

**PALM BAY PREPARATORY
ELEMENTARY ACADEMY**
(A CHARTER SCHOOL UNDER
PALM BAY EDUCATION GROUP, INC.)

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

INDEPENDENT AUDITOR'S REPORT
for the fiscal year ended JUNE 30, 2018

King & Walker, CPAs, PL

Certified Public Accountants

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PALM BAY PREPARATORY ELEMENTARY ACADEMY
(A CHARTER SCHOOL UNDER PALM BAY EDUCATION GROUP, INC.)
A Charter School and Component Unit of the District School Board of Bay County, Florida

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Independent Auditor's Report

To the Board of Directors Palm Bay Preparatory Elementary Academy
(A charter school under Palm Bay Education Group, Inc.)
a Charter School and Component Unit of the
District School Board of Bay 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 Palm Bay Preparatory Elementary Academy ("School"), a charter school under Palm Bay Education Group, Inc. and component unit of the District School Board of Bay County, Florida, as of and for the year ended June 30, 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, as of June 30, 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

As described in Note 1, the accompanying financial statements referred to above present only the financial position of the School at June 30, 2018, and the respective changes in financial position for the year then ended, and is not intended to be a complete presentation Palm Bay Education Group, Inc. These financial statements do not purport to and do not present fairly the financial position of Palm Bay Education Group, Inc. as of June 30, 2018 and its changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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 Note 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 September 14, 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,



September 14, 2018
Tampa, Florida

PALM BAY PREPARATORY ELEMENTARY ACADEMY

(A CHARTER UNDER PALM BAY EDUCATION GROUP, INC.)

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

MANAGEMENT’S DISCUSSION AND ANALYSIS - (Unaudited)

The Management’s Discussion and Analysis (MD&A) section of the annual financial report of the Palm Bay Preparatory Elementary Academy (“School”), a charter school under Palm Bay Education Group, Inc. provides an overview of the School’s activities for the fiscal year ended June 30, 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 fiscal year ended June 30, 2018, the School’s revenue exceeded expenses as shown on the School’s statement of activities by \$37,098.
- As shown on the balance sheet – governmental funds, the School reported a fund balance of \$8,031.

OVERVIEW OF THE FINANCIAL STATEMENTS

The basic financial statements consist of three components:

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

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 and business-type 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.

**PALM BAY PREPARATORY ELEMENTARY ACADEMY
(A CHARTER UNDER PALM BAY EDUCATION GROUP, INC.)**

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

MANAGEMENT'S DISCUSSION AND ANALYSIS - (Unaudited)

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 the following funds; a General Fund to account for its general operations and internal account activities, a Debt Service Fund to account for the repayment of debt, and a Special Revenue Fund to account for Federal grant programs and food services. For reporting purposes, all funds are considered major funds.

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.

PALM BAY PREPARATORY ELEMENTARY ACADEMY
(A CHARTER UNDER PALM BAY EDUCATION GROUP, INC.)
A Charter School and Component Unit of the District School Board of Bay County, Florida
MANAGEMENT’S DISCUSSION AND ANALYSIS - (Unaudited)

GOVERNMENT-WIDE FINANCIAL ANALYSIS

The following is a summary of the School’s current year and prior year net position:

	Net Position, End of Year
	Governmental
	6-30-18
ASSETS	
Current and Other Assets	\$ 412,477
Capital Assets, net	2,553,197
Total Assets	2,965,674
DEFERRED OUTFLOWS OF RESOURCES	
Deferred Outflows Related to Pensions	97,811
Total Deferred Outflows of Resources	97,811
LIABILITIES	
Current and Other Liabilities	404,446
Long Term Liabilities	2,621,941
Total Liabilities	3,026,387
NET POSITION	
Net Investment in Capital Assets	(68,744)
Unrestricted	105,842
Total Net Position	\$ 37,098

The largest portions of the School’s assets are capital assets (86%) as the School purchased a new educational facility during the year. Liabilities consist of accounts payables and notes payable and loans payable for the purchase of the new educational facility. The School reported a total net deficit position balance of \$60,713.

**PALM BAY PREPARATORY ELEMENTARY ACADEMY
(A CHARTER UNDER PALM BAY EDUCATION GROUP, INC.)**

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

MANAGEMENT’S DISCUSSION AND ANALYSIS - (Unaudited)

The following is a summary of the School’s net position for the current year and prior year:

	Operating Results	
	<u>Governmental Activities</u>	
	<u>6-30-18</u>	
Revenues:		
Federal Sources	\$	331,392
State Sources		2,028,509
Local and Other		216,183
Total Revenues		<u>2,576,084</u>
Expenses:		
Instruction		1,604,120
Instructional Support Services		92,898
Instructional Staff Training		2,134
Instructional-Related Technology Services		8,243
Board		93,455
School Administration		154,665
Facilities Acq. & Construction		1,781
Fiscal Services		67,602
Student Transportation Services		1,021
Operation of Plant		175,631
Maintenance of Plant		30,720
Community Service		51,866
Debt Service - Interest		151,459
Unallocated Depreciation		103,391
Total Expenses		<u>2,538,986</u>
Increase/(Decrease) in Net Position	\$	<u>37,098</u>

The largest revenue source for the School is the State of Florida (79%). Revenues from State sources for current operations are primarily received through the Florida Education Finance Program (FEFP) funding formula. The FEFP formula utilizes student enrollment data to determine the funds available for the School.

