

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

BASIC FINANCIAL STATEMENTS AND SUPPLEMENTAL INFORMATION
FOR THE YEAR ENDED JUNE 30, 2020



TABLE OF CONTENTS

	PAGE
INDEPENDENT AUDITOR'S REPORT	1-3
MANAGEMENT'S DISCUSSION AND ANALYSIS	4-10
BASIC FINANCIAL STATEMENTS	
Government-Wide Financial Statements	
Statement of Net Position (Deficit)	11
Statement of Activities	12
Fund Financial Statements	
Balance Sheet – Governmental Funds	13
Reconciliation of the Balance Sheet – Governmental Funds to the Statement of Net Position (Deficit)	14
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds	15
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances-Governmental Funds to the Statement of Activities	16
Notes to Financial Statements	17-33
REQUIRED SUPPLEMENTAL INFORMATION	
Schedule of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual – General Fund	35
Schedule of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual – Capital Outlay Fund	36
Schedule of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual – Debt Service	37
Notes to Required Supplemental Information	38

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	40-41
Management Letter	42-44
Management Findings, Recommendations and Responses	45-49



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, 2020, 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.

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.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the School, as of June 30, 2020, 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, 2020, and the results of its operations for the year then ended, and is not intended to be a complete presentation of the District.

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, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or 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 September 30, 2020, 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.

McDonough CPA Solutions, PA

September 30, 2020, except for Note N, as to which the date is June 9, 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, 2020.

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 \$77,835.
- Total ending unrestricted net position was a deficit of (\$1,425,714).
- The School had total expenses for the year of \$2,618,538, compared to revenues of \$2,540,704.
- 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 enterprise of the United States of America and creates 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 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.

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.

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 (\$1,425,714) and (\$1,347,879) for the years ended June 30, 2020 and 2019, respectively.

A portion of the School’s net position is unrestricted. Another portion of the net position reflects its net investment in capital assets (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 (\$2,400,483) at June 30, 2020.

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

	<u>2020</u>	<u>2019</u>	<u>Variance</u>
ASSETS			
Current assets	\$ 1,445,731	\$ 1,316,467	\$ 129,264
Capital assets - net	<u>7,899,518</u>	<u>8,124,808</u>	<u>(225,290)</u>
Total assets	<u>9,345,249</u>	<u>9,441,275</u>	<u>(96,026)</u>
LIABILITIES			
Current liabilities	470,964	489,154	(18,190)
Noncurrent liabilities	<u>10,300,000</u>	<u>10,300,000</u>	<u>-</u>
Total liabilities	<u>10,770,964</u>	<u>10,789,154</u>	<u>(18,190)</u>
NET POSITION			
Net investment in capital assets	(2,400,482)	(2,175,192)	(225,290)
Restricted	861,947	918,235	(56,288)
Unrestricted	<u>112,820</u>	<u>(90,922)</u>	<u>203,742</u>
Total net position	<u>\$ (1,425,715)</u>	<u>\$ (1,347,879)</u>	<u>\$ (77,836)</u>

Current assets increased related to the proceeds received for the paycheck protection loan. The decrease in capital assets is due to depreciation. The decrease in current liabilities is due to a decrease in due to District in the prior year offset by the increase in the paycheck protection loan.

Changes in the School's revenues were as follows:

	<u>2020</u>	<u>2019</u>	<u>Variance</u>
Revenues:			
Program revenues:			
Charges for services	\$ -	\$ 5,635	\$ (5,635)
Operating grants and contributions	131,989	548,057	(416,068)
Capital Grants and Contributions	150,443	-	150,443
General revenues:			
State passed through local school district	2,254,014	2,061,118	192,896
Local and other	<u>4,258</u>	<u>12,117</u>	<u>(7,859)</u>
Total revenues	<u>2,540,704</u>	<u>2,626,927</u>	<u>(86,223)</u>

The School saw a decrease in total revenues of approximately \$86,000 compared to the previous year. The School's enrollment increased from 297 to 327 students, resulting in higher state pass through revenue counter balanced by a decrease in operating grants and contributions due to a decrease in Charter School Program (CSP) Grant.

