

**ST. CLOUD PREPARATORY
ACADEMY, INC.**

**Basic Combined Financial
Statements and
Supplemental Information**

**Year Ended
June 30, 2020**

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
St. Cloud Preparatory Academy, Inc.
St. Cloud, Florida

Report on the Combined Financial Statements

We have audited the accompanying combined financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of St. Cloud Preparatory Academy, Inc. and St. Cloud Preparatory Academy, LP (collectively the "School"), which are component units of the School District of Osceola County, Florida, as of and for the year ended June 30, 2020, and the related notes to the combined financial statements, which collectively comprise the School's basic combined financial statements as listed in the table of contents.

Management's Responsibility for the Combined Financial Statements

Management is responsible for the preparation and fair presentation of these combined 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 combined financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express opinions on these combined 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 combined financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the combined 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 combined 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 combined 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 combined 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 combined financial position, for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3-8 and 28-29 be presented to supplement the basic combined financial statements. Such information, although not a part of the basic combined 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 combined 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 combined financial statements, and other knowledge we obtained during our audit of the basic combined financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 9, 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.

Moss, Krusick & Associates, LLC

Winter Park, Florida
October 9, 2020

Management's Discussion and Analysis

As management of St. Cloud Preparatory Academy, Inc. and St. Cloud Preparatory Academy, LP (collectively the "School"), which are components of the School District of Osceola County, Florida, we offer readers of the School's combined financial statements this narrative overview and analysis of the financial activities of the School for the fiscal year ended June 30, 2020 to (a) assist the reader in focusing on significant financial issues, (b) provide an overview and analysis of the School's combined financial activities, (c) identify changes in the School's combined financial position, (d) identify material deviations from the approved budget, and (e) highlight significant issues in individual funds.

Because the information contained in the Management's Discussion and Analysis (MD&A) is intended to highlight significant transactions, events, and conditions, it should be considered in conjunction with the Basic Combined Financial Statements found starting on page 9.

Financial Highlights

- The assets of the School exceeded its liabilities at the close of the most recent fiscal year by \$57,356.
- The School's total net position decreased by \$1,088,861 during the year.
- As of the close of the current fiscal year, the School's governmental fund reported combined ending fund balance deficit of \$106,132, a decrease of \$108,861 in comparison with the prior year.
- During the current fiscal year, the School secured a \$472,400 loan under the Paycheck Protection Program ("PPP") established by the Coronavirus Aid Relief, and Economic Security Act ("CARES Act").

Overview of the Combined Financial Statements

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

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

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

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

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 fiscal services 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 District of Osceola County, Florida which includes the operations of the School in their operational results.

The government-wide financial statements can be found on pages 9 - 10 of this report.

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

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

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

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

The School adopts an annual appropriated budget for its operations. Budgetary comparison statements with required notes have been provided to demonstrate compliance with this budget and can be found on pages 30 through 31 of this report.

The basic governmental fund financial statements can be found on pages 11 - 14 of this report.

Agency Fund. In addition, the School has one agency fund in which is a student activity fund. This fund is formed for educational and school purposes. The agency fund financial statement can be found on page 15 of this report. The assets and liabilities of this fund are not included in the government-wide statement of net position.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found starting on page 16 of this report.

Government-Wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of the School's financial position. In the case of the School, assets exceeded liabilities by \$57,356 at June 30, 2020, compared to \$1,146,217 at June 30, 2019.

A portion of the School's net position reflects its investment in capital assets (e.g., furniture and equipment and computers), less any related debt used to acquire those assets that is still outstanding. The School uses these capital assets to provide services to students; consequently, these assets are not available for future spending.

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

The School's net position were as follows:

Governmental Activities			
	June 30, 2020	June 30, 2019	Variance
ASSETS			
Current assets	\$ 906,528	\$ 143,909	\$ 762,619
Capital assets - net of accumulated depreciation	11,453,630	11,771,161	(317,531)
Note receivable	2,000,000	2,000,000	-
Total assets	<u>14,360,158</u>	<u>13,915,070</u>	<u>445,088</u>
LIABILITIES			
Current liabilities	1,012,660	141,360	871,300
Non-current liabilities	13,290,142	12,627,493	662,649
Total liabilities	<u>14,302,802</u>	<u>12,768,853</u>	<u>1,533,949</u>
NET POSITION			
Investment in capital assets	(1,249,769)	(741,989)	(507,780)
Unrestricted	<u>1,307,125</u>	<u>1,888,206</u>	<u>(581,081)</u>
Net position	<u>\$ 57,356</u>	<u>\$ 1,146,217</u>	<u>\$ (1,088,861)</u>

The School's change in net position was as follows:

Governmental Activities			
	2020	2019	Variance
Revenues:			
Program revenues:			
Federal passed through local school district	\$ 287,770	\$ 255,875	\$ 31,895
State passed through local school district	3,676,967	3,472,156	204,811
Debt forgiveness	-	302,274	(302,274)
Other income	291,833	446,547	(154,714)
Total revenue	<u>4,256,570</u>	<u>4,476,852</u>	<u>(220,282)</u>
Expenses:			
Basic instruction	2,345,094	2,040,326	304,768
Instructional support	63,914	138,970	(75,056)
Classroom costs	3,432	660	2,772
Board expenses	38,053	695	37,358
General administration	131,441	184,630	(53,189)
School administration	656,683	713,695	(57,012)
Fiscal services	137,601	35,038	102,563
Food services	64,439	99,594	(35,155)
Central services	294	282	12
Transportation	10,325	14,042	(3,717)
Operation of plant	1,682,238	1,226,656	455,582
Maintenance of plant	30,425	31,283	(858)
Administrative technology	9,038	-	9,038
Community service	172,454	216,518	(44,064)
Total expenses	<u>5,345,431</u>	<u>4,702,389</u>	<u>643,042</u>
Change in net position	<u>(1,088,861)</u>	<u>(225,537)</u>	<u>(863,324)</u>
Net position - beginning	<u>1,146,217</u>	<u>1,371,754</u>	<u>(225,537)</u>
Net position (deficit) - ending	<u>\$ 57,356</u>	<u>\$ 1,146,217</u>	<u>\$ (1,088,861)</u>

The decrease in revenue is primarily due to decreased enrollment in before and after care and Pre-K revenue. The increase in overall expenses is primarily related to the increase in instructional salaries needed for an increase in students and to an increase in operation of plant costs for increased lease payments. Student FTE was approximately 536 for 2020 compared to 525 for 2019.

Governmental activities. Governmental activities decreased the School's net position by \$1,088,861 for the year ended June 30, 2020. Governmental activities decreased the School's net position by \$225,537 for the year ended June 30, 2019.

Financial Analysis of the Government's Funds

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

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

The general fund is the chief operating fund of the School. At the end of the current fiscal year, the unassigned fund balance (deficit) was (\$155,850) in the general fund.

The fund balance of the School's general fund decreased by \$108,681 during the current fiscal year ended June 30, 2020.

Capital Asset and Debt Administration

Capital Assets. The School's investment in capital assets net of related debt for its governmental activities as of June 30, 2020 amounts to (\$1,249,769). This investment in capital assets includes furniture, fixtures, equipment and capital lease asset totaling \$12,936,164 less accumulated depreciation of (\$1,482,534) and capital lease obligation of (\$12,703,399). Additional information on the School's capital assets and capital lease asset and obligation, can be found in Notes C and F.

Debt Administration. The School received \$472,400 of PPP funds during the fiscal year June 30, 2020. More detailed information about the School's long-term liabilities is presented in Note E to the financial statements.

General Fund Budgetary Highlights

The School's budget is prepared in conformity with accounting principles generally accepted in the United States of America and according to Florida Law. During the school year, the School's Board of Directors revised the budget to adjust for changes in revenues or expenditures. This happened following the FTE counts done in October and February. A statement showing the School's original and final budget compared with actual operating results is presented in the required supplemental information on page 30 to 31.

Revenues and expenditures equaled the budget for the year ended June 30, 2020 as the budget was subsequently revised to equal actual results. Regarding the original budget, an unfavorable variance in expenditures occurred as the original budget did not provide for increases in general and administrative, operation or plant, and community service expenditures due to the allocation of the salaries expenses and the lower rent expenses budgeted.

Economic Factors and Next Year's Budget

In fiscal year 2020, the State of Florida increased its Florida Education Finance Program base funding, safe schools and mental health initiative allocations. The capital outlay funding pool increased to \$158 million. A 2% merit increase was also paid out to eligible staff.

For fiscal year 2021, capital outlay revenue was assumed at a flat rate in comparison to the current rate per student. The budgets reflect the Florida Education Finance Program funding

For fiscal year 2021, capital outlay revenue was assumed at a flat rate in comparison to the current rate per student. The budgets reflect the Florida Education Finance Program funding increase to fund teacher salary increases. A 2% merit increase for all staff was also budgeted. All other expenditures are budgeted in alignment with enrollment changes and the school's strategic objectives.

Request for Information

This financial report is designed to provide a general overview of St. Cloud Preparatory Academy, 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 St. Cloud Preparatory Academy, Inc., 3131 Progress Lane, St. Cloud, FL 34772.

ST. CLOUD PREPARATORY ACADEMY, INC.

STATEMENT OF NET POSITION

June 30, 2020

	<u>Governmental Activities</u>
ASSETS	
CURRENT ASSETS	
Cash	\$ 833,935
Accounts receivable	22,875
Prepaid items	23,418
Deposits	<u>26,300</u>
Total current assets	906,528
Note receivable	2,000,000
Capital assets, net of accumulated depreciation	<u>11,453,630</u>
Total assets	<u>14,360,158</u>
LIABILITIES AND NET POSITION	
CURRENT LIABILITIES	
Accrued payroll	60,749
Accounts payable	<u>951,911</u>
Total current liabilities	1,012,660
NONCURRENT LIABILITIES	
Long-term debt	
Due within one year	348,668
Due in more than one year	<u>12,941,474</u>
Total liabilities	<u>14,302,802</u>
NET POSITION	
Investment in capital assets, net of related debt	(1,249,769)
Unrestricted	<u>1,307,125</u>
Total net position	<u>\$ 57,356</u>

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

ST. CLOUD PREPARATORY ACADEMY, INC.