The largest concentrations of expenses were for instruction (63%), operation of plant (7%) and School administration (6%) during the year.

PALM BAY PREPARATORY ELEMENTARY ACADEMY

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

MANAGEMENT'S DISCUSSION AND ANALYSIS - (Unaudited)

FINANCIAL ANALYSIS OF THE SCHOOL'S FUNDS

Governmental Funds

As the School completed the year, its governmental funds reported a fund balance of \$8,031.

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. Actual expenditures were equal to the final budgeted expenditures. Refer to the Budgetary Comparison Schedule – General Fund for additional information.

CAPITAL ASSETS

The School's investment in capital assets for its governmental activities as of June 30, 2018, amounts to \$2,553,197 (net of accumulated depreciation). This investment in capital assets includes land, building, and furniture, fixtures, and equipment. Additional information regarding the School's capital assets is located in the notes to the financial statements.

LONG-TERM LIABILITIES

On July 1, 2017, the School borrowed a total of \$2,500,000 for the purpose of purchasing an educational facility. The first mortgage of \$2,000,000 bears an interest rate of 5.27% per year with a balloon payment due in May 2020. The second mortgage of \$500,000 bears an interest rate of 5% per year with a balloon payment due in June 2019. Additional information regarding the School's long-term liabilities can be found in the Notes to the financial statements.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the School's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Palm Bay Education Group, Inc., 1104 Balboa Ave., Panama City, FL 32401.

PALM BAY PREPARATORY ELEMENTARY ACADEMY
(A CHARTER SCHOOL UNDER PALM BAY EDUCATION GROUP, INC.)
A CHARTER SCHOOL AND COMPONENT UNIT OF THE
DISTRICT SCHOOL BOARD OF BAY COUNTY, FLORIDA

STATEMENT OF NET POSITION

June 30, 2018

	<u>Governmental Activities</u>
ASSETS	
Cash & Cash Equivalents	\$ 313,303
Accounts Receivable	
Due From Other Agencies	19,740
Note Receivable	75,000
Prepaid Expenses and Deposits	4,434
Capital Assets:	
Land	752,600
Furniture, Fixtures, and Equipment, Net	92,739
Building, Net	<u>1,707,858</u>
Total Capital Assets, Net	<u>2,553,197</u>
TOTAL ASSETS	<u><u>2,965,674</u></u>
DEFERRED OUTFLOWS OF RESOURCES	
Deferred outflow related to pensions	97,811
TOTAL DEFERRED OUTFLOWS OF RESOURCES	<u><u>97,811</u></u>
LIABILITIES	
Accounts Payable	339,015
Salaries and Wages Payable	65,431
Long Term Liabilities:	
Due Within One Year:	
Notes Payable	8,952
Loans Payable	545,767
Due After One Year:	
Notes Payable	185,478
Loans Payable	<u>1,881,744</u>
TOTAL LIABILITIES	<u><u>3,026,387</u></u>
NET POSITION	
Net Investment in Capital Assets	(68,744)
Unrestricted	<u>105,842</u>
Total Net Position	<u><u>\$ 37,098</u></u>

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

PALM BAY PREPARATORY ELEMENTARY ACADEMY
(A CHARTER SCHOOL UNDER PALM BAY EDUCATION GROUP, INC.)
A CHARTER SCHOOL AND COMPONENT UNIT OF THE
DISTRICT SCHOOL BOARD OF BAY COUNTY, FLORIDA

STATEMENT OF ACTIVITIES
For the Fiscal Year Ended June 30, 2018

	Expenses	Program Revenues			Net (Expenses) Revenue and Changes Net Position Governmental Activities
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Governmental Activities:					
Instruction	\$ 1,604,120	\$ -	\$ 281,815	\$ -	\$ (1,322,305)
Instructional Support Services	92,898		43,803		(49,095)
Instructional Staff Training	2,134				(2,134)
Instructional-Related Technology Services	8,243				(8,243)
Board	93,455		676		(92,779)
School Administration	154,665		5,098		(149,567)
Facilities Acquisition & Construction	1,781				(1,781)
Fiscal Services	67,602				(67,602)
Student Transportation Services	1,021				(1,021)
Operation of Plant	175,631				(175,631)
Maintenance of Plant	30,720				(30,720)
Community Service	51,866	147,729			95,863
Debt Service - Interest	151,459				(151,459)
Unallocated Depreciation	103,391				(103,391)
Total Governmental Activities	\$ 2,538,986	\$ 147,729	\$ 331,392	\$ -	(2,059,865)
General Revenues:					
State Sources					2,028,509
Local and Other					68,454
Total General Revenues					2,096,963
Change in Net Position					37,098
Net Position - July 1, 2017					-
Net Position - June 30, 2018					\$ 37,098

