETS

Changes in capital assets are presented in the table below.

	Beginning Balance	Additions	Deletions	Ending Balance
<u>Governmental Activities:</u>				
Furniture, Fixtures and Equipment	\$ 40,218	\$ -	\$ -	\$ 40,218
Leasehold Improvements	22,558	22,375	-	44,933
Total Capital Assets Being Depreciated	<u>62,776</u>	<u>22,375</u>	<u>-</u>	<u>85,151</u>
Less Accumulated Depreciation for:				
Furniture, Fixtures and Equipment	(20,109)	(6,033)	-	(26,142)
Leasehold Improvements	<u>(2,956)</u>	<u>(3,173)</u>	<u>-</u>	<u>(6,129)</u>
Total Accumulated Depreciation	<u>(23,065)</u>	<u>(9,206)</u>	<u>-</u>	<u>(32,271)</u>
Governmental Activities Capital Assets, net	<u>\$ 39,711</u>	<u>\$ 13,169</u>	<u>\$ -</u>	<u>\$ 52,880</u>

All depreciation expense was shown as unallocated on the Statement of Activities.

5. TEMPORARY OVERDRAFT PAYABLE

Temporary overdraft payable, as reported on the statement of net position and balance sheet-governmental funds, represents checks written and still on hand at the School. This amount does not represent a deficit in the School’s cash bank balance.

6. SHORT-TERM LOAN PAYABLE

The School entered into a factoring agreement with Charter Asset Management Fund, LP on January 29, 2018 to assist in financing its current operations. An administrative fee and interest were charged totaling \$8,159. The outstanding balance as of March 31, 2018 totaled \$93,159.

EAGLE ARTS ACADEMY, INC.

A Charter School and Component Unit of the District School Board of Palm Beach County, Florida

NOTES TO FINANCIAL STATEMENTS

March 31, 2018

7. CAPITAL LEASE PAYABLE

In March 2016, the School entered into a capital lease for the purchase of lighting equipment in the amount of \$13,995. The terms of the lease require 36 monthly payments of \$471.62 at a nominal annual interest rate of 13.011 percent. Payments under this agreement totaled \$4,245 for the nine-month period ended March 31, 2018.

The annual requirements amortize the capital lease outstanding at June 30, 2018, is as follows:

<u>Fiscal Year Ending June 30:</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>
2018	\$ 1,415	\$ 1,243	\$ 172
2019	4,716	4,447	269
Total	\$ 6,131	\$ 5,690	\$ 441

8. INTERFUND RECEIVABLES AND PAYABLES

At March 31, 2018, the School’s Capital Projects Fund owed the General Fund \$4,691 for expenditures awaiting reimbursement from other agencies. These amounts are netted together and not reported on the Statement of Net Position.

9. FACILITY LEASE

The School entered into a 25 year noncancelable operating lease for its educational facility beginning August 18, 2014 through August 31, 2039. The lease requires monthly minimum payments based on student count and includes annual increases in accordance with the agreement through June 2029. In accordance with the agreement, the School is responsible for all operating charges and insurance and is to maintain the premises at its own expense. Rental expenditures under this lease agreement for the nine-month period amounted to \$842,988.

The following is a schedule by years of future minimum rental payments required under the operating lease with remaining noncancelable lease terms in excess of one year:

<u>Fiscal Year Ending June 30:</u>	<u>Minimum Lease Payments</u>
2018	\$ 281,489
2019	1,136,554
2020	1,211,453
2021	1,235,682
2022	1,260,395
2023-2027	6,690,331
2028-2032	7,386,666
2033-2037	8,155,476
2038-2039	2,024,396
Total	\$ 29,382,442

EAGLE ARTS ACADEMY, INC.

A Charter School and Component Unit of the District School Board of Palm Beach County, Florida

NOTES TO FINANCIAL STATEMENTS

March 31, 2018

10. SCHEDULE OF STATE REVENUE SOURCES

The following is a schedule of the School’s State revenue:

<u>Source</u>	<u>Amount</u>
Florida Education Finance Program	\$ 2,314,067
School Improvement Plan	68,757
Charter School Capital Outlay	61,634
Best and Brightest Teacher Scholarship Program	11,200
Florida Teachers Classroom Supply Program	5,940
Total State Revenue	<u><u>\$ 2,461,598</u></u>

As provided in the charter school contract, the District has charged the School an administrative fee totaling \$67,519.