Changes in the School's expenses were as follows:

	<u>2020</u>	<u>2019</u>	<u>Variance</u>
Expenses:			
Basic instruction	1,191,210	1,172,869	18,341
Exceptional instruction	74,166	47,146	27,020
Student support services	9,086	8,951	135
Board expenses	-	29,500	(29,500)
School administration	524,212	405,600	118,612
Fiscal services	31,299	100,211	(68,912)
Food services	129,278	135,156	(5,878)
Student transportation	60,881	68,993	(8,112)
Operation of plant	416,416	542,008	(125,592)
Community services	795	7,138	(6,343)
Bond issuance fees	-	750,358	(750,358)
Interest	<u>181,197</u>	<u>433,131</u>	<u>(251,934)</u>
Total expenses	<u>2,618,540</u>	<u>3,701,061</u>	<u>(1,082,521)</u>
Change in net position	(77,836)	(1,074,134)	996,298
Net position (deficit) - beginning	<u>(1,347,879)</u>	<u>(273,745)</u>	<u>(1,074,134)</u>
Net position (deficit) - ending	<u>\$ (1,425,715)</u>	<u>\$ (1,347,879)</u>	<u>\$ (77,836)</u>

Overall expenses decreased due to the fiscal services decline in purchased services, operation of plant decline in rental costs for the building, bond issuances fees costs paid in the prior year for the purchase of a building, and a decline in the amount of interest fees paid during the year counter balanced by an increase in school administration costs increases related to salaries and insurances.

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 \$147,454. The general fund is the chief operating fund of those funds which included a total amount \$178,209 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 \$432,640 while actual expenditures exceeded budgeted expenditures by \$93,131.

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, 2020, amounts to \$7,899,517 (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 312 students for the 2020/2021 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, 2020

ASSETS

CURRENT ASSETS

Cash	\$	244,050
Restricted cash		861,947
Accounts receivable		37,453
Due from related parties		302,281
Total current assets		1,445,731

CAPITAL ASSETS

Capital assets, net of accumulated depreciation:		
Building and Equipment		7,870,054
Improvements other than buildings		4,080
Furniture, fixtures and equipment		25,384
Total capital assets, net		7,899,518
Total assets		9,345,249

LIABILITIES AND NET POSITION (DEFICIT)

LIABILITIES

Accounts payable		7,197
Accrued payroll liabilities		188,460
Nonexchange financial guarantee		275,307
Long-term liabilities:		
Bond payable, due after one year		8,800,000
Note payable, due after one year		1,500,000
Total liabilities		10,770,964

NET POSITION (DEFICIT)

Net investment in capital assets, net of related debt		(2,400,482)
Restricted for:		
Debt service		861,947
Unrestricted		112,820
Total net position (deficit)		\$ (1,425,715)

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

Championship Academy of Distinction K-8 (3), Inc.
STATEMENT OF ACTIVITIES
For the year ended June 30, 2020

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	\$ 1,191,210	\$ -	\$ 33,689	\$ -	\$ (1,157,521)
Exceptional instruction	74,166	-	-	-	(74,166)
Student support services	9,086	-	-	-	(9,086)
School administration	524,212	-	-	-	(524,212)
Fiscal services	31,299	-	-	-	(31,299)
Food services	129,278	-	98,300	-	(30,978)
Student transportation	60,881	-	-	-	(60,881)
Operation of plant	416,416	-	-	-	(416,416)
Community service	795	-	-	-	(795)
Interest	181,197	-	-	150,443	(30,754)
Total governmental activities	<u>2,618,540</u>	<u>-</u>	<u>131,989</u>	<u>150,443</u>	<u>(2,336,108)</u>
General revenues:					
					2,254,014
					4,258
					<u>2,258,272</u>
					(77,836)
					<u>(1,347,879)</u>
					<u>\$ (1,425,715)</u>

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

Championship Academy of Distinction K-8 (3), Inc.
BALANCE SHEET – GOVERNMENTAL FUNDS
June 30, 2020