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

PALM BAY PREPARATORY ACADEMY
(A CHARTER SCHOOL UNDER PALM BAY EDUCATION GROUP, INC.)
A CHARTER SCHOOL AND COMPONENT UNIT OF THE
DISTRICT SCHOOL BOARD OF BAY COUNTY, FLORIDA

BALANCE SHEET - GOVERNMENTAL FUNDS
June 30, 2018

	General Fund	Special Revenue Fund	Debt Service Fund	Total Governmental Activities
ASSETS				
Cash & Cash Equivalents	\$ 313,303	\$ -	\$ -	\$ 313,303
Due From Other Agencies	304	19,436		19,740
Note Receivable	75,000			75,000
Prepaid Expenses and Deposits	4,434			4,434
Due From Other Funds	19,436			19,436
Total Assets	\$ 412,477	\$ 19,436	\$ -	\$ 431,913
 LIABILITIES				
Accounts Payable	\$ 339,015	\$ -	\$ -	\$ 339,015
Salaries Payable	65,431			65,431
Due to Other Funds		19,436		19,436
Total Liabilities	404,446	19,436	-	423,882
 FUND BALANCE				
Nonspendable	4,434			4,434
Unassigned	3,597			3,597
Total Fund Balance	8,031	-	-	8,031
Total Liabilities and Fund Balance	\$ 412,477	\$ 19,436	\$ -	\$ 431,913

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

**PALM BAY PREPARATORY ELEMENTARY ACADEMY
(A CHARTER SCHOOL UNDER PALM BAY EDUCATION GROUP, INC.)
A CHARTER SCHOOL AND COMPONENT UNIT OF THE
DISTRICT SCHOOL BOARD OF BAY COUNTY, FLORIDA**

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
*June 30, 2018***

Total Fund Balances - Governmental Funds	\$ 8,031
Amounts reported for governmental activities in the statement of net position are different because:	
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 loans and notes payable.	(2,621,941)
Deferred Outflows and Inflows of resources are not available in the current period and not reported in the governmental funds.	97,811
Capital assets, net of accumulated depreciation, used in governmental activities are not financial resources and therefore, are not reported as assets in governmental funds.	<u>2,553,197</u>
Total Net Position - Governmental Activities	<u><u>\$ 37,098</u></u>

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

PALM BAY PREPARATORY ELEMENTARY ACADEMY
(A CHARTER SCHOOL UNDER PALM BAY EDUCATION GROUP, INC.)
A CHARTER SCHOOL AND COMPONENT UNIT OF THE
DISTRICT SCHOOL BOARD OF BAY COUNTY, FLORIDA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES - GOVERNMENTAL FUNDS
For the Fiscal Year Ended June 30, 2018

	General Fund	Special Revenue Fund	Debt Service Fund	Total Governmental Funds
Revenues				
Intergovernmental:				
Federal Through Local	\$ -	\$ 331,392	\$ -	\$ 331,392
State Sources	2,028,509			2,028,509
Local and Other	216,183			216,183
Total Revenues	2,244,692		-	2,576,084
Expenditures				
Current - Education:				
Instruction	1,322,305	281,815		1,604,120
Instructional Support Services	49,095	43,803		92,898
Instructional Staff Training	2,134			2,134
Instructional-Related Technology Services	8,243			8,243
Board	92,779	676		93,455
School Administration	247,378	5,098		252,476
Facilities Acquisition & Construction	1,781			1,781
Fiscal Services	67,602			67,602
Student Transportation Services	1,021			1,021
Operation of Plant	175,631			175,631
Maintenance of Plant	30,720			30,720
Community Service	51,866			51,866
Fixed Capital Outlay:				
Facilities Acquisition & Construction	2,550,346			2,550,346
Other Capital Outlay	106,242			106,242
Debt Service:				
Principal	-		80,495	80,495
Interest and Fiscal Charges	-		151,459	151,459
Total Expenditures	4,707,143	331,392	231,954	5,270,489
Excess (Deficiency) of Revenues Over Expenditures	(2,462,451)	(331,392)	(231,954)	(2,694,405)
Other Financing Sources (Uses):				
Proceeds From Loans	2,702,436			2,702,436
Transfer In			231,954	231,954
Transfer (Out)	(231,954)		-	(231,954)
Total Other Financing Sources (Uses)	2,470,482	-	231,954	2,702,436
Net Change in Fund Balance	8,031		-	8,031
Fund Balance, July 1, 2017	-		-	-
Fund Balance, June 30, 2018	\$ 8,031	\$ -	\$ -	\$ 8,031

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

PALM BAY PREPARATORY ELEMENTARY ACADEMY
(A CHARTER SCHOOL UNDER PALM BAY EDUCATION GROUP, INC.)
A CHARTER SCHOOL AND COMPONENT UNIT OF THE
DISTRICT SCHOOL BOARD OF BAY COUNTY, FLORIDA
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF
REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
For the Fiscal Year Ended June 30, 2018