STATEMENT OF ACTIVITIES

Year Ended June 30, 2020

Functions/Programs	Expenses	Program Revenues			Net (Expense)
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Revenue and Changes in Net Position
					Governmental Activities
Governmental activities:					
Basic instruction	\$ 2,345,094	\$ -	\$ -	\$ -	\$ (2,345,094)
Instructional support	63,914	-	-	-	(63,914)
Classroom costs	3,432	-	-	-	(3,432)
Board expenses	38,053	-	-	-	(38,053)
General administration	131,441	-	-	-	(131,441)
School administration	656,683	-	-	-	(656,683)
Fiscal services	137,601	-	-	-	(137,601)
Food services	64,439	-	-	-	(64,439)
Central services	294	-	-	-	(294)
Transportation	10,325	-	-	-	(10,325)
Operation of plant	1,682,238	-	-	287,770	(1,394,468)
Maintenance of plant	30,425	-	-	-	(30,425)
Administrative tech	9,038	-	-	-	(9,038)
Community service	172,454	-	-	-	(172,454)
Total governmental activities	<u>\$ 5,345,431</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 287,770</u>	<u>(5,057,661)</u>
General revenues:					
State passed through local school district					3,676,967
Other income					<u>291,833</u>
Total general revenues					<u>3,968,800</u>
Change in net position					(1,088,861)
Net position at July 1, 2019					<u>1,146,217</u>
Net position at June 30, 2020					<u>\$ 57,356</u>

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

ST. CLOUD PREPARATORY ACADEMY, INC.

BALANCE SHEET - GOVERNMENTAL FUNDS

June 30, 2020

	<u>General Fund</u>	<u>Capital Outlay Fund</u>	<u>Total Governmental Funds</u>
ASSETS			
Cash	\$ 833,935	\$ -	\$ 833,935
Accounts receivable	22,875	-	22,875
Prepaid items	23,418	-	23,418
Deposits	26,300	-	26,300
Total assets	<u>\$ 906,528</u>	<u>\$ -</u>	<u>\$ 906,528</u>
LIABILITIES AND FUND BALANCES			
LIABILITIES			
Accrued payroll	\$ 60,749	\$ -	\$ 60,749
Accounts payable	951,911	-	951,911
Total liabilities	<u>1,012,660</u>	<u>-</u>	<u>1,012,660</u>
FUND BALANCES			
Nonspendable			
Prepaid expenditures	23,418	-	23,418
Deposits	26,300	-	26,300
Unassigned	(155,850)	-	(155,850)
Total fund balances	<u>(106,132)</u>	<u>-</u>	<u>(106,132)</u>
Total liabilities and fund balances	<u>\$ 906,528</u>	<u>\$ -</u>	<u>\$ 906,528</u>

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

ST. CLOUD PREPARATORY ACADEMY, INC.
RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL
FUNDS TO THE STATEMENT OF NET POSITION

June 30, 2020

Fund balances - total governmental funds	\$ (106,132)
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The net position reported for governmental activities in the statement of net position is different because:

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

Furniture, fixtures, and equipment, net of \$83,385 accumulated depreciation	\$ 73,414	
Computer software, net of \$8,500 accumulated depreciation	-	
Computer equipment, net of \$95,732 accumulated depreciation	3,799	
Capital lease asset, net of \$1,294,917 accumulated depreciation	<u>11,376,417</u>	11,453,630

Long-term note receivable not due or receivable in the current period and, therefore, not reported in the general fund	2,000,000
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Long-term debt are not due and payable in the current period and, therefore, not reported in the general fund	<u>(13,290,142)</u>
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Total net position of governmental activities	<u><u>\$ 57,356</u></u>
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The accompanying notes are an integral part of these financial statements.

ST. CLOUD PREPARATORY ACADEMY, INC.

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

Year Ended June 30, 2020

	General Fund	Capital Outlay Fund	Total Governmental Funds
Revenues			
State passed through local school district	\$ 3,676,967	\$ 287,770	\$ 3,964,737
Other income	291,833	-	291,833
Total revenues	<u>3,968,800</u>	<u>287,770</u>	<u>4,256,570</u>
Expenditures			
Current:			
Basic instruction	2,345,094	-	2,345,094
Instructional support	63,914	-	63,914
Classroom costs	3,432	-	3,432
Board expenses	38,053	-	38,053
General administration	131,441	-	131,441
School administration	318,162	-	318,162
Fiscal services	137,601	-	137,601
Food services	64,439	-	64,439
Central services	294	-	294
Transportation	10,325	-	10,325
Operation of plant	1,204,219	287,770	1,491,989
Maintenance of plant	30,425	-	30,425
Administrative tech	9,038	-	9,038
Capital outlay	20,990	-	20,990
Community service	172,454	-	172,454
Total expenditures	<u>4,549,881</u>	<u>287,770</u>	<u>4,837,651</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(581,081)</u>	<u>-</u>	<u>(581,081)</u>
Other financing sources (uses):			
Loan proceeds	472,400	-	472,400
Total other financing sources (uses)	<u>472,400</u>	<u>-</u>	<u>472,400</u>
Net change in fund balances	<u>(108,681)</u>	<u>-</u>	<u>(108,681)</u>
Fund balances at July 1, 2019	<u>2,549</u>	<u>-</u>	<u>2,549</u>
Fund balances at June 30, 2020	<u>\$ (106,132)</u>	<u>\$ -</u>	<u>\$ (106,132)</u>

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

ST. CLOUD PREPARATORY ACADEMY, INC.

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

Year Ended June 30, 2020

Net change in fund balances - total government funds \$ (108,681)

The change in net position reported for governmental activities
in the statement of activities is different because:

Governmental funds report fixed capital outlays as expenditures.
However, in the statement of activities, the cost of those assets
is allocated over their estimated useful lives and reported as
depreciation expense.