11. OPERATING LEASES

The School leases certain copier and computer equipment under multiple non-cancellable lease agreements. Terms of the lease require the School to make monthly lease payments of various amounts. Rental expenditures under these lease agreements for the nine-month period ending March 31, 2018 were \$35,946.

Future minimum lease payments under the non-cancellable operating lease as of June 30, 2018 are as follows:

<u>Fiscal Year</u> <u>Ending June 30:</u>	<u>Minimum Lease</u> <u>Payments</u>
2018	\$ 22,831
2019	69,963
2020	50,744
2021	24,000
2022	24,000
2023	16,000
Total	<u><u>\$ 207,538</u></u>

12. FISCAL SERVICES AGREEMENT

The School entered into an agreement July 1, 2016 for a term of three years with Charter School Management Corporation (CSMC) to provide fiscal support services. The term of the agreement may be extended by mutual agreement of both parties, but not past the charter contract end date. The agreement requires CSMC to provide the School with fiscal, payroll, budgeting, and financial reporting services. The agreement calls for payments of \$7,800 paid on a monthly basis. Total fees related to the contract for the nine-month period ended March 31, 2018 were \$70,883.

EAGLE ARTS ACADEMY, INC.

A Charter School and Component Unit of the District School Board of Palm Beach County, Florida

NOTES TO FINANCIAL STATEMENTS

March 31, 2018

13. RELATED PARTY TRANSACTIONS

On March 10, 2016 the School entered into a Brand License Agreement (Agreement) with Sound Tree Entertainment, LLC, a company owned by the Executive Director of the School. The Agreement allows the School to use the proprietary trademark, licenses, franchise rights and software that is used to run and operate the school that is owned by Sound Tree Entertainment, LLC. The Agreement calls for payments not to exceed 1.5% of the total audited gross FTE income funding calculations for the school year paid on a monthly basis. The contract is to renew annually as long as the School's charter agreement is in effect with the Sponsor (District). Beginning July 1, 2017, Element Management Group, a company owned by the Executive Director of the School, has been retained to handle all licensing agreements by Sound Tree Entertainment, LLC. Expenditures under this Agreement totaled \$42,318 for the nine-month period ending March 31, 2018.

On September 30, 2015, the School entered into a consulting agreement with Diane Dolan, the spouse of the Executive Director of the School. The couple was married on December 27, 2016. The School's board was aware of the related party relationship and the School District was also notified. The agreement calls for support with admissions, uniforms, and after school enrichments. The agreement calls for payments of \$4,200 paid on a monthly basis. The contract is to renew annually by mutual agreement of both parties. Expenditures under this agreement totaled \$37,800 for the nine-month period ending March 31, 2018.

14. GOING CONCERN

As indicated in the accompanying financial statements, the School reported a negative change in net position on its Statement of Activities of \$967,484 for the period ending March 31, 2018. In addition, the School reported a negative change in net position on its Statement of Activities of \$181,957 for the 2016-17 fiscal year. This past financial performance along with the decline in enrollment during the 2017-18 school year has caused the District School Board of Palm Beach County to issue a 90-day notice of termination of the charter contract on March 16, 2018. The School plans to appeal the notice of termination. These factors create an uncertainty about the School's ability to continue as a going concern. The financial statements do not include any adjustments that might be necessary if the School is unable to continue as a going concern.

15. DEFICIT FUND BALANCE AND NET POSITION

The School reported a General Fund deficit fund balance and deficit net position of \$1,144,383 and \$1,097,193, respectively, at March 31, 2018. Management is in current negotiations with their landlord and vendors to cut expenses going forward and plan to increase enrollment in the 2018-19 fiscal year to alleviate the deficit by the end of the 2018-19 fiscal year.

EAGLE ARTS ACADEMY, INC.

A Charter School and Component Unit of the District School Board of Palm Beach County, Florida

NOTES TO FINANCIAL STATEMENTS

March 31, 2018

16. RISK MANAGEMENT PROGRAMS

The School is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters for which the School carries commercial insurance. There have been no significant reductions in insurance coverage and settlement amounts have not exceeded insurance coverage for the current year or the three prior years.

17. FUNDING AND CREDIT RISK CONCENTRATIONS

The School receives substantially all of its support and revenue from federal, state and local funding sources, passed through the District, in the form of performance and budget based contracts. Continuing operation of the School is greatly dependent upon the continued support of these governmental agencies.

