

CHAMPIONSHIP ACADEMY OF DISTINCTION OF K-8 (3), INC.
BASIC FINANCIAL STATEMENTS AND ADDITIONAL INFORMATION
JUNE 30, 2022

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CHAMPIONSHIP ACADEMY OF DISTINCTION OF K-8 (3), INC.
(A Charter School and Component Unit of the School Board of Broward County)

7100 West Oakland Park Blvd.
Lauderhill, FL 33313.

2021-2022

BOARD OF DIRECTORS

Ms. Ethel Dickens – Chairwoman
Dr. Mary Boose – Vice Chairwoman/Treasurer
Kim Roy – Secretary

SCHOOL ADMINISTRATION

Mr. Richard Newell – Principal



INDEPENDENT AUDITOR'S REPORT

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

Opinions

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, 2022, and the related notes to the financial statements, which collectively comprise the School's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Championship Academy of Distinction K-8 (3), Inc., as of June 30, 2022, 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.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the School, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Substantial Doubt about the School's Ability to Continue as a Going Concern

The accompanying financial statements have been prepared assuming that the School will continue as a going concern. As discussed in Note 14 to the financial statements, the School has significant deficits in net position, incurred losses during the year, and has been unable to pay required debt service payments under their bond arrangements, resulting in a forbearance agreement that expired in September 2022. The School is in the process of extending the forbearance agreement in connection with the bonds, however, this has not yet been finalized and the outcome cannot be predicted. As a result, substantial doubt exists about the School's ability to continue as a going concern. Management's evaluation of the events and conditions and management's plans regarding those matters also are described in Note 14. The financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinion is not modified with respect to this matter.

Correction of Error

As discussed in Note 13 to the financial statements, beginning net position has been decreased by \$2,636,296 to correct certain errors. Our opinion is not modified with respect to that matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the School's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the School's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the School's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

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

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated October 27, 2022 on our consideration of the Academy'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 Academy's internal control over financial reporting and compliance.


CERTIFIED PUBLIC ACCOUNTANTS

Coral Gables, Florida
October 27, 2022

Management's Discussion and Analysis
Championship Academy of Distinction K-8 (3), Inc.
June 30, 2022

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, 2022.

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

1. The School's overall net position decreased by \$1,986,541.
2. Total ending unrestricted net position was a (deficit) of \$6,197,736.
3. As of close of the current fiscal year, the School's governmental funds reported combined ending fund balance of \$936,195.
4. At the end of the current fiscal year, unassigned fund balance for the general fund was \$680,090.

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 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, special revenue fund, debt service fund, and capital outlay fund, all of which 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 earlier, net position may serve over time as a useful indicator of the School's financial position. In the case of the School, liabilities exceeded assets by (\$6,197,736) at June 30, 2022, compared to (\$4,211,195) at June 30, 2021, as restated.

A portion of the School's net position reflects its investment in capital assets (e.g., buildings and fixed equipment and furniture, fixtures and equipment), 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 (\$2,828,260) at June 30, 2022.

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

Assets	<u>2022</u>	<u>2021</u>	<u>Variance</u>
Current assets	\$ 1,245,241	\$ 1,508,410	\$ (263,169)
Capital assets- net	7,471,740	7,686,704	(214,964)
Total Assets	<u>\$ 8,716,981</u>	<u>\$ 9,195,114</u>	<u>\$ (478,133)</u>
Liabilities			
Current liabilities	\$ 4,339,410	\$ 2,831,002	\$ 1,508,408
Non-current liabilities	10,575,307	10,575,307	-
Total Liabilities	<u>\$ 14,914,717</u>	<u>\$ 13,406,309</u>	<u>\$ 1,508,408</u>
Net Position			
Net investment in capital assets	\$ (2,828,260)	\$ (2,613,296)	\$ (214,964)
Restricted	339,592	742,212	(402,620)
Unrestricted	<u>(3,709,068)</u>	<u>(2,340,111)</u>	<u>(1,368,957)</u>
Total Net Position (Deficit)	<u>\$ (6,197,736)</u>	<u>\$ (4,211,195)</u>	<u>\$ (1,986,541)</u>
Total Liabilities and Net Position	<u>\$ 8,716,981</u>	<u>\$ 9,195,114</u>	<u>\$ (478,133)</u>

Current assets decreased due to current year debt service payments and draws from bond related escrow funds. The decrease in capital assets is due to depreciation. The increase in current liabilities is due to an increase in accrued interest related to debt.

Changes in the School's revenues were as follows:

REVENUES	<u>2022</u>	<u>2021</u>	<u>Variance</u>
Program Revenues:			
Operating grants and contributions	\$ 290,549	\$ 229,142	\$ 61,407
Capital outlay	84,698	140,330	(55,632)
General Revenues:			
Federal passed through local	-	8,387	(8,387)
State passed through local school district	1,883,233	2,186,479	(303,246)
Local and other revenues	176,898	15,288	161,610
Non-operating revenues:			
Management fee forgiveness	-	89,397	(89,397)
Total Revenues	<u>\$ 2,435,378</u>	<u>\$ 2,669,023</u>	<u>\$ (233,645)</u>

Operating grants and contributions increased due to increases in the national school lunch program revenues. Capital grants and contributions decreased due to a reduction in capital outlay funding. State passed through local school district decreased due to reductions in FEFP revenues related to student enrollment. Local and other revenues increased due to increased revenues from miscellaneous local sources including the employee retention credit received by the School.

