

**CHAMPIONSHIP ACADEMY
OF DISTINCTION of K-8 (3), INC.**

**Basic Financial Statements and
Supplemental Information**

**For the year ended
June 30, 2019**

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Partners

W. Ed Moss, Jr.
Joe M. Krusick
Cori G. Cameron
Bob P. Marchewka
Ric Perez
James R. Dexter
Thomas F. Regan
Ernie R. Janvrin
Paul F. Smyth
Darby M. Hauck

501 S. New York Ave.
Suite 100
Winter Park, FL 32789
Phone: 407-644-5811
Fax: 407-644-6022
www.mosskrusick.com

631 US Highway 1
Suite 405
N. Palm Beach, FL 33408
Phone: 561-848-9300
Fax: 561-848-9332

American Institute of
Certified Public
Accountants

Florida Institute of
Certified Public
Accountants

INDEPENDENT AUDITORS' REPORT

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

Report on the Combined Financial Statements

We have audited the accompanying combined 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, 2019, and the related notes to the combined 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.

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

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

Opinion

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

Prior Period Adjustment

As discussed in Note M to the financial statements, beginning net position has been decreased by \$90,519 as a result of an error made in prior periods for recording payroll accrual for teachers and administration employees. Our opinion is not modified with respect to that matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3-7 and 29-31 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 25, 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.

Moss, Krusick & Associates, LLC

Winter Park, Florida
October 25, 2019

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, 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

- The School's overall net position decreased by \$1,074,134.
- Total ending unrestricted net position was a (deficit) of \$90,922.
- The School had total expenses for the year of \$3,701,061, compared to revenues of \$2,626,927.
- As discussed in Note M to the financial statements, beginning net position was reduced by \$90,519 for a prior period adjustment. This adjustment has been applied retroactively to Management's Discussion and Analysis.
- The financial statements of the School include the operations of Magnolia School of the Arts, LP (the "Partnership"), which are included in the general fund. In 2014, the Partnership received \$1,500,000 from the EB-5 Immigrant Investor Program (EB-5) to aid in the development of its new facility. This program allows foreign investors to apply for temporary residency if they make the necessary investment in an identified enterprises in the United States of America and create 10 permanent full-time jobs for qualified United States of America workers. The School expects to repay this amount to the investors, and thus a note payable is reflected on the School's government-wide financial statements.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the School's basic 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 supplementary information in addition to the basic financial statements themselves.

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 and liabilities, with the difference between the two 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). Instruction and food services are examples of the School's governmental activities.

The government-wide financial statements include only the School itself. The School Board of Broward County, Florida includes the operations of the School in its operational results. The government-wide financial statements can be found on pages 8 - 9 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 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 funds only.

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.

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

The School adopts an annual appropriated budget for its operations. Budgetary comparison statements with required notes have been provided to demonstrate compliance with this budget and can be found on pages 29 through 31 of this report.

The basic governmental fund financial statements can be found on pages 10 - 13 of this report.

Notes to the 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 starting on page 14 of this report.

Government-Wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of the School's financial position. In the case of the School, liabilities exceeded assets by (\$1,347,879) at June 30, 2019, compared to (\$273,745) at June 30, 2018.

A portion of the School's net position reflects its investment in capital assets (e.g., buildings and fixed equipment, furniture, fixtures and equipment and leasehold improvements), 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.

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

Championship Academy of Distinction K-8 (3), Inc. Statement of Net Position (Deficit)

	Governmental Activities		
	June 30, 2019	June 30, 2018	Variance
Assets			
Current assets	\$ 1,316,467	\$ 158,395	\$ 1,158,072
Capital assets, net of accumulated depreciation	8,124,808	53,884	8,070,924
Total assets	<u>9,441,275</u>	<u>212,279</u>	<u>9,228,996</u>
Liabilities			
Current liabilities	489,154	242,703	246,451
Non-current liabilities	10,300,000	243,321	10,056,679
Total liabilities	<u>10,789,154</u>	<u>486,024</u>	<u>10,303,130</u>
Net position (deficit)			
Investment in capital assets	(2,175,192)	53,884	(2,229,076)
Restricted	918,235	-	918,235
Unrestricted	(90,922)	(327,629)	236,707
Total net position (deficit)	<u>\$ (1,347,879)</u>	<u>\$ (273,745)</u>	<u>\$ (1,074,134)</u>