Net Change in Fund Balances - Governmental Funds	\$	8,031
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Amounts reported for governmental activities in the statement of activities are different because:

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 (\$2,656,588) in excess of depreciation expense (\$103,391).		2,553,197
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Proceeds from loans and notes payable are reported as other financing sources in governmental funds and as long-term liabilities in the statement of net position.		(2,702,436)
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Repayment of debt principal is an expenditure in the governmental funds, but the payment reduces long-term liabilities in the statement of net position.		80,495
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Net effect of various transactions in the statement of activities that do not require the use of current financial resources are not reported in the governmental funds:

Pension contributions made subsequent to the pension liability measurement date of 6/30/17		97,811
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Change in Net Position - Governmental Activities	\$	37,098
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The accompanying notes to the financial statements are an integral part of this statement.

PALM BAY PREPARATORY ELEMENTARY ACADEMY
(A CHARTER SCHOOL UNDER PALM BAY EDUCATION GROUP, INC.)
A Charter School And Component Unit of the District School Board of Bay County, Florida

NOTES TO FINANCIAL STATEMENTS
June 30, 2018

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

➤ **Reporting Entity**

Palm Bay Preparatory Elementary Academy (“School”), a charter school under Palm Bay Education Group, Inc. is a component unit of the District School Board of Bay County, Florida. The School is sponsored by its charter-holder, Palm Bay Education Group, Inc., 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 not-for-profit corporation Board of Directors, which is comprised of five members.

The basic financial statements of the School present only the balances, activity and disclosures related to the School. They do not purport to, and do not, present fairly the financial position of Palm Bay Education Group, Inc. as of June 30, 2016, and its changes in financial position or budgetary comparisons, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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 Bay County, Florida, (“District”). The current charter had been made effective for the 2017-18 school year, and is effective until June 30, 2022. 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.

PALM BAY PREPARATORY ELEMENTARY ACADEMY
(A CHARTER SCHOOL UNDER PALM BAY EDUCATION GROUP, INC.)
A Charter School And Component Unit of the District School Board of Bay County, Florida

NOTES TO FINANCIAL STATEMENTS
June 30, 2018

➤ **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.

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.
- Special Revenue Fund – to account for federal grant programs and food service operations.
- Debt Service Fund – to account for the accumulation of resources for, and the payment of, long-term debt principal and interest and related costs.

➤ **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

PALM BAY PREPARATORY ELEMENTARY ACADEMY
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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 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 are 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.

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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 - 7 years
Buildings	20 years

Current-year information relative to changes in capital assets is described in a subsequent note.

➤ **Long-Term Liabilities**

Long-term obligations that will be financed from resources to be received in the future by governmental funds are reported as liabilities in the government-wide statement of net position.

In the governmental fund financial statements, bonds and other long-term obligations are not recognized as liabilities until due.

Changes in long-term liabilities for the current year are reported in a subsequent note.

➤ **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.

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.

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- 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.

➤ **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

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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 (FTE) students 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 fiscal year ended June 30, 2018, the School reported 299.45 unweighted FTE and 323.9300 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).
- 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 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.

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➤ **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 note 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.

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 amount due from other agencies on the School's statement of net position and balance sheet – governmental funds consists of an amount due from District School Board of Bay County for Charter School Capital Outlay funds. This receivable amount is considered to be fully collectible and therefore, no allowance for uncollectible accounts has been established.

4. INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

At June 30, 2018, the School's General Fund was due \$19,436 from the Special Revenue Fund for grant expenditures not yet reimbursed. The General Fund transferred \$231,954 to the Debt Service Fund for the repayment of debt. The amounts of interfund receivables, payables and transfers are netted together and not reported in the statement of net position and the statement of activities.

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5. CHANGES IN CAPITAL ASSETS

Changes in capital assets are presented in the table below.

	Beginning Balance	Additions	Deletions	Ending Balance
<u>Governmental Activities:</u>				
Capital Assets Not Being Depreciated:				
Land	\$ -	\$ 752,600	\$ -	\$ 752,600
Total Capital Assets Not Being Depreciated	-	752,600	-	752,600
<u>Capital Assets Being Depreciated:</u>				
Furniture, Fixtures and Equipment	-	106,242		106,242
Buildings	-	1,797,746		1,797,746
Total Capital Assets Being Depreciated	-	1,903,988	-	1,903,988
Less Accumulated Depreciation for:				
Furniture, Fixtures and Equipment	-	(13,503)		(13,503)
Buildings	-	(89,888)		(89,888)
Total Accumulated Depreciation	-	(103,391)	-	(103,391)
Total Capital Assets Being Depreciated, Net	\$ -	\$ 2,553,197	\$ -	\$ 2,553,197

All depreciation expense was shown as unallocated on the statement of activities.