Changes in the School's expenses were as follows:

EXPENSES	<u>2022</u>	<u>2021</u>	<u>Variance</u>
Basic instruction	\$ 1,282,585	\$ 1,191,850	\$ 90,735
Exceptional instruction	61,647	115,878	(54,231)
Student support services	38,739	28,449	10,290
Board	12,307	-	12,307
School administration	673,255	735,987	(62,732)
Fiscal services	37,625	10,413	27,212
Food services	135,158	63,471	71,687
Student transportation	35,931	46,350	(10,419)
Operation of plant	474,656	504,140	(29,484)
Community services	-	76	(76)
Interest	1,670,016	1,670,283	(267)
Total Expenses	<u>4,421,919</u>	<u>4,366,897</u>	<u>55,022</u>
Change in Net Position	(1,986,541)	(1,697,874)	(288,667)
Net Position (Deficit) at Beginning of Year, Restated	(4,211,195)	(2,513,321)	(1,697,874)
Net Position (Deficit) at End of Year	<u><u>\$ (6,197,736)</u></u>	<u><u>\$ (4,211,195)</u></u>	<u><u>\$ (1,986,541)</u></u>

Basic instruction increased mainly due to increases in salaries and benefits relates to teacher salary increases. Exceptional instruction and student support services decreased due to decrease in ESE students. School administration decreased due to professional and technical services. Fiscal services increased due to professional and technical services. Food services increased due to increase in student lunches.

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 \$915,945. The general fund is the chief operating fund of those funds which included a total amount \$644,960 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 \$156,830, while actual expenditures exceeded budgeted expenditures by \$58,534.

	All Governmental Funds		
	Original Budget	Final Budget	Actual
REVENUES			
Federal passed through state and local	\$ 256,988	\$ 256,988	\$ 290,549
State passed through local school district	2,141,332	2,141,332	1,883,233
State capital outlay funding	128,288	128,288	84,698
Other revenues	65,600	65,600	176,898
TOTAL REVENUES	\$ 2,592,208	\$ 2,592,208	\$ 2,435,378
EXPENDITURES			
Basic instruction	\$ 1,229,673	\$ 1,229,673	\$ 1,272,578
Exceptional instruction	118,496	118,496	61,647
Student support services	35,219	35,219	38,739
Instructional staff training	1,500	1,500	-
Board	14,425	14,425	12,307
School administration	598,042	598,042	673,255
Fiscal services	35,712	35,712	37,625
Food services	38,661	38,661	135,158
Operation of plant	132,046	132,046	269,699
Maintenance of plant	2,289	2,289	-
Transportation	28,800	28,800	35,931
Debt service	363,458	363,458	119,916
TOTAL EXPENDITURES	\$ 2,598,321	\$ 2,598,321	\$ 2,656,855
 Net change in fund balance	 \$ (6,113)	 \$ (6,113)	 \$ (221,477)

The budgetary information by individual fund 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, net of related debt for its governmental activities as of June 30, 2022, amounts to (\$2,828,260) (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 300 students for the 2022/2023 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., Lauderhill, FL 33313.

CHAMPIONSHIP ACADEMY OF DISTINCTION K-8 (3), INC.
STATEMENT OF NET POSITION
JUNE 30, 2022

ASSETS	<u>Governmental Activities</u>
CURRENT ASSETS	
Cash	196,116
Restricted cash	339,592
Accounts receivable	17,253
Due from other agencies	194,723
Due from related parties	497,557
TOTAL CURRENT ASSETS	<u>\$ 1,245,241</u>
 CAPITAL ASSETS, NET	 7,471,740
TOTAL ASSETS	<u><u>\$ 8,716,981</u></u>
 LIABILITIES AND NET POSITION	
LIABILITIES	
Accounts payable and accrued expenses	101,167
Accrued payroll liabilities	177,879
Accrued interest	4,030,364
Due to management company	30,000
Long-term liabilities:	
Bond payable, due after one year	8,800,000
Note payable - EB-5 Program	1,500,000
Note payable - PPP	275,307
TOTAL LIABILITIES	<u>14,914,717</u>
 NET POSITION (DEFICIT)	
Net investment in capital assets, net of related debt	(2,828,260)
Restricted for:	
Debt service	339,592
Unrestricted	(3,709,068)
TOTAL NET POSITION (DEFICIT)	<u><u>(6,197,736)</u></u>
TOTAL LIABILITIES AND NET POSITION	<u><u>\$ 8,716,981</u></u>

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, 2022

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Governmental Activities:					
Basic instruction	1,282,585	\$ -	153,121	\$ -	\$ (1,129,464)
Exceptional instruction	61,647	-	-	-	(61,647)
Student support services	38,739	-	-	-	(38,739)
Board	12,307	-	-	-	(12,307)
School administration	673,255	-	-	-	(673,255)
Fiscal services	37,625	-	-	-	(37,625)
Food services	135,158	-	137,428	-	2,270
Operation of plant	474,656	-	-	84,698	(389,958)
Transportation	35,931	-	-	-	(35,931)
Debt service	1,670,016	-	-	-	(1,670,016)
Total Governmental Activities	\$ 4,421,919	\$ -	\$ 290,549	\$ 84,698	\$ (4,046,672)
GENERAL REVENUES:					
					1,883,233
					176,898
					<u>2,060,131</u>
					<u>(1,986,541)</u>
					(1,574,899)
					<u>(2,636,296)</u>
					<u>(4,211,195)</u>
					<u>\$ (6,197,736)</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, 2022