Total fixed capital outlay	\$ 20,990	
Depreciation	<u>(338,518)</u>	
Total capital assets		(317,528)

The issuance of long-term debt provides current financial
resources to governmental funds, while the repayment of
the principal of long-term debt consumes current financial
resources of governmental funds. Neither transaction,
however, has any effect on net position. Also, governmental
funds report the effect of issuance costs, premiums, discounts,
and similar items when the debt is first issued, whereas these
amounts are deferred and amortized in the statement of activities.

Proceeds from long-term debt	(472,400)	
Accretion of capital lease obligation	<u>(190,252)</u>	

Change in net position of governmental activities \$ (1,088,861)

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

ST. CLOUD PREPARATORY ACADEMY, INC.

STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES - AGENCY FUND

June 30, 2020

		<u>Internal Fund</u>
	<i>ASSETS</i>	
Cash		<u>\$ 7,028</u>
Total assets		<u><u>\$ 7,028</u></u>
	<i>LIABILITIES</i>	
Due to students		<u>\$ 7,028</u>
Total liabilities		<u><u>\$ 7,028</u></u>

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

ST. CLOUD PREPARATORY ACADEMY, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2020

NOTE A - REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1. Reporting entity

St. Cloud Preparatory Academy, Inc. (the "School") is a not-for-profit corporation that operates an elementary school in St. Cloud, Florida, which is a component unit of the School District of Osceola County, Florida (the "District"). The Corporation was organized in December 2013 pursuant to Chapter 617, Florida Statutes, Florida Not-For-Profit Corporation Act. The governing body of the School is a not-for-profit corporation Board of Directors composed of 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 board, the School District of Osceola County (the "School District"). The original charter was effective until June 30, 2020, and was renewed on March 3, 2020 by mutual agreement between the School and the School District, and extended three additional years to June 30, 2023 .

Criteria for determining if other entities are potential component units which should be reported within the School's basic financial statements are described in GASB Statement No. 14, as amended by GASB Statement No. 39 and No. 61. The application of these criteria provide 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 required to be included within the reporting entity of the School.

2. Government-wide and fund financial statements

The government-wide financial statements consist of a statement of net position and a statement of activities. These statements report information on all of the nonfiduciary activities of the School. As part of the consolidation process, all interfund activities are eliminated from these statements. Both statements report only governmental activities as the School does not engage in any business-type activities.

Net position, the difference between assets and liabilities, as presented in the statement of net assets, are subdivided into three categories: amounts invested in capital assets; restricted net assets; and unrestricted net assets. Net position is reported as restricted when constraints are imposed on the use of the amounts either externally by creditors, grantors, contributors, or laws or regulations of other governments, or enabling legislation. As of June 30, 2020, there was not any net position classified as restricted in the statement of net position.

ST. CLOUD PREPARATORY ACADEMY, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2020

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

2. Government-wide and fund financial statements (continued)

The statement of activities presents a comparison between the direct and indirect expenses of a given function and its program revenues, and displays the extent to which each function contributes to the change in net position for the fiscal year. Direct expenses are those that are clearly identifiable to a specific 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.

Separate fund financial statements report detailed information about the School's governmental funds. The focus of the governmental fund financial statements is on major funds. Therefore, major funds are reported in separate columns on the fund financial statements. Two of the School's funds were deemed to be a major funds. A reconciliation is provided that converts the results of governmental fund accounting to the government-wide presentation.

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

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

All governmental fund financial statements are reported using a current financial resources measurement focus on a modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues, except for certain grant revenues, are recognized in the accounting period in which they become both measurable and available to finance expenditures of the current period. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period, considered to be sixty days. When grant terms provide that the expenditure of resources is the prime factor for determining eligibility for federal, state, and other grant resources, revenue is recognized at the time the expenditure is made. Under the modified accrual basis of accounting, expenditures are generally recorded when the related fund liability is incurred. However, principal and interest on general long-term debt is recorded as expenditures only when payment is due.

ST. CLOUD PREPARATORY ACADEMY, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2020

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

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

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

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

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

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

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

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

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

The details of the fund balances are included in the Governmental Fund Balance Sheet on page 11.

ST. CLOUD PREPARATORY ACADEMY, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2020

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

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

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 - in accordance with guidelines established by The School District of Osceola County, Florida, this fund accounts for all resources for the leasing or acquisition of capital facilities by the School to the extent funded by capital outlay funds.

Additionally, the School reports the following fiduciary fund type:

Agency Fund – to account for resources of the School's internal funds which are used to administer money collected in connection with school, student, athletic, class, and club activities.

4. Cash

The School's cash consists of demand deposits with a financial institution which are insured by the Federal depository insurance.

5. Capital assets

Capital assets are reported in the applicable governmental columns on the government-wide financial statements. Capital assets are defined by the School as assets with an initial individual cost of more than \$275. Such assets are recorded at historical cost. Donated capital assets are recorded at their acquisition value at the date of donation.

ST. CLOUD PREPARATORY ACADEMY, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2020

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

5. Capital assets (continued)

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized. Capital assets of the School are depreciated using the straight-line method over the following estimated useful lives:

<u>Asset Class</u>	<u>Estimated Useful Lives</u>
Furniture, fixtures and equipment	5
Computer equipment and software	3
Capital lease asset	40

6. Prepaid items

Payment made to vendors for services that will benefit periods beyond June 30, 2020, are recorded as prepaid items in both the government-wide and fund financial statements.

7. 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 twelve month period and is adjusted for changes in full-time equivalent (FTE) student population.