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

	Governmental Activities		
	2019	2018	Variance
Revenues:			
Program revenues:			
Charges for services	\$ 5,635	\$ 7,011	\$ (1,376)
Operating grants and contributions	548,057	192,558	355,499
General revenues:			
State passed through local school district	2,061,118	1,530,262	530,856
Local and other	12,117	35,864	(23,747)
Total revenues	<u>2,626,927</u>	<u>1,765,695</u>	<u>861,232</u>
Expenses:			
Instruction	1,172,869	877,768	(295,101)
Exceptional instruction	47,146	-	(47,146)
Student support services	8,951	-	(8,951)
Board expenses	29,500	558	(28,942)
School administration	405,600	346,921	(58,679)
Fiscal services	100,211	81,717	(18,494)
Food services	135,156	132,166	(2,990)
Student transportation	68,993	17,310	(51,683)
Operation of plant	542,008	576,057	34,049
Community services	7,138	-	(7,138)
Bond issuance fees	750,358	-	(750,358)
Interest	433,131	6,943	(426,188)
Total expenses	<u>3,701,061</u>	<u>2,039,440</u>	<u>(1,661,621)</u>
Change in net position	(1,074,134)	(273,745)	(800,389)
Net position (deficit) - beginning	(273,745)	-	(273,745)
Net position (deficit) - ending	<u>\$ (1,347,879)</u>	<u>\$ (273,745)</u>	<u>\$ (1,074,134)</u>

The School saw a increase in total revenues of approximately \$861,000 compared to the previous year. The School's enrollment increased from 222 to 297 students, resulting in higher state pass through revenue and operating grants and contributions. Overall total expenses increased compared to the previous year due to a increase in instruction provided to students and facility costs, as well as additional personnel and student related expenses due to the increase in enrollment.

Governmental activities. Governmental activities decreased the School's net position by \$1,074,134 for the year ended June 30, 2019. Governmental activities decreased the School's net position by \$273,745 for the year ended June 30, 2018.

Financial Analysis of the Government's Funds

As noted previously, 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, unreserved fund balance may serve as a useful measure of a School's net resources available for spending at the end of the fiscal year.

The fund balance of the School's general fund increased by \$84,308 during the current fiscal year ended June 30, 2019.

Capital Asset and Debt Administration

Capital assets. The School's investment in capital assets for its governmental activities as of June 30, 2019, amounts to \$8,124,808 (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 Administration. 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.

General Fund Budgetary Highlights

Total revenues for the year ended June 30, 2019 were lower than budgeted due to an enrollment shortfall. Because of the enrollment shortfall as well as lower cost reimbursement and state passed through revenues, total expenditures were also less than budgeted. The School had a change in fund balance that was unfavorable to the final budget by approximately \$319,000.

Economic Factors and Next Year's Budget

In fiscal year 2019, the State of Florida increased its Florida Education Finance Program funding by approximately 2% and the capital outlay funding pool increased to \$145 million. In addition, an allocation was given to fund safe schools and mental health initiatives. A 2% merit increase was also paid out to eligible staff.

For fiscal year 2020, capital outlay revenue was assumed at an increase of 2% of the current rate per student. The budgets reflect the Florida Education Finance Program funding increase of \$175 per student. A 2% merit increase for all staff was budgeted as well as safety initiatives for security resource officers. All other expenditures are budgeted in alignment with enrollment changes and the School's strategic objectives.

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, 2019

	<u>Governmental Activities</u>
ASSETS	
CURRENT ASSETS	
Cash	\$ 102,006
Restricted cash	918,235
Accounts receivable, including amounts from related parties	184,133
Due from other agency	<u>112,093</u>
Total current assets	1,316,467
Capital assets, net	<u>8,124,808</u>
Total assets	<u>9,441,275</u>
LIABILITIES AND NET POSITION (DEFICIT)	
CURRENT LIABILITIES	
Salaries and wages payable	155,309
Accounts payable	30,029
Due to District	187,834
Due to management company	25,060
Accrued interest	<u>90,922</u>
Total current liabilities	489,154
NONCURRENT LIABILITIES	
Long-term liabilities:	
Bonds payable, due after one year	8,800,000
Note payable, due after one year	<u>1,500,000</u>
Total liabilities	<u>10,789,154</u>
NET POSITION (DEFICIT)	
Investment in capital assets, net of related debt	(2,175,192)
Restricted for debt service	918,235
Unrestricted	<u>(90,922)</u>
Total net position (deficit)	<u>\$ (1,347,879)</u>

The accompanying notes are an integral part of these financial statements.

CHAMPIONSHIP ACADEMY OF DISTINCTION K-8 (3), INC.