	General Fund	Capital Outlay Fund	Debt Service Fund	Special Revenue Fund	Total Governmental Funds
ASSETS					
Cash	\$ 196,116	\$ -	\$ -	\$ -	\$ 196,116
Restricted cash	-	-	339,592	-	339,592
Accounts receivables	2,373	-	-	14,880	17,253
Due from other agencies	194,723	-	-	-	194,723
Due from other funds	83,487	-	-	-	83,487
Due from related parties	497,557	-	-	-	497,557
TOTAL ASSETS	\$ 974,256	\$ -	\$ 339,592	\$ 14,880	\$ 1,328,728
LIABILITIES AND FUND BALANCES					
LIABILITIES					
Accounts payable	\$ 101,167	\$ -	\$ -	\$ -	\$ 101,167
Accrued payroll liabilities	177,879	-	-	-	177,879
Due to management company	30,000	-	-	-	30,000
Due to other funds	-	-	83,487	-	83,487
TOTAL LIABILITIES	309,046	-	83,487	-	392,533
FUND BALANCE					
Restricted					
Debt service	-	-	256,105	-	256,105
Unassigned	665,210	-	-	14,880	680,090
TOTAL FUND BALANCE	665,210	-	256,105	14,880	936,195
TOTAL LIABILITIES AND FUND BALANCE	\$ 974,256	\$ -	\$ 339,592	\$ 14,880	\$ 1,328,728

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

**CHAMPIONSHIP ACADEMY OF DISTINCTION K-8 (3), INC.
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS TO THE
STATEMENT OF NET POSITION
JUNE 30, 2022**

Total Fund Balance - Governmental Funds	\$	936,195
<p>Capital assets, net of accumulated depreciation, used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds. Those assets consist of:</p>		
Capital assets		8,260,721
Accumulated depreciation		(788,981)
<p>Long term liabilities are not due in the current period and accordingly, are not reported as fund liabilities.</p>		
Bonds payable		(8,800,000)
Notes payable		(1,775,307)
Accrued interest		(4,030,364)
		<hr/>
Total Net Position (Deficit) - Governmental Activities	\$	<u>(6,197,736)</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 BALANCE -
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2022

	General Fund	Capital Outlay Fund	Debt Service Fund	Other Governmental Funds	Total Governmental Funds
REVENUES					
Federal passed through state and local	\$ -	\$ -	\$ -	\$ 290,549	\$ 290,549
State passed through local school district	1,883,233	-	-	-	1,883,233
State capital outlay funding	-	84,698	-	-	84,698
Other revenues	176,898	-	-	-	176,898
TOTAL REVENUES	\$ 2,060,131	\$ 84,698	\$ -	\$ 290,549	\$ 2,435,378
EXPENDITURES					
Current:					
Basic instruction	\$ 1,119,457	\$ -	\$ -	\$ 153,121	\$ 1,272,578
Exceptional instruction	61,647	-	-	-	61,647
Student support services	38,739	-	-	-	38,739
Board	12,307	-	-	-	12,307
School administration	673,255	-	-	-	673,255
Fiscal services	37,625	-	-	-	37,625
Food services	-	-	-	135,158	135,158
Operation of plant	269,699	-	-	-	269,699
Transportation	35,931	-	-	-	35,931
Debt service	-	-	119,916	-	119,916
TOTAL EXPENDITURES	2,248,660	-	119,916	288,279	2,656,855
Excess (deficiency) of revenues over (under) expenditures	(188,529)	84,698	(119,916)	2,270	(221,477)
OTHER FINANCING SOURCES (USES)					
Transfers in (out)	323,682	(84,698)	(198,006)	(40,978)	-
Total other financing sources and (uses)	323,682	(84,698)	(198,006)	(40,978)	-
NET CHANGE IN FUND BALANCE	135,153	-	(317,922)	(38,708)	(221,477)
BEGINNING FUND BALANCE, RESTATED	530,057	-	574,027	53,588	1,157,672
FUND BALANCE, END OF YEAR	\$ 665,210	\$ -	\$ 256,105	\$ 14,880	\$ 936,195

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

**CHAMPIONSHIP ACADEMY OF DISTINCTION K-8 (3), INC.
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
JUNE 30, 2022**

Change in Fund Balance - Governmental Funds \$ (221,477)

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 cost of those assets is allocated over their estimated useful lives as depreciation expense. This and the net effect of various other transactions involving capital assets increased net position.

Depreciation expense (214,964)

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

Increase in accrued interest (1,550,100)

Change in Net Position of Governmental Activities \$ (1,986,541)

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

**CHAMPIONSHIP ACADEMY OF DISTINCTION K-8 (3), INC.
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2022**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The Championship Academy of Distinction K-8 (3), Inc. (the “School”) is a component unit of the 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 no 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 on 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. The School is currently in the process of renewal and the School is currently open for the 2022-2023 school year and they believe that the charter will be renewed. 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 the identification of any entities for which the School is financially accountable and other organizations for which the nature and significance of their relationship with the School are such that exclusion would cause the School's basic financial statements to be misleading or incomplete. Based on these criteria, no component units are included within the reporting entity of the School.

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

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

CHAMPIONSHIP ACADEMY OF DISTINCTION K-8 (3), INC.
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2022

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Government-wide and Fund Financial Statements

Government-wide 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.

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. 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.

**CHAMPIONSHIP ACADEMY OF DISTINCTION K-8 (3), INC.
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2022**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Measurement focus, basis of accounting, and financial statement presentation (Continued)

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 found in the table of contents.

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

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

Special Revenue Fund – used to account for the proceeds of specific revenue sources (such as federal or state grant awards) that are restricted or committed to expenditure for specific purposes other than debt service and capital projects.

Capital Outlay Fund – to account for the financial resources that are restricted, committed or assigned to expenditures for capital outlay.

**CHAMPIONSHIP ACADEMY OF DISTINCTION K-8 (3), INC.
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2022**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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 (deficit) 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.

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.

