

**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

INDEPENDENT AUDITOR'S REPORT

*for the fiscal year ended JUNE 30, 2019*

**King & Walker, CPAs, PL**

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*Certified Public Accountants*

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**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

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## **Independent Auditor's Report**

To the Board of Directors 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

### **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 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, 2019, 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, 2019, 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, 2019, 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, 2019 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***

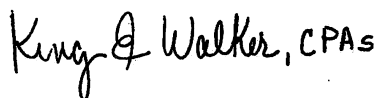
### ***Required Supplementary Information***

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 30, 2019 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 30, 2019  
Tampa, Florida

**PALM BAY PREPARATORY 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)**

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The Management's Discussion and Analysis (MD&A) section of the annual financial report of the Palm Bay Preparatory 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, 2019.

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, 2019, the School's revenues exceeded expenses as shown on the School's statement of activities by \$8,092,078.
- As shown on the statement of net position, the School reported a total net position balance of \$8,821,471.
- A net pension liability of \$977,851 is reported on the statement of net position for pensions, as the School participates in the Florida retirement system.

**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 ACADEMY**  
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**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 Capital Projects Fund to account for financial resources that are restricted, committed or assigned to expenditures for capital outlays, and a Special Revenue Fund to account for Federal grant programs and the School's food service operations. 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 and Special Revenue 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 ACADEMY**  
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**MANAGEMENT’S DISCUSSION AND ANALYSIS - (Unaudited)**

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**GOVERNMENT-WIDE FINANCIAL ANALYSIS**

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

	<b>Net Position, End of Year</b>		
	<u>Governmental Activities</u>		
	<u>6-30-18</u>	<u>6-30-19</u>	<u>Increase (Decrease)</u>
<b>ASSETS</b>			
Current and Other Assets	\$ 753,852	\$ 3,112,556	\$ 2,358,704
Capital Assets, net	<u>2,543,296</u>	<u>15,940,755</u>	<u>13,397,459</u>
Total Assets	<u>3,297,148</u>	<u>19,053,311</u>	<u>15,756,163</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Deferred Outflows Related to Pensions	<u>769,722</u>	<u>889,141</u>	<u>119,419</u>
Total Deferred Outflows of Resources	<u>769,722</u>	<u>889,141</u>	<u>119,419</u>
<b>LIABILITIES</b>			
Current and Other Liabilities	75,598	5,311,944	5,236,346
Noncurrent Liabilities	<u>3,222,206</u>	<u>5,721,095</u>	<u>2,498,889</u>
Total Liabilities	<u>3,297,804</u>	<u>11,033,039</u>	<u>2,498,889</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Deferred Inflows Related to Pensions	<u>39,673</u>	<u>87,942</u>	<u>48,269</u>
Total Deferred Inflows of Resources	<u>39,673</u>	<u>87,942</u>	<u>48,269</u>
<b>NET POSITION</b>			
Net Investment in Capital Assets	96,355	11,197,511	11,101,156
Unrestricted	<u>633,038</u>	<u>(2,376,040)</u>	<u>(3,009,078)</u>
Total Net Position	<u>\$ 729,393</u>	<u>\$ 8,821,471</u>	<u>\$ 8,092,078</u>

The largest portions of the School’s assets are capital assets (84%) as the School is rebuilding its educational facility. Liabilities consist of accounts and salaries payables, construction contracts and retainage payable, and noncurrent liabilities consists of a note payable, loans payable for the previous educational facility, and the net pension liability for the Florida Retirement System. Total net position amounted to \$8,821,471 which included a deficit unrestricted net position balance of \$2,376,040.



**PALM BAY PREPARATORY ACADEMY**  
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**MANAGEMENT’S DISCUSSION AND ANALYSIS - (Unaudited)**

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

	<b>Operating Results for the Year</b>		
	<u>Governmental Activities</u>		
	<u>6-30-18</u>	<u>6-30-19</u>	<u>Increase (Decrease)</u>
<b>Revenues:</b>			
Federal Sources	\$ 196,725	\$ 662,655	\$ 465,930
State Sources	1,975,795	2,211,011	235,216
Local and Other	286,741	158,394	(128,347)
Special Items		15,909,653	15,909,653
<b>Total Revenues</b>	<u>2,459,261</u>	<u>18,941,713</u>	<u>16,482,452</u>
<b>Expenses:</b>			
Instruction	940,975	1,115,700	174,725
Instructional Support Services	29,679	66,368	36,689
Instructional Staff Training	740	5,018	4,278
Instructional-Related Technology Services	2,048	34,333	32,285
Board	119,575	134,067	14,492
School Administration	404,782	441,912	37,130
Facilities Acq. & Construction	9,228	82,036	72,808
Fiscal Services	62,169	64,245	2,076
Food Services	234,131	267,055	32,924
Student Transportation Services	1,197		(1,197)
Operation of Plant	192,089	4,999,640	4,807,551
Maintenance of Plant	49,079	32,970	(16,109)
Community Service	29,116	26,707	(2,409)
Debt Service - Interest	133,776	106,485	(27,291)
Unallocated Depreciation	103,220	36,213	(67,007)
Extraordinary Loss Due to Hurricane	-	3,436,886	3,436,886
<b>Total Expenses</b>	<u>2,311,804</u>	<u>10,849,635</u>	<u>8,537,831</u>
<b>Increase/(Decrease) in Net Position</b>	<u>\$ 147,457</u>	<u>\$ 8,092,078</u>	<u>\$ 7,944,621</u>

The largest revenue source for the School is an insurance recovery of \$15,845,540 (84%) which reported as a Special Item. The State of Florida Revenue (12%) is the largest recurring revenue. 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 operation of plant (46%) expenses incurred for clean up and demolition of the previous facility and the extraordinary loss of capital assets due to the hurricane (32%).