STATEMENT OF ACTIVITIES

Year Ended June 30, 2019

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Governmental activities:					Governmental Activities
Instruction	\$ 1,172,869	\$ -	\$ 430,701	\$ -	\$ (742,168)
Exceptional instruction	47,146	-	-	-	(47,146)
Student support services	8,951	-	-	-	(8,951)
Board expenses	29,500	-	-	-	(29,500)
School administration	405,600	-	-	-	(405,600)
Fiscal services	100,211	-	-	-	(100,211)
Food services	135,156	1,544	117,356	-	(16,256)
Student transportation	68,993	-	-	-	(68,993)
Operation of plant	542,008	-	-	-	(542,008)
Community service	7,138	4,091	-	-	(3,047)
Bond issuance fees	750,358	-	-	-	(750,358)
Interest	433,131	-	-	-	(433,131)
Total governmental activities	<u>\$ 3,701,061</u>	<u>\$ 5,635</u>	<u>\$ 548,057</u>	<u>\$ -</u>	<u>(3,147,369)</u>
General revenues:					
State passed through local school district					2,061,118
Local and other					<u>12,117</u>
Total general revenues					<u>2,073,235</u>
Change in net position					<u>(1,074,134)</u>
Net position at July 1, 2018, originally stated					(183,226)
Prior period adjustment					<u>(90,519)</u>
Net position (deficit) at July 1, 2018, restated					<u>(273,745)</u>
Net position (deficit) at June 30, 2019					<u>\$ (1,347,879)</u>

The accompanying notes are an integral part of these financial statements.

CHAMPIONSHIP ACADEMY OF DISTINCTION K-8 (3), INC.

BALANCE SHEET - GOVERNMENTAL FUNDS

June 30, 2019

	<u>General Fund</u>	<u>Special Revenue Fund</u>	<u>Debt Service Fund</u>	<u>Total Governmental Funds</u>
ASSETS				
Cash	\$ 102,006	\$ -	\$ -	\$ 102,006
Restricted cash	-	-	918,235	918,235
Accounts receivable, including amounts from related parties	184,133	-	-	184,133
Due from other agency	24,765	87,328	-	112,093
Due from other funds	87,328	-	-	87,328
Total assets	<u>\$ 398,232</u>	<u>\$ 87,328</u>	<u>\$ 918,235</u>	<u>\$ 1,403,795</u>
 LIABILITIES AND FUND BALANCES				
LIABILITIES				
Salary and wages payable	\$ 155,309	\$ -	\$ -	\$ 155,309
Accounts payable	30,029	-	-	30,029
Accrued interest	-	-	90,922	90,922
Due to District	187,834	-	-	187,834
Due to management company	25,060	-	-	25,060
Due to other funds	-	87,328	-	87,328
Total liabilities	<u>398,232</u>	<u>87,328</u>	<u>90,922</u>	<u>576,482</u>
 FUND BALANCES				
Restricted				
Debt service	-	-	918,235	918,235
Unassigned	-	-	(90,922)	(90,922)
Total fund balances	<u>-</u>	<u>-</u>	<u>827,313</u>	<u>827,313</u>
Total liabilities and fund balances	<u>\$ 398,232</u>	<u>\$ 87,328</u>	<u>\$ 918,235</u>	<u>\$ 1,403,795</u>

The accompanying notes are an integral part of these financial statements.

CHAMPIONSHIP ACADEMY OF DISTINCTION K-8 (3), INC.
RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL
FUNDS TO THE STATEMENT OF NET POSITION (DEFICIT)

June 30, 2019

Fund balances - total governmental funds		\$ 827,313
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The net position reported for governmental activities in the statement of net position is different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds. Those assets consist of:

Buildings and fixed equipment, net of \$102,208 accumulated depreciation		\$ 8,074,471
Furniture, fixtures and equipment, net of \$13,365 accumulated depreciation		38,097
Leasehold improvements, net of \$12,240 accumulated depreciation		<u>12,240</u>
		8,124,808

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		<u>(1,500,000)</u>
		<u>(10,300,000)</u>

Total net position (deficit) of governmental activities		<u>\$ (1,347,879)</u>
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The accompanying notes are an integral part of these financial statements.

CHAMPIONSHIP ACADEMY OF DISTINCTION K-8 (3), INC.

**STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS**

Year Ended June 30, 2019

	<u>General Fund</u>	<u>Special Revenue Fund</u>	<u>Debt Service Fund</u>	<u>Total Governmental Funds</u>
Revenues				
Federal passed through local school district	\$ -	\$ 548,057	\$ -	\$ 548,057
State passed through local school district	2,061,118	-	-	2,061,118
Other revenues	17,752	-	-	17,752
Total revenues	<u>2,078,870</u>	<u>548,057</u>	<u>-</u>	<u>2,626,927</u>
Expenditures				
Current:				
Instruction	738,621	430,701	-	1,169,322
Exceptional instruction	47,146	-	-	47,146
Student support services	8,951	-	-	8,951
Board expenses	29,500	-	-	29,500
School administration	405,600	-	-	405,600
Facilities and acquisition	-	-	8,176,679	8,176,679
Fiscal services	100,211	-	-	100,211
Food services	17,800	117,356	-	135,156
Student transportation	68,993	-	-	68,993
Operation of plant	439,800	-	-	439,800
Community service	7,138	-	-	7,138
Bond issuance fees	-	-	750,358	750,358
Debt service:				
Principal	-	-	243,321	243,321
Interest	-	-	433,131	433,131
Total expenditures	<u>1,863,760</u>	<u>548,057</u>	<u>9,603,489</u>	<u>12,015,306</u>
Excess (deficiency) of revenues over (under) expenditures	<u>215,110</u>	<u>-</u>	<u>(9,603,489)</u>	<u>(9,388,379)</u>
Other financing sources (uses):				
Loan proceeds	-	-	10,300,000	10,300,000
Transfers in	-	-	130,802	130,802
Transfers out	(130,802)	-	-	(130,802)
Total other financing sources (uses)	<u>(130,802)</u>	<u>-</u>	<u>10,430,802</u>	<u>10,300,000</u>
Net change in fund balances	<u>84,308</u>	<u>-</u>	<u>827,313</u>	<u>911,621</u>
Fund balance at July 1, 2018, originally stated	6,211	-	-	-
Prior period adjustment	(90,519)	-	-	-
Fund balances at July 1, 2018, restated	<u>(84,308)</u>	<u>-</u>	<u>-</u>	<u>(84,308)</u>
Fund balances at June 30, 2019	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 827,313</u>	<u>\$ 827,313</u>

The accompanying notes are an integral part of these financial statements.

CHAMPIONSHIP ACADEMY OF DISTINCTION K-8 (3), INC.

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

Year Ended June 30, 2019

Net change in fund balances - total government funds		\$ 911,621
The change in net position reported for governmental activities in the statement of activities is different because:		
Governmental funds reported fixed capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reports as depreciation expense.		
Current year expenditures for capital assets	\$ 8,190,625	
Current year depreciation expense	<u>(119,701)</u>	
Total capital assets		8,070,924
The issuance of long-term debt (e.g., bonds, notes 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 transaction, 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:		
Principal payments on long-term debt	243,321	
Proceeds on note payable	(1,500,000)	
Proceeds on bonds payable	<u>(8,800,000)</u>	
		<u>(10,056,679)</u>
Change in net position (deficit) of governmental activities		<u>\$ (1,074,134)</u>

The accompanying notes are an integral part of these financial statements.

CHAMPIONSHIP ACADEMY OF DISTINCTION K-8 (3), INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2019

NOTE A - REPORTING ENTITY AND 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. 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

CHAMPIONSHIP ACADEMY OF DISTINCTION K-8 (3), INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2019

**NOTE A - REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(continued)**

1. Reporting entity (continued)

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 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. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period, considered to be sixty days. 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.

CHAMPIONSHIP ACADEMY OF DISTINCTION K-8 (3), INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2019

**NOTE A - REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(continued)**

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

However, principal and interest on general long-term debt is 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 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.

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.

CHAMPIONSHIP ACADEMY OF DISTINCTION K-8 (3), INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2019

**NOTE A - REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(continued)**

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

The details of the fund balances are included in the Governmental Fund Balance Sheet on page 10.

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.

Special Revenue Fund – to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes.

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

4. Cash

Cash consists of deposits in financial institutions. At times, such deposits may be in excess of the Federal Deposit Insurance Corporation (FDIC) insurance limit. At June 30, 2019, there were no funds held in excess of FDIC insurance coverage.

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.

CHAMPIONSHIP ACADEMY OF DISTINCTION K-8 (3), INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2019

**NOTE A - REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(continued)**

6. Receivables

Receivables consist of amounts due from other agencies, and the local school district at June 30, 2019. The School's management determined that 100% of receivables are fully collectible. Therefore, no allowance for doubtful accounts has been provided.

7. 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.

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

Asset Class	Estimated Useful Lives (years)
Buildings and fixed equipment	40
Furniture, fixtures and equipment	3-5
Leasehold improvements	3

8. 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.

9. 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.

CHAMPIONSHIP ACADEMY OF DISTINCTION K-8 (3), INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2019

**NOTE A - REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(continued)**

10. Revenue sources

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

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

The basic amount of funding through the FEFP under Section 1011.62 is the product of the (1) unweighted FTE, multiplied by (2) the cost factor for each program, multiplied by (3) the base student allocation established by the legislature. Additional funds for exceptional students who do not have a matrix of services are provided through the guaranteed allocation designated in Section 1011.62(l)(e)2., Florida Statutes. For the fiscal year ended June 30, 2018, the School reported 297.44 unweighted FTE and 314.85 weighted FTE.

