

Championship Academy of Distinction of K-8 (3), Inc.

BASIC FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION

FOR THE YEAR ENDED JUNE 30, 2021



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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Championship Academy of Distinction K-8 (3), Inc.
Sunrise, Florida

Report of the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Championship Academy of Distinction K-8 (3), Inc. and Magnolia School for the Arts, LP (collectively the "School"), a component unit of the School Board of Broward County, Florida, as of and for the year ended June 30, 2021, 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 Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.

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 Championship Academy of Distinction of K-8(3), Inc. as of June 30, 2021, and the respective changes in financial position for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

As described in Note A-1, the accompanying financial statements referred to above present only the financial position of the School at June 30, 2021, and the results of its operations for the year then ended, and is not intended to be a complete presentation of the District.

Prior Period Adjustment

As discussed in Note M to the financial statements, beginning net position has been increased by \$76,062 as a result of an error made in prior periods for recording payroll for teachers and administrative employees, accounts receivable for Title 1, and accounts payable. Our opinion is not modified with respect to that matter.

Other Matters

Required Supplemental 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 shown 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, 2021 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 solely 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 the effectiveness of the School's 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 School's internal control over financial reporting and compliance.

McDonough CPA Solutions, PA

September 30, 2021

Rockledge, Florida

Management's Discussion and Analysis

The Management's Discussion and Analysis (MD&A) section of the annual combined financial report of the Championship Academy of Distinction K-8 (3), Inc. and Magnolia School for the Arts, LP (collectively the "School") provides an overview of the School's activities for the fiscal year ended June 30, 2021.

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

- The School's statement of activities had total expenses for the year of \$3,080,090, compared to revenues of \$2,831,189 including nonoperational revenues of \$275,307. The School's overall net position decreased by \$248,901.
- Total ending unrestricted net position was a positive \$391,805.
- As of the close of the current fiscal year, the School's governmental funds reported combined ending fund balance of \$1,134,017.
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$521,939.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the School's financial statements. The School's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplemental information in addition to the basic financial statements.

The School as a Whole

The information in the government-wide financial statements includes all assets and liabilities using the accrual basis of accounting (and reports depreciation on capital assets), which is similar to the basis of accounting used by most private-sector companies.

The change in net position (assets, liabilities, and deferred outflows/inflows of resources) over time is one indicator of whether the School's financial health is improving or deteriorating. However, one needs to consider other nonfinancial factors in making an assessment of the School's health, such as changes in enrollment, changes in the State's funding of educational costs, changes in the economy, etc., to assess the overall health of the School.

Management's Discussion and Analysis (continued)

Government-wide financial statements. The government-wide financial statements are designed to provide readers with a broad overview of the School's finances, in a manner similar to a private-sector business.

The statement of net position presents information on all of the School's assets, liabilities, and deferred outflows/inflows of resources with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the School is improving or deteriorating.

The statement of activities presents information showing how the School's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected funding and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the School that are principally supported by District, State, and Federal funding (governmental activities). Basic instruction, exceptional instruction, and school administration are examples of the School's governmental activities.

The government-wide financial statements include only the School itself, which is a component unit of the School Board of Broward County, Florida. The School Board of Broward County, Florida includes the operation of the School in their operations.

The governmental-wide financial statements can be found listed on the table of contents of this report.

Fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The School, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the operations of the School are presented in governmental and fiduciary funds.

Governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Management's Discussion and Analysis (continued)

Governmental funds (continued). Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for government activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The School maintains several individual governmental funds. Information is presented separately in the governmental fund balance sheet and statement of revenues, expenditures, and changes in fund balances. The general fund and capital outlay fund are considered to be major funds.

The basic governmental fund financial statements can be found listed on the table of contents in this report.

The School adopts an annual appropriated budget. A budgetary comparison statement has been provided to demonstrate compliance with this budget and can be found listed in the table of contents in this report.

Notes to financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found listed on the table of contents in this report.

Government-Wide Financial Analysis

As noted previously, net position may serve over time as a useful indicator of a School's financial position. In the case of the School, assets were less than liabilities by (\$1,598,554) and (\$1,349,653) for the years ended June 30, 2021 and 2020, respectively.

A portion of the School's net position is unrestricted. Another portion of the net position reflects its net investment in capital assets, net of related debt (e.g., building and equipment, improvements other than buildings, furniture, fixtures and equipment, information technology equipment, computer software, and motor vehicles), less any related debt used to acquire those assets that is still outstanding. The School uses these capital assets to provide services to students, consequently, these assets are not available for future spending. The net investment in capital assets, less any related debt used to acquire those assets that is still outstanding totaled (\$2,732,571) at June 30, 2021.

Management's Discussion and Analysis (continued)

Comparison of the condensed statement of net position and the statement of activities are provided below.

	<u>2021</u>	<u>2020</u>	<u>Variance</u>
ASSETS			
Current assets	\$ 1,484,666	\$ 1,469,257	\$ 15,409
Capital assets - net	<u>7,686,704</u>	<u>7,899,518</u>	<u>(212,814)</u>
Total assets	<u>9,171,370</u>	<u>9,368,775</u>	<u>(197,405)</u>
LIABILITIES			
Current liabilities	350,649	409,253	(58,604)
Noncurrent liabilities	<u>10,419,275</u>	<u>10,300,000</u>	<u>119,275</u>
Total liabilities	<u>10,769,924</u>	<u>10,709,253</u>	<u>60,671</u>
NET POSITION			
Net investment in capital assets	(2,732,571)	(2,400,482)	(332,089)
Restricted	742,212	861,947	(119,735)
Unrestricted	<u>391,805</u>	<u>188,882</u>	<u>202,923</u>
Total net position	<u>\$ (1,598,554)</u>	<u>\$ (1,349,653)</u>	<u>\$ (248,901)</u>

Current assets increased due to the increases from amounts due from related parties. The decrease in capital assets is due to depreciation. The decrease in current liabilities is due to a decrease in the paycheck protection loan due to the decrease. Noncurrent liabilities increased due to current year accrual for accrued interest payable related to the EB-5 note. Net investment in capital assets decreased due to current year's portion of accrued interest and current year depreciation. Restricted cash decreased due to current year payments of interest on long-term debt.

Changes in the School's revenues were as follows:

	<u>2021</u>	<u>2020</u>	<u>Variance</u>
Revenues:			
Program revenues:			
Operating grants and contributions	\$ 205,398	\$ 131,989	\$ 73,409
Capital grants and contributions	140,330	150,443	(10,113)
General revenues:			
Federal through local	8,387	-	8,387
State passed through local school district	2,186,479	2,254,014	(67,535)
Local and other	15,288	4,258	11,030
Nonoperating revenues:			
PPP loan forgiveness	<u>275,307</u>	<u>-</u>	<u>275,307</u>
Total revenues	<u>\$ 2,831,189</u>	<u>\$ 2,540,704</u>	<u>\$ 290,485</u>

Management's Discussion and Analysis (continued)

Operating grants and contributions increased due to increases in Title 1 revenues and the elementary and secondary school relief funding from the Cares ACT offset by a decreases in the national school lunch program. Capital grants and contributions decreased due to a reduction in capital outlay funding. Federal through local increased due to elementary and secondary school relief funding related to the CARES ACT. State passed through local school district decreased due to reductions in FEFP revenues related to student enrollment and reductions in miscellaneous state sources. Local and other revenues increased due to increased revenues from miscellaneous local sources. PPP loan forgiveness increase was due to recognition of the paycheck protection loan forgiveness related to the School meeting eligibility.