18. COMMITMENTS AND CONTINGENT LIABILITIES

The School participates in state grant programs, which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies, therefore, to the extent that the School has not complied with the rules and regulations governing the grants, refunds of any money received may be required and the collectability of any related receivables at March 31, 2018, may be impaired.

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

19. LEGAL MATTERS

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

EAGLE ARTS ACADEMY, INC.
A CHARTER SCHOOL AND COMPONENT UNIT OF
THE DISTRICT SCHOOL BOARD OF PALM BEACH COUNTY
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND - (UNAUDITED)
For the nine-month period ending March 31, 2018

	General Fund			Variance with Final Budget - Positive (Negative)
	Original Budget	Budget as of 3/31/18	Actual	
Revenues:				
Intergovernmental:				
State Sources	\$ 4,507,825	\$ 3,214,318	\$ 2,399,964	\$ (814,354)
Local and Other	402,000	784,567	284,586	(499,981)
Total Revenues	<u>4,909,825</u>	<u>3,998,885</u>	<u>2,684,550</u>	<u>(1,314,335)</u>
Expenditures:				
Current - Education:				
Instruction	2,023,833	1,826,182	1,458,054	368,128
Instruction & Curriculum Development	63,617	-	-	-
Instructional Staff Training	10,000	133	613	(480)
Instructional Related Technology	-	42,468	34,152	8,316
Board of Education	85,000	194,000	169,948	24,052
General Administration	86,689	-	67,519	(67,519)
School Administration	951,997	822,790	703,438	119,352
Facilities Acquisition & Construction	-	-	50,518	(50,518)
Fiscal Services	12,000	94,800	70,882	23,918
Pupil Transportation	-	209,190	143,550	65,640
Operation of Plant	1,510,726	642,060	878,128	(236,068)
Community Service	100,886	43,790	41,490	2,300
Fixed Capital Outlay:				
Facilities Acquisition & Construction	-	-	22,375	(22,375)
Debt Service:				
Principal	-	-	3,497	(3,497)
Interest & Fiscal Charges	-	34,000	24,536	9,464
Total Expenditures	<u>4,844,748</u>	<u>3,909,413</u>	<u>3,668,700</u>	<u>240,713</u>
Net Change in Fund Balances	65,077	89,472	(984,150)	(1,073,622)
Fund Balances, July 1, 2017	(160,233)	(160,233)	(160,233)	-
Fund Balances, March 31, 2018	<u>\$ (95,156)</u>	<u>(70,761)</u>	<u>\$ (1,144,383)</u>	<u>\$ (1,073,622)</u>

See Independent Auditor's Report.

EAGLE ARTS ACADEMY, INC.

A Charter School and Component Unit of the District School Board of Palm Beach County, Florida

NOTE TO REQUIRED SUPPLEMENTARY INFORMATION

March 31, 2018

1. BUDGETARY BASIS OF ACCOUNTING

Budgets are presented on the modified accrual basis of accounting. During the fiscal year, expenditures were controlled at the object level (e.g., salaries and benefits, purchased services, materials and supplies and capital outlay) within each activity (e.g., instruction, pupil personnel services and school administration). Budgets may be amended by resolution at any Board meeting prior to the date for the annual report.

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

2803 W. Busch Blvd Ste 106
Tampa, FL 33618
office (813)892-4274 fax (813) 932-1913
www.KingandWalker.com

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 of the Eagle Arts Academy, Inc.,
a Charter School and Component Unit of the District
School Board of Palm Beach County, 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, each major fund, and the aggregate remaining fund information of Eagle Arts Academy, Inc. ("School"), and a component unit of the District School Board of Palm Beach County, Florida, as of and for the nine-month period ended March 31, 2018, and the related notes to the financial statements, which collectively comprise the School's basic financial statements, and have issued our report thereon dated May 15, 2018.

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 School'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 combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the School's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or 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. We noted one instance which we considered a significant deficiency, see Finding 2018-1.

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 School's financial statements are free from material misstatement, we performed tests of 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, however we noted several items we considered other matters that are required to be reported under *Government Auditing Standards* (See Findings 2018-2/5).

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 School'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 School's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Respectfully submitted,

A handwritten signature in black ink that reads "King & Walker, CPAs". The signature is written in a cursive, professional style.