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**MANAGEMENT'S DISCUSSION AND ANALYSIS - (Unaudited)**

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**FINANCIAL ANALYSIS OF THE SCHOOL'S FUNDS**

**Governmental Funds**

As the School completed the year, its governmental funds reported a combined fund balance deficit of \$2,299,388.

**BUDGETARY HIGHLIGHTS**

The general fund budget for the fiscal year ended June 30, 2019, 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 was impacted by Hurricane Michael when it made landfall in October 2018. The School facilities and their contents were damaged by the hurricane and the School required building renovations and the replacement of equipment and furnishings. All of the related building and furniture and fixtures of the School are included in the loss of hurricane-related damage. During the fiscal year ended June 30, 2019, the School recognized a net loss of \$3,436,886 as a result of the hurricane-related damage.

The School's investment in capital assets for its governmental activities as of June 30, 2019, amounts to \$15,940,755 (net of accumulated depreciation). This investment in capital assets includes land, construction work in progress, 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**

In June 2017, the School borrowed a total of \$5,000,000 for the purpose of purchasing an educational facility. The first mortgage of \$4,000,000 bears an interest rate of 5.27% per year with a balloon payment due in June 2020. The second mortgage of \$1,000,000 bears an interest rate of 6.25% per year with a balloon payment due in June 2020. 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 Avenue, Panama City, FL 32401.

**PALM BAY PREPARATORY ACADEMY**  
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**A CHARTER SCHOOL AND COMPONENT UNIT OF THE**  
**DISTRICT SCHOOL BOARD OF BAY COUNTY, FLORIDA**

**STATEMENT OF NET POSITION**

*June 30, 2019*

	Governmental Activities
<b>ASSETS</b>	
Cash & Cash Equivalents	\$ 50,278
Accounts Receivable	2,560,220
Due From Other Agencies	353,599
Note Receivable	100,000
Prepaid Expenses and Deposits	48,459
Capital Assets:	
Land	1,505,200
Furniture, Fixtures, and Equipment, Net	104,203
Construction Work In Progress	14,331,352
Total Capital Assets, Net	15,940,755
<b>TOTAL ASSETS</b>	<b>19,053,311</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	
Deferred outflow related to pensions	889,141
<b>TOTAL DEFERRED OUTFLOWS OF RESOURCES</b>	<b>889,141</b>
<b>LIABILITIES</b>	
Accounts Payable	231,213
Salaries Payable	76,992
Construction Contracts Payable	3,792,957
Retainage Payable	1,210,782
Noncurrent Liabilities:	
Due Within One Year:	
Note Payable	10,478
Loans Payable	4,732,766
Due After One Year:	
Net Pension Liability	977,851
<b>TOTAL LIABILITIES</b>	<b>11,033,039</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>	
Deferred inflow related to pensions	87,942
<b>TOTAL DEFERRED INFLOWS OF RESOURCES</b>	<b>87,942</b>
<b>NET POSITION</b>	
Net Investment in Capital Assets	11,197,511
Unrestricted	(2,376,040)
<b>Total Net Position</b>	<b>\$ 8,821,471</b>

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

**PALM BAY PREPARATORY ACADEMY**  
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**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, 2019*

		Program Revenues			Net (Expenses) Revenue and Changes Net Position
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
Governmental Activities:					
Instruction	\$ 1,115,700	\$ -	\$ 16,449	\$ -	\$ (1,099,251)
Instructional Support Services	66,368				(66,368)
Instructional Staff Training	5,018				(5,018)
Instructional-Related Technology Services	34,333				(34,333)
Board	134,067				(134,067)
School Administration	441,912				(441,912)
Facilities Acquisition & Construction	82,036			81,020	(1,016)
Fiscal Services	64,245				(64,245)
Food Services	267,055	42,865	296,206		72,016
Operation of Plant	4,999,640		350,000		(4,649,640)
Maintenance of Plant	32,970				(32,970)
Community Service	26,707	3,320			(23,387)
Debt Service - Interest	106,485			77,425	(29,060)
Extraordinary Loss Due to Hurricane	3,436,886				(3,436,886)
Unallocated Depreciation	36,213				(36,213)
<b>Total Governmental Activities</b>	<b>\$ 10,849,635</b>	<b>\$ 46,185</b>	<b>\$ 662,655</b>	<b>\$ 158,445</b>	<b>(9,982,350)</b>
General Revenues:					
State Sources					2,052,566
Local and Other					112,209
Special Item - Insurance Recovery					15,845,540
Special Item - Transfer From Related School					64,113
Total General Revenues					18,074,428
Change in Net Position					8,092,078
Net Position - July 1, 2018					729,393
Net Position - June 30, 2019					\$ 8,821,471