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

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

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

CHAMPIONSHIP ACADEMY OF DISTINCTION K-8 (3), INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2019

**NOTE A - REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(continued)**

10. Revenue sources (continued)

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.

11. 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.

12. Use of estimates

In preparing the financial statements in conformity with generally accepted accounting principles in the United States of America, 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.

13. Recent accounting pronouncements

In June 2017, the GASB issued Accounting Standards Updated ("ASU") No. 87, *Leases*, which will require lessees to put most leases on their balance sheets and recognize expenses on their income statements in a manner similar to today's capital lease accounting. The new guidance is effective for reporting periods beginning after December 15, 2019. Early adoption is permitted. The School is evaluating the potential effect ASU No. 87 will have on its financial statements.

14. Subsequent events

The School has evaluated subsequent events through October 25, 2019, the date which the financial statements were available to be issued.

CHAMPIONSHIP ACADEMY OF DISTINCTION K-8 (3), INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2019

NOTE B - DUE FROM OTHER AGENCY

The amounts Due from Other Agency included in the accompanying statement of net position and balance sheet - governmental funds consists of amounts due for Charter School Capital Outlay recorded in the General Fund, Title 1 UNISEG in the Special Revenue Fund and Public Charter School Program recorded in the Special Revenue Fund. These receivables are considered to be fully collectible and as such, no allowance for uncollectibles is accrued.

NOTE C - CHANGES IN CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2019, was as follows:

	Balance at July 1, 2018	Additions	Deletions	Balance at June 30, 2019
Capital assets depreciated:				
Buildings and fixed equipment	\$ -	\$ 8,176,679	\$ -	\$ 8,176,679
Furniture, fixtures and equipment	37,516	13,946	-	51,462
Leasehold improvements	24,480	-	-	24,480
Total assets depreciated	<u>61,996</u>	<u>\$ 8,190,625</u>	<u>\$ -</u>	<u>8,252,621</u>
Less accumulated depreciation:				
Buildings and fixed equipment	-	\$ 102,208	\$ -	102,208
Furniture, fixtures and equipment	4,032	9,333	-	13,365
Leasehold improvements	4,080	8,160	-	12,240
Total accumulated depreciation	<u>8,112</u>	<u>\$ 119,701</u>	<u>\$ -</u>	<u>127,813</u>
Total governmental activities capital assets, net	<u>\$ 53,884</u>			<u>\$ 8,124,808</u>

Depreciation expense is charged to functions of the School as follows for the year ended June 30, 2019:

Operation of plant	\$ 17,493
Basic instruction	<u>102,208</u>
	<u>\$ 119,701</u>

CHAMPIONSHIP ACADEMY OF DISTINCTION K-8 (3), INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2019

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.

As of June 30, 2019, the School's receivable balance with related parties are the following:

<u>Championship Academy of Distinction</u>	<u>Receivables</u>
at Hollywood, Inc.	\$ 123,143
at Hollywood Middle, Inc.	740
at Davie, Inc.	60,000
at Davie High School, Inc.	250
	<u>\$ 184,133</u>

2. Management company

The School has contracted with a management company for general management of the day-to-day educational and operational aspects of the School as noted at Note I-1. The management company has also made advances to the School for cash flow needs in relation to the Title 1 UNISEG purchases and CSP cost reimbursement purchases, and forgave School advances. As of June 30, 2019, the School's balance sheet reflects a payable due to the management company in the amount of \$25,060. The due from (to) management company activity consists of the following for the year ended June 30, 2019.

	<u>Due from (to)</u>
Balance at July 1, 2018	\$ -
Management fee invoiced	(281,469)
Management fee payments	281,469
Advance	(400,000)
Advance payments	204,758
Advance forgiveness	170,182
Balance at June 30, 2019	<u>\$ (25,060)</u>

CHAMPIONSHIP ACADEMY OF DISTINCTION K-8 (3), INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2019

NOTE E - LONG-TERM DEBT

The following is a summary of changes in long-term obligations of the School for the year ended June 30, 2019:

	Long-term obligations at July 1, 2018	Additions	Reductions	Long-term obligations at June 30, 2019	Due within one year
Revenue bonds:					
Series 2018A	\$ -	\$ 8,250,000	\$ -	\$ 8,250,000	\$ -
Series 2018B	-	550,000	-	550,000	-
Subtotal	<u>-</u>	<u>8,800,000</u>	<u>-</u>	<u>8,800,000</u>	<u>-</u>
Notes payable:					
Vertex II, LLC (1)	103,321	-	(103,321)	-	-
Vertex II, LLC (2)	140,000	-	(140,000)	-	-
EB-5	-	1,500,000	-	1,500,000	-
Subtotal	<u>243,321</u>	<u>1,500,000</u>	<u>(243,321)</u>	<u>1,500,000</u>	<u>-</u>
	<u>\$ 243,321</u>	<u>\$ 10,300,000</u>	<u>\$ (243,321)</u>	<u>\$ 10,300,000</u>	<u>\$ -</u>

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 2018-2019 school year was 73 students. The number of students enrolled for the 2019-2020 school year is expected to increase.