May 15, 2018
Tampa, Florida

**Management Letter as Required by Rules of the Florida Auditor General,
Chapter 10.850, Florida Statutes, *Charter School Audits***

To the Board of Directors Eagle Arts Academy, Inc.,
a Charter School and Component Unit of the
District School Board of Palm Beach County, Florida

Report on the Financial Statements

We have audited the financial statements of the Eagle Arts Academy, Inc., (“School”), a Charter School and Component Unit of the District School Board of Palm Beach County, Florida, as of and for the nine-month period ended March 31, 2018, and have issued our report thereon dated May 15, 2018.

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 and Chapter 10.850, Rules of the Auditor General.

Other Reports and Schedules

We have issued our Independent Auditor's Report on Internal Control over Financial Reporting and Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with *Government Auditing Standards*. Disclosures in those reports and schedule, which are dated May 15, 2018, should be considered in conjunction with this management letter.

Prior Audit Findings

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. The School did not have findings and recommendations made in the preceding annual financial audit report.

Official Title

Section 10.854(1)(e)5, Rules of the Auditor General, requires the name or official title of the entity. The official title of the entity is Eagle Arts Academy, Inc.

Financial Condition

Sections 10.854(1)(e)2., Rules of the Auditor General, requires that we report the results of our determination as to whether or not the School has met one or more of the conditions described in Section 218.503(1), Florida Statutes, and identification of the specific

condition(s) met. In connection with our audit, we determined that the School did meet conditions described in Section 218.503(1), Florida Statutes.

Vendors were unpaid for a period greater than 90 days and wages and salaries for one payroll were not paid when due which indicates a financial emergency in accordance with Sections 2018.503(1)(b) and (d). (*See Schedule of Findings and Recommendations - Finding 2018-04*)

These conditions were a result of a deteriorating financial condition as defined in Section 10.854(1)(b), Rules of the Auditor General. (*See Schedule of Findings and Recommendations - Finding 2018-05*)

Pursuant to Sections 10.854(1)(e)6.a. and 10.855(12), Rules of the Auditor General, we applied financial condition assessment procedures for the School. It is management's responsibility to monitor the School's financial condition, and our financial condition assessment was based in part on representations made by management and the review of financial information provided by same.

Transparency

Sections 10.854(1)(e)7. and 10.855(13), Rules of the Auditor General, require that we report the results of our determination as to whether the School maintains on its Web site the information specified in Section 1002.33(9)(p), Florida Statutes. In connection with our audit, we determined that the School maintained 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. Matters to be disclosed are reported in the *Schedule of Findings and Recommendations*.

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.

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 Board of Directors, applicable management, and the District School Board of Palm Beach County and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

Handwritten signature in black ink that reads "King & Walker, CPAs". The signature is written in a cursive, flowing style.

May 15, 2018
Tampa, Florida

EAGLE ARTS ACADEMY, INC.

A Charter School and Component Unit of the District School Board of Palm Beach County, Florida

SCHEDULE OF FINDINGS AND RESPONSES For the Nine-Month Period Ending March 31, 2018

Finding No.

- 2018-01 **Credit Card Reconciliations** - Good business practices and sound internal control procedures call for the timely reconciliation of credit card statements. The School maintains a credit card with a local bank for use by School personnel. During our audit, we noted that the monthly credit card statements are not reconciled to the School's accounting records. The reconciliation process is an essential procedure to assist in ensuring accurate expenditure reporting. We recommend that credit card statements be reconciled monthly to the School's accounting records and any differences or discrepancies be adequately resolved and documented.
- Management's Response:** *We Agree. Due to the fact that we only have a part-time bookkeeper who oversees this, we will work to establish better oversight and operational practices to better monitor the credit card reconciliations in a timely manner moving forward. Please note that we are caught up to date and current.*
- 2018-02 **Dual Signature Authorization** – The School's disbursement policy requires dual signature authorizations on all disbursements over \$500. In our test of disbursements in excess of \$500, we noted 16 instances where the check was signed by the Executive Director only. We were further informed that there is only one authorized check signer on the School's bank accounts. We recommend the School, at the very least, add one authorized signature to the School's bank accounts and ensure future compliance with the currently established disbursement policy.
- Management's Response:** *Under our current policy & procedure manual, it states that we must have two signatures for checks over \$10,000. The Board is currently reviewing our Policies & Procedures manual. In addition, due to the fact that several Board members have resigned, the Board is in process for taking action to add additional authorized signers to the bank account immediately.*
- 2018-03 **Approval of Purchases** - The School's disbursement policy requires that invoices be approved by the Head of School prior to payment. During our test of disbursements, which included both checks and credit card payments, we noted that none of the invoices contained evidence of approval by the Head of School. The documentation of the appropriate approvals of expenditures is necessary to ensure expenditures are made for an appropriate purpose. We recommend the School require only documented previously approved invoices signed by the Head of the School be paid with School funds.
- Management's Response:** *Our invoice approval process is two-fold. Our on-site Business Manager brings the invoices for review to the Executive Director for approval. Once an invoice has been approved, then they are scanned and sent to*

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SCHEDULE OF FINDINGS AND RESPONSES For the Nine-Month Period Ending March 31, 2018

Finding No.