Changes in the School's expenses were as follows:

	2021	2020	Variance
Expenses:			
Basic instruction	\$ 1,191,850	\$ 1,105,973	\$ 85,877
Exceptional instruction	115,878	74,166	41,712
Student support services	28,449	9,086	19,363
School administration	715,931	524,212	191,719
Fiscal services	10,413	31,299	(20,886)
Food services	55,264	129,278	(74,014)
Student transportation	-	60,881	(60,881)
Operation of plant	489,267	416,416	72,851
Community services	76	795	(719)
Interest	472,962	190,372	282,590
Total expenses	<u>3,080,090</u>	<u>2,542,478</u>	<u>537,612</u>
Change in net position	(248,901)	(1,774)	(247,127)
Net position (deficit) - beginning	<u>(1,349,653)</u>	<u>(1,347,879)</u>	<u>(1,774)</u>
Net position (deficit) - ending	<u>\$ (1,598,554)</u>	<u>\$ (1,349,653)</u>	<u>\$ (248,901)</u>

Basic instruction increased due to current year depreciation expense and purchases of computers related to the elementary and secondary relief funding from the cares act. Exceptional instruction and student support services increased due to increases in salaries and benefits and professional and technical services. School administration increased due to increases in other support personnel, professional and technical services, and insurance and bond premiums. Fiscal services decreased due to decreases in professional and technical services. Food services decreased due to decreases in meals served to student during the year related to restrictions from the Covid-19 pandemic. Student transportation decreased due no transportations activities as a result of restrictions from the Covid-19 pandemic. Operation of plant increased due to increases in salaries and benefits and other purchased services. Interest increased due to current year interest cost related to bonds.

Management's Discussion and Analysis (continued)

Financial Analysis of the Government's Funds

As previously noted, the School uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of the School's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the School's financing requirements. In particular, the unassigned fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the School's governmental funds reported a combined ending fund balance of \$1,134,017. The general fund is the chief operating fund of those funds which included a total amount \$521,939 of unassigned fund balance, which is the amount available for spending at the government's discretion.

General Fund Budgetary Highlights

Actual revenues are less than budgeted revenues by \$36,854 while actual expenditures exceeded budgeted expenditures by \$440,998.

The budgetary information can be found listed on the table of contents in this report.

Capital Asset and Debt Administration

Capital Assets. The School's net investment in capital assets for its governmental activities as of June 30, 2021, amounts to a (deficit) \$2,732,571 (net of accumulated depreciation). This investment in capital assets includes furniture, fixtures and equipment. Additional information on the School's capital assets can be found in the accompanying notes to the financial statements.

Debt and Long-Term Liabilities. The financed the construction of its facilities through issuance of 2018A and 2018B revenue bonds. The bonds mature during the year ended June 30, 2026, and require monthly interest payments and one balloon payment. Additional information on the School's long-term debt can be found in the accompanying notes to the financial statements.

Economic Factor

A majority of the School's funding is determined by the number of enrolled students. The School is forecasting enrollment to be 311 students for the 2021-2022 school year.

Request for Information

This financial report is designed to provide a general overview of the Championship Academy of Distinction K-8 (3), Inc.'s finances for all those with an interest in the School's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Championship Academy of Distinction K-8 (3), Inc., 7100 West Oakland Park Blvd., Sunrise, FL 33313.

Championship Academy of Distinction K-8 (3), Inc.
STATEMENT OF NET POSITION (DEFICIT)
June 30, 2021

ASSETS

CURRENT ASSETS

Cash	\$ 225,597
Restricted cash	742,212
Accounts receivable	2,430
Due from related parties	514,427
	<hr/>
Total current assets	1,484,666
	<hr/>

CAPITAL ASSETS

Capital assets, net of accumulated depreciation:	
Building and equipment	7,673,332
Furniture, fixtures and equipment	13,372
	<hr/>
Total capital assets, net	7,686,704
	<hr/>
Total assets	9,171,370
	<hr/>

LIABILITIES AND NET POSITION (DEFICIT)

LIABILITIES

Accounts payable	22,391
Accrued payroll liabilities	238,861
Accrued expenses	89,397
Long-term liabilities:	
Bond payable, due after one year	8,800,000
Note payable, due after one year	1,500,000
Accrued interest, due after one year	119,275
	<hr/>
Total liabilities	10,769,924
	<hr/>

NET POSITION (DEFICIT)

Net investment in capital assets, net of related debt	(2,732,571)
Restricted for:	
Debt service	742,212
Unrestricted	391,805
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Total net position (deficit)	\$ (1,598,554)
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Championship Academy of Distinction K-8 (3), Inc.
STATEMENT OF ACTIVITIES
For the year ended June 30, 2021

Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Position
Governmental Activities:					
Basic instruction	\$ 1,191,850	\$ -	\$ 191,548	\$ -	\$ (1,000,302)
Exceptional instruction	115,878	-	-	-	(115,878)
Student support services	28,449	-	-	-	(28,449)
School administration	715,931	-	-	-	(715,931)
Fiscal services	10,413	-	-	-	(10,413)
Food services	55,264	-	6,541	-	(48,723)
Operation of plant	489,267	-	7,309	-	(481,958)
Community service	76	-	-	-	(76)
Interest	472,962	-	-	140,330	(332,632)
Total governmental activities	<u>3,080,090</u>	<u>-</u>	<u>205,398</u>	<u>140,330</u>	<u>(2,734,362)</u>
General revenues:					
					\$ 8,387
					2,186,479
					15,288
					<u>2,210,154</u>
					275,307
					<u>2,485,461</u>
					<u>(248,901)</u>
					(1,425,715)
					76,062
					<u>(1,349,653)</u>
					<u>\$ (1,598,554)</u>

Championship Academy of Distinction K-8 (3), Inc.
BALANCE SHEET – GOVERNMENTAL FUNDS
June 30, 2021

	General Fund	Capital Outlay Fund	Debt Service Fund	Other Governmental Funds	Total Governmental Funds
ASSETS					
Cash	\$ 225,597	\$ -	\$ -	\$ -	\$ 225,597
Restricted cash	-	-	742,212	-	742,212
Accounts receivable	2,430	-	-	-	2,430
Due from related party	514,427	-	-	-	514,427
Due from other funds	168,185	-	-	38,051	206,236
Total assets	<u>\$ 910,639</u>	<u>\$ -</u>	<u>\$ 742,212</u>	<u>\$ 38,051</u>	<u>\$ 1,690,902</u>
LIABILITIES AND FUND BALANCES					
LIABILITIES					
Accounts payable	22,391	-	-	-	22,391
Accrued payroll liabilities	238,861	-	-	-	238,861
Accrued expenses	89,397	-	-	-	89,397
Due to other funds	38,051	-	168,185	-	206,236
Total liabilities	<u>388,700</u>	<u>-</u>	<u>168,185</u>	<u>-</u>	<u>556,885</u>
FUND BALANCES					
Restricted					
Debt service	-	-	574,027	38,051	612,078
Unassigned	521,939	-	-	-	521,939
Total fund balances	<u>521,939</u>	<u>-</u>	<u>574,027</u>	<u>38,051</u>	<u>1,134,017</u>
Total liabilities and fund balances	<u>\$ 910,639</u>	<u>\$ -</u>	<u>\$ 742,212</u>	<u>\$ 38,051</u>	<u>\$ 1,690,902</u>