Interfund activity

Activity between the funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as due to/from other funds. At the end of the year, amounts due (to) from funds were as follows:

	General Fund	Debt Service Fund	Total
Due to general fund from debt service fund for debt service costs	\$ 83,487	\$ (83,487)	\$ -
Due from (to) funds, net	\$ 83,487	\$ (83,487)	\$ -

Transfers between funds during the year ended June 30, 2022 were as follows:

	General Fund	Debt Service Fund	Capital Projects Fund	Total
Transfer to general fund from debt service fund for amounts released from bond project funds	\$ 309,704	\$ (309,704)	\$ -	\$ -
Transfer to debt service fund from capital outlay fund for debt service costs	-	84,698	(84,698)	-
Transfer to debt service fund from general fund for debt service costs	(27,000)	27,000	-	-
Due from (to) funds, net	\$ 282,704	\$ (198,006)	\$ (84,698)	\$ -

Capital assets

Expenditures for capital assets acquired or constructed for general School purposes are reported in the governmental fund that financed the acquisition or construction. The capital assets so acquired are reported at cost in the government-wide statement of net position but are not reported in the governmental fund financial statements. Capital assets are defined by the School as those costing more than \$2,500. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated assets are recorded at fair value at the date of donation.

**CHAMPIONSHIP ACADEMY OF DISTINCTION K-8 (3), INC.
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2022**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Capital assets (continued)

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

Buildings	40 Years
Furniture, fixture and equipment	7 Years
Leasehold improvements	3 Years

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.

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(1)(e)2., Florida Statutes. For the fiscal year ended June 30, 2022, the School reported 256.05 unweighted FTE and 269.7127 weighted FTE.

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).

**CHAMPIONSHIP ACADEMY OF DISTINCTION K-8 (3), INC.
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2022**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 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.

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.

Budget

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

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.

Adopted accounting pronouncements

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 the lease asset. Lessors will recognize a lease receivable and a deferred inflow of resources. The new guidance is effective for fiscal year 2022. The guidance did not have an effect on the School's financial statements.

CHAMPIONSHIP ACADEMY OF DISTINCTION K-8 (3), INC.
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2022

NOTE 2 – CASH

Cash is made up of deposits and cash on hand totaling \$196,116 at June 30, 2022. 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 3 - CAPITAL ASSETS

Changes in capital assets activity were as follows:

	Balance July 1, 2021	Additions	Deletions	Balance June 30, 2022
Capital assets being depreciated:				
Building and equipment	\$ 8,184,779	\$ -	\$ -	\$ 8,184,779
Furniture, fixtures and equipment	51,462	-	-	51,462
Leasehold improvements	24,480			24,480
Total capital assets depreciated	<u>\$ 8,260,721</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 8,260,721</u>
Less accumulated depreciation:				
Building and equipment	\$ (511,447)	\$ (204,957)	\$ -	\$ (716,404)
Furniture, fixtures and equipment	(38,090)	(10,007)	-	(48,097)
Leasehold improvements	(24,480)	-		(24,480)
Total accumulated depreciation	<u>(574,017)</u>	<u>(214,964)</u>	<u>-</u>	<u>(788,981)</u>
Total capital assets, net	<u>\$ 7,686,704</u>	<u>\$ (214,964)</u>	<u>\$ -</u>	<u>\$ 7,471,740</u>

Depreciation expense for the year ended June 30, 2022 was charged to functions of the School as follows:

Basic instruction	\$ 10,007
Operation of plant	<u>204,957</u>
	<u>\$ 214,964</u>

NOTE 4 – RELATED PARTIES

Related charter schools

The School enters into transactions with Championship Academy of Distinction at Davie, Inc. (“CADD”), which is a charter school under common control by the School’s management consultant. Activities between the related entities are related to management fees, payroll and employee benefits, National School Lunch Program reimbursement, student transportation services, and other transactions allocated by management on the basis of enrollment and usage. As of June 30, 2022, the CADD owed the School \$497,557 related to these transactions, which are included as due from related parties.

**CHAMPIONSHIP ACADEMY OF DISTINCTION K-8 (3), INC.
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2022**

NOTE 4 – RELATED PARTIES (Continued)

Management Consultant

Effective July 1, 2020, the School entered into a consulting agreement with the management consultant for management of the day-to-day educational and operational aspects of the School required by the forbearance agreement with the School (See Note 5). The School agreed to pay the management consultant up to 14% of the School Board payments to the School per month for services during its fiscal year June 30, 2022 in accordance with the consultant agreement. During the year ended June 30, 2022, management consultant expenses incurred totaled \$183,202, of which \$35,615 was outstanding at June 30, 2022 and is included in accounts payable and accrued expenses.

During the year ended June 30, 2022, the School received \$70,000 from the management company as a short-term non-interest bearing advance. The School repaid \$40,000 during the year and the balance owed at June 30, 2022 totaled \$30,000.

NOTE 5 – DUE FROM OTHER AGENCIES

On July 2021, the School entered into a settlement agreement with Championship Academy of Distinction at Davie, Inc. (“CAD”) for amounts owed totaling \$250,000. The amounts owed are related to transactions that occurred between the School and CAD in prior years while they were under common management. The School terminated its agreement with said management on September 19, 2020. Under the terms of the agreement, a payment of \$40,000 was paid in July 2021, followed by monthly payments of \$10,000 through May 2023. The portion of the total settlement that is owed to the School at June 30, 2022 was \$194,723 and is included in due from other agencies.

NOTE 6 – LONG-TERM DEBT

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, 2022:

	<u>July 1, 2021</u>	<u>Additions</u>	<u>Reductions</u>	<u>June 30, 2022</u>
Revenue bonds:				
Series 2018A	\$ 8,250,000	\$ -	\$ -	\$ 8,250,000
Series 2018B	550,000	-	-	550,000
Subtotal	<u>8,800,000</u>	<u>-</u>	<u>-</u>	<u>8,800,000</u>
Note payable:				
EB-5	1,500,000	-	-	1,500,000
Subtotal	<u>1,500,000</u>	<u>-</u>	<u>-</u>	<u>1,500,000</u>
	<u>\$ 10,300,000</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$10,300,000</u>

Revenue bonds

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

CHAMPIONSHIP ACADEMY OF DISTINCTION K-8 (3), INC.
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2022

NOTE 6 – LONG-TERM DEBT (Continued)

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 1, 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 2021-2022 school year was 256 students. The number of students enrolled for the 2022-2023 school year is expected to be 300.