CSMC to enter into their accounting software. When the Executive Director and CSMC agree to pay bills, those invoices are again reviewed, and paid on behalf of the school by CSMC. Email documentation of all approved emails can be provided. The EAA Board is currently reviewing our policies & procedures and may consider that the Executive Director initial each invoice for approval prior to being sent to CSMC.

2018-04

Financial Emergency - The Rules of the Auditor General (Section 10.854(1)(e)2.), require that we make a statement as to whether or not the School has met one or more of the conditions described in Section 218.503(1), Florida Statutes, and identification of the specific conditions met. In connection with our audit, we determined that the School met two of the conditions described in Section 218.503(1), Florida Statutes. The School failed to pay uncontested claims from 17 vendors totaling \$108,226 within 90 days as of March 31, 2018, and the School has not paid its landlord for six months totaling \$520,120 as of March 31, 2018. The School also failed to disburse payroll checks for the pay period ended March 15, 2018, as of March 31, 2018. These events resulted from a lack of available funds. We recommend the School make appropriate financial arrangements with the unpaid vendors, the School's landlord, and assure funds are available to pay payroll when due.

Management's Response: *After review of the 17 vendors, four are incorrect or monies not owed. Additionally, ten have payment arrangements and four do not have any agreements. The landlord, the school, our attorney's and the Executive Director have been attempting to renegotiate our lease agreement with ESJ Capital. As for the payroll checks, they have been distributed for the timeframe in question. We would like to address a few key reasons for our current financial status.*

In October 2017, the EAA Board voted to attempt to renegotiate the lease agreement for this school year and only pay the landlord for the amount of "actual students" at EAA this year. In December 2017, we reached a bridge amended lease agreement that would cover the lease payments from October 2017 through February 2018. This agreement was verbally agreed to and EAA was requested to draft and send the agreement for approval. That agreement was never signed. In February 2018 in an act of good faith, EAA sent a \$50K payment to ESJ with the hopes it would bring ESJ to the table to negotiate an agreed upon rental amount for the 2017-18 school year and also one for 2018-19 school year.

For the 2016-17 school year, EAA had 686 students, but still paid ESJ their required \$1.125m by our 3rd year. To do this, the Executive Director had to cut staff and expenses to make budget, which is something Mr. Blount was wrongfully criticized for in the Palm Beach Post. In addition, under Mr.

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A Charter School and Component Unit of the District School Board of Palm Beach County, Florida

SCHEDULE OF FINDINGS AND RESPONSES For the Nine-Month Period Ending March 31, 2018

Finding No.

Blount's leadership, he took the school from a "D minus" under former Principal Ann Simone to a "C+" grade. Governor Scott congratulated Principal Blount for making the Eagle Arts Academy a Top 10% for Most Improved K-8th grade school in ALL of Florida for both Math and ELA. The Eagle Arts Academy ranked 25th in Math in all of the 405 K-8th grade schools in Florida and 37th in ELA.

When EAA was a "D" school, the Boys & Girls Club of Palm Beach County filed for the 21st Century Grant, which allows the Boys & Girls Club to assist EAA in approving its school grade. While EAA improved it's grade to a "C+" without the assistance of the Boys & Girls Club, the Boys & Girls Club received a 3-year grant worth \$912,000 to assist EAA improve its school grade. If the Eagle Arts Academy were to close down, the Boys & Girls Club would lose the grant, which is worth over \$600,000 over the next two years. Therefore, the Boys & Girls Club has committed their support and marketing efforts. For the 2018-19 school year, the Boys & Girls Club is committed to help EAA with our enrollment by bringing 200 new students to EAA.