6. ACCOUNTS PAYABLE AND NOTES PAYABLE – (RELATED PARTY)

During the current fiscal year, Palm Bay Preparatory Academy, a charter school under the same charter holder, made payments for expenditures on behalf of the School for expenses. As of June 30, 2018, \$334,564 is due to Palm Bay Preparatory Academy, as reported on the School's statement of net position and balance sheet – governmental funds in the accounts payable account.

The School reported two notes payable, one from Palm Bay Preparatory Academy (\$100,000) and the other from Central High School (\$75,000), charter schools under the same charter holder. The note payable to Palm Bay Preparatory Academy is an on demand promissory note bearing 0% interest, dated June 30, 2017 due in five years. The note payable to Central High School is an on demand promissory note bearing 0% interest, dated June 30, 2018 due in five years. The note payables are being reported as long term liabilities on the statement of net assets.

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7. NOTES PAYABLE

Notes payable consisted of the following:

Notes Payable:	Balance at 6-30-18
Palm Bay Preparatory Academy, a charter school under the same charter holder, \$100,000; 0% interest; demand loan; due 6-30-2022.	\$ 100,000
Central High School, a charter school under the same charter holder, \$75,000; 0% interest; demand loan; due 6-30-2023.	75,000
Novitas Credit Corp - Phone Equipment Lease entered into 7-24-17. 36 monthly payments of \$1,900 at 15.8%. This loan is split with Palm Bay Preparatory Academy.	\$ 19,430
Total Notes Payable	\$ 194,430

Amounts due for notes payable are as follows:

Fiscal Year Ending June 30:	Total	Principal	Interest
2019	\$ 11,398	\$ 8,952	\$ 2,446
2020	11,399	10,478	921
2021	-	-	-
2022	100,000	100,000	-
2023	75,000	75,000	-
Total	\$ 197,797	\$ 194,430	\$ 3,367

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8. LOANS PAYABLE

Loans payable outstanding for the School consisted of the following:

	Balance at 6-30-18
<u>Centennial Bank - First Mortgage Loan</u>	
\$2,000,000 Balloon Note bearing an interest rate of 5.27% per annum maturing June 29, 2020. The borrower shall pay \$13,585.42 monthly until May 29, 2020. The outstanding principal balance of \$1,823,303, accrued unpaid interest and unpaid fees and expenses, if any are due and payable on June 29, 2020. This loan is split with Palm Bay Preparatory Academy for their shared school facility.	\$ 1,942,448
<u>Central Baptist Church, Inc. - Second Mortgage Loan</u>	
\$500,000 Balloon Note bearing an interest rate of 5.0% per annum maturing June 29, 2019. The borrower shall pay \$3,300 monthly until June 29, 2019. The outstanding principal balance of \$469,363, accrued unpaid interest and unpaid fees and expenses, if any are due and payable on June 29, 2019. This loan is split with Palm Bay Preparatory Academy for their shared school facility.	485,063
Total Loans Payable	<u>\$ 2,427,511</u>

Amounts payable for these loans are as follows:

Fiscal Year	Total	Principal	Interest
<u>Ending June 30:</u>			
2019	\$ 671,985	\$ 545,767	\$ 126,218
2020	<u>1,972,742</u>	<u>1,881,744</u>	<u>90,998</u>
Total	<u>\$ 2,644,727</u>	<u>\$ 2,427,511</u>	<u>\$ 217,216</u>

9. CHANGES IN LONG-TERM LIABILITIES

The following is a summary of changes in long-term liabilities:

	Beginning Balance	Additions	Deductions	Ending Balance	Due in One Year
GOVERNMENTAL ACTIVITIES:					
Notes Payable	\$ -	\$ 202,436	\$ 8,006	\$ 194,430	\$ 8,952
Loan Payable		<u>2,500,000</u>	<u>72,489</u>	<u>2,427,511</u>	<u>545,767</u>
Total Governmental Activities	<u>\$ -</u>	<u>\$ 2,702,436</u>	<u>\$ 80,495</u>	<u>\$ 2,621,941</u>	<u>\$ 554,719</u>

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10. SCHEDULE OF STATE REVENUE SOURCES

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

Source	Amount
Florida Education Finance Program	\$ 1,295,777
Class Size Reduction	380,240
Discretionary Local Effort	125,542
Supplementary Academic Instruction	83,772
ESE Guaranteed Allocation	33,082
Instructional Materials	22,457
Best & Brightest Teacher Scholarships	17,600
Florida Education Finance Program Capital Outlay	16,573
Discretionary Millage	15,934
Reading Allocation	13,522
Digital Classrooms Allocation	10,134
Safe School	8,014
Teachers' Classroom Supply Program	5,040
Discretionary Lottery	516
Other Miscellaneous State Revenue	306
Total State Revenue	\$ 2,028,509

As provided in the charter school contract, the District has charged the School an administrative fee amounting to \$83,705.