Vertex II, LLC (1)

Note payable to Vertex II, LLC for initial start-up costs and furniture, fixtures and equipment. Interest rate of 8%. Payments are to be made in equal monthly installments of \$4,000 through December 2020. As of December 2018, the note has been paid off.

Vertex II, LLC (2)

Note payable to Vertex II, LLC for rent owed during the 2017-18 fiscal year. Interest rate of 6.5%. Payments are to be made in equal monthly installments of \$4,450 through June 2020. As of December 2018, the note has been paid off.

CHAMPIONSHIP ACADEMY OF DISTINCTION K-8 (3), INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2019

NOTE E - LONG-TERM DEBT (continued)

EB-5

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. 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 carry an interest rate of 7% plus a service fee rate of .34% both which are paid monthly.

Debt covenants for bonds payable

One area that demonstrates the School's future borrowing capability is its debt service coverage ratio. This ratio tests the debt coverage required with revenue available. The revenue bond loan agreement requires debt service coverage ratio of 1.30, 1.50, 1.70 and 2.00 for the years ending June 30, 2020, 2021, 2022, 2023 and thereafter, respectively.

The debt service coverage ratio for the year ended June 30, 2019 was as follows:

Net income available for debt service	\$ (28,211)
Maximum annual debt service	\$ 727,375
Debt service coverage ratio	(0.04)

Another ratio that demonstrates the School's ability to make debt service payments is the days cash on hand. The revenue bond loan agreement requires days cash on hand of 15, 30 and 60 for the years ending June 30, 2020, 2021, 2022 and thereafter, respectively.

The days cash on hand for the year ended June 30, 2019 was as follows:

Cash on hand	<u>\$ 1,020,241</u>
Total School operating expenses	<u>2,655,138</u>
Expenses per day	<u>7,274</u>
Days cash on hand	<u>140.25</u>

The School is required to disclose the calculation of debt service coverage ratio and days cash on hand for the year ended June 30, 2019 under the bond agreement; however, it is not required to meet the calculations for fiscal 2019.

CHAMPIONSHIP ACADEMY OF DISTINCTION K-8 (3), INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2019

NOTE E - LONG-TERM DEBT (continued)

The annual requirements to amortize all debt outstanding as of June 30, 2019 are as follows:

Years ending June 30,	Principal	Interest	Total
2020	-	\$ 727,375	\$ 727,375
2021	-	727,375	727,375
2022	-	727,375	727,375
2023	-	727,375	727,375
2024	-	727,375	727,375
2025 - 2026	8,800,000	1,000,141	9,800,141
	<u>\$ 8,800,000</u>	<u>\$ 4,637,016</u>	<u>\$ 13,437,016</u>

NOTE F - LOAN GUARANTOR

During December 2018, the School entered into a guaranty agreement with related Championship Academy of Distinction entities to guarantee the \$1,500,000 note payable to original EB-5 investors. The note has a due date which has been extended indefinitely and carries an interest rate of 7% plus a service fee rate of .34% both which are paid monthly. See additionally Note E, *EB-5*.

NOTE G - 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, 2019

NOTE H - SCHEDULE OF STATE REVENUE SOURCES

Revenue sources

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:

<u>Sources</u>	<u>Amounts</u>
School Board of Broward County:	
Base student allocation	\$ 1,352,756
Declining enrollment	1,796
Discretionary local effort	158,632
Digital classrooms allocation	4,294
Discretionary lottery	1,025
Supplemental academic instruction	66,086
Reading allocation	12,755
ESE guaranteed allocation	35,921
Class size reduction	357,348
Transportation	17,927
Safe schools	15,905
Instructional materials	22,492
Funding compression allocation	195
Mental health allocation	6,696
FEFP adjustment	1,562
Subtotal	<u>2,055,390</u>
Title 1	162,019
Title 2	720
Title 3	1,000
Public Charter School Program	259,585
Best and Brightest Teacher Scholarship Program	5,728
Restart grant	4,510
Florida Teacher Lead Program	2,867
Total from the School Board of Broward County	<u>2,491,819</u>
Other revenue:	
National School Lunch Program	117,356
Before and aftercare	4,091
Other revenues	13,661
	<u><u>\$ 2,626,927</u></u>

The administrative fee paid to the District during the year ended June 30, 2019, totaled \$86,313.