Revenue bonds

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 through September 2, 2022, unless extended. As of the date of these financial statements, the School is in the process of finalizing an extension to the forbearance agreement and has been informed by the Trustee that the extension will be through May 2023, however, a written extension agreement or other details have not been provided. During the forbearance term, interest continues to accrue at the default rate of 17.5%. Accrued interest at June 30, 2022 related to the bonds payable totaled \$3,800,989. See Notes 13-15.

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.
- 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.
- The School is required to disclose the calculation of debt service coverage ratio and days cash on hand as of June 30, 2022 under the revenue bond agreements. However, the bond company has waived these requirements under the forbearance agreement.

EB-5 Program

As part of the EB-5 program, the Partnership entered into an agreement with three limited partners on May 8, 2014. Each advanced \$500,000 to the Partnership, for a total of \$1,500,000. In return for these advances, under the EB-5 Program, the limited partners are entitled to temporary United States of America Work Visas. The Partnership expects to repay these advances, and therefore, the School has elected to treat these advances to the Partnership as notes payable in the Statement of Net Position (deficit). Under the partnership agreement, there is no specific due date of these obligations and there is no provision whereby the advance is payable upon request of the partner. Therefore, these notes have been treated as long-term obligations. The notes payable carries an interest rate of 7% plus a service fee rate of .34%. On December 28, 2021, the School received a notice of default on the notes. The EB-5 notes are subordinate to the bonds payable as per a Subordination Agreement dated in December 2018. The Forbearance Agreement with the School noted in the paragraph above, which governs the School's actions with respect to the loans, does not authorize the School to make payments on the EB-5 Loan. For the year ended June 30, 2022, the School recorded current year accrued interest of \$110,100 for a total amount of accrued interest of \$229,375 at June 30, 2022 related to the EB-5 note. See Note 11.

CHAMPIONSHIP ACADEMY OF DISTINCTION K-8 (3), INC.
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2022

NOTE 6 – LONG-TERM DEBT (Continued)

The annual requirements to amortize long-term debt outstanding as of June 30, 2022 are estimated as follows:

Years ending June 30,	Principal	Interest	Total
2023	\$ -	\$ 4,867,839	\$ 4,867,839
2024	1,500,000	782,425	2,282,425
2025	-	727,375	727,375
2026	8,800,000	272,766	9,072,766
	<u>\$10,300,000</u>	<u>\$ 6,650,405</u>	<u>\$16,950,405</u>

NOTE 7 - 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.

NOTE 8 – CONCENTRATIONS

As stated in Note 1, 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		\$ 1,199,951
Class size reduction		262,568
Discretionary local effort		157,949
Supplemental academic instruction		55,642
ESE guaranteed allocation		32,720
Transportation		37,422
Safe schools		15,167
Reading allocation		10,460
Mental health allocation		9,955
Funding compression allocation		3,046
Digital classroom allocation		160
Additional allocation		12,535
Instructional materials		17,847
Total FEFP Revenue		<u>1,815,422</u>
Title I		153,121
Capital outlay		84,698
Teacher salary increase allocation and other		48,776
Total from the School Board of Broward County		<u>2,102,017</u>
Other revenue:		
National school lunch program		137,428
Miscellaneous state sources		19,035
Other revenues		176,898
		<u>\$ 2,435,378</u>

CHAMPIONSHIP ACADEMY OF DISTINCTION K-8 (3), INC.
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2022

NOTE 9 - COMMITMENTS AND CONTINGENCIES

Management consultant

The School entered into a consulting agreement on July 1, 2020. The management consultant is part of the forbearance agreement with the School bonds (see Note D-2). The management consultant provides the opportunity to improve the current and long-term financial and academic viability of the high school. Under the terms of the agreement, the School agreed to pay the management consultant up to 14% of the School Board payments to the School per month for services during its fiscal year June 30, 2022. The School was also advanced funds from the management consultant during the year. See Note 4.

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, 2022, may be impaired.

In April 2021, the School received a Civil Investigative Demand (“CID”) pursuant to 31 USC 3729-3733 (the False Claims Act) in regards to allegations that the School submitted false certifications in its application for and receipt of loans under the Paycheck Protection Program (“PPP”) prior to December 31, 2020. The School is not aware of litigation or threatened litigation in connection with this CID at this time and has been completely cooperative regarding the Department of Justice’s (“DOJ”) investigation into these allegations. In the opinion of the School, there are no significant liabilities relating to compliance with the rules and regulations governing their respective grants or the PPP; therefore, no provision has been recorded in the accompanying financial statements for such contingencies. The PPP loan forgiveness application was submitted and current management of the School believes that all forms filed for the forgiveness of the loan have been properly filed and completed and they expect full forgiveness of the PPP loan.

NOTE 10 - 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 11 - 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.

On December 2, 2021, the School filed an action for civil theft and conversion against the School’s former management company and its owner as a result of funds that were improperly retained by the Management Company and owner. As of the date of these financial statements, parties to the case are in the process of executing a settlement agreement that would resolve all issues between the parties. As settlement amounts cannot be reasonably estimated at this time, the financial statements have not been adjusted for this matter.