11. FLORIDA RETIREMENT SYSTEM (FRS) – Defined Benefit Pension Plans
General Information about the FRS

The FRS was created in Chapter 121, Florida Statutes, to provide a defined benefit pension plan for participating public employees. The FRS was amended in 1998 to add the Deferred Retirement Option Program under the defined benefit plan and amended in 2000 to provide a defined contribution plan alternative to the defined benefit plan for FRS members effective July 1, 2002. This integrated defined contribution pension plan is the FRS Investment Plan. Chapter 112, Florida Statutes, established the Retiree Health Insurance Subsidy (HIS) Program, a cost-sharing multiple-employer defined benefit pension plan, to assist retired members of any State-administered retirement system in paying the costs of health insurance.

Essentially all regular employees of the School are eligible to enroll as members of the State-administered FRS. Provisions relating to the FRS are established by Chapters 121 and 122, Florida Statutes; Chapter 112, Part IV, Florida Statutes; Chapter 238, Florida Statutes; and FRS Rules, Chapter 60S, Florida Administrative Code; wherein eligibility, contributions, and benefits are defined and described in detail. Such provisions may be amended at any time by further action from the Florida Legislature. The FRS is a single retirement system administered by the Florida Department of Management Services,

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Division of Retirement, and consists of the two cost-sharing, multiple-employer defined benefit plans and other nonintegrated programs. A comprehensive annual financial report of the FRS, which includes its financial statements, required supplementary information, actuarial report, and other relevant information, is available from the Florida Department of Management Services' Web site (www.dms.myflorida.com).

FRS Pension Plan

Plan Description. The FRS Pension Plan (Plan) is a cost-sharing multiple-employer defined benefit pension plan, with a Deferred Retirement Option Program (DROP) for eligible employees. The general classes of membership are as follows:

Regular Class – Members of the FRS who do not qualify for membership in the other classes.

Employees enrolled in the Plan prior to July 1, 2011, vest at 6 years of creditable service and employees enrolled in the Plan on or after July 1, 2011, vest at 8 years of creditable service. All vested members, enrolled prior to July 1, 2011, are eligible for normal retirement benefits at age 62 or at any age after 30 years of service. All members enrolled in the Plan on or after July 1, 2011, once vested, are eligible for normal retirement benefits at age 65 or any time after 33 years of creditable service. Employees enrolled in the Plan may include up to 4 years of credit for military service toward creditable service. The Plan also includes an early retirement provision; however, there is a benefit reduction for each year a member retires before his or her normal retirement date. The Plan provides retirement, disability, death benefits, and annual cost-of-living adjustments to eligible participants.

DROP, subject to provisions of Section 121.091, Florida Statutes, permits employees eligible for normal retirement under the Plan to defer receipt of monthly benefit payments while continuing employment with an FRS-participating employer. An employee may participate in DROP for a period not to exceed 60 months after electing to participate, except that certain instructional personnel may participate for up to 96 months. During the period of DROP participation, deferred monthly benefits are held in the FRS Trust Fund and accrue interest. The net pension liability does not include amounts for DROP participants, as these members are considered retired and are not accruing additional pension benefits.

Benefits Provided. Benefits under the Plan are computed on the basis of age and/or years of service, average final compensation, and service credit. Credit for each year of service is expressed as a percentage of the average final compensation. For members initially enrolled before July 1, 2011, the average final compensation is the average of the 5 highest fiscal years' earnings; for members initially enrolled on or after July 1, 2011, the average final compensation is the average of the 8 highest fiscal years' earnings. The total percentage value of the benefit received is determined by calculating the total value of all service, which is based on the retirement class to which the member belonged when the service credit was earned. Members are eligible for in-line-of-duty or regular disability and survivors' benefits. The following chart shows the percentage value for each year of service credit earned:

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<u>Class, Initial Enrollment, and Retirement Age/Years of Service</u>	<u>% Value</u>
<i>Regular Class members initially enrolled before July 1, 2011</i>	
Retirement up to age 62 or up to 30 years of service	1.60
Retirement at age 63 or with 31 years of service	1.63
Retirement at age 64 or with 32 years of service	1.65
Retirement at age 65 or with 33 or more years of service	1.68
<i>Regular Class members initially enrolled on or after July 1, 2011</i>	
Retirement up to age 65 or up to 33 years of service	1.60
Retirement at age 66 or with 34 years of service	1.63
Retirement at age 67 or with 35 years of service	1.65
Retirement at age 68 or with 36 or more years of service	1.68

As provided in Section 121.101, Florida Statutes, if the member is initially enrolled in the FRS before July 1, 2011, and all service credit was accrued before July 1, 2011, the annual cost-of-living adjustment is 3 percent per year. If the member is initially enrolled before July 1, 2011, and has service credit on or after July 1, 2011, there is an individually calculated cost-of-living adjustment. The annual cost-of-living adjustment is a proportion of 3 percent determined by dividing the sum of the pre-July 2011 service credit by the total service credit at retirement multiplied by 3 percent. Plan members initially enrolled on or after July 1, 2011, will not have a cost-of-living adjustment after retirement.