8. Revenue sources

Revenues for current operations are received primarily from the State of Florida passed through the District to the School 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 (FLDOE) for funding through the Florida Education Finance Program. Funding for the School is adjusted during the year to reflect revised calculations by the FLDOE under the Florida Education Finance Program and actual weighted FTE students reported by the School during designated FTE student survey periods.

ST. CLOUD PREPARATORY ACADEMY, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2020

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

8. Revenue sources (continued)

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 expenditures are incurred. Revenues for these awards are recognized only to the extent that eligible expenditures have been incurred. Additionally, other revenues may be derived from various fundraising activities and certain other programs.

9. Use of estimates

The process of preparing financial statements in conformity with accounting principles generally accepted in the United States 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 estimated amounts.

10. Income taxes

St. Cloud Preparatory Academy, Inc. is a charter school, which qualifies as a tax-exempt organization under section 501(c)(3) of the Internal Revenue Code, and is, therefore, exempt from income tax. Accordingly, no tax provision has been made in the accompanying financial statements.

Management has analyzed the School's various federal and state filing positions, including those pertaining to charter academy contracts and tax exempt status, and believes that its income tax filing positions and deductions are well documented and supported, and that no accruals for tax liabilities are necessary. Therefore, no reserves for uncertain income tax positions have been recorded. The School remains subject to the examination by the Internal Revenue Service for the prior three years through June 30, 2020.

11. New GASB pronouncement

The GASB issued Statement 84, Fiduciary Activities, which establishes criteria for the identification of fiduciary activities and provides guidance on reporting those activities. An activity meeting the criteria should be reported in a fiduciary fund. Governments with activities meeting the criteria should present a statement of fiduciary net position and a statement of changes in fiduciary net position. The new guidance is effective for fiscal 2021.

ST. CLOUD PREPARATORY ACADEMY, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2020

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

11. New GASB pronouncement

The GASB issued Statement No. 87, *Leases*, which establishes new guidance for lease accounting for lessees and lessors and eliminates the classification of leases into operating or capital leases. This statement establishes a single model for lease accounting based on the principle that leases are financings of the right-to-use an underlying asset. Lessees will recognize a lease liability and an intangible right to use lease asset. Lessors will recognize a lease receivable and a deferred inflow of resources. The new guidance is effective for fiscal 2022.

The School is evaluating the effect of these new standards on its financial statements.

NOTE B - CASH

Custodial Credit Risk – Custodial credit risk is the risk that in the event of bank failure, the School's deposits may not be returned to it. The School does not have a formal policy regarding custodial credit risk. The School maintains its cash balances in a financial institution insured by the Federal Deposit Insurance Corporation ("FDIC"). Under the FDIC program, all of the School's cash balances maintained in accounts at the financial institution are fully guaranteed by the FDIC up to \$250,000.

At June 30, 2020, the School's cash balance exceeded FDIC coverage by \$578,112. The School has no history of loss due to exceeding coverage limitations.

ST. CLOUD PREPARATORY ACADEMY, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2020

NOTE C - CAPITAL ASSETS

Changes in capital assets were as follows for the year ended June 30, 2020:

	Balance at July 1, 2019	Additions	Deletions	Balance at June 30, 2020
Capital assets:				
Furniture and equipment	\$ 135,809	\$ 20,990	\$ -	\$ 156,799
Computer software	8,500	-	-	8,500
Computer equipment	99,531	-	-	99,531
Capital lease asset	12,671,334	-	-	12,671,334
Total assets depreciated	<u>12,915,174</u>	<u>\$ 20,990</u>	<u>\$ -</u>	<u>12,936,164</u>
Less accumulated depreciation:				
Furniture and equipment	67,312	\$ 16,073	\$ -	83,385
Computer software	8,500	-	-	8,500
Computer equipment	90,071	5,661	-	95,732
Capital lease asset	978,133	316,784	-	1,294,917
Total accumulated depreciation	<u>1,144,016</u>	<u>\$ 338,518</u>	<u>\$ -</u>	<u>1,482,534</u>
Total governmental activities capital assets, net	<u>\$11,771,158</u>			<u>\$11,453,630</u>

Depreciation expense in the amount of \$338,518 was charged to school administration for the year ended June 30, 2020.

ST. CLOUD PREPARATORY ACADEMY, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2020

NOTE D - CONCENTRATIONS

Revenue sources

As stated in Note A-7, 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:

Source	Amount
School Board of Osceola County	
Base funding	\$ 2,382,814
ESE guaranteed allocation	76,974
Supplemental academic instruction	117,627
Class size reduction	593,236
Discretionary local effort (WFTE)	165,472
Discretionary millage	125,062
Discretionary lottery	517
Classroom supply assistance allocation	13,036
Summer reading allocation	22,417
Instructional materials	43,347
Mental health allocation	13,637
Best and Brightest	53,384
Digital classrooms allocation	2,289
Safe schools allocation	28,323
Proration to funds available	(7,380)
Compression allocation	36,570
Prior year audit adjustment	(3,394)
Subtotal	3,663,931
Capital outlay	287,770
Florida teacher lead program	13,036
Total passed through the School	
District of Osceola County	3,964,737
Other revenue:	
Other income	291,833
	<u>\$ 4,256,570</u>

The administration fee paid to the District during the year ended June 30, 2020 totaled approximately \$85,517 and is reflected as a general administration expense/expenditure in the accompanying financial statements.