CHAMPIONSHIP ACADEMY OF DISTINCTION K-8 (3), INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2019

NOTE I - COMMITMENTS AND CONTINGENCIES

1. Management service contract

The School entered into a contract for the period July 1, 2016 to June 30, 2026 with Championship Academy of Distinction, LLC ("CAD"). The contract calls for CAD to provide the School with general management of the day-to-day educational and operational aspects of the School. Under the terms of the agreement, the School will pay fourteen and a half percent (14.5%) of FEFP revenues, less the District's administrative fee, in monthly installments. The total amount incurred during the year ended June 30, 2019, relating to this contract was \$281,469; however, CAD contributed \$170,182 of this fee back to the School as advance forgiveness. See Note D-2.

2. Facility lease

The School entered into a lease agreement for its educational facility through August 2037. The lease calls for initial monthly base rent payments of \$33,333 with annual increases. Rent expense under the lease for the year ended June 30, 2019 totaled \$207,244.

As of December 2018, the lease agreement has been canceled as the 2018 bonds were issued to purchase the building.

NOTE J - 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.

NOTE K - 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.

CHAMPIONSHIP ACADEMY OF DISTINCTION K-8 (3), INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2019

NOTE L - 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.

NOTE M - PRIOR PERIOD ADJUSTMENT

A prior period adjustment was recorded due to an error made in prior periods for recording payroll accrual for teachers and administration employees. The June 30, 2018 accrued payroll was adjusted to correctly state the payroll liabilities of the School, which resulted in a decrease of \$90,519 in net position at June 30, 2018.

REQUIRED SUPPLEMENTAL INFORMATION

CHAMPIONSHIP ACADEMY OF DISTINCTION K-8 (3), INC.

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL - GENERAL FUND**

Year Ended June 30, 2019

	<u>Budgeted Amounts</u>			Variance with Final Budget
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues				
State passed through local school district	\$ 2,592,018	\$ 2,592,018	\$ 2,061,118	\$ (530,900)
Other revenues	-	-	17,752	17,752
Total revenues	<u>2,592,018</u>	<u>2,592,018</u>	<u>2,078,870</u>	<u>(513,148)</u>
Expenditures				
Current:				
Instruction	912,184	912,184	738,621	173,563
Exceptional instruction	-	-	47,146	(47,146)
Student support services	18,000	18,000	8,951	9,049
Board expenses	6,500	6,500	29,500	(23,000)
General administration	63,312	63,312	-	63,312
School administration	429,378	429,378	405,600	23,778
Facilities and acquisition	-	-	-	-
Fiscal services	12,500	12,500	100,211	(87,711)
Food services	-	-	17,800	(17,800)
Student transportation	40,000	40,000	68,993	(28,993)
Operation of plant	677,257	677,257	439,800	237,457
Maintenance of plant	30,000	30,000	-	30,000
Community service	-	-	7,138	(7,138)
Total expenditures	<u>2,189,131</u>	<u>2,189,131</u>	<u>1,863,760</u>	<u>325,371</u>
Excess (deficiency) of revenues over (under) expenditures	<u>402,887</u>	<u>402,887</u>	<u>215,110</u>	<u>(187,777)</u>
Other financing sources (uses):				
Transfer out	-	-	(130,802)	130,802
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>(130,802)</u>	<u>130,802</u>
Net change in fund balance	<u>402,887</u>	<u>402,887</u>	<u>84,308</u>	<u>318,579</u>
Fund balance at July 1, 2018, originally stated	6,211	6,211	6,211	-
Prior period adjustment	(90,519)	(90,519)	(90,519)	-
Fund balance (deficits) at July 1, 2018, restated	<u>(84,308)</u>	<u>(84,308)</u>	<u>(84,308)</u>	<u>-</u>
Fund balance at June 30, 2019	<u>\$ 318,579</u>	<u>\$ 318,579</u>	<u>\$ -</u>	<u>\$ 318,579</u>

See note to required supplemental information.

CHAMPIONSHIP ACADEMY OF DISTINCTION K-8 (3), INC.