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

**PALM BAY PREPARATORY 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**

**BALANCE SHEET - GOVERNMENTAL FUNDS**  
*June 30, 2019*

	General Fund	Special Revenue Fund	Capital Projects Fund	Total Governmental Activities
<b>ASSETS</b>				
Cash & Cash Equivalents	\$ 50,228	\$ 50	\$ -	\$ 50,278
Accounts Receivable	2,560,220			2,560,220
Due From Other Agencies	2,782	350,817		353,599
Prepaid Expenses and Deposits	48,459			48,459
Due From Other Funds	348,746			348,746
Total Assets	\$ 3,010,435	\$ 350,867	\$ -	\$ 3,361,302
 <b>LIABILITIES</b>				
Accounts Payable	\$ 231,213	\$ -	\$ -	\$ 231,213
Salaries Payable	74,871	2,121		76,992
Construction Contracts Payable	3,792,957			3,792,957
Retainage Payable	1,210,782			1,210,782
Due to Other Funds		348,746		348,746
Total Liabilities	5,309,823	350,867	-	5,660,690
 <b>FUND BALANCES</b>				
Nonspendable	48,459			48,459
Unassigned	(2,347,847)			(2,347,847)
Total Fund Balances	(2,299,388)	-	-	(2,299,388)
Total Liabilities and Fund Balances	\$ 3,010,435	\$ 350,867	\$ -	\$ 3,361,302

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

**PALM BAY PREPARATORY ACADEMY**  
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**A CHARTER SCHOOL AND COMPONENT UNIT OF THE**  
**DISTRICT SCHOOL BOARD OF BAY COUNTY, FLORIDA**

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET**  
*June 30, 2019*

<b>Total Fund Balances - Governmental Funds</b>	\$	(2,299,388)
Amounts reported for governmental activities in the statement of net position are different because:		
Capital assets, net of accumulated depreciation, used in governmental activities are not financial resources and therefore, are not reported as assets in governmental funds.		15,940,755
Long-term receivables are not due in the current period and therefore, are not reported as a receivable in the governmental funds.		100,000
Noncurrent liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.		
Note Payable	(10,478)	
Loans Payable	(4,732,766)	
Net Pension Liability	<u>(977,851)</u>	(5,721,095)
Deferred Outflows and Inflows of resources are not available in the current period and not reported in the governmental funds.		<u>801,199</u>
<b>Total Net Position - Governmental Activities</b>	<b>\$</b>	<b><u><u>8,821,471</u></u></b>

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

**PALM BAY PREPARATORY 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**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN**  
**FUND BALANCES - GOVERNMENTAL FUNDS**  
*For the Fiscal Year Ended June 30, 2019*

	<u>General Fund</u>	<u>Special Revenue Fund</u>	<u>Capital Projects Fund</u>	<u>Total Governmental Funds</u>
<b>Revenues</b>				
Intergovernmental:				
Federal Through Local	\$ -	\$ 662,655	\$ -	\$ 662,655
State Sources	2,052,566		158,445	2,211,011
Local and Other	<u>115,529</u>	<u>42,865</u>		<u>158,394</u>
Total Revenues	<u>2,168,095</u>	<u>705,520</u>	<u>158,445</u>	<u>3,032,060</u>
<b>Expenditures</b>				
Current - Education:				
Instruction	1,099,251	16,449		1,115,700
Instructional Support Services	66,368			66,368
Instructional Staff Training	5,018			5,018
Instructional-Related Technology Services	34,333			34,333
Board	134,067			134,067
School Administration	310,476			310,476
Facilities Acquisition & Construction	1,016		81,020	82,036
Fiscal Services	64,245			64,245
Food Services		267,055		267,055
Operation of Plant	4,649,640	350,000		4,999,640
Maintenance of Plant	32,970			32,970
Community Service	26,707			26,707
Fixed Capital Outlay:				
Facilities Acquisition & Construction	14,331,352			14,331,352
Other Capital Outlay	108,710			108,710
Debt Service:				
Principal	70,080			70,080
Interest	29,060		77,425	106,485
Total Expenditures	<u>20,963,293</u>	<u>633,504</u>	<u>158,445</u>	<u>21,755,242</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(18,795,198)</u>	<u>72,016</u>	<u>-</u>	<u>(18,723,182)</u>
Other Financing Sources (Uses):				
Insurance Recovery	15,845,540			15,845,540
Transfers In/(Out)	72,016	(72,016)		
Total Other Financing Sources (Uses)	<u>15,917,556</u>	<u>(72,016)</u>	<u>-</u>	<u>15,845,540</u>
Net Change in Fund Balances	<u>(2,877,642)</u>	<u>-</u>	<u>-</u>	<u>(2,877,642)</u>
Fund Balances, July 1, 2018	578,254			578,254
Fund Balances, June 30, 2019	<u>\$ (2,299,388)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (2,299,388)</u>

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

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**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, 2019*

<b>Net Change in Fund Balances - Governmental Funds</b>	\$	(2,877,642)
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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 captial outlay (\$14,440,062) and the transfer in of land, building and debt from a related charter school (\$64,113) in excess of depreciation expense (\$36,213) and the extraordinary loss due to the hurricane (\$3,436,886).		11,031,076
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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.		70,080
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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 Expense (calculated for net pension liability)		(231,537)
Pension contributions made subsequent to the pension liability measurement date of 6/30/18		100,101

<b>Change in Net Position - Governmental Activities</b>	<b>\$</b>	<b>8,092,078</b>
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The accompanying notes to the financial statements are an integral part of this statement.



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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

➤ **Reporting Entity**

Palm Bay Preparatory 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, 2019, 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”). On July 28, 2015, the Bay County School District approved a charter agreement for Palm Bay Preparatory Academy, which consolidated the charters of Newpoint Bay High and Newpoint Bay Academy into a single charter 6-12 school. The charter was reassigned from Newpoint Bay, Inc. to Palm Bay Education Group, Inc. The term of this charter is July 1, 2015 to June 30, 2018. On February 27, 2018, the Bay County School District approved a first amendment to the charter school contract for Palm Bay Preparatory Academy. The term of this charter is July 1, 2018 to June 30, 2023. 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

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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.