ST. CLOUD PREPARATORY ACADEMY, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2020

NOTE E - NOTES PAYABLE

Long-term notes payable at June 30, 2020 consists of the following:

Note payable, Banyan OSC, LLC., payable when surplus cash is achieved, including interest at 4.75%, maturing July 2017.	<u>\$ 114,343</u>
	114,343
Less: current portion	<u>(114,343)</u>
Total long-term notes payable	<u>\$ -</u>

The notes payable amounts are categorized as current because they are deemed payable in the upcoming year based on the additional revenues projected from increased number of students. Payment of the notes is subject to priority payment levels described in Note F. The note to Banyan OSC, LLC (Banyan) is level four priorities. The total amount of the Banyan note is in dispute with Banyan, and was reported in the financial statements at the 2017 amount of \$133,185 less payments made in fiscal 2017 of \$18,843. No payments were made since the fiscal 2017.

On March 27, 2020, the Coronavirus Aid Relief, and Economic Security Act ("CARES Act") was enacted in response to the COVID-19 outbreak. Under the CARES Act, the Paycheck Protection Program ("PPP") was established to provide assistance to small businesses with resources needed to maintain payroll and cover applicable overhead. On April 30, 2020, the School, through a financial institution, was approved for and received a loan in the amount of \$472,400 under this program. The proceeds of this loan were used by the School solely for the following transactions as set forth in Section 1102 of the CARES Act: (a) payments of "payroll costs", (b) cost related to the continuation of group healthcare benefits, during period of paid sick, medical or family leave and insurance premium, (c) employee salaries, commissions or similar compensation, (d) payments of interest on any mortgage obligation (which shall not include any prepayment of or payment of principal on a covered mortgage obligation), (e) payments on rent (including rent under a lease agreement), (f) utilities, and (g) interest on any other debt obligation that were incurred before the covered period. Management will seek forgiveness of the loan. As of the date of the financials, the forgiveness process is not complete. The unforgiven portion of the loan is payable over two years at an interest rate of 1%, with a deferral of payments for the first six months.

The following is a summary of changes in the PPP loan payable for the year ended June 30, 2020:

Balance outstanding at the beginning of the year	<u>\$ -</u>
Addition	472,400
Reduction	<u>-</u>
Balance outstanding at the end of the year	<u>\$ 472,400</u>

ST. CLOUD PREPARATORY ACADEMY, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2020

NOTE E - NOTES PAYABLE (continued)

Future debt service related to the Banyan note and PPP note are as follows as of June 30, 2020:

	Principal	Interest	Total
2021	\$ 348,668	\$ 4,742	\$ 353,410
2022	238,075	993	239,068
	<u>\$ 586,743</u>	<u>\$ 5,735</u>	<u>\$ 592,478</u>

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

	Balance July 1, 2019	Additions	Deletions	Balance June 30, 2020	Amount Due In 1 Year
Banyan Loan	\$ 114,343	\$ -	\$ -	\$ 114,343	\$ 114,343
PPP Loan	-	472,400	-	472,400	234,325
Capital Lease (See Note F)	12,513,150	190,249	-	12,703,399	-
Total long term debt	<u>\$12,627,493</u>	<u>\$ 662,649</u>	<u>\$ -</u>	<u>\$13,290,142</u>	<u>\$ 348,668</u>

NOTE F - COMMITMENTS

1. Capital lease

The School leases its facilities under an amended lease agreement with Osceola Charter Holdings, LLC ("OCH") dated March 1, 2019. The original lease was dated December 21, 2013. The lease requires monthly payments of \$92,000, \$103,333, and \$112,500 following each consecutive fiscal year after June 30, 2019 and annual increases of 2.5% for all future payments. The lease ends on September 2039 and may be extended for four additional terms of five years each. The lease agreement required a security deposit of \$50,000 which is included in deposits at June 30, 2020. The School is also responsible for all sales and real estate taxes, insurance, and utilities related to the facilities. Rent expense charged to operations for fiscal 2020 totaled \$1,210,571.

On July 14, 2016, the School's lease agreement with OCH dated June 22, 2015 was amended and restated. This amendment titled Addendum To Amended and Restated Lease #1 ("Lease Addendum"), provides for Phase 2 and Phase 3 improvements to the School's property. Phase 2 consisted of the building of a 4th permanent modular structure to supplement the current three permanent modular buildings. The total estimated development cost for Phase 2 was \$250,000. Phase 3 consisted of the construction of a K-5 building with a minimum of 20,000 square feet for a total estimated cost of \$5.5 million. The annual rent based on an amendment dated March 1, 2019 will be \$1,186,664, and with annual increases 1.96%, with payments commencing in March 2019. The Lease Addendum includes a purchase option whereby the School can purchase the leased property for \$10 million plus the total development costs of Phases 2 and 3 which in total is approximately \$15,780,000. The expiration of the Lease Addendum is in fiscal 2040.