Championship Academy of Distinction K-8 (3), Inc.
RECONCILIATION OF THE BALANCE SHEET – GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET POSITION (DEFICIT)
For the year ended June 30, 2021

Fund balance - total governmental funds		\$ 1,134,017
Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds. Those assets consist of:		
Capital assets	8,260,721	
Accumulated depreciation	<u>(574,017)</u>	7,686,704
Long-term liabilities, including note and bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds.		
Bonds payable	(8,800,000)	
Note payable	(1,500,000)	
Accrued interest	<u>(119,275)</u>	(10,419,275)
Total net position (deficit) of governmental activities		<u><u>\$ (1,598,554)</u></u>

Championship Academy of Distinction K-8 (3), Inc.
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES –GOVERNMENTAL FUNDS
For the year ended June 30, 2021

	General Fund	Capital Outlay Fund	Debt Service Fund	Other Governmental Funds	Total Governmental Funds
Revenues					
Federal passed through state and local	\$ -	\$ -	\$ -	\$ 213,785	\$ 213,785
State passed through local school district	2,186,479	140,330	-	-	2,326,809
Other revenues	15,288	-	-	-	15,288
Total revenues	2,201,767	140,330	-	213,785	2,555,882
Expenditures					
Current:					
Basic instruction	989,256	-	-	191,548	1,180,804
Exceptional instruction	115,878	-	-	-	115,878
Student support services	28,449	-	-	-	28,449
School administration	715,931	-	-	-	715,931
Fiscal services	10,413	-	-	-	10,413
Food services	-	-	-	55,264	55,264
Operation of plant	280,190	-	-	7,309	287,499
Community service	76	-	-	-	76
Debt service	-	-	362,862	-	362,862
	2,140,193	-	362,862	254,121	2,757,176
Excess (deficiency) of revenues over (under) expenditures	61,574	140,330	(362,862)	(40,336)	(201,294)
Other financing sources and (uses)					
PPP loan forgiveness	275,307	-	-	-	275,307
Transfers in	-	-	140,330	48,723	189,053
Transfers out	(48,723)	(140,330)	-	-	(189,053)
Total other financing sources and (uses)	226,584	(140,330)	140,330	48,723	275,307
Net change in fund balance	288,158	-	(222,532)	8,387	74,013
Fund balances at July 1, 2020 before adjustment	178,208	-	796,559	-	974,767
Adjustment to July 1, 2020 fund balance	55,573	-	-	29,664	85,237
Restated fund balance, July 1, 2020	233,781	-	796,559	29,664	1,060,004
Fund balances at June 30, 2021	<u>\$ 521,939</u>	<u>\$ -</u>	<u>\$ 574,027</u>	<u>\$ 38,051</u>	<u>\$ 1,134,017</u>

Championship Academy of Distinctions K-8 (3), Inc.
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND
BALANCES – GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
For the year ended June 30, 2021

Net change in fund balances - total governmental funds	\$	74,013
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The change in net position reported for governmental activities in the statement of activities is different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the costs of those assets are allocated over their estimated useful lives and reported as depreciation expense. This and the net effect of various other transactions involving capital assets increased net position.

Capital outlay	8,100	
Provision for depreciation	220,914	(212,814)

The issuance of long-term debt (e.g., bonds, note payable) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transactions, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. These amounts are the net effect of these differences in the treatment of long term debt and related items:

Accrued interest	(110,100)	(110,100)
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Change in net position of governmental activities	\$	(248,901)
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Championship Academy of Distinction K-8 (3), Inc.

NOTES TO FINANCIAL STATEMENTS

June 30, 2021

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1. Reporting entity

The Championship Academy of Distinction K-8 (3), Inc. (the “School”) is a component unit of the District School Board of Broward County, Florida (the “District”), a not-for-profit corporation organized pursuant to Chapter 617, Florida Statutes, the Florida Not-For-Profit Corporation Act, and Section 1002.33, Florida Statutes. The governing body of the School is the Board of Directors (the “Board”), which is comprised of not less than three members.

The general operating authority of the School is contained in Section 1002.33, Florida Statutes. The School operates under a charter of the sponsoring school district, the School Board of Broward County, Florida, (“District”). The charter is effective until June 30, 2022 and is subject to annual review and may be renewed by mutual agreement between the School and the District. At the end of the term of the charter, the District may choose not to renew the charter under grounds specified in the charter. In this case, the District is required to notify the school in writing at least 90 days prior to the charter's expiration. During the term of the charter, the District may also terminate the charter if good cause is shown. The School is considered a component unit of the District; therefore, for financial reporting purposes, the School is required to follow generally accepted accounting principles applicable to state and local governmental units.

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

Magnolia School for the Arts, LP (the “Partnership”) was formed on April 23, 2014, for the purpose of securing capital to hire employees, pay for start-up costs, and fund tenant improvements and initial marketing costs. In order to access the EB-5 Immigrant Investor Program (“EB-5”) funding, the Partnership is required to employ all teachers and staff associated with the School. The Partnership received \$1,500,000 in capital advanced from three partners during the fiscal year ended June 30, 2015. The Partnership subsequently loaned the funds to American Charter Development, the developer and owner of its new facility, until it was purchased by the School in 2018. This allowed the developer to provide the School a long-term lease agreement with lower lease payments and equipment for the School.

Championship Academy of Distinction K-8 (3), Inc.

NOTES TO FINANCIAL STATEMENTS

June 30, 2021

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

1. Reporting entity (continued)

The Partnership is comprised of the School, Education Fund of America and a Special General Partner who secured the EB-5 investments, and three limited partners, who are the EB-5 investors. The Partnership meets the criteria of a blended component, because the School has majority control over the Partnership, due to being the general partner and owning greater than 50% of the Partnership interest. Therefore, the operations are of the Partnership blended with the operations of the School as required by accounting principles generally accepting in the United States of America (GAAP).

2. Government-wide and fund financial statements

Government-wide financial statements, including the statement of net position (deficit) 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.

Indirect expenses are costs the School has allocated to various functions. Program revenues consist of charges for services, operating grants and contributions, and capital grants and contributions. Charges for services refer to amounts received from those who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment. Grants and contributions consist of revenues that are restricted to meeting the operational or capital requirements of a particular function. Revenues not classified as program revenues are reported as general revenues.

3. Measurement focus, basis of accounting, and financial statement presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recognized in the period earned and expenses are recognized when a liability is incurred.

All governmental fund financial statements are reported using a current financial resources measurement focus on a modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues, except for certain grant revenues, are recognized in the accounting period in which they become both measurable and available to finance expenditures of the current period.

Championship Academy of Distinction K-8 (3), Inc.

NOTES TO FINANCIAL STATEMENTS

June 30, 2021

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3. Measurement focus, basis of accounting, and financial statement presentation (continued)

Available means collectible within the current period, or soon enough thereafter to be used to pay liabilities of the current period. For this purpose, the School considers revenues to be available if they are collected within sixty days of the current fiscal period.

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 recorded when the related fund liability is incurred. However, principal and interest on general long-term debt are recorded as expenditures only when payment is due.