Contributions. The Florida Legislature establishes contribution rates for participating employers and employees. Contribution rates during the 2017-180 fiscal year were as follows:

<u>Class</u>	<u>Percent of Gross Salary</u>	
	<u>Employee</u>	<u>Employer (A)</u>
FRS, Regular	3.00	7.52
FRS, Reemployed Retiree	(B)	(B)

Notes: (A) Employer rates include 1.26 percent for the postemployment health insurance subsidy. Also, employer rates, other than for DROP participants, include 0.04 percent for administrative costs of the Investment Plan.

(B) Contribution rates are dependent upon retirement class in which reemployed.

The School's contributions, including employee contributions, to the Plan totaled \$78,059 for the fiscal year ended June 30, 2018, excluding HIS plan contributions.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions. At June 30, 2018, the School reported a liability of \$0 for its proportionate share of the Plan's net pension liability, since the net pension liability was measured as of June 30, 2017, prior to the School's participation in the Plan.

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HIS Pension Plan

Plan Description. The HIS Pension Plan (HIS Plan) is a cost-sharing multiple-employer defined benefit pension plan established under Section 112.363, Florida Statutes, and may be amended by the Florida Legislature at any time. The benefit is a monthly payment to assist retirees of State-administered retirement systems in paying their health insurance costs and is administered by the Florida Department of Management Services, Division of Retirement.

Benefits Provided. For the fiscal year ended June 30, 2018, eligible retirees and beneficiaries received a monthly HIS payment of \$5 for each year of creditable service completed at the time of retirement, with a minimum HIS payment of \$30 and a maximum HIS payment of \$150 per month, pursuant to Section 112.363, Florida Statutes. To be eligible to receive a HIS Plan benefit, a retiree under a State-administered retirement system must provide proof of health insurance coverage, which may include Medicare.

Contributions. The HIS Plan is funded by required contributions from FRS participating employers as set by the Florida Legislature. Employer contributions are a percentage of gross compensation for all active FRS members. For the fiscal year ended June 30, 2018, the contribution rate was 1.66 percent of payroll pursuant to section 112.363, Florida Statutes. The School contributed 100 percent of its statutorily required contributions for the current and preceding 3 years. HIS Plan contributions are deposited in a separate trust fund from which payments are authorized. HIS Plan benefits are not guaranteed and are subject to annual legislative appropriation. In the event the legislative appropriation or available funds fail to provide full subsidy benefits to all participants, benefits may be reduced or canceled.

The School's contributions to the HIS Plan totaled \$19,752 for the fiscal year ended June 30, 2018.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions. At June 30, 2018, the School reported a liability of \$0 for its proportionate share of the HIS Plan's net pension liability, since the net pension liability was measured as of June 30, 2017, prior to the School's participation in the Plan.

12. FUNDING AND CREDIT 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.

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13. 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.

14. 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 June 30, 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.

15. 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.

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REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND AND SPECIAL REVENUE FUND - (UNAUDITED)
For the Fiscal Year Ended June 30, 2018

	General Fund				Major Special Revenue Fund			
	Original Budget	Final Budget	Actual	Variance with Final Budget - Positive (Negative)	Original Budget	Final Budget	Actual	Variance with Final Budget - Positive (Negative)
Revenues:								
Intergovernmental:								
Federal through Local	\$ -	\$ -	\$ -	\$ -	\$ 466,787	\$ 331,392	\$ 331,392	\$ -
State Sources	2,137,932	2,028,509	2,028,509	-	-	-	-	-
Local and Other	172,170	216,183	216,183	-	19,652	-	-	-
Total Revenues	<u>2,310,102</u>	<u>2,244,692</u>	<u>2,244,692</u>	<u>-</u>	<u>486,439</u>	<u>331,392</u>	<u>331,392</u>	<u>-</u>
Expenditures:								
Current - Education:								
Instruction	1,267,359	1,322,305	1,322,305	-	282,705	281,815	281,815	-
Instructional Support Services	54,177	49,095	49,095	-	48,398	43,803	43,803	-
Instruction & Curriculum Development	540	-	-	-	-	-	-	-
Instructional Staff Training	2,000	2,134	2,134	-	-	-	-	-
Instructional-Related Technology Services	12,133	8,243	8,243	-	-	-	-	-
Board	97,599	92,779	92,779	-	1,230	676	676	-
School Administration	241,855	247,378	247,378	-	9,663	5,098	5,098	-
Facilities Acquisition & Construction	-	1,781	1,781	-	-	-	-	-
Fiscal Services	73,618	67,602	67,602	-	-	-	-	-
Food Services	-	-	-	-	117,620	-	-	-
Student Transportation Services	3,317	1,021	1,021	-	-	-	-	-
Operation of Plant	137,025	175,631	175,631	-	-	-	-	-
Maintenance of Plant	4,713	30,720	30,720	-	-	-	-	-
Community Service	15,037	51,866	51,866	-	-	-	-	-
Fixed Capital Outlay:								
Facilities Acquisition & Construction	-	2,550,346	2,550,346	-	-	-	-	-
Other Capital Outlay	-	106,242	106,242	-	-	-	-	-
Principal	72,489	-	-	-	-	-	-	-
Interest and Fiscal Charges	130,134	-	-	-	-	-	-	-
Total Expenditures	<u>2,111,996</u>	<u>4,707,143</u>	<u>4,707,143</u>	<u>-</u>	<u>459,616</u>	<u>331,392</u>	<u>331,392</u>	<u>-</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>198,106</u>	<u>(2,462,451)</u>	<u>(2,462,451)</u>	<u>-</u>	<u>26,823</u>	<u>-</u>	<u>-</u>	<u>-</u>
Other Financing Sources (Uses):								
Proceeds from Loans	-	2,702,436	2,702,436	-	-	-	-	-
Transfer Out	-	(231,954)	(231,954)	-	(26,823)	-	-	-
Total Other Financing Sources (Uses)	<u>-</u>	<u>2,470,482</u>	<u>2,470,482</u>	<u>-</u>	<u>(26,823)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net Change in Fund Balance	<u>198,106</u>	<u>8,031</u>	<u>8,031</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund Balance, June 30, 2018	<u>\$ 198,106</u>	<u>\$ 8,031</u>	<u>\$ 8,031</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