CHAMPIONSHIP ACADEMY OF DISTINCTION K-8 (3), INC.
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2022

NOTE 11 - LEGAL MATTERS (Continued)

On December 28, 2021, the School received a Notice of Default from Education Fund – Magnolia Charter, LLC (“Education Fund”) with regard to withdrawal of the audit, as well as loan payments pursuant to the EB-5 loan. In addition, in December 2018, Magnolia entered into a Subordination Agreement with Capital Trust Agency, UMB Bank (as trustee and “Senior Creditor”), Tortoise Credit Strategies, LLC and Championship Academy of Distinction K-8 (3), Inc. which subordinated the Magnolia Loan. Pursuant to the Subordination Agreement, the rights to enforce the EB-5 Loan are limited to the Subordination Agreement and the interests of the Senior Creditor. The Senior Creditor has entered into a Forbearance Agreement with the School (see Note 6), which governs the School’s actions with respect to the Senior Loan and does not authorize the School to make payments on the EB-5 Loan.

NOTE 12 – PAYCHECK PROTECTION PROGRAM LOAN

On April 20, 2020, the School received loan proceeds in the amount of approximately \$275,307 under the Paycheck Protection Program (“PPP”). The PPP, established as part of the Coronavirus Aid, Relief and Economic Security Act (“CARES Act”), provides for loans to qualifying businesses for amounts up to 2.5 times of the average monthly payroll expenses of the qualifying business. The loans and accrued interest are guaranteed forgivable by the Small Business Administration (SBA) after eight or twenty-four weeks of utilization as long as the School uses the loan proceeds for eligible purposes, including payroll, benefits, rent and utilities, and maintains its payroll levels. The amount of loan forgiveness will be reduced if the borrower terminates employees or reduces salaries during the chosen utilization period. Any unforgiven portion of the PPP loan is payable over two years at an interest rate of 1%, with a deferral of payments for the first six months. At June 30, 2021, the School initially recognized loan forgiveness from the SBA due to meeting eligibility requirements of the Paycheck Protection Program Loan. However, due to the CID that was received (see Note 8) and that the School has not received formal notification of forgiveness as of the date of these financial statements, an adjustment was made to the prior period (see Note 13) to include the PPP loan payable as of June 30, 2022. Once formal notification of forgiveness is received, the forgiveness will be reflected on the financial statements of the School. The PPP loan forgiveness application was submitted and current management of the School believes that all forms filed for the forgiveness of the loan have been properly filed and completed and they expect full forgiveness of the PPP loan.

NOTE 13 – RETATEMENT

The School’s 2021 net position is being adjusted to reflect accrued interest and the PPP loan payable as follows:

School's net position (deficit) as previously reported, June 30, 2021	\$ (1,574,899)
Adjustment to accrue for interest owed on bonds payable related to prior years	(2,360,989)
Adjustment to include Paycheck Protection Program as a loan as forgiveness was not received in prior year	<u>(275,307)</u>
School's net position (deficit) at June 30, 2021, as restated	<u>\$ (4,211,195)</u>

CHAMPIONSHIP ACADEMY OF DISTINCTION K-8 (3), INC.
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2022

NOTE 14 – GOING CONCERN

Management has evaluated whether there is substantial doubt about the School's ability to continue as a going concern for a reasonable period of time, such as a year after this report date. The School has a deficit in net position of \$6,217,986 as of June 30, 2022. The School also incurred a loss in its change in net position of \$2,006,791 and a loss in its change in fund balance of \$241,727 during the year ended June 30, 2022. The School has been unable to pay its debt service requirements in the past and is under a forbearance agreement for the revenue bonds, which expired in September 2022. In addition, the School received a notice of default related to the EB-5 loan during the year as interest has not been paid. Due to the continued inability to pay its debt service requirements, the School requested to extend its forbearance agreement and is in discussions with the financial institution to extend the agreement through May 2023. These conditions raise substantial doubt about the School's ability to continue as a going concern within the next twelve months from the date these financial statements were available to be issued. The ability to continue as a going concern will be dependent upon profitable future operations, positive cash flows, and additional financing.

Management believes there are mitigating factors as to the going concern. These factors include:

- The School expects to receive approximately \$1,067 per student of one-time referendum funding from the District.
- Currently, enrollment has increased by approximately 40-45 students.
- The School has been allocated a total of approximately \$553,633 in Elementary and Secondary School Emergency Relief Funds (ESSER III). This School is in the process of completing reimbursement packages to claim reimbursement for eligible costs incurred, some of which have been incurred as of June 30, 2022. These funds have not been recorded as revenue for the year ended June 30, 2022 as the School is accumulating the eligible costs and has not yet finalized the reimbursement requests.
- Management has expectations that the bond and note holders will assist in sustaining the School in a financial capacity as they have an obvious economic stake in the survival of the School.
- The School has received assurances from the management consultant that consulting fees charged may be forgiven in the future considering the School's ability to pay.

While management believes the above factors mitigate the going concern, it is not possible to determine at this time whether these factors will be implemented effectively or be sufficient to sustain the operations for the upcoming 12 month period. In addition, the assurances or expectations addressed above have not been supported through written agreements or sufficient evidence as of the date of these financial statements. As a result, the substantial doubt about the School's ability to continue as a going concern has not been alleviated and the accompanying financial statements have been prepared assuming that the School will continue as a going concern.

NOTE 15 – SUBSEQUENT EVENTS

The School has evaluated subsequent events through October 27, 2022, 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 September 2, 2022, the School's forbearance agreement related to the bonds expired. The School is in process of finalizing an extension to the forbearance agreement, which is anticipated to be through June 2023. See Note 6 and 13.