The School's financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board. Accordingly, the financial statements are organized on the basis of funds. A fund is an accounting entity having a self-balancing set of accounts for recording assets, liabilities, fund equity, revenues, expenditures and other financing sources and uses.

The governmental fund financial statements present fund balances based on the provisions of GASB Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions. This Statement provides more clearly defined fund balance classifications and also sets a hierarchy which details how the School may spend funds based on certain constraints. The following are the fund balance classifications used in the governmental fund financial statements:

Nonspendable: This classification includes amounts that cannot be spent because they are either not in spendable form or are legally or contractually required to be maintained intact. The School classifies inventories, prepaid items, long-term notes receivable and deposits as nonspendable since they are not expected to be converted to cash or are not expected to be converted to cash within the next year.

Restricted: This classification includes amounts that are restricted for specific purposes by external parties such as grantors and creditors or are imposed by law through constitutional provisions or enabling legislation.

Championship Academy of Distinction K-8 (3), Inc.

NOTES TO FINANCIAL STATEMENTS

June 30, 2021

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3. Measurement focus, basis of accounting, and financial statement presentation (continued)

Committed: This classification includes amounts that can be used for specific purposes voted on through formal action of the Board of Directors (the highest level of decision making authority). The committed amount cannot be used for any other purpose unless the Board of Directors removes or changes the commitment through formal action.

Assigned: This classification includes amounts that the Board of Directors intends to use for a specific purpose but they are neither restricted nor committed. The School classifies existing fund balance to be used in the subsequent year's budget for elimination of a deficit as assigned.

Unassigned: This classification includes amounts that have not been restricted, committed or assigned for a specific purpose within the general fund.

The details of the fund balances are included in the Governmental Fund Balance Sheet as listed on the table of contents.

When the School incurs expenditures for which restricted or unrestricted fund balance is available, the School would consider restricted funds to be spent first. When the School has expenditures for which committed, assigned or unassigned fund balance is available, the School would consider committed funds to be spent first, then assigned funds and lastly unassigned funds.

Resources are allocated to and accounted for in individual funds based on the purpose for which they are to be spent and the means by which spending activities are controlled. The School reports the following major governmental funds:

General Fund – the general operating fund of the School. It is used to account for all financial resources not required to be accounted for in another fund.

Capital Outlay Fund – to account for financial resources associated with grants that are restricted to capital assets.

Debt Service Fund – to account for the resources accumulated and payments made for principal and interest on the revenues bonds.

Championship Academy of Distinction K-8 (3), Inc.

NOTES TO FINANCIAL STATEMENTS

June 30, 2021

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4. Cash

Cash consists of petty cash on hand at the School and checking accounts held at a financial institution. The School has no cash equivalents.

5. Restricted assets

Certain proceeds of the School's revenue bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the statement of net position and balance sheet because they are maintained in separate bank accounts and their use is limited by applicable bond covenants. The bond fund is used to account for the payment of principal and interest as these payments become due. The project fund is used to pay for issuing expenses and project costs. The debt service reserve fund is used to report resources set aside to provide additional security for the payment of principal and interest on the bonds as these payments become due.

6. Receivables

Receivables consist of amounts due from previous employees. The School's management determined that 100% of receivables are fully collectible. Therefore, no allowance for doubtful accounts has been provided.

7. Interfund activity

Activity between the funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as due to/from other funds. At the end of the year, the general fund owed the other governmental funds \$38,051. In addition, the debt service funds owed the general fund \$168,185.

Transfers are used to move unrestricted general fund revenues to finance programs (i.e. national school lunch program) that the School must account for in other funds. During the year, the general fund transferred \$48,723 to the other governmental funds. Also, the capital outlay fund transferred \$140,330 to the debt service fund.

8. 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 \$2,500. 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.

Championship Academy of Distinction K-8 (3), Inc.
NOTES TO FINANCIAL STATEMENTS
June 30, 2021

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

8. Capital assets (continued)

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

<u>Asset Class</u>	<u>Estimated Useful Lives</u>
Buildings	40
Furniture, fixtures and equipment	3-5
Leasehold improvements	3

9. Long-term debt

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. Current-year information relative to changes in long-term debt is described in subsequent notes.

10. Revenue recognition

Student funding is provided by the State of Florida through the School District. Such funding is recorded as State passed through local school district in the government-wide financial statements and fund financial statements and is net of the 5% administration fee retained by the School District. This funding is received on a prorated basis over the 12-month period and is adjusted for changes in full-time equivalent (FTE) student population.

11. Revenue sources

Revenues for current operations are received primarily from the State of Florida passed through 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 ("FTE") students and related data to the District.

Under the provisions of Section 1011.62, Florida Statutes the District reports the number of FTE 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 Florida Education Finance Program and actual weighted FTE students reported by the School during designated FTE 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.

Championship Academy of Distinction K-8 (3), Inc.

NOTES TO FINANCIAL STATEMENTS

June 30, 2021

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

11. Revenue sources (continued)

The basic amount of funding through the FEEP 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(l)(e)2., Florida Statutes. For the fiscal year ended June 30, 2021, the School reported 311.16 unweighted FTE and 328.1168 weighted FTE.

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

- Attendance and membership documentation (Rule 6A-1.044, FAC).
- Teacher certificates and other certification documentation (Rule 6A-1.0503, FAC).
- Documentation for instructors teaching out-of-field (Rule 6A-1.0503, FAC).
- Procedural safeguards for weighted programs (Rule 6A-6.03411, FAC).
- Evaluation and planning documents for weighted programs (Section 1010.305, Florida Statutes, and Rule 6A-6.03411, FAC).

The School receives federal awards for the enhancement of various educational programs. This assistance is generally based on applications submitted to and approved by various granting agencies. These federal awards may have requirements whereby the issuance of grant funds is withheld until qualifying eligible expenditures are incurred. Revenues for these awards are recognized only to the extent that eligible expenditures have been incurred.

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

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

Championship Academy of Distinction K-8 (3), Inc.

NOTES TO FINANCIAL STATEMENTS

June 30, 2021

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

11. Income taxes

The School is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and applicable state law.

The School recognizes the financial statement effects from a tax position only if it is more likely than not that the tax position will be sustained on examination by taxing authorities, based on the technical merits of the position.

Examples of tax positions include the tax-exempt status of the School and various positions related to the potential sources of unrelated business taxable income. The assessment of the technical merits of a tax position is a matter of judgment. The School believes that all of its tax positions are more likely than not to be sustained upon examination. The School files Form 990 in the U.S. federal jurisdiction.

12. Budget

An operating budget is adopted and maintained by the governing board of the School pursuant to the requirement of the Florida Statutes. The budget is adopted using the same basis of accounting that is used in the preparation of the basic financial statements.

13. Use of estimates

The process of preparing financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenses. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimate amounts.

14. Recent accounting pronouncements

The GASB issued Statement No. 87, Leases, which establishes new guidance for lease accounting for lessees and lessors and eliminates a single model for lease accounting based on the principle that leases are financings of the right-to-use an underlying asset. Lessees will recognize a lease liability and an intangible right to use lease asset. Lessors will recognize a lease receivable and a deferred inflow of resources. The new guidance is effective for fiscal year 2022. The School is evaluating the effect of these new standards on its financial statements.

Championship Academy of Distinction K-8 (3), Inc.