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 funds are 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 the School's food service operations.
- Capital Projects Fund – to account for all resources for the acquisition of capital assets and related items purchased by the School with restricted capital outlay funds.

All other governmental funds are non-major and are presented in the aggregate.

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➤ **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 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.

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➤ **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
Buildings	20 years

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

➤ **Noncurrent Liabilities**

Long-term obligations that will be financed by resources to be received in the future by the general fund are reported in the government-wide financial statements, not in the general fund. Capital improvement debt is reported net of unamortized discount. The School amortizes debt discounts over the life of the debt using the straight-line method. Current-year information relative to changes in long-term debt is described in subsequent notes.

➤ **Net Pension Liability**

As a participating employer in the Florida Retirement System, the School recognizes its proportionate share of the collective net pension liabilities of the FRS cost-sharing multiple-employer defined benefit plans. As of June 30, 2019, the School's proportionate share of the net pension liabilities totaled \$977,851.

The School's retirement plans and related amounts are described 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.

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

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applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until then.

➤ **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.

➤ **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

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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 (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, 2019, the School reported 325.33 unweighted FTE and 327.2257 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).

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- 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.

➤ **Recently Issued Accounting Principles**

Governmental Accounting Standards Board Statement No. 88, Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements was effective for fiscal years beginning after June 15, 2018. The School's notes related to debt reflect all required disclosures.

Governmental Accounting Standards Board Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other than Pensions was effective for fiscal years beginning after June 15, 2017. The net pension liability for the FRS Pension Plan at July 1, 2017 has been increased due to the restatement of the fund's beginning net position as a result of the implementation of GASB 75. The School's proportionate share of the net pension liability increased \$172 and is reported in the Statement of Net Position and Statement of Activities.

➤ **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.

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➤ **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.

**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. ACCOUNTS RECEIVABLE, NOTE RECEIVABLE AND TRANSFER – (RELATED PARTY)**

The School reported a receivable from Palm Bay Elementary School, a charter school under the same entity, as a result of money advanced (\$158,044) for expenses on behalf Palm Bay Elementary, in its statement of net position and balance sheet – governmental funds. The School expects to receive full payment within one year from the financial statement date and no allowance for bad debt has been established.

The School reported a note receivable (\$100,000) from Palm Bay Elementary School, a charter school under the same entity. The note receivable is an on demand promissory note bearing 0% interest, dated July 1, 2017. This receivable is not expected to be collected within one year.

In October 2018, the School received a transfer of land, building and its related debt from Palm Bay Elementary Academy, a charter school under the same charter holder. The related net transfer of \$64,113 is reported on the School's statement of activities as a Special Item.

**4. 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 for expenditures made for grants awaiting reimbursement from the District. This receivable amount is considered to be fully collectible and therefore, no allowance for uncollectible accounts has been established.

**5. INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS**

At June 30, 2019, the General Fund was due \$348,746 from the Special Revenue Fund for FEMA revenue not received. 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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The Special Revenue Fund transferred \$72,016 to the General Fund to provide support for the School's general operations. The amounts of interfund transfers are netted together and not reported in the statement of activities.

**6. 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	\$ -	\$ 1,505,200
Construction Work in Progress		14,331,352		14,331,352
Total Capital Assets Not Being Depreciated	<u>752,600</u>	<u>15,083,952</u>	<u>-</u>	<u>15,836,552</u>
Capital Assets Being Depreciated:				
Furniture, Fixtures and Equipment	201,293	108,710	(201,293)	108,710
Buildings	1,797,746	1,797,746	(3,595,492)	-
Total Capital Assets Being Depreciated	<u>1,999,039</u>	<u>1,906,456</u>	<u>(3,796,785)</u>	<u>108,710</u>
Less Accumulated Depreciation for:				
Furniture, Fixtures and Equipment	(110,965)	(6,250)	112,708	(4,507)
Buildings	(97,378)	(149,813)	247,191	-
Total Accumulated Depreciation	<u>(208,343)</u>	<u>(156,063)</u>	<u>359,899</u>	<u>(4,507)</u>
Total Capital Assets Being Depreciated, Net	<u>1,790,696</u>	<u>1,750,393</u>	<u>(3,436,886)</u>	<u>104,203</u>
Governmental Activities Capital Assets, Net	<u>\$ 2,543,296</u>	<u>\$ 16,834,345</u>	<u>\$ (3,436,886)</u>	<u>\$ 15,940,755</u>

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

**7. CONSTRUCTION CONTRACT COMMITMENTS**

The following is a schedule of major construction contract commitments at June 30, 2019:

Project	Contract Amount	Completed to Date	Balance Committed
Palm Bay Prep Hurricane Repairs to School Facility - GAC Contractors, Inc.	\$ 18,674,882	\$ 12,107,822	\$ 6,567,060
Palm Bay Charter K-8 School - DAG Architects	439,374	296,187	143,187
Total	<u>\$ 19,114,256</u>	<u>\$ 12,404,009</u>	<u>\$ 6,710,247</u>

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**8. NOTE PAYABLE**

Note payable consisted of the following:

	Balance at 6-30-19
Note Payable:	
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 Elementay.	\$ 10,478
Total Note Payable	\$ 10,478

Amounts due for notes payable are as follows:

Fiscal Year Ending June 30:	Total	Principal	Interest
2020	\$ 11,399	\$ 10,478	\$ 921
Total	\$ 11,399	\$ 10,478	\$ 921

**9. LOANS PAYABLE**

Loans payable outstanding for the School consisted of the following:

	Balance at 6-30-19
<u>Centennial Bank - First Mortgage Loan</u>	
\$4,000,000 Balloon Note bearing an interest rate of 5.27% per annum maturing June 29, 2020. The borrower shall pay \$27,171 monthly until May 29, 2020. The outstanding principal balance of \$3,679,787, plus accrued unpaid interest and unpaid fees and expenses, if any are due and payable on June 29, 2020.	\$ 3,794,042
<u>Central Baptist Church, Inc. - Second Mortgage Loan</u>	
\$1,000,000 Balloon Note bearing an interest rate of 6.25% per annum maturing June 29, 2019. The borrower shall pay \$7,250 monthly until May 29, 2020. The outstanding principal balance of \$909,573, accrued unpaid interest and unpaid fees and expenses, if any are due and payable on June 29, 2020.	938,724
Total Loans Payable	\$ 4,732,766

Amounts due for loans payable are as follows:

Fiscal Year Ending June 30:	Total	Principal	Interest
2020	\$ 4,951,215	\$ 4,732,766	\$ 218,449
Total	\$ 4,951,215	\$ 4,732,766	\$ 218,449

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**10. 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:					
Note Payable	\$ 19,430	\$ -	\$ (8,952)	\$ 10,478	\$ 10,478
Loans Payable	2,427,511	2,366,383	(61,128)	4,732,766	4,732,766
Net Pension Liability	775,265	202,586	-	977,851	-
Total Governmental Activities	<u>\$ 3,222,206</u>	<u>\$ 2,568,969</u>	<u>\$ (70,080)</u>	<u>\$ 5,721,095</u>	<u>\$ 4,743,244</u>

**11. SCHEDULE OF STATE REVENUE SOURCES**

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

Source	Amount
Florida Education Finance Program	\$ 1,330,805
Class Size Reduction	285,551
Charter School Capital Outlay	158,445
Discretionary Local Effort	140,980
Supplementary Academic Instruction	92,893
ESE Guaranteed Allocation	54,302
Instructional Materials	26,006
Best & Brightest Teacher Scholarships	23,404
Safe School	21,101
Declining Enrollment	20,597
Reading Allocation	13,711
Discretionary Millage	11,104
Digital Classrooms Allocation	10,402
Mental Health Allocation	8,466
Florida Teachers' Lead Program	5,472
Funds Compression Allocation	4,813
Other Miscellaneous State Revenue	1,951
Discretionary Lottery	1,008
Total State Revenue	<u>\$ 2,211,011</u>

As provided in the charter school contract, the District has charged the School an administrative fee amounting to \$77,682.

**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. FINANCIAL SERVICES CONTRACT**

The School has contracted with a professional accounting services company to provide accounting and financial services, and other assistance to the School. The amount paid for these professional services during the fiscal year totaled \$64,245. The contract may be cancelled by either party with 30 days advance notice.

**14. 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 (DROP) 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 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, Division of Retirement, and consists of 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](http://www.dms.myflorida.com)).

The School's FRS and HIS pension expense totaled \$231,537 for the fiscal year ended June 30, 2019.

**FRS Pension Plan**

*Plan Description.* The FRS Pension Plan (Plan) is a cost-sharing multiple-employer defined benefit pension plan, with a 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

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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. 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 retirement plan and/or the 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:

<u>Class, Initial Enrollment, and Retirement Age/Years of Service</u>	<u>% Value</u>
<b>Regular Class members initially enrolled before July 1, 2011</b>	
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
<b>Regular Class members initially enrolled on or after July 1, 2011</b>	
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

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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 2018-19 fiscal year were as follows:

<u>Class</u>	<u>Percent of Gross Salary</u>	
	<u>Employee</u>	<u>Employer (1)</u>
FRS, Regular	3.00	8.26
FRS, Reemployed Retiree	(2)	(2)

Notes: (1) Employer rates include 1.66 percent for the postemployment health insurance subsidy. Also, employer rates, other than for DROP participants, include 0.06 percent for administrative costs of the Investment Plan.

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

The School's contributions to the Plan totaled \$78,295 for the fiscal year ended June 30, 2019.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions. At June 30, 2019, the School reported a liability of \$631,452 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2018. The School's proportionate share of the net pension liability was based on the School's 2017-18 fiscal year contributions relative to the total 2017-18 fiscal year contributions of all participating members. At June 30, 2018, the School's proportionate share was .002096418 percent, which was an increase of .000413977 percent from its proportionate share measured as of June 30, 2017.

For the fiscal year ended June 30, 2019, the School recognized pension expense of \$160,739. In addition, the School reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

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<u>Description</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 53,493	\$ 1,942
Change of assumptions	206,328	-
Net difference between projected and actual earnings on FRS Plan investments	-	48,787
Changes in proportion and differences between School FRS contributions and proportionate share of contributions	241,538	-
School FRS contributions subsequent to the measurement date	78,295	-
<b>Total</b>	<b>\$ 579,654</b>	<b>\$ 50,729</b>

The deferred outflows of resources related to pensions totaling \$78,295, resulting from School contributions subsequent to the measurement date, will be recognized as a reduction of the net pension liability in the fiscal year ending June 30, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Fiscal Year Ending June 30</u>	<u>Amount</u>
2020	\$ 81,011
2021	55,287
2022	7,709
2023	36,814
2024	24,616
Thereafter	3,656

*Actuarial Assumptions.* The total pension liability in the July 1, 2018, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.60 percent
Salary increases	3.25 percent, average, including inflation
Investment rate of return	7.00 percent, net of pension plan investment expense, including inflation

Mortality rates were based on the Generational RP-2000 with Projection Scale BB.