	General Fund	Capital Outlay Fund	Debt Service Fund	Other Governmental Funds	Total Governmental Funds
ASSETS					
Cash	\$ 244,050	\$ -	\$ -	\$ -	\$ 244,050
Restricted cash	-	-	861,947	-	861,947
Accounts receivable	37,453	-	-	-	37,453
Due from related party	302,281	-	-	-	302,281
Due from other funds	65,388	-	-	-	65,388
Total assets	\$ 649,172	\$ -	\$ 861,947	\$ -	\$ 1,511,119
LIABILITIES AND FUND BALANCES					
LIABILITIES					
Accounts payable	7,197	-	-	-	\$ 7,197
Accrued payroll liabilities	188,460	-	-	-	188,460
Note payable	275,307	-	-	-	275,307
Due to other funds	-	-	65,388	-	65,388
Total liabilities	470,964	-	65,388	-	536,352
FUND BALANCES					
Restricted					
Debt service	-	-	796,559	-	796,559
Unassigned	178,208	-	-	-	178,208
Total fund balances	178,208	-	796,559	-	974,767
Total liabilities and fund balances	\$ 649,172	\$ -	\$ 861,947	\$ -	\$ 1,511,119

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

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, 2020

Fund balance - total governmental funds		\$ 974,767
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	8,252,621	
Accumulated depreciation	<u>(353,103)</u>	7,899,518
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>	(10,300,000)
Total net position (deficit) of governmental activities		<u><u>\$ (1,425,715)</u></u>

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

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, 2020

	General Fund	Capital Outlay Fund	Debt Service Fund	Other Governmental Funds	Total Governmental Funds
Revenues					
Federal passed through state and local	\$ -	\$ -	\$ -	\$ 131,989	\$ 131,989
State passed through local school district	2,248,244	150,443	-	5,770	2,404,457
Other revenues	4,258	-	-	-	4,258
Total revenues	2,252,502	150,443	-	137,759	2,540,704
Expenditures					
Current:					
Basic instruction	1,112,640	-	-	67,310	1,179,950
Exceptional instruction	74,166	-	-	-	74,166
Student support services	9,086	-	-	-	9,086
School administration	524,212	-	-	-	524,212
Fiscal services	31,299	-	-	-	31,299
Food services	-	-	-	129,278	129,278
Student transportation	60,881	-	-	-	60,881
Operation of plant	202,386	-	-	-	202,386
Community service	795	-	-	-	795
Debt service	-	-	181,197	-	181,197
	<u>2,015,465</u>	<u>-</u>	<u>181,197</u>	<u>196,588</u>	<u>2,393,250</u>
Excess (deficiency) of revenues over (under) expenditures	237,037	150,443	(181,197)	(58,829)	147,454
Other financing sources and (uses)					
Transfers in	-	-	150,443	58,829	209,272
Transfers out	(58,829)	(150,443)	-	-	(209,272)
Total other financing sources and (uses)	(58,829)	(150,443)	150,443	58,829	-
Net change in fund balance	178,208	-	(30,754)	-	147,454
Fund balances at July 1, 2019	-	-	827,313	-	827,313
Fund balances at June 30, 2020	<u>\$ 178,208</u>	<u>\$ -</u>	<u>\$ 796,559</u>	<u>\$ -</u>	<u>\$ 974,767</u>

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

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, 2020

Net change in fund balances - total governmental funds	\$	147,454
--	----	---------

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.

Provision for depreciation	225,290	(225,290)
----------------------------	---------	-----------

Change in net position of governmental activities	\$	<u>(77,836)</u>
---	----	-----------------

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

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

NOTES TO FINANCIAL STATEMENTS

June 30, 2020

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, 2020

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, 2020

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, 2020

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 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.

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

Championship Academy of Distinction K-8 (3), Inc.
NOTES TO FINANCIAL STATEMENTS
June 30, 2020

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. 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
Buildings	40
Furniture, fixtures and equipment	3-5
Leasehold improvements	3

Championship Academy of Distinction K-8 (3), Inc.
NOTES TO FINANCIAL STATEMENTS
June 30, 2020

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

10. 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.

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 327.59 unweighted FTE and 346.3894 weighted FTE.

Championship Academy of Distinction K-8 (3), Inc.
NOTES TO FINANCIAL STATEMENTS
June 30, 2020

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

10. Revenue sources (continued)

EFP 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, 2020

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

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, 2020. Early adoption is permitted. The School is evaluating the potential effect ASU No. 87 will have on its financial statements.