NOTES TO FINANCIAL STATEMENTS

June 30, 2021

NOTE B – CASH

Cash is made up of deposits and cash on hand totaling \$236,288 at June 30, 2021. The School's deposits must be placed with a financial institution designated by the Treasurer of the State of Florida as a "qualified public depository", as defined in Chapter 280, Florida Statutes. The School deposits are held with a qualified depository and are covered by the collateral pool as the School has identified itself as a public entity.

NOTE C – CAPITAL ASSETS

Changes in capital assets activity were as follows:

	Balance at July 1, 2020	Additions	Deletions	Balance at June 30, 2021
Capital assets depreciated:				
Building and equipment	\$ 8,176,679	\$ 8,100	\$ -	\$ 8,184,779
Furniture, fixtures and equipment	51,461	-	-	51,462
Leasehold improvements	24,480	-	-	24,480
Total capital assets depreciated	8,252,620	8,100	-	8,260,721
Less accumulated depreciation:				
Building and equipment	306,625	204,822	-	511,447
Furniture, fixtures and equipment	26,078	12,012	-	38,090
Leasehold improvements	20,400	4,080	-	24,480
Total accumulated depreciation	353,103	\$ 220,914	\$ -	574,017
Total capital assets, net	\$ 7,899,517			\$ 7,686,704

Depreciation expense for the year ended June 30, 2021 was charged to functions of the School as follows:

Basic instruction	\$ 11,046
Operation of plant	209,868
	<u>\$ 220,914</u>

NOTE D – RELATED PARTIES

1. Related charter schools

The School entered into transactions with related charter schools which are under common control by the School's management company. Activities between the related entities are related to lease obligations, management fees, payroll and employee benefits, National School Lunch Program reimbursement, and student transportation services. The School expects to receive full payment within one year from the financial statement date and no allowance for bad debt has been established.

Championship Academy of Distinction K-8 (3), Inc.

NOTES TO FINANCIAL STATEMENTS

June 30, 2021

NOTE D – RELATED PARTIES (Continued)

As of June 30, 2021, the School's receivable balance with related parties are the following:

Championship Academy of Distinction	Receivables	Payables	Total
at Hollywood, Inc.	\$ 225,791	\$ (44,223)	\$ 181,568
at Hollywood Middle, Inc.	30,102	-	30,102
at Davie, Inc.	91,548	(6,555)	84,993
at Davie High School, Inc.	242,514	(24,750)	217,764
	<u>\$ 589,955</u>	<u>\$ (75,528)</u>	<u>\$ 514,427</u>

2. Management consultant

Effective July 1, 2020, the School entered into a consulting agreement with the management consultant for management of the day-to-day educational and operational aspects of the School required by the forbearance agreement with the School (see note H). The School agreed to pay the management consultant up to 14% if the school board payment to the School per month for services during its fiscal year June 30, 2021 in accordance with the consultant agreement. As of June 30, 2021, the management consultant was paid the amount of \$103,619 related to the consulting fees, with \$17,958 included in accrued expenses.

NOTE E – LONG-TERM DEBT

1. Changes in long-term liabilities

The following is a summary of changes in long-term obligations of the School for the year ended June 30, 2021:

	Long-term obligation at July 1, 2020	Additions	Reductions	Long-term obligation at June 30, 2021	Due within one year
Revenue bonds:					
Series 2018A	\$ 8,250,000	\$ -	\$ -	\$ 8,250,000	\$ -
Series 2018B	550,000	-	-	550,000	-
Subtotal	<u>8,800,000</u>	<u>-</u>	<u>-</u>	<u>8,800,000</u>	<u>-</u>
Notes payable:					
EB-5	1,500,000	-	-	1,500,000	-
Subtotal	<u>1,500,000</u>	<u>-</u>	<u>-</u>	<u>1,500,000</u>	<u>-</u>
	<u>\$ 10,300,000</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 10,300,000</u>	<u>\$ -</u>

Championship Academy of Distinction K-8 (3), Inc.

NOTES TO FINANCIAL STATEMENTS

June 30, 2021

NOTE E – LONG-TERM DEBT (continued)

2. Revenue bonds

The construction of the School's facility in 2018, was financed by the issuance of Series 2018A and 2018B bonds. Series 2018A totaled \$8,250,000 as an educational facilities revenue bond, maturing November 15, 2025, and carrying interest of 8.25%. Series 2018B totaled \$550,000 as a taxable educational facilities revenue bond, maturing November 15, 2025, and carrying interest of 8.50%.

The debt service requirements for the School's bonds are expected to be funded from operating revenues received from the State of Florida through the District. As mentioned in Note A-10, funding is based upon actual weighted FTE students reported by the schools during the designated FTE student survey periods.

Enrollment for the School during the 2020-2021 school year was 311 students. The number of students enrolled for the 2021-2022 school year is expected to remain the same at 311.

As a result of the School's inability to pay principal and interest as due on the previous bond issues, the School entered into a forbearance agreement ("the agreement") with the Trustee on June 30, 2020 and ending on May 30, 2021, unless extended. See subsequent event note N regarding extension of the forbearance. The forbearance requires the School to meet certain additional conditions:

- The outstanding amount of the Series 2018 Promissory Notes and Bonds shall not be subject to reduction.

3. Bond Payable

- Management or management consulting fees payable shall not exceed the equivalent of 14% of the School Board Payments of the Borrower. Management or management consultant fees for future fiscal years shall remain subordinate to debt service.
- On or before July 1, 2020, the School agrees to provide the Trustee a copy of its initial operating budget for FY 2021 (the "FY2021 Budget") review. The FY2021 Budget shall be posted to EMMA within seven days of its adoption by the School's governing body.

In addition to the requirements of the loan agreement on or before the 15th of each month, commencing August 15, 2020, the School shall provide monthly financial reports to the Trustee and the Bondholder Representative.

4. Debt covenants for bonds payable

The School is required to disclose the calculation of debt service coverage ratio and days cash on hand for the year ended June 30, 2021 under the bond agreement. However, the bond company has waived the requirements related to the debt covenants due to the forbearance agreement.

Championship Academy of Distinction K-8 (3), Inc.

NOTES TO FINANCIAL STATEMENTS

June 30, 2021

NOTE E – LONG-TERM DEBT (continued)

4. Debt covenants for bonds payable

The annual requirements to amortize all debt outstanding as of June 30, 2021 are as follows:

Years ending June 30,	Principal	Interest	Total
2022	\$ -	\$ 1,677,525	\$ 1,677,525
2023	-	727,375	727,375
2024	-	727,375	727,375
2025	-	727,375	727,375
2026	8,800,000	272,766	9,072,766
	<u>\$ 8,800,000</u>	<u>\$ 4,132,416</u>	<u>\$ 12,932,416</u>

5. EB-5 Program

As part of the EB-5 program, the Partnership entered into an agreement with three limited partners on May 8, 2014. Each advanced \$500,000 to the Partnership, for a total of \$1,500,000. In return for these advances, under the EB-5 Program, the limited partners are entitled to temporary United States of America Work Visas. The Partnership expects to repay these advances, and therefore, the School has elected to treat these advances to the Partnership as notes payable in the Statement of Net Position (deficit). Under the partnership agreement, there is no specific due date of these obligations and there is no provision whereby the advance is payable upon request of the partner. Therefore, these notes have been treated as long-term obligations. The notes payable carries an interest rate of 7% plus a service fee rate of .34%. For the year ended June 30, 2021, the School recorded current year accrued interest of \$110,100 for a total amount of accrued interest of \$119,275 related to the EB-5 note.