ST. CLOUD PREPARATORY ACADEMY, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2020

NOTE F - COMMITMENTS (continued)

1. *Capital lease (continued)*

The original lease and amendments meets the criteria for recognition as a capital lease under GASB 62. Accordingly, the School recorded a capital lease asset for \$12,671,334 and a corresponding capital lease obligation for \$12,748,226, which represented the 2014 cost of the land, buildings, improvements, and Phase II and Phase III costs and improvements. The implicit interest rate on the lease is 10.3%. The lease payments are subject to priority payment levels discussed in Note F-3. Scheduled maturities of the lease are as follows:

	Minimum Lease Payments	Less: Interest	Principal Payments
2021	\$ 1,239,996	\$ 1,308,150	\$ (68,154)
2022	1,350,000	1,310,160	39,840
2023	1,377,000	1,304,561	72,439
2024	1,404,540	1,295,425	109,115
2025	1,432,632	1,282,311	150,321
2026-2030	7,604,580	6,038,304	1,566,276
2031-2035	8,396,076	4,759,158	3,636,878
2036-2040	9,269,928	2,073,243	7,196,685
	<u>\$ 32,074,752</u>	<u>\$ 19,371,353</u>	<u>\$ 12,703,399</u>

As of June 30, 2020, the School has a payable to OCH for \$929,016 for lease payments including late charges.

2. *Management service agreement*

The School had a support services agreement with Banyan OSC, LLC ("Banyan") dated December 19, 2013 (amended July 1, 2015) to provide certain non-academic services to the School consisting principally of administrative duties and responsibilities. The agreement was terminated in October 2015. No management fees were charged to operations in fiscal 2020. The remaining note outstanding to Banyan of \$114,343 at June 30, 2020 is subject to the priority payment levels discussed in Note F-3.

The School entered into a support services agreement with Building Hope Services ("Building Hope") dated December 1, 2019 to provide certain non-academic services to the School consisting principally of administrative duties and responsibilities. Management fees of \$22,465 were charged to operations in fiscal 2020.

ST. CLOUD PREPARATORY ACADEMY, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2020

NOTE F - COMMITMENTS (continued)

3. Debt payment priorities

An August 13, 2015 corrective action plan was developed between the School and the District and within the agreement there is a priority of creditors. The priority of payout to the different creditors will occur when the School has surplus cash flow. The different levels of priorities are as follows:

1. Level 1: payroll, payroll taxes, employee benefits, utilities, lease payments and other operating expenditures that directly affect the well-being of the students.
2. Level 2: all short term bridge loans that enabled the School to remain open after funding was suspended.
3. Level 3: operating expenditures with key vendors as set forth in a restructuring agreement with Banyan.
4. Level 4: all deferred debt owed to OCH and Banyan.

4. Legal issues

In the normal course of conducting its operations, the School occasionally becomes party to various legal actions and proceedings. In the opinion of management, the ultimate resolution of such legal matters will not have a significant adverse effect on the accompanying financial statements.

NOTE G - SUBSEQUENT EVENTS

In accordance with GASB Codification Section 2250.106, the School has evaluated subsequent events and transactions for potential recognition or disclosure through October 9, 2020 which is the date the financial statements were available be issued.

On January 30, 2020, the World Health Organization ("WHO") announced a global health emergency because of a new strain of coronavirus originating in Wuhan, China (the "COVID-19 outbreak") and the risks to the international community as the virus spreads globally beyond its point of origin. In March 2020, the WHO classified the COVID-19 outbreak as a pandemic, based on the rapid increase in exposure globally.

The full impact of the COVID-19 outbreak continues to evolve as of the date of this report. As such, it is uncertain as to the full magnitude that the pandemic will have on the School's financial condition, liquidity, and future results of operations. Management is actively monitoring the global situation on its financial condition, liquidity, operations, suppliers, industry, and workforce. Given the daily evolution of the COVID-19 outbreak and the global responses to curb its spread, the School is not able to estimate the effects of the COVID-19.

REQUIRED SUPPLEMENTAL INFORMATION

ST. CLOUD PREPARATORY ACADEMY, INC.

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

Year Ended June 30, 2020

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
Revenues				
State passed through local school district	\$ 3,584,000	\$ 3,676,967	\$ 3,676,967	\$ -
Other income	303,000	291,833	291,833	-
Total revenues	3,887,000	3,968,800	3,968,800	-
Expenditures				
Current:				
Basic instruction	2,405,662	2,345,094	2,345,094	-
Instructional support	107,170	63,914	63,914	-
Classroom costs	-	3,432	3,432	-
Board expenses	37,500	38,053	38,053	-
General administration	-	131,441	131,441	-
School administration	276,715	318,162	318,162	-
Fiscal services	-	137,601	137,601	-
Food services	12,000	64,439	64,439	-
Central services	-	294	294	-
Transportation	-	10,325	10,325	-
Operation of plant	1,068,160	1,204,219	1,204,219	-
Maintenance of plant	-	30,425	30,425	-
Administrative technology	-	9,038	9,038	-
Community service	1,000	172,454	172,454	-
Capital outlay	-	20,990	20,990	-
Total expenditures	3,908,207	4,549,881	4,549,881	-
Excess (deficiency) of revenues over (under) expenditures	(21,207)	(581,081)	(581,081)	-
Other financing sources (uses):				
Loan proceeds	-	472,400	472,400	-
Total other financing sources (uses)	-	472,400	472,400	-
Net change in fund balances	(21,207)	(108,681)	(108,681)	-
Fund balances at July 1, 2019	2,549	2,549	2,549	-
Fund balances at June 30, 2020	\$ (18,658)	\$ (106,132)	\$ (106,132)	\$ -

See note to required supplemental information.

ST. CLOUD PREPARATORY ACADEMY, 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"). The budgets presented for fiscal year ended June 30, 2020, have been amended according to Board procedures. 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 special revenue fund for which a legally adopted budget exists.