The actuarial assumptions used in the July 1, 2018, valuation were based on the results of an actuarial experience study for the period July 1, 2008, through June 30, 2013.

The long-term expected rate of return on pension plan investments was not based on historical returns, but instead is based on a forward-looking capital market economic model. The allocation policy's description of each asset class was used to map the target allocation to the asset classes shown below. Each asset class assumption is based on a consistent set of underlying assumptions, and includes an adjustment for the inflation

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assumption. The target allocation and best estimates of arithmetic and geometric real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation (1)</u>	<u>Annual Arithmetic Return</u>	<u>Compound Annual (Geometric) Return</u>	<u>Standard Deviation</u>
Cash	1%	2.9%	2.9%	1.8%
Fixed Income	18%	4.4%	4.3%	4.0%
Global Equity	54%	7.6%	6.3%	17.0%
Real Estate (Property)	11%	6.6%	6.0%	11.3%
Private Equity	10%	10.7%	7.8%	26.5%
Strategic Investments	6%	6.0%	5.7%	8.6%
<b>Total</b>	<u>100%</u>			
Assumed inflation - Mean			2.6%	1.9%

Note: (1) As outlined in the Plan's investment policy.

Discount Rate. The discount rate used to measure the total pension liability was 7.00 percent. The Plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the discount rate for calculating the total pension liability is equal to the long-term expected rate of return. The discount rate used in the 2018 valuation was updated from 7.1 percent to 7.0 percent.

Sensitivity of the School's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate. The following presents the School's proportionate share of the net pension liability calculated using the discount rate of 7.0 percent, as well as what the School's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (6.0 percent) or 1 percentage point higher (8.0 percent) than the current rate:

	<u>1% Decrease (6.0%)</u>	<u>Current Discount Rate (7.0%)</u>	<u>1% Increase (8.0%)</u>
School's proportionate share of the net pension liability	\$ 1,152,426	\$ 631,452	\$ 198,752

Pension Plan Fiduciary Net Position. Detailed information about the Plan's fiduciary net position is available in the separately issued FRS Pension Plan and Other State Administered Systems Comprehensive Annual Financial Report.

**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



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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, 2019, 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 benefit, a retiree under a State-administered retirement system must provide proof of health insurance coverage, which can 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, 2019, 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 HIS 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 \$21,806 for the fiscal year ended June 30, 2019.

*Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions.* At June 30, 2019, the School reported a net pension liability of \$346,399 for its proportionate share of the net pension liability. The current portion of the net pension liability is the School's proportionate share of benefit payments expected to be paid within one year, net of the School's proportionate share of the HIS Plan's fiduciary net position available to pay that amount. The net pension liability was measured as of June 30, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2018. The School's proportionate share of the net pension liability was based on the School's 2017-18 fiscal year contributions relative to the total 2017-18 fiscal year contributions of all participating members. At June 30, 2018, the School's proportionate share was .003272825 percent, which was an increase of .000676508 percent from its proportionate share measured as of June 30, 2017.

For the fiscal year ended June 30, 2019, the School recognized pension expense of \$70,798. In addition, the School reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

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<u>Description</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 5,303	\$ 589
Change of assumptions	38,524	36,624
Net difference between projected and actual earnings on HIS Plan investments	209	-
Changes in proportion and differences between School HIS contributions and proportionate share of contributions	243,645	-
School HIS contributions subsequent to the measurement date	21,806	-
<b>Total</b>	<b>\$ 309,487</b>	<b>\$ 37,213</b>

The deferred outflows of resources totaling \$21,806, resulting from School contributions subsequent to the measurement date, will be recognized as a reduction of the net pension liability in the fiscal year ending June 30, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Fiscal Year Ending June 30</u>	<u>Amount</u>
2020	\$ 4,766
2021	4,748
2022	3,326
2023	747
2024	(4,637)
Thereafter	(2,126)

*Actuarial Assumptions.* The total pension liability in the July 1, 2017, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.60 percent
Salary increases	3.25 percent, average, including inflation
Municipal bond rate	3.87 percent

Mortality rates were based on the Generational RP-2000 with Projected Scale BB.

While an experience study had not been completed for the HIS Plan, the actuarial assumptions that determined the total pension liability for the HIS Plan were based on certain results of the most recent experience study for the FRS Plan.

*Discount Rate.* The discount rate used to measure the total pension liability was 3.87 percent. In general, the discount rate for calculating the total pension liability is equal to the single rate equivalent to discounting at the long-term expected rate of return for benefit payments prior to the projected depletion date. Because the HIS benefit is essentially funded on a pay-as-you-go basis, the depletion date is considered to be immediate, and the single equivalent discount rate is equal to the municipal bond rate selected by the plan

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sponsor. The Bond Buyer General Obligation 20-Bond Municipal Bond Index was adopted as the applicable municipal bond index.

*Sensitivity of the School's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate.* The following presents the District's proportionate share of the net pension liability calculated using the discount rate of 3.87 percent, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (2.87 percent) or 1 percentage point higher (4.87 percent) than the current rate:

	1% Decrease █ (2.87%)	Current Discount Rate █ (3.87%)	1% Increase █ (4.87%)
School's proportionate share of the net pension liability	\$ 394,529	\$ 346,399	\$ 306,281

*Pension Plan Fiduciary Net Position.* Detailed information about the HIS Plan's fiduciary net position is available in the separately issued FRS Pension Plan and Other State Administered Systems Comprehensive Annual Financial Report.