NOTE F - FUNDING AND CREDIT RISK CONCENTRATIONS

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

Championship Academy of Distinction K-8 (3), Inc.

NOTES TO FINANCIAL STATEMENTS

June 30, 2021

NOTE G – CONCENTRATIONS

As stated in Note A-10, the School receives revenues for current operations primarily from the State of Florida through the District.

The following is a schedule of revenue sources and amounts:

Revenue sources passed through the School Board of Broward County, Florida	
Base student allocation	\$ 1,443,316
Class size reduction	352,365
Discretionary local effort	186,405
Supplemental academic instruction	68,883
ESE guaranteed allocation	31,167
Transportation	29,988
Instructional materials	24,149
Safe schools	19,301
Reading allocation	13,243
Mental health allocation	10,580
Funding compression allocation	1,637
Digital classrooms allocation	199
Proration	(6,335)
District administration fee	(87,344)
	<hr/> 2,087,554
Title 1	151,541
Capital outlay	140,330
Classroom supply assistance	5,800
Total from the School Board of Broward County	<hr/> 2,385,225
Other revenue:	
National School Lunch Program	6,541
Elementary and secondary school emergency relief funds	55,703
Miscellaneous state sources	5,781
Miscellaneous local sources	15,161
Other revenues	127
	<hr/> <hr/> \$ 2,468,538

The administrative fee paid to the District during the year ended June 30, 2021, totaled \$87,344.

Championship Academy of Distinction K-8 (3), Inc.

NOTES TO FINANCIAL STATEMENTS

June 30, 2021

NOTE H - COMMITMENTS AND CONTINGENCIES

Management consultant

The School entered into a consulting agreement on July 1, 2020. The management consultant is part of the forbearance agreement with the School bonds (see Note D-2). The management consultant provides the opportunity to improve the current and long-term financial and academic viability of the high school. Under the terms of the agreement, the School agreed to pay the management consultant up to 14% of the School Board payments to the School per month for services during its fiscal year June 30, 2021. The total amount incurred during the year ended June 30, 2021, relating to this contract was \$103,619 for consulting fees, with \$17,958 included in accrued expense.

NOTE I - 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, 2021, 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.

NOTE J - 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.

NOTE K - 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.

Championship Academy of Distinction K-8 (3), Inc.

NOTES TO FINANCIAL STATEMENTS

June 30, 2021

NOTE L – PAYCHECK PROTECTION PROGRAM LOAN

On April 20, 2020, the School received loan proceeds in the amount of approximately \$275,307 under the Paycheck Protection Program (“PPP”). The PPP, established as part of the Coronavirus Aid, Relief and Economic Security Act (“CARES Act”), provides for loans to qualifying businesses for amounts up to 2.5 times of the average monthly payroll expenses of the qualifying business. The loans and accrued interest are guaranteed forgivable by the Small Business Administration (SBA) after eight or twenty-four weeks of utilization as long as the School uses the loan proceeds for eligible purposes, including payroll, benefits, rent and utilities, and maintains its payroll levels. The amount of loan forgiveness will be reduced if the borrower terminates employees or reduces salaries during the chosen utilization period.

Any unforgiven portion of the PPP loan is payable over two years at an interest rate of 1%, with a deferral of payments for the first six months. At June 30, 2021, the School recognized loan forgiveness due to meeting eligibility requirements of the Paycheck Protection Program loan. The loan forgiveness recognized was as follow:

<u>July 1, 2020</u>	<u>Increase</u>	<u>Decrease</u>	<u>June 30, 2021</u>
\$ 275,307	\$ -	\$ 275,307	\$ -

NOTE M – ADJUSTMENT TO BEGINNING FUND BALANCE

The beginning general fund balance of \$178,208, as previously reported, has been increased by \$55,573, to a restated beginning fund balance of \$233,781 on the statement of revenues, expenditures, and changes in fund balance. In additions, the beginning fund balance of the other governmental funds balance of \$0, as previously reported, has been increased by \$29,664, to a restated beginning fund balance of \$29,664 on the statement of revenues, expenditures, and changes in fund balance. In addition, an adjustment to the beginning net position (deficit) balance of (\$1,425,715), as previously reported, has been increased \$76,062, to a restated beginning net position (deficit) of (\$1,349,653) on the statement of activities.

Championship Academy of Distinction K-8 (3), Inc.
NOTES TO FINANCIAL STATEMENTS
June 30, 2021

NOTE N – SUBSEQUENT EVENTS

The School has evaluated subsequent events through September 30, 2020, the date which the financial statements were available for issuance; and has determined that no material events occurred that would require additional disclosure in the financial statements, except as follows:

The State of Florida issued emergency order 2021-EO-02 for the successful reopening of all state's public schools, and 2021-EO-01, which expended the statewide testing window to ensure that every student can safely complete their state assessments. In addition, the School is subject to the Broward County Health Department requirements. In the event of a coronavirus outbreak within the School, campus classes may be cancelled and students will be required to take classes remotely. The virus could have negative effects on the School's financial position, results of operations and/or cash flows, the specific outcome is not ready determined as of the date of these financial statements. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Commencing on July 1, 2021, retroactive to June 1, 2021, and ending September 2, 2022, the School has extended the forbearance of the educational facilities revenues bonds, series 2018A and taxable educational facilities revenue bonds, series 2018B in the original aggregate principal amount of \$8,800,000 pursuant to that certain indenture. In addition, the note payable EB-5 for \$1,500,000 is subordinate to the revenues bonds, series 2018A & B, therefore, the EB-5 has had a forbearance of the interest and principal payments.

REQUIRED SUPPLEMENTARY INFORMATION

Championship Academy of Distinction K-8 (3), Inc.
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL – GENERAL FUND
For the year ended June 30, 2021

	Budgeted Amounts			Variance with Final Budget
	Original	Final	Actual	
Revenues				
State passed through local school district	\$ 1,879,158	\$ 1,879,158	\$ 2,186,479	\$ 307,321
Local and other revenues	359,463	359,463	15,288	(344,175)
Total revenues	2,238,621	2,238,621	2,201,767	(36,854)
Expenditures				
Basic instruction	850,255	850,255	989,256	(139,001)
Exceptional instruction	80,850	80,850	115,878	(35,028)
Student support services	28,249	28,249	28,449	(200)
Instructional staff training	2,500	2,500	-	2,500
Board of directors	7,000	7,000	-	7,000
General administration	90,279	90,279	-	90,279
School administration	303,466	303,466	715,931	(412,465)
Fiscal services	39,200	39,200	10,413	28,787
Student transportation	60,000	60,000	-	60,000
Operation of plant	232,396	232,396	280,190	(47,794)
Maintenance of plant	5,000	5,000	-	5,000
Community service	-	-	76	(76)
Total expenditures	1,699,195	1,699,195	2,140,193	(440,998)
Excess (deficiency) of revenues over (under) expenditures	539,426	539,426	61,574	(477,852)
Other financing sources (uses)				
PPP loan forgiveness	-	-	275,307	275,307
Transfers in/out	(473,316)	(473,316)	(48,723)	424,593
Total other financing sources and (uses)	(473,316)	(473,316)	226,584	699,900
Net change in fund balance	66,110	66,110	288,158	222,048
Restated fund balance, July 1, 2020	233,781	233,781	233,781	-
Fund balance at June 30, 2021	\$ 299,891	\$ 299,891	\$ 521,939	\$ 222,048