REQUIRED SUPPLEMENTAL INFORMATION

**CHAMPIONSHIP ACADEMY OF DISTINCTION K-8 (3), INC.
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET
AND ACTUAL – GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2022**

	Budgeted Amounts			Variance with Final Budget
	Original Budget	Final Budget	Actual	
REVENUES				
State passed through local school district	\$ 2,141,332	\$ 2,141,332	\$ 1,883,233	\$ (258,099)
Local and other revenues	65,600	65,600	176,898	111,298
TOTAL REVENUES	\$ 2,206,932	\$ 2,206,932	\$ 2,060,131	\$ (146,801)
EXPENDITURES				
Basic instruction	\$ 1,009,424	\$ 1,009,424	\$ 1,119,457	\$ 110,033
Exceptional instruction	118,496	118,496	61,647	(56,849)
Student support services	33,488	33,488	38,739	5,251
Instructional staff training	1,500	1,500	-	(1,500)
Board of directors	14,425	14,425	12,307	(2,118)
School administration	598,042	598,042	673,255	75,213
Fiscal services	35,712	35,712	37,625	1,913
Operation of plant	83,562	83,562	269,699	186,137
Maintenance of plant	2,289	2,289	-	(2,289)
Transportation	28,800	28,800	35,931	7,131
TOTAL EXPENDITURES	1,925,738	1,925,738	2,248,660	322,922
Excess (deficiency) of revenues over (under) expenditures	281,194	281,194	(188,529)	(469,723)
OTHER FINANCING SOURCES (USES)				
Transfers in/out	(363,147)	(363,147)	(27,000)	336,147
TOTAL OTHER FINANCING SOURCES (USES)	(363,147)	(363,147)	(27,000)	336,147
Net change in fund balance	<u>\$ (81,953)</u>	<u>\$ (81,953)</u>	<u>\$ (215,529)</u>	<u>\$ (133,576)</u>
Restated fund balance, July 1, 2021	-	-	-	-
Fund balance, at June 30, 2022	<u>\$ (81,953)</u>	<u>\$ (81,953)</u>	<u>\$ (215,529)</u>	<u>\$ (133,576)</u>

The accompanying note is an integral part of this financial statement.

**CHAMPIONSHIP ACADEMY OF DISTINCTION K-8 (3), INC.
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET
AND ACTUAL – SPECIAL REVENUE FUND
FOR THE YEAR ENDED JUNE 30, 2022**

	Budgeted Amounts			Variance with Final Budget
	Original Budget	Final Budget	Actual	
REVENUES				
Federal passed through state and local	\$ 256,988	\$ 256,988	\$ 290,549	\$ 33,561
TOTAL REVENUES	<u>\$ 256,988</u>	<u>\$ 256,988</u>	<u>\$ 290,549</u>	<u>\$ 33,561</u>
EXPENDITURES				
Basic instruction	\$ 188,991	\$ 188,991	\$ 153,121	\$ (35,870)
Student support services	1,731	1,731	-	(1,731)
Food services	38,661	38,661	135,158	96,497
Operation of plant	27,294	27,294	-	(27,294)
TOTAL EXPENDITURES	<u>256,677</u>	<u>256,677</u>	<u>288,279</u>	<u>31,602</u>
Excess of revenues over expenditures	311	311	2,270	1,959
Transfers in/out	(311)	(311)	-	311
Net change in fund balance	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,270</u>	<u>\$ 2,270</u>

The accompanying note is an integral part of this financial statement.

**CHAMPIONSHIP ACADEMY OF DISTINCTION K-8 (3), INC.
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET
AND ACTUAL – DEBT SERVICE FUND
FOR THE YEAR ENDED JUNE 30, 2022**

	Budgeted Amounts		Actual	Variance with Final Budget
	Original Budget	Final Budget		
RESOURCES	\$ -	\$ -	\$ -	\$ -
EXPENDITURES				
Debt service	363,458	363,458	119,916	(243,542)
TOTAL EXPENDITURES	363,458	363,458	119,916	(243,542)
Excess of expenditures over revenues	(363,458)	(363,458)	(119,916)	243,542
OTHER FINANCING SOURCES (USES)				
Transfers in/out	363,458	363,458	(198,006)	(561,464)
TOTAL OTHER FINANCING SOURCES (USES)	363,458	363,458	(198,006)	(561,464)
Net change in fund balance	\$ -	\$ -	\$ (317,922)	\$ (317,922)

The accompanying note is an integral part of this financial statement.

**CHAMPIONSHIP ACADEMY OF DISTINCTION AT DAVIE HIGH SCHOOL, INC.
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2022**

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.



Verdeja • De Armas • Trujillo • Alvarez

Certified Public Accountants & Advisors



Manny Alvarez, C.P.A.
Monique Bustamante, C.P.A.
Pedro M. De Armas, C.P.A.
Alejandro M. Trujillo, C.P.A.
Javier Verdeja, C.P.A.
Octavio A. Verdeja, C.P.A.
Tab Verdeja, C.P.A.

Octavio F. Verdeja, Founder - 1971

Armando Aburto, C.P.A.
Jorge Albeirus, C.P.A.
Lisset J. Cascudo, C.P.A.
Claudia Estrada, C.P.A.
Cristy C. Rubio, C.P.A.
Pedro L. Silva, C.P.A.
Michael Vildosola, C.P.A.

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*

Board of Directors of
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 remaining fund information of Championship Academy of Distinction K-8 (3), Inc. (the "School") as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the School's basic financial statements, and have issued our report thereon dated October 27, 2022.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control 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 material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the School's financial statements are free from material misstatement, we performed tests of 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*.

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.

Coral Gables, Florida
October 27, 2022


CERTIFIED PUBLIC ACCOUNTANTS



MANAGEMENT LETTER

Board of Directors of
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 non-major component unit of the District School Board of Broward County, Florida, as of and for the fiscal year ended June 30, 2022, and have issued our report thereon dated October 27, 2022.

Auditor's Responsibility

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; and Chapter 10.850, Rules of the Auditor General.