Championship Academy of Distinction K-8 (3), Inc.
NOTES TO FINANCIAL STATEMENTS
June 30, 2020

NOTE B – CASH

Cash is made up of deposits and cash on hand totaling \$1,216,706 at June 30, 2020. 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 <u>July 1, 2019</u>	<u>Additions</u>	<u>Deletions</u>	Balance at <u>June 30, 2020</u>
Capital assets depreciated:				
Building and equipment	51,461	-	-	51,461
Furniture, fixtures and equipment	8,176,679	-	-	8,176,679
Leasehold improvements	<u>24,480</u>	<u>-</u>	<u>-</u>	<u>24,480</u>
Total capital assets depreciated	<u>8,252,620</u>	<u>-</u>	<u>-</u>	<u>8,252,620</u>
Less accumulated depreciation:				
Building and equipment	102,208	204,417	-	306,625
Furniture, fixtures and equipment	13,365	12,713	-	26,078
Leasehold improvements	<u>12,240</u>	<u>8,160</u>	<u>-</u>	<u>20,400</u>
Total accumulated depreciation	<u>127,813</u>	<u>225,290</u>	<u>-</u>	<u>353,103</u>
Total capital assets, net	<u><u>8,124,807</u></u>			<u><u>7,899,517</u></u>

Depreciation expense for the year ended June 30, 2020 was charged to functions of the School as follows:

Basic instruction	\$ 11,260
Operation of plant	<u>214,030</u>
	<u><u>\$ 225,290</u></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, 2020

NOTE D – RELATED PARTIES (continued)

1. Related charter schools (continued)

As of June 30, 2020, the School's receivable balance with related parties are the following:

Championship Academy of Distinction	Receivables
at Hollywood, Inc.	\$ 181,568
at Hollywood Middle, Inc.	30,101
at Davie, Inc.	84,993
at Davie High School, Inc.	5,619
	\$ 302,281

2. Management company

The School 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. The management company fees for the year ending June 30, 2020 totaled \$141,866. The management agreement was terminated September 29, 2020.

At the time of termination, the management company owed the School \$109,391 for prior year forgiveness of cash advances. While the School intends to pursue its collection, the receivable was recorded as a bad debt expense for the year ending June 30, 2020.

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, 2020:

	Long-term obligation at July 1, 2019	Additions	Reductions	Long-term obligation at June 30, 2020	Due within one year
Revenue bonds:					
Series 2018A	\$ 8,250,000	\$ -	\$ -	\$ 8,250,000	\$ -
Series 2018B	550,000	-	-	550,000	-
Subtotal	8,800,000	-	-	8,800,000	-
Notes payable:					
EB-5	1,500,000	-	-	1,500,000	-
Subtotal	1,500,000	-	-	1,500,000	-
	\$ 10,300,000	\$ -	\$ -	\$ 10,300,000	\$ -

Championship Academy of Distinction K-8 (3), Inc.
NOTES TO FINANCIAL STATEMENTS
June 30, 2020

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 2019-2020 school year was 328 students. The number of students enrolled for the 2020-2021 school year is expected to decline.

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.

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

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

NOTES TO FINANCIAL STATEMENTS

June 30, 2020

NOTE E – LONG-TERM DEBT (continued)

3. Bond Payable

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. 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.
- Management or management consulting fees payable shall not exceed the equivalent of 14.00% 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

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, 2020 was as follows:

Net income available for debt service	\$	237,038
Maximum annual debt service	\$	727,375
Debt service coverage ratio		3.07

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.

Championship Academy of Distinction K-8 (3), Inc.
NOTES TO FINANCIAL STATEMENTS
June 30, 2020

NOTE E – LONG-TERM DEBT (continued)

4. Debt covenants for bonds payable (continued)

The days cash on hand for the year ended June 30, 2020 was as follows:

Cash on hand	\$	244,050
Total School operating expenses		2,015,464
Expenses per day		5,522
Days cash on hand		44.20

The School is required to disclose the calculation of debt service coverage ratio and days cash on hand for the year ended June 30, 2020 under the bond agreement.

The annual requirements to amortize all debt outstanding as of June 30, 2020 are as follows:

Years ending June 30,	Principal	Interest	Total
2020	\$ -	\$ 546,179	\$ 546,179
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
	\$ 8,800,000	\$ 4,455,820	\$ 13,255,820

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. As of June 30, 2020, the guaranty agreement has been released.