Championship Academy of Distinction K-8 (3), Inc.
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL – CAPITAL OUTLAY FUND
For the year ended June 30, 2021

	<u>Budgeted Amounts</u>			Variance with Final Budget
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues				
State passed through local school district	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 140,330</u>	<u>\$ 140,330</u>
Expenditures				
Rentals	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess of revenues over expenditures	<u>-</u>	<u>-</u>	<u>140,330</u>	<u>140,330</u>
Other financing sources (uses)				
Transfers in/out	<u>-</u>	<u>-</u>	<u>(140,330)</u>	<u>(140,330)</u>
Net change in fund balance	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund balance at July 1, 2020	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund balance at June 30, 2021	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>

Championship Academy of Distinction K-8 (3), Inc.
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL – DEBT SERVICE FUND
For the year ended June 30, 2021

	<u>Budgeted Amounts</u>			Variance with Final Budget
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues				
State passed through local school district	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Expenditures				
Debt service	<u>434,100</u>	<u>434,100</u>	<u>362,862</u>	<u>71,238</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(434,100)</u>	<u>(434,100)</u>	<u>(362,862)</u>	<u>71,238</u>
Other financing sources (uses)				
Transfers in/out	<u>434,100</u>	<u>434,100</u>	<u>140,330</u>	<u>(293,770)</u>
Total other financing sources and (uses)	<u>434,100</u>	<u>434,100</u>	<u>140,330</u>	<u>(293,770)</u>
Net change in fund balance	<u>-</u>	<u>-</u>	<u>(222,532)</u>	<u>(222,532)</u>
Fund balance at July 1, 2020	<u>796,559</u>	<u>796,559</u>	<u>796,559</u>	<u>-</u>
Fund balance at June 30, 2021	<u><u>\$ 796,559</u></u>	<u><u>\$ 796,559</u></u>	<u><u>\$ 574,027</u></u>	<u><u>\$ (222,532)</u></u>

Championship Academy of Distinction K-8 (3), Inc.
NOTE TO REQUIRED SUPPLEMENTAL INFORMATION
June 30, 2021

NOTE A – BUDGETARY INFORMATION

Budgetary basis of accounting

Annual budgets are adopted for the entire operations and may be amended by the Board of Directors (the “Board”). Budgets are adopted on the modified accrual basis of accounting. The legal level of budgetary control is the fund level.

Although budgets are adopted for the entire operation, budgetary comparisons have been presented for the general fund and each major fund for which a legally adopted budget exists.

COMPLIANCE INFORMATION

**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
Championship Academy of Distinction K-8 (3), Inc.
Fort Walton Beach, 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 fund information of Championship Academy of Distinction K-8 (3), Inc. (the School"), a component unit of the Okaloosa County School District, Florida, as of and for the year ended June 30, 2021 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, 2021.

Internal Control Over Financial Reporting

In planning and performing our audit, 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 a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

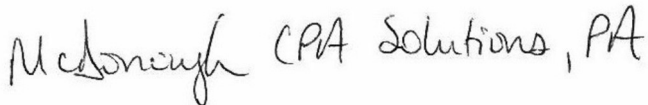
Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings, recommendations and responses as time 2021-01 - 2021-03.

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,

 McDonald CPA Solutions, PA

September 30, 2021
Rockledge, Florida

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

To the Board of Directors
Championship Academy of Distinction K-8 (3), Inc.
Fort Walton Beach, Florida

Report on the Financial Statements

We have audited the financial statements of the Championship Academy of Distinction K-8 (3), Inc. ("School"), a Charter School and Component Unit of the Okaloosa County School District, Florida, as of and for the fiscal year ended June 30, 2021, and have issued our report thereon dated September 30, 2021.

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 Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with *Government Auditing Standards*. Disclosures in that report, which is dated September 30, 2021, 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. In connection with our audit, corrective action have been taken to address findings and recommendation made in the preceding annual financial audit report.

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 is Pineapple Cove Classical Academy, Inc., 056543.

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 separate from the audit findings.

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)4, Rules of the Auditor General, requires us to communicate 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 have the following findings 2021-01 and 2021-02.

Purpose of this Letter

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

Respectfully,

McDonough CPA Solutions, PA

September 30, 2021

Rockledge, Florida

MANAGEMENT FINDINGS, RECOMMENDATIONS AND RESPONSES

For the years ended June 30, 2021, there were the following audit findings, recommendations, or responses:

2021-01: Budget Expenditures Noncompliance

Condition and Criteria: Per Florida Statutes 1002.33(9)(h), the governing board of the charter school must annually adopt and maintain an operating budget for the charter school's operations. This budget should be a balanced budget whereby there are adequate resources to fund all budgeted appropriations. In addition, expenditures should not exceed appropriations authorized by the Board.

Cause: Although the School had an internal adopted budget during the fiscal year for the budget was not amended for changes in activity. The original budget was unbalanced and provided for too many resources to be available to the School as compared to the economic circumstances. As reported in the Budgetary Comparison Schedule for the General Fund, actual expenditures exceeded final budgeted expenditures by \$440,998. Also, as reported, the Budgetary Comparison Schedule for the Capital Outlay Fund, final actual revenues exceeded final budgeted revenues by \$140,330 and actual transfers out exceeded budgets transfers by \$140,330. Lastly, the debt service fund actual expenditures exceeded final budgeted expenditures by \$71,238 and actual transfers out exceeded budgets transfers by \$293,770.

Effect: The School's operating budgets are created to help management control operations related to the revenue earned and the cost spent. The School did not adjust the original budget to reflect the actual final balances or updating guidelines to control spending and revenues resulting in negative operating results.

Auditor's recommendation: The School must annually adopt and maintain a budget. We recommend the School review the budget to periodically adjust the budget to actuals and the School adopt a final budget process to reflect year end spending and revenues resulting in operating results.

School Response: The original budgets were prepared by the previous management company. The School's management and governing board used a working budget they adjusted and reviewed with the bond company throughout the fiscal year. Although the School didn't officially adopt a final budget, the School does recognize the importance of a properly managed budget. In future, the governing board will make the appropriate amendments at least semi-annually.

MANAGEMENT FINDINGS, RECOMMENDATIONS AND RESPONSES

2021-02: Classification of Capital Expenditure

Control Weakness

Condition and Criteria: The School has established a capitalization policy of capital assets acquired or constructed costing more than \$2,500 and having a useful life greater than one year be captured on the modified accrual in a capital account for reporting purposes.

Cause: We identified one invoice for an asset that was misclassified in the wrong object code.

Effect: The School failed to identify and record an expenditure into the correct account for capitalization.

Auditor's recommendation: We recommend that the School review invoices for account object coding when determining the recording of expenditures.

School Response: The School agrees the item in question was recorded in the wrong object code. We have instituted a monthly general ledger review to ensure all transactions are recorded in the correct object codes in the future.