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL - SPECIAL REVENUE FUND**

Year Ended June 30, 2019

	<u>Budgeted Amounts</u>			Variance with Final Budget
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues				
Federal passed through local school district	\$ 301,502	\$ 301,502	\$ 548,057	\$ 246,555
Total revenues	<u>301,502</u>	<u>301,502</u>	<u>548,057</u>	<u>246,555</u>
Expenditures				
Current:				
Instruction	201,502	201,502	430,701	(229,199)
Food services	131,981	131,981	117,356	14,625
Total expenditures	<u>333,483</u>	<u>333,483</u>	<u>548,057</u>	<u>(214,574)</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(31,981)</u>	<u>(31,981)</u>	-	31,981
Net change in fund balance	<u>(31,981)</u>	<u>(31,981)</u>	-	31,981
Fund balance at July 1, 2018	-	-	-	-
Fund balance (deficits) at June 30, 2019	<u>\$ (31,981)</u>	<u>\$ (31,981)</u>	<u>\$ -</u>	<u>\$ 31,981</u>

See note to required supplemental information.

CHAMPIONSHIP ACADEMY OF DISTINCTION K-8 (3), INC.

NOTE TO REQUIRED SUPPLEMENTAL INFORMATION

June 30, 2019

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.

SUPPLEMENTAL INFORMATION



**INDEPENDENT AUDITORS' 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**

Partners

W. Ed Moss, Jr.
Joe M. Krusick
Cori G. Cameron
Bob P. Marchewka
Ric Perez
James R. Dexter
Thomas F. Regan
Ernie R. Janvrin
Paul F. Smyth
Darby M. Hauck

To the Board of Directors
Championship Academy of Distinction K-8 (3), Inc.
Sunrise, 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 combined 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"), as of and for the year ended June 30, 2019, and the related notes to the combined financial statements, which collectively comprise the School's basic financial statements, and have issued our report thereon dated October 25, 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 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 over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting 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.

501 S. New York Ave.
Suite 100
Winter Park, FL 32789
Phone: 407-644-5811
Fax: 407-644-6022
www.mosskrusick.com

631 US Highway 1
Suite 405
N. Palm Beach, FL 33408
Phone: 561-848-9300
Fax: 561-848-9332

American Institute of
Certified Public
Accountants

Florida Institute of
Certified Public
Accountants

Internal Control over Financial Reporting (continued)

We did identify certain deficiencies in internal control that we consider to be significant deficiencies which are as follows

2019-001: Disbursements – Record Retention and Approvals

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 noted certain 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

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 control 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 the 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.

2019-003: Segregation of Duties

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 amongst other employees of the School.

Effect: The adequate segregation of duties is a fundamental tenant of internal control and the 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.

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

School's Response to Findings

The School's response to the findings identified in our audit is described in the accompanying corrective action plan. The School's responses were not subjected to the auditing procedures applied in the audit of the financial statements and accordingly, we express no opinion on it.

Purpose of this Report

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

Moss, Krusick & Associates, LLC

Winter Park, Florida
October 25, 2019



Partners

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MANAGEMENT LETTER

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

Report on the Financial Statements

We have audited the combined financial statements of Championship Academy of Distinction K-8 (3), Inc. and Magnolia School for the Arts, LP (collectively the "School"), as of and for the fiscal year ended June 30, 2019, and have issued our report thereon dated October 25, 2019.

Auditors' 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 Auditors' 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 the report, which is dated October 25, 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. In that regard, there are no uncorrected prior year findings or recommendations to report.

Official Title

Section 10.854(1)(e)5., Rules of the Auditor General, requires 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 *Championship Academy of Distinction K-8 (3), Inc., and 5234*.

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 identification of the specific conditions met. In connection with our audit, we determined that the School did not meet conditions described in Section 218.503(1), Florida Statutes.

Financial Condition and Management (continued)

Pursuant to sections 10.854(1)(e)6.a. and 10.855(12), Rules of the Auditor General, we applied financial condition assessment procedures for the School. It is management's responsibility to monitor the School's financial condition, and our financial condition assessment was based in part on representations made by management and the review of the 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 identified recommendations listed as items 2019-001 through 2019-003 on pages 32 – 34 of this audit report.

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 not have any such findings.

Purpose of this Letter

Our management letter is intended solely for the information and use of 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 School Board of Broward County, Florida and is not intended to be and should not be used by anyone other than these specified parties.

Moss, Krusick & Associates, LLC

Winter Park, Florida
October 25, 2019

CHAMPIONSHIP ACADEMY OF DISTINCTION

7100 West Oakland Park Blvd
Sunrise, FL 33313
Phone: 954-514-7323 – Fax 954-368-2510



CORRECTIVE ACTION PLAN

School Response to Findings 2019-001 to 2019-003

As of the date of this report, we have taken significant steps to mitigate and resolve these findings, including the development of written policies and procedures surrounding disbursements and approvals, retention of records, use of debit and cards, segregation of duties and management review. In addition, we have contracted with an experienced third-party accounting to assist with all accounting functions and in developing stronger internal control over our finances.

Sincerely,

Signature

Title:

Date: October 25, 2019

[Handwritten Signature]
President, CSMS