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, 2020

NOTE H – 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	\$ 1,511,573
Discretionary local effort	183,207
Digital classrooms allocation	523
Discretionary lottery	327
Supplemental academic instruction	72,461
Reading allocation	13,792
Proration	(4,440)
ESE guaranteed allocation	51,752
Class size reduction	379,181
Transportation	29,682
Safe schools	19,623
Instructional materials	24,397
Funding compression allocation	2,592
Mental health allocation	7,976
Venture design holdback	(18,037)
District administration fee	(87,481)
	<u>2,187,128</u>
Title 1	67,310
Best and Brightest Teacher Scholarship Program	31,372
Capital outlay	116,822
School recognition	29,744
Classroom supply assistance	5,770
Total from the School Board of Broward County	<u>2,438,146</u>
Other revenue:	
National School Lunch Program	98,300
Other revenues	4,258
	<u>\$ 2,540,704</u>

The administrative fee paid to the District during the year ended June 30, 2020, totaled \$87,481.

Championship Academy of Distinction K-8 (3), Inc.
NOTES TO FINANCIAL STATEMENTS
June 30, 2020

NOTE I - COMMITMENTS AND CONTINGENCIES

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, 2020, relating to this contract was \$141,866. See Note D-2.

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.

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.

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

NOTES TO FINANCIAL STATEMENTS

June 30, 2020

NOTE M – NONEXCHANGE FINANCIAL GUARANTEES

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 this time, the School intends the proceeds received will be used for eligible purposes consistent with described conditions and believes it is more likely than not that the SBA will grant the forgiveness in full in accordance with the guarantee.

The liability recognized for the nonexchange financial guarantee by the School at June 30, 2020 is as follows:

<u>July 1, 2019</u>	<u>Increase</u>	<u>Decrease</u>	<u>June 30, 2020</u>
\$ -	\$ 275,307	\$ -	\$ 275,307

NOTE N – SUBSEQUENT EVENTS

The School has evaluated subsequent events through June 9, 2021, 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:

On March 9, 2020, the Governor of the State of Florida declared a state of emergency in response to the global Coronavirus Disease 2019 (COVID-19) pandemic. In the weeks following the declaration, precautionary measures to slow the spread of the virus had been ordered. These measures including the closing of schools and requiring Florida residents to stay home unless they are leaving for essential functions. Over the following weeks, a step process was used by the Florida economy to slowly reopened and on July 6, 2020, the State of Florida Department of Education, under the directions of the Governor, announced the reopening of the School related to 2020-21 Florida’s Optional Innovative Reopening Plan.

Under this plan, the School is to reopen on August 19, 2020 and provide two options to return to School. The first option is for the School to open schools for all students desiring instruction in brick-and-mortar schools when local health officials’ guidance allows for such operation for all student.

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

NOTES TO FINANCIAL STATEMENTS

June 30, 2020

NOTE N – SUBSEQUENT EVENTS (continued)

The second option is to provide students with eLearning Innovation Model to ensure student receive a full day of “bona fide” instruction per Florida Administrative Code 6A-1.045111, Florida Statue 1003.436 and other applicable statutes and regulations.

In addition to mandated operational changes by the State, the School received Paycheck Protection Program Funds provided under the CARES act to continue to pay teachers over closure weeks of the School. The School has allocated these funds to be used only related to payroll, benefits, rent and utilities, and maintains its payroll levels over the utilization period in accordance with the restriction of the loan forgiveness. As of July 24, 2020, the School has used all monies related to these requirements and will be applying for forgiveness of the loan closer by the end of the 2020 year per the bank’s instructions. The School believes it is more likely than not that it will receive forgiveness of the loan and has met the forgiveness requirements.

The future impact of COVID-19 pandemic may possibly affect future operating costs and revenues in the event of resurgence of cases and potential shut downs by the State or City.

On July 1, 2020, the School entered into a consulting agreement with the Charter Consulting Group, LLC (the “Management Consultant”) related to condition set forth in the loan forbearance agreement related to the School’s bonds. The management consultant is hired to evaluate and recommend on an ongoing basis improvement to its operations, marketing, management, educational program, and facility improvement plans designed to grow enrollment, complete deferred construction projects mandated by City of Lauder Lakes, improve the current and long-term financial viability of the School and seek mutual agreeable restructuring of its long-term debt service obligation to the bondholder. The terms of the agreement are to commence of July 1, 2020 and run for two years until June 30, 2022. The School will pay a consulting fee equal to fourteen 14% of gross annual revenue received by the School based on pupil compensation paid by the State of Florida through the Florida Education Finance Program per the terms of the Charter Contract. Grants and private donations shall not be considered “gross annual revenue” excluded from the consultant fees. A monthly pro-rata share of the consultant fee will be paid to the consultant on the twentieth (20) day of each month during the term of the agreement. If the School has insufficient funds in any month to pay the School’s debt service, the consultant fee may temporarily go unpaid but will continue to accrue without interest. Further, payment of the consultant fee is subject to the terms of that certain forbearance agreement the School entered into with UMB Bank, N.A., as Trustee, contemporaneously with this agreement.