SUPPLEMENTAL INFORMATION



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Accountants

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Board of Directors
St. Cloud Preparatory Academy, Inc.
St. Cloud, Florida

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the combined financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of St. Cloud Preparatory Academy, Inc. and St. Cloud Preparatory Academy, LP (collectively the "School"), which are component units of the School District of Osceola 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 combined basic financial statements, and have issued our report thereon dated October 9, 2020.

Internal Control Over Financial Reporting

In planning and performing our audit of the combined financial statements, we considered the School's internal control over financial reporting to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the combined financial statements, but not for the purpose of expressing an opinion on the effectiveness of the School's internal control. Accordingly, we do not express an opinion on the effectiveness of the School's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the School's combined 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 combined financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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

Moss, Krusick & Associates, LLC

Winter Park, Florida
October 9, 2020



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American Institute of
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Accountants

MANAGEMENT LETTER

To the Board of Directors
St. Cloud Preparatory Academy, Inc.
St. Cloud, Florida

Report on the Financial Statements

We have audited the combined financial statements of St. Cloud Preparatory Academy, Inc. and St. Cloud Preparatory Academy, LP (collectively the "School"), as of and for the fiscal year ended June 30, 2020, and have issued our report thereon dated October 9, 2020.

Auditors' Responsibility

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to combined 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 Requirements

We have issued our Independent Auditors' Report on Internal Control over Financial Reporting and Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with *Government Auditing Standards*. Disclosures in the report, which is dated October 9, 2020, should be considered in conjunction with this management letter.

Prior Audit Findings

Section 10.854(1)(e)1., Rules of the Auditor General, requires that we determine whether or not corrective actions have been taken to address findings and recommendations made in the preceding annual financial audit report. In that regard, there are no uncorrected findings to report.

Official Title

Section 10.854(1)(e)5., Rules of the Auditor General, requires the name or official title of the entity and the school code assigned by the Florida Department of Education be disclosed in this management letter. The official title and school code assigned by the Florida Department of Education of the entity are *St. Cloud Preparatory Academy, Inc. (0162)*.

Financial Condition and Management

Section 10.854(1)(e)2. and 10.855(11), Rules of the Auditor General, require us to apply appropriate procedures and communicate whether or not the School has met one or more of the conditions described in Section 218.503(1), Florida Statutes, and identification of the specific conditions met. In connection with our audit, we determined that the School did meet condition(s) described in Section 218.503(1), Florida Statutes. Due to deteriorating financial condition, as defined in Section 10.854(1)(b), Rules of the Auditor General, the School is significantly

behind on its lease payments.

Pursuant to Sections 10.854(1)(e)6.a. and 10.855(12), Rules of the Auditor General, we applied financial condition assessment procedures for the School. It is management's responsibility to monitor the School's financial condition, and our financial condition assessment was based in part on representations made by management and review of financial information provided by the same. We noted the School to be in a state of deteriorating financial condition due its lease liability and failure to obtain bond financing to purchase its property. These events have led to current liabilities exceeding current assets and a deficiency in fund balance.

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 recommend the School renegotiate its property lease to obtain more favorable terms for the School.

2020-001 – Deteriorating Financial Condition

Criteria: As defined in Section 218.39(5)(b) indicators of a deteriorating financial condition are a fund balance deficit in total or for that portion of a fund balance not classified as restricted, committed, or non-spendable, or a total or unrestricted net assets deficit and for which sufficient resources are not available to cover the deficit.

Condition: At June 30, 2020 the School had a spendable – unassigned fund balance deficit of (\$155,850). Current liabilities exceed current assets. Current assets should equal or exceed current liabilities.

Cause: The School failed to obtain bond financing for the purchase of its property and forfeited bond deposits of \$110,000.

Potential effect: The School could lack the resources to meets its obligations.

Recommendation: The School should renegotiate its lease with the landlord to obtain more favorable terms.

View of responsible officials: The School's response to the findings is addressed in the corrective action plan.

Transparency

Sections 10.854(1)(e)7. and 10.855(13), Rules of the Auditor General, require that we report the results of our determination as to whether the School maintains on its Web site the information specified in Section 1002.33(9)(p), Florida Statutes. In connection with our audit, we determined that the School maintained on its Web site the information specified in section 1002.33(9)(p), Florida Statutes.

Additional Matters

Section 10.854(1)(e)4., Rules of the Auditor General, requires that we address noncompliance with provisions of contracts or grant agreements, or abuse that have occurred, or are likely to have occurred, that have an effect on the financial statements that is less than material but which warrants the attention of those charged with governance. In connection with our audit, we did not have any such findings.

Purpose of this Letter

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

Moss, Krusick & Associates, LLC

Winter Park, Florida
October 9, 2020



ST. CLOUD
PREPARATORY ACADEMY

3101 Progress Lane, St. Cloud, Florida, 34769
407-593-6601

CORRECTIVE ACTION PLAN

2020-001 – Deteriorating Financial Condition

We reported a negative fund balance at June 30, 2020, which was primarily related to the forfeiture of \$110,000 of deposits for bond financing which was not successful and to high lease payments under our current lease. The resulting increase in expense created the deficit. We will take action to remedy the negative fund balance during the 2020-2021 school year and attempt to renegotiate our lease to obtain more favorable lease terms and securing new financing to replace the lease.

Sincerely,

John D'Amico

John D'Amico CFO

October 9, 2020

Board Chair
Tammy Raz

Vice Chair
Mike Fisher