**15. FRS – Defined Contribution Pension Plans**

The SBA administers the defined contribution plan officially titled the FRS Investment Plan (Investment Plan). The Investment Plan is reported in the SBA's annual financial statements and in the State of Florida Comprehensive Annual Financial Report.

As provided in Section 121.4501, Florida Statutes, eligible FRS members may elect to participate in the Investment Plan in lieu of the FRS defined benefit plan. School employees already participating in the State School System Optional Retirement Program or DROP are not eligible to participate in the Investment Plan. Employer and employee contributions are defined by law, but the ultimate benefit depends in part on the performance of investment funds. Service retirement benefits are based upon the value of the member's account upon retirement. Benefit terms, including contribution requirements, are established and may be amended by the Florida Legislature. The Investment Plan is funded with the same employer and employee contributions rates, that are based on salary and membership class (Regular Class, Senior Management Service Class, etc.), as the FRS defined benefit plan. Contributions are directed to individual member accounts, and the individual members allocate contributions and account balances among various approved investment choices. Costs of administering the Investment Plan, including the FRS Financial Guidance Program, are funded through an employer contribution of 0.06 percent of payroll and by forfeited benefits of Investment Plan members. Allocations to the Investment Plan member accounts during the 2018-19 fiscal year were as follows:

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<b>Class</b>	<b>Percent of Gross Compensation</b>
FRS, Regular	6.30

For all membership classes, employees are immediately vested in their own contributions and are vested after 1 year of service for employer contributions and investment earnings regardless of membership class. If an accumulated benefit obligation for service credit originally earned under the FRS Pension Plan is transferred to the Investment Plan, the member must have the years of service required for FRS Pension Plan vesting (including the service credit represented by the transferred funds) to be vested for these funds and the earnings on the funds. Nonvested employer contributions are placed in a suspense account for up to 5 years. If the employee returns to FRS-covered employment within the 5 year period, the employee will regain control over their account. If the employee does not return within the 5 year period, the employee will forfeit the accumulated account balance. For the fiscal year ended June 30, 2019, the information for the amount of forfeitures was unavailable from the SBA; however, management believes that these amounts, if any, would be immaterial to the School.

After termination and applying to receive benefits, the member may rollover vested funds to another qualified plan, structure a periodic payment under the Investment Plan, receive a lump-sum distribution, leave the funds invested for future distribution, or any combination of these options. Disability coverage is provided in which the member may either transfer the account balance to the FRS Pension Plan when approved for disability retirement to receive guaranteed lifetime monthly benefits under the FRS Pension Plan, or remain in the Investment Plan and rely upon that account balance for retirement income.

**16. EXTRAORDINARY LOSS**

The School was impacted by Hurricane Michael when it made landfall in October 2018. The School suffered a loss of \$3,436,886 as a result of the hurricane related damage. The Extraordinary Loss is shown as an expense on the Statement of Activities. The insurance recovery to date (\$15,845,540) is recorded as Special Item on the Statement of Activities. The School will receive additional insurance recoveries of \$2,400,000, which is reported in its account receivable balance as of June 30, 2019.

**17. EQUIPMENT LEASE AGREEMENT**

The School entered into a non-cancellable operating lease agreement in the 2018-19 fiscal year for portables and a mobile kitchen. Future minimum lease payments under non-cancellable operating leases as of June 30 are as follows:

Fiscal Year Ending June 30	Total
2020	\$ 90,185
Total	\$ 90,185

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**18. 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.

**19. 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, 2019, 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.

**20. 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 MAJOR SPECIAL REVENUE FUND - (UNAUDITED)**  
*For the Fiscal Year Ended June 30, 2019*

	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)
<b>Revenues:</b>								
Intergovernmental:								
Federal Through Local	\$ -	\$ -	\$ -	\$ -	\$ 358,583	\$ 662,655	\$ 662,655	\$ -
State Sources	2,027,213	2,052,566	2,052,566	-	-	-	-	-
Local and Other	94,069	115,529	115,529	-	-	42,865	42,865	-
Total Revenues	<u>2,121,282</u>	<u>2,168,095</u>	<u>2,168,095</u>	<u>-</u>	<u>358,583</u>	<u>705,520</u>	<u>705,520</u>	<u>-</u>
<b>Expenditures:</b>								
Current - Education:								
Instruction	1,026,503	1,099,251	1,099,251	-	10,895	16,449	16,449	-
Instructional Support Services	20,301	66,368	66,368	-	-	-	-	-
Instructional Staff Training	-	5,018	5,018	-	-	-	-	-
Instructional-Related Technology Services	12,146	34,333	34,333	-	-	-	-	-
Board	133,601	134,067	134,067	-	-	-	-	-
School Administration	302,980	310,476	310,476	-	-	-	-	-
Facilities Acquisition & Construction	24,041	1,016	1,016	-	-	-	-	-
Fiscal Services	62,245	64,245	64,245	-	-	-	-	-
Food Services	-	-	-	-	391,301	267,055	267,055	-
Operation of Plant	165,529	4,649,640	4,649,640	-	-	350,000	350,000	-
Maintenance of Plant	32,970	32,970	32,970	-	-	-	-	-
Community Service	26,049	26,707	26,707	-	-	-	-	-
Fixed Capital Outlay:								
Facilities Acquisition & Construction	-	14,331,352	14,331,352	-	-	-	-	-
Other Capital Outlay	-	108,710	108,710	-	-	-	-	-
Debt Service:								
Principal	3,750	70,080	70,080	-	-	-	-	-
Interest	27,865	29,060	29,060	-	-	-	-	-
Total Expenditures	<u>1,837,980</u>	<u>20,963,293</u>	<u>20,963,293</u>	<u>-</u>	<u>402,196</u>	<u>633,504</u>	<u>633,504</u>	<u>-</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>283,302</u>	<u>(18,795,198)</u>	<u>(18,795,198)</u>	<u>-</u>	<u>(43,613)</u>	<u>72,016</u>	<u>72,016</u>	<u>-</u>
Other Financing Sources (Uses):								
Insurance Recovery	-	15,845,540	15,845,540	-	-	-	-	-
Transfers In/(Out)	<u>(43,613)</u>	<u>72,016</u>	<u>72,016</u>	<u>-</u>	<u>43,613</u>	<u>(72,016)</u>	<u>(72,016)</u>	<u>-</u>
Total Other Financing Sources (Uses)	<u>(43,613)</u>	<u>15,917,556</u>	<u>15,917,556</u>	<u>-</u>	<u>43,613</u>	<u>(72,016)</u>	<u>(72,016)</u>	<u>-</u>
Net Change in Fund Balances	239,689	(2,877,642)	(2,877,642)	-	-	-	-	-
Fund Balances, July 1, 2018	578,219	578,254	578,254	-	-	-	-	-
Fund Balances, June 30, 2019	<u>\$ 817,908</u>	<u>\$ (2,299,388)</u>	<u>\$ (2,299,388)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