In May of 2021, The School received verbal confirmation from the bondholder trustee of an extension of the forbearance agreement until May 31, 2022 and is in compliance with the forbearance conditions (see Note E-3).

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
For the year ended June 30, 2020

	<u>Budgeted Amounts</u>			Variance with Final Budget
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues				
State passed through local school district	\$ 2,685,142	\$ 2,685,142	\$ 2,248,244	\$ (436,898)
Other Revenues	-	-	4,258	4,258
Total revenues	<u>2,685,142</u>	<u>2,685,142</u>	<u>2,252,502</u>	<u>(432,640)</u>
Expenditures				
Basic instruction	1,091,460	1,091,460	1,112,640	(21,180)
Exceptional instruction	37,200	37,200	74,166	(36,966)
Student support services	46,808	46,808	9,086	37,722
Instructional staff training	6,500	6,500	-	6,500
General administration	6,500	6,500	-	6,500
School administration	714,125	714,125	524,212	189,913
Fiscal services	8,000	8,000	31,299	(23,299)
Student transportation	55,000	55,000	60,881	(5,881)
Operation of plant	359,380	359,380	202,386	156,994
Maintenance of plant	30,000	30,000	-	30,000
Community service	-	-	795	(795)
Total expenditures	<u>2,354,973</u>	<u>2,354,973</u>	<u>2,015,465</u>	<u>339,508</u>
Excess (deficiency) of revenues over (under) expenditures	330,169	330,169	237,037	(93,132)
Other financing sources (uses)				
Transfers in/out	-	-	-	-
Net change in fund balance	330,169	330,169	237,037	(93,132)
Fund balance at July 1, 2019	-	-	-	-
Fund balance at June 30, 2020	<u>\$ 330,169</u>	<u>\$ 330,169</u>	<u>\$ 237,037</u>	<u>\$ (93,132)</u>

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, 2020

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
Revenues				
State passed through local school district	\$ 150,000	\$ 150,000	\$ 150,443	\$ 443
Expenditures				
Rentals	150,000	150,000	-	150,000
Excess (deficiency) of revenues over (under) expenditures	-	-	150,443	150,443
Other financing sources (uses)				
Transfers in/out	-	-	(150,443)	(150,443)
Net change in fund balance	-	-	-	-
Fund balance at July 1, 2019	-	-	-	-
Fund balance at June 30, 2020	\$ -	\$ -	\$ -	\$ -

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, 2020

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
State passed through local school district	\$ -	\$ -	\$ -	\$ -
Expenditures				
Debt service	110,100	110,100	181,197	(71,097)
Excess (deficiency) of revenues over (under) expenditures	(110,100)	(110,100)	(181,197)	(71,097)
Other financing sources (uses)				
Transfers in/out	-	-	150,443	150,443
Net change in fund balance	(110,100)	(110,100)	(30,754)	79,346
Fund balance at July 1, 2019	-	-	827,313	827,313
Fund balance at June 30, 2020	<u>\$ (110,100)</u>	<u>\$ (110,100)</u>	<u>\$ 796,559</u>	<u>\$ 906,659</u>

Championship Academy of Distinction K-8 (3), Inc.
NOTES TO REQUIRED SUPPLEMENTAL INFORMATION
June 30, 2020

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.
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 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 Broward County School District, Florida, as of and for the year ended June 30, 2020 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, 2020.

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.

However, as described in the accompanying schedule of findings and questioned costs, we did identify certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as item 2020-01 to be material weaknesses.


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. We consider the deficiencies described in the accompany schedule of findings and questioned costs as item 2020-2 to be a significant deficiency.

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*. 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 and questioned costs as items 2020-3 – 2020-4.

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.



September 30, 2020
Rockledge, Florida



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 financial statements of Championship Academy of Distinction K-8 (3), Inc. (the “School”), a component unit of the Broward County School District, Florida, as of and for the fiscal year ended June 30, 2020, and have issued our report thereon dated September 30, 2020, except for Note N as to which the date is June 9, 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 Reports and Schedules

We have issued our Independent Auditor’s Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with Government Auditing Standards. Disclosures in that report, which are dated September 30, 2020, should be considered in conjunction with this management letter.