As for the payroll checks, in November 2017, EAA received a bridge funding commitment from Charter Asset Management. In the course of several months, EAA borrowed and paid back \$750,000 in bridge funding. CAM was committed to help carry EAA into the 2018-19 school year, but decided to not fund EAA in March 2018 for the March 31st, 2018 payroll. This decision was due to the fact the School District of Palm Beach County would not provide CAM or Eagle Arts Academy verification of two (2) items: First, to honor EAA request in December 2017 to change its bank account from US Bank to Bank of Hope. This was unanimously agreed upon by the EAA Board. Second, for the School District of Palm Beach County to verify that EAA was entitled and has earned its remaining funding, based on the October and February student count. After three requests from the EAA's general counsel, EAA has yet to receive this as of today. EAA has verified with the Florida Department of Education that the School District would be in violation of State Statute if it withheld these earned funds.

When EAA received its April 2018 funds, EAA paid both the March 31st payroll and then also the April 15th payroll.

In summary, Mr. Blount cut costs to make budget, paid the landlord their \$1.125M rent on only 686 students and brought the school from a "D minus" to a "C+" during the 2016-17 school year. Our primary issue was the drop in enrollment which was largely due to the continuous false and negative media stories which raised concern with parents.

EAGLE ARTS ACADEMY, INC.

A Charter School and Component Unit of the District School Board of Palm Beach County, Florida

SCHEDULE OF FINDINGS AND RESPONSES For the Nine-Month Period Ending March 31, 2018

Finding No.

2018-05 **Deteriorating Financial Condition** – We applied certain procedures pursuant to Section 10.854(1)(e)6.a. and Section 10.855(12) Rules of the Auditor General. As a result, it appears that the financial emergency as described in Finding 2018-04 is a result of a deteriorating financial condition. The financial assessment procedures applied disclosed that over the past 2 fiscal years assets, the unrestricted net position balance and the change in the School’s net position have decreased significantly while the liabilities have significantly increased as shown below:

	as of: 6/30/2016	as of: 6/30/2017	as of: 3/31/18	(Decrease)/ Increase from 6/30/16 to 6/30/2017	(Decrease)/ Increase from 6/30/17 to 3/31/2018
Assets	\$ 472,693	\$ 268,349	\$ 116,239	\$ (204,344)	\$ (152,110)
Liabilities	\$ 420,445	\$ 398,058	\$ 1,213,432	\$ (22,387)	\$ 815,374
Unrestricted Net Position	\$ 24,153	\$ (160,233)	\$ (1,144,383)	\$ (184,386)	\$ (984,150)
Change in Net Position	\$ 41,592	\$ (181,957)	\$ (967,484)	\$ (223,549)	\$ (785,527)

This finding is to bring the deteriorating financial condition of the School to the attention of the School’s Board of Directors and the Palm Beach County District School Board in accordance with Section 218.39(5), Florida Statutes.

Management’s Response: *Outside of what is stated above, EAA would agree that we have been under a deteriorating financial condition. This was caused by a tremendous drop in enrollment between the 2016-17 school year and the start of the 2017-18 school year. Due to our enormous lease obligation, based on a 97.5% occupancy requirement, our negative fund balance position is primarily due to our current lease agreement. The Board and the Executive Director has been working diligently to renegotiate the lease. Based on our lease obligation of paying ESJ on 1045 students, whether we have them or not, EAA would be paying ESJ on 616 “ghost” students at a cost value of \$646,800 (based on current enrollment of 429). Last year, EAA paid ESJ on 359 “ghost” students at a cost value to the school of \$376,950. As stated before, EAA did pay 100% of the lease obligation for the 2016-17 school year, including the 359 “ghost” students.*

ESJ Capital has the ability to alter this negative fund balance position by renegotiating the current lease and providing EAA with an amended lease agreement for the 2017-18 school year and also for the 2018-19 school year. Otherwise, ESJ has the right to terminate the lease to the school and release EAA. In addition, EAA has received \$250K in committed donation contributions to assist EAA moving forward next school year.

EAGLE ARTS ACADEMY, INC.

A Charter School and Component Unit of the District School Board of Palm Beach County, Florida

SCHEDULE OF FINDINGS AND RESPONSES For the Nine-Month Period Ending March 31, 2018

Finding No.

The key factors are our current lease agreement and our lower than expected enrollment. In March 2018, EAA received 80% recommitment obligations from our current kindergartners through 7th graders. In addition, we have 61 new packets in the door and with the commitment from the Boys & Girls Club of 200 new students, we are confident we can rebound and continue into our 5th year.