See Independent Auditor's Report.

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*Schedule of Proportionate Share of Net Pension Liability*  
*Florida Retirement System*

	<u>as of 6/30/18</u>	<u>as of 6/30/17</u>
Proportion of the net pension liability/(asset)	0.002096418%	0.001682441%
Proportionate share of the net pension liability/(asset)	\$ 631,452	\$ 497,655
Covered-employee payroll	\$ 1,068,969	\$ 827,577
Proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	59%	60%
Plan fiduciary net position as a percentage of the total pension liability	84.26%	83.89%

See Independent Auditor's Report

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*Schedule of Contributions*  
*Florida Retirement System*

	<u>as of 6/30/19</u>	<u>as of 6/30/18</u>	<u>as of 6/30/17</u>
Contractually required contribution	\$ 78,295	\$ 59,746	\$ 43,798
Contributions in relation to the contractually required contribution	<u>\$ (78,295)</u>	<u>\$ (59,746)</u>	<u>\$ (43,798)</u>
Contribution deficiency/(excess)	\$ -	\$ -	\$ -
Covered-employee payroll	\$ 1,313,525	\$ 1,068,969	\$ 827,577
Contributions as a percentage of covered-employee payroll	5.96%	5.59%	5.29%

See Independent Auditor's Report



**PALM BAY PREPARATORY 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**

*Schedule of Proportionate Share of Net Pension Liability  
Health Insurance Subsidy Program*

	<u>as of 6/30/18</u>	<u>as of 6/30/17</u>
Proportion of the net pension liability/(asset)	0.003272825%	0.002596317%
Proportionate share of the net pension liability/(asset)	\$ 346,399	\$ 277,610
Covered-employee payroll	\$ 1,068,969	\$ 827,577
Proportionate share of the net pension liability/(asset) as a percentage of its covered-employee payroll	32%	34%
Plan fiduciary net position as a percentage of the total pension liability	2.15%	1.64%

See Independent Auditor's Report

**PALM BAY PREPARATORY 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**

*Schedule of Contributions*  
*Health Insurance Subsidy Program*

	<u>as of 6/30/19</u>	<u>as of 6/30/18</u>	<u>as of 6/30/17</u>
Contractually required contribution	\$ 21,806	\$ 17,749	\$ 13,740
Contributions in relation to the contractually required contribution	<u>\$ (21,806)</u>	<u>\$ (17,749)</u>	<u>\$ (13,740)</u>
Contribution deficiency/(excess)	\$ -	\$ -	\$ -
Covered-employee payroll	\$ 1,313,525	\$ 1,068,969	\$ 827,577
Contributions as a percentage of covered-employee payroll	1.66%	1.66%	1.66%

See Independent Auditor's Report

**PALM BAY PREPARATORY 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, 2019**

**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 7.1 percent to 7.0 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 3.58 percent to 3.87 percent.

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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 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 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, 2019, 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 30, 2019.

**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, professional style.

September 30, 2019  
Tampa, Florida

Members:  
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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 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 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, 2019, and have issued our report thereon dated September 30, 2019.

**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 Reporting Requirements**

We have issued our Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with *Government Auditing Standards*. Disclosures in those reports and schedule, which are dated September 30, 2019, 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 that the name or official title of the entity and the school code assigned by the Florida Department of Education be disclosed in this management letter. The official title and the school code assigned by the Florida Department of Education of the entity are Palm Bay Preparatory Academy 6-12, 030771.

## **Financial Condition and Management**

Sections 10.854(1)(e)2. and 10.855(11), Rules of the Auditor General, require us to apply appropriate procedures and communicate whether or not the School has met one or more of the conditions described in Section 218.503(1), Florida Statutes, and to identify 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 review of financial information provided by same.

Section 10.854(1)(e)3., Rules of the Auditor General, requires that we communicate any recommendations to improve financial management. In connection with our audit, we did not have any such recommendations.

## **Transparency**

Sections 10.854(1)(e)7. and 10.855(13), Rules of the Auditor General, require us to apply appropriate procedures and communicate 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.

## **Additional 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 District School Board of Bay County, Florida 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 30, 2019  
Tampa, Florida