Other Reporting Requirements

We have issued our Independent Auditor's Report on Internal Control over Financial Reporting and Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with Government Auditing Standards. Disclosures in that report, which is dated October 27, 2022, 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. Corrections have been made in the preceding financial report, except as noted in the tabulation below and as described below in Financial Condition and Management.

Official Title

Section 10.854(1)(e)5., Rules of the Auditor General, requires that the name or official title of the entity and the school code assigned by the Florida Department of Education be disclosed in this management letter. The official title and the school code assigned by the Florida Department of Education of the entity is Championship Academy of Distinction K8 (3), Inc.; #365234.

Financial Condition and Management

Sections 10.854(1)(e)2. and 10.855(11), Rules of the Auditor General, require us to apply appropriate procedures and communicate whether or not the School has met one or more of the conditions described in Section 218.503(1), Florida Statutes, and to identify the specific condition(s) met. In connection with our audit, we determined that the School has met one of the conditions described in Section 218.503(1), Florida Statutes.

2022-01: Debt service payments

Criteria

Pursuant to Sections 218.503(1), Florida Statutes, the auditor must notify each member of the governing body for which one of the conditions described in this section exists. The conditions described in Section 218.503 (1)(a), Florida Statutes is “Failure to make bond debt service or other long-term debt payments when due as a result of a lack of funds”

Condition

As a result of the failure to make required debt service payments under the School’s revenue bond obligations, the School entered into a forbearance agreement with the Bond Holder, which terminated on September 2, 2022 and has yet to be formally extended. Currently, the School is not making debt service payments although the forbearance period has expired under the written agreement. The School is also in default on the EB-5 loan, which is subordinate to the bonds.

Cause

Due to lack of funds and improper budget preparation and maintenance by prior management, the School did not make the required debt service payments under the bond/loan agreements when due.

Effect

The School entered into a forbearance agreement with the Bond Holder through September 2, 2022. Under the agreement, the School was not required to make debt service payments during the fiscal year ended June 30, 2022. However, the agreement stipulates that the outstanding amount of the bonds shall not be subject to reduction. Interest also continues to accrue and there is a significant amount of interest accrued at June 30, 2022, contributing to the School’s large deficit in net position. As of the date of this management letter, the forbearance agreement has expired and is in the process of being extended. However, the School is not currently making debt service payments. Per discussion with the Bond Holder, the extension is anticipated to be granted through May 2023. However, at this time, it does not appear as though the School would be capable of commencing payments at that date. In addition, the School is in default of the EB-5 loan and has accrued interest due accordingly.

Recommendation

The School should finalize the extension of the forbearance agreement. In addition, the School should evaluate whether they will be able to resume debt service payments in May 2023 and if not, begin discussions with the Bond Holder as to next steps.

Management's Response

- The poor financials are largely due to debt service interest accruals. The school will seek to restructure the debt next year and eliminate all accrued interest and establish debt service monthly payments that are more affordable to the school and scaled to enrollment levels
- While enrollment increased this year over the prior year the after effects of COVID are still a negative factor in enrollment levels. We reasonably expect the COVID effect to be largely behind us in 2022-23 and enrollment to grow well over 300 students as it was prior to COVID.
- The combined additional income from ESSER II and III, Title 1 and the referendum will provide the school almost \$1 million in additional funds (revenue) not available in prior years. This will have a profound positive effect on the bottom line.

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. The financial condition of the School is discussed in Note 12 to the financial statements. The financial condition assessment procedures applied in connection with our audit, has lead us to believe that the School's overall financial condition as of June 30, 2022 is deteriorating.

2022-02: Financial Condition

Criteria

Pursuant to Sections 10.854(1)(e)6.a. and 10.855(12), we applied financial condition assessment procedures for the School, noting the School's overall financial condition is deteriorating.

Condition

Decreasing trends or declining results in several indicators were noted, such as current assets over current liabilities, change in net position over beginning net position, unassigned fund balance over total expenditures. Also, increases in current and long-term liabilities without consistent increases in current assets or resources were noted.

Cause

The School's required and accrued debt service payments are significant and resources have not been available to the School to support the required payments. While all debt service payments have not been made for the past two fiscal years, these payments have been accrued as they are under forbearance and as of now, will ultimately need to be repaid. Not considering debt service, the School still has experienced negative changes in net position over the past three years due to increase in enrollment not being sufficient to support increases in costs of instruction and operations as a result of the COVID-19 pandemic and improper budgeting from prior management.

Effect

The School has a deficit in net position of \$6,217,986 as of June 30, 2022 and has been unable to make required debt service payments, resulting in significant increases in current liabilities.

Recommendation

The School should finalize the extension of the forbearance agreement. In addition, the School should evaluate whether they will be able to resume debt service payments in May 2023 and if not,

begin discussions with the Bond Holder as to next steps. The School's fiscal year 2022-2023 budget should be adjusted during the 2022-2023 year to include receipts or anticipated receipts of referendum and ESSER funding as disclosed in Note 12 and to include the results of subsequent discussions related to debt arrangements.

Management's Response

- The poor financials are largely due to debt service interest accruals. The school will seek to restructure the debt next year and eliminate all accrued interest and establish debt service monthly payments that are more affordable to the school and scaled to enrollment levels
- While enrollment increased this year over the prior year the after effects of COVID are still a negative factor in enrollment levels. We reasonably expect the COVID effect to be largely behind us in 2022-23 and enrollment to grow well over 300 students as it was prior to COVID.
- The combined additional income from ESSER II and III, Title 1 and the referendum will provide the school almost \$1 million in additional funds (revenue) not available in prior years. This will have a profound positive effect on the bottom line.

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 do not have any such recommendations.

Transparency

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

Additional Matters

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

Purpose of this Letter

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

Coral Gables, Florida
October 27, 2022


CERTIFIED PUBLIC ACCOUNTANTS