For the years ended June 30, 2020, there were the following audit findings, recommendations, or responses:

2020-01: Due from Management Company

Material Weakness

Status: Cleared

Condition and Criteria: During our audit testing, it was discovered that the School's due from Management Company (advances) from the prior year was not collected within sixty days after the 2018/2019-year end. Generally accepted accounting principal requires the collectible within the current period, or soon enough thereafter to be used to pay liabilities of the current period. For this purpose, the School considers revenues to be available if they are collected within sixty days of the current fiscal period.

Cause: At June 30, 2020, the School due from management company balance included an outstanding balance related to the 2018-19 advance for the School deficit that was not collected within sixty days to be used to pay current liabilities. In addition, the management contract was terminated after yearend causing significant doubt of the collectability of the amount.

Effect: the due from management company balance was overstated and uncollectable contributions for bad debt was understated.

Auditor's recommendation: The School should institute procedures which will ensure the due from management company balances are reconciled and uncollectable contributions for bad debt are expensed according to the sixty-day standards of collectability.

MANAGEMENT FINDINGS, RECOMMENDATIONS AND RESPONSES

2020-02: Employee Contracts

Significant Deficiency

Status: Cleared

Condition and Criteria: Per the Charter contract, the School agrees to implement the practices and procedures for hiring and dismissal, policies governing salaries, contracts, benefit packages, target staff size, staffing plan, and projected student-teacher ratio. The School's governing board will determine salaries, benefits, and Position/Title classification, provided that the School's governing board may establish any additional positions it deems necessary.

Cause: During the review of employee files, the School was unable to produce all employee contracts we selected for our review and there was no evidence of boards' approval of salary, benefit, and position/title within the minutes.

2020-02: Employee Contracts (continued)

Effect: The non-approval of salaries, contracts, and benefits packages allows for errors, both intentional and unintentional to go undetected and verified in human resource administration. In addition, the lack of new hiring contacts and annual renewal of contacts could allow for the over or under payment of employees and prevent the timely reporting of new hires, leaves of absence, transfers, and termination due to manipulations or mismanagement within the payroll process.

Auditor's recommendation: We recommend the School's board implement a review process to ensure all salaries, benefits, and position/title are approved within the minutes and hiring process and procedures are implemented to create and maintain employee contract in accordance with charter contract.

2020-03 – Website maintenance

Noncompliance

Status: Cleared

Condition and Criteria: **Per Florida Statue 1002.33(9)(p), each charter school shall maintain a website that enables the public to obtain information regarding the school. The School's charter agreement requires the School to update their website quarterly for board member names, meetings, minutes, current year budget, public accountability report, and recent independent fiscal audit.**

Cause: During our audit, we were unable to find the School's board member names, meetings, minutes, current year budget, public accountability report and recent independent fiscal audit on the School's website.

Effect: The public should have information about the School's governing board and activities easily accessible on its website.

Auditor's recommendation: We recommend that the School maintain the website on a quarterly basis to have current information about the board member names, meetings, minutes, current year budget, public accountability report and recent independent fiscal audit on the School's website.

MANAGEMENT FINDINGS, RECOMMENDATIONS, AND RESPONSES (continued)

2020-04: Budget Expenditures

Noncompliance

Status: Cleared

Condition and Criteria: Per Florida Statutes 1002.33(9)(h), the governing board of the charter school must annually adopt and maintain an operating budget for the charter school's operations. This budget should be a balanced budget whereby there are adequate resources to fund all budgeted appropriations. In addition, expenditures should not exceed appropriations authorized by the Board.

2020-04: Budget Expenditures (continued)

Cause: Although the School had an internal adopted and amended budget during the fiscal year for changes in activity, the budget was not maintained for all changes in operating activity, and the original budget was unbalanced budget providing too many resources to the School compared to economic circumstances. Therefore, the original and amended budget were not approved by the School District. As reported in the Budgetary Comparison Schedule for the General Fund, actual expenditures exceeded final budgeted expenditures by \$93,131. Lastly, the Budgetary Comparison Schedule for the Debt Service Fund actual expenditures exceeded final budgeted expenditures by \$906,660.

Effect: As a result, the School's operating budgets are created to help management control operations related to the revenue earned and the cost spent. Due to an unapproved budget by the district, the School did not have guidelines to control spending and revenues resulting in negative operating results.

Auditor's recommendation: The School annually adopt and maintain an operating budget and submit its approved budget to the District by July 1 of each year along with a copy of the minutes of meetings showing approval of the budget by the Governing Board. The School's budget process will identify realistic enrollment projections for the original budget. The budget will be reviewed on a monthly basis to include a review of actual expenses and actual revenues. As needed and appropriate, enrollments projections, revenues and expenses will be adjusted and modified. The School will submit a budget amendment after October and February FTE period, and a final budget within 60 days of the fiscal year-end. A projected amount of contributions for the management company will be included in the budget, as needed, to ensure a positive fund balance.

MANAGEMENT FINDINGS, RECOMMENDATIONS, AND RESPONSES (continued)

2020-05: Insurance Policy Maintenance

Noncompliance

Status: Cleared

Condition and Criteria: The School received multiple insurance cancellations for the fiscal year ending June 30, 2020.

Cause: The management company failed to pay invoice timely resulting in the cancellations.

Effect: The School was not properly insured as required by Florida state statutes and the charter agreement. The School has not received cancellation of insurance since January 2020 due to new internal control policies and procedures in place.

Recommendation: The School continue to follow their new policies and procedures to ensure no insurance cancellations occur in the future.

2019-001: Disbursements – Record Retention and Approvals

Status: Cleared

Condition and Criteria: The School is paying vendors without proper approvals and documentation support.

Cause: Auditor tested 30 disbursements as part of its testing and found four disbursements were not properly approved and supported with original invoice, purchase order, check request, packing slips, or other support.

Effect: Vendor payments could be made for unauthorized goods or services.

Recommendation: Auditor recommends that the School ensure that written policies and procedures surrounding disbursements approvals and record retention are properly followed.

2019-002: Use of Debit and Credit Cards

Status: Cleared

Condition and Criteria: The School utilizes debit and credit cards for purchases of goods and services. The debit card usage includes point of sale purchases.

Cause: Auditor noted during testing of internal controls over disbursements, that the School purchases goods and services with a debit card and credit card, and that the purchases are often not accrued on the books at period end. In addition, auditor noted card charges to numerous gas stations, movie theatres and restaurants.

Effect: The School could incur misuse of funds due to lack of management control over debit and credit card usage.

Recommendation: Auditor recommends revoking all debit and credit cards issued to upper management or establishing stronger control over their usage including proper approvals, retention of receipts, and recording of card transactions.

MANAGEMENT FINDINGS, RECOMMENDATIONS, AND RESPONSES (continued)

2019-003: Segregation of Duties

Status: Cleared

Condition and Criteria: The School's policies and procedures do not provide for segregation of duties such that individuals responsible for executing transactions are not the same individual responsible for approving or recording transactions. Additionally, documentation of the financial statement close process and of management's review of key reconciliations and journal entries was insufficient.

Cause: The School has limited accounting staff resources and has been unable to allocate tasks amongst other employees of the School.

2019-003: Segregation of Duties (continued)

Effect: The adequate segregation of duties is a fundamental tenant of internal control and lack of proper segregation of duties and management review allows for errors, both intentional and unintentional, to go undetected.

Recommendation: Auditor recommends that the School implement policies and procedures to allow for a proper segregation of duties and management review of transactions and reconciliations.