See Independent Auditor's Report.

**PALM BAY PREPARATORY ELEMENTARY ACADEMY
(A CHARTER SCHOOL UNDER PALM BAY EDUCATION GROUP, INC.)
A CHARTER SCHOOL AND COMPONENT UNIT OF THE
DISTRICT SCHOOL BOARD OF BAY COUNTY, FLORIDA**

*Schedule of Contributions
Florida Retirement System*

	<u>as of 6/30/18</u>
Contractually required contribution	\$ 78,059
Contributions in relation to the contractually required contribution	<u>\$ (78,059)</u>
Contribution deficiency/(excess)	\$ -
Covered-employee payroll	\$ 1,189,579
Contributions as a percentage of covered-employee payroll	6.56%

See Independent Auditor's Report

**PALM BAY PREPARATORY ELEMENTARY ACADEMY
(A CHARTER SCHOOL UNDER PALM BAY EDUCATION GROUP, INC.)
A CHARTER SCHOOL AND COMPONENT UNIT OF THE
DISTRICT SCHOOL BOARD OF BAY COUNTY, FLORIDA**

*Schedule of Contributions
Health Insurance Subsidy Program*

	as of 6/30/18
Contractually required contribution	\$ 19,752
Contributions in relation to the contractually required contribution	<u>\$ (19,752)</u>
Contribution deficiency/(excess)	\$ -
Covered-employee payroll	\$ 1,189,579
Contributions as a percentage of covered-employee payroll	1.66%

See Independent Auditor's Report

**PALM BAY PREPARATORY ELEMENTARY ACADEMY
(A CHARTER SCHOOL UNDER PALM BAY EDUCATIONAL GROUP, INC.)**

A Charter School And Component Unit of the District School Board of Bay County, Florida

**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
June 30, 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.

2. SCHEDULE OF NET PENSION LIABILITY AND SCHEDULE OF CONTRIBUTIONS –FLORIDA RETIREMENT SYSTEM PENSION PLAN

Changes of Assumptions. The long-term expected rate of return was decreased from 7.6 percent to 7.1 percent, and the active member mortality assumption was updated.

3. SCHEDULE OF NET PENSION LIABILITY AND SCHEDULE OF CONTRIBUTIONS –HEALTH INSURANCE SUBSIDY PENSION PLAN

Changes of Assumptions. The municipal bond rate used to determine total pension liability was increased from 2.85 percent to 3.58 percent.

Members:
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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 Palm Bay Preparatory Elementary Academy
(A charter school under Palm Bay Education Group, Inc.)
a Charter School and Component Unit of the
District School Board of Bay 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 Palm Bay Preparatory Elementary Academy ("School"), a charter school under Palm Bay Education Group, Inc. and component unit of the District School Board of Bay County, Florida, as of and for the year ended June 30, 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 September 14, 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.

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 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 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 style.

September 14, 2018
Tampa, Florida

Members:
Florida Institute of CPAs
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Government Audit Quality Center

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

To the Board of Directors Palm Bay Preparatory Elementary Academy
(A charter school under Palm Bay Education Group, Inc.)
a Charter School and Component Unit of the
District School Board of Bay County, Florida

Report on the Financial Statements

We have audited the financial statements of the Palm Bay Preparatory Elementary Academy (“School”), (A charter school under Palm Bay Education Group, Inc.) a Charter School and Component Unit of the District School Board of Bay County, Florida, as of and for the fiscal year ended June 30, 2018, and have issued our report thereon dated September 14, 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 September 14, 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. There were no prior audit findings or recommendations.

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 Palm Bay Preparatory Elementary Academy

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 not meet any of the conditions described in Section 218.503(1), Florida Statutes.

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. In connection with our audit, we did not have any such 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 Bay 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.

September 14, 2018
Tampa, Florida