Prior Audit Findings

Section 10.85(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 actions have been taken to address findings and recommendation made in the preceding annual financial audit report.

Tabulation of Uncorrected Audit Findings		
2019-20 Year Finding No.	2018-19 Year Finding No.	2017-18 Year Finding No.
2020-01	2019-001	
2020-02	2019-002	
2020-03	2019-003	
2020-04		
2019-001		
2019-002		
2019-003		

Official Title

Section 10.854(1)(e)1., Rules of the Auditor General, requires the name or official title of the entity. The official title of the entity is *Championship Academy of Distinction K-8 (3), Inc.; 5234*

Financial Condition and Management

Sections 10.854(1)(e)2., Rules of the Auditor General, requires that we report the results of our determination as to whether or not the School has met one or more of the conditions described in Section 218.503(1), Florida Statutes, and identification of the specific condition(s) met. In connection with our audit, we determined that the School did not meet any of the conditions described in Section 218.503(1), Florida Statutes. The School is currently operating under a forbearance agreement with its bondholders effective through May 30, 2021, subject to extension (See subsequent event Note N). Pursuant to the forbearance agreement, the debt payments have been modified from \$60,615 per month to \$27,000 per month. The School is current on payments and has met all conditions of the forbearance agreement as of June 9, 2021.

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

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

Transparency

Sections 10.854(1)(e)7 and 10.855(13), Rules of the Auditor General, requires that we report the results of our determination as to whether the School maintains on its Web site the information specified in Section 1002.33(9)(p), Florida Statutes. In connection with our audit, we determined that the School did not maintained on its Web site the information specified in Section 1002.33(9)(p), Florida Statutes.

Other Matters

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

Section 10.854(1)(e)4., Rules of the Auditor General, requires that we address noncompliance with provisions of contracts or grant agreements, or abuse, that have occurred, or are likely to have occurred, that have an effect on the financial statements that is less than material but which warrants the attention of those charged with governance. In connection with our audit, we did have the following finding 2020-04.

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, Board of Directors, applicable School's management, others within the School, and the Broward County School District, and is not intended to be and should not be used by anyone other than these specified parties.

McDonough CPA Solutions, PA

September 30, 2020, except for Financial Condition and Management paragraph above as to which the date is

June 9, 2021

Rockledge, Florida

MANAGEMENT FINDINGS, RECOMMENDATIONS, AND RESPONSES

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

2020-01: Due from management company

Material Weakness

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.

2020-02: Employee Contracts

Significant Deficiency

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.

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.

MANAGEMENT FINDINGS, RECOMMENDATIONS, AND RESPONSES

2020-02: Employee Contracts (continued)

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

Condition and Criteria: Per Florida Statute 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.

2020-04: 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.

MANAGEMENT FINDINGS, RECOMMENDATIONS, AND RESPONSES

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.

2020-05: Insurance Policy Maintenance Noncompliance

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 statues 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.

MANAGEMENT FINDINGS, RECOMMENDATIONS, AND RESPONSES

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 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.

Status Continued: In the June 30, 2020 audit, there were four disbursements, through December 2019, that did not have supporting documentation (i.e. invoices, purchase orders, check requests, packing slips, or other support). In addition, we noted several invoices not being paid timely after the claim is presented due to cash flow shortages. Since January 2020, the School has maintained adequate documentation and proper approvals in accordance with their Accounting Policy and Procedure manual.

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 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.

Status Continued: We noted credit card transaction still lacked management controls related to approvals and retention of receipts through December 2019 but recording of transaction has been corrected. As of January 2020, the School has not allowed the use of purchase cards in the School unless it is properly approved and proper documentation maintained.

MANAGEMENT FINDINGS, RECOMMENDATIONS, AND RESPONSES

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 tasks amongst other employees of the School.

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.

Status Continued: During the audit, there was a lack of segregation of duties related management control authority specifically the management company was approving invoices and signing checks sent out to vendors on behalf of the School. In addition, there were multiple different signatures related to the authorized check signer and several checks were signed by an unauthorized signer. As of January 2020, the School implemented an Accounting Policy and Procedures Manual that implemented proper segregation of duties over cash disbursements, payroll, key reconciliations and journal entries.