

**PALM BAY ACADEMY, INC.**

**Basic Financial Statements and  
Supplementary Information**

**For the year ended  
June 30, 2017**

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## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors  
Palm Bay Academy, Inc.  
Palm Bay, Florida

### ***Report on the Financial Statements***

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Palm Bay Academy, Inc. (the "School") a component unit of the School Board of Brevard County, Florida, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the School's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditor's Responsibility***

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

## **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the School, as of June 30, 2017 and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note A-1, the accompanying financial statements referred to above present only the financial position of the School at June 30, 2017, and the results of its operation for the year then ended, and is not intended to be a complete presentation of the District.

## **Other Matters**

### *Required Supplementary Information*

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

### **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated August 30, 2017 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 the 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.

August 30, 2017  
Melbourne, Florida

*Berman Hopkins Wright & LaHam*  
*CPAs and Associates, LLP*

## Management's Discussion and Analysis

As management of Palm Bay Academy, Inc. (the "School"), we offer readers of the School's financial statements this narrative overview and analysis of the financial activities of the School for the fiscal year ended June 30, 2017 to (a) assist the reader in focusing on significant financial issues, (b) provide an overview and analysis of the School's financial activities, (c) identify changes in the School's financial position, (d) identify material deviations from the approved budget, and (e) highlight significant issues in individual funds.

Since 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 financial statements found listed on the table of contents.

### Financial Highlights

- The liabilities of the School exceeded its assets and deferred outflows at the close of the most recent fiscal year by \$1,594,284.
- The School's total net position decreased by \$398,826.
- As of the close of the current fiscal year, the School's governmental funds reported combined ending fund balances of \$2,125,071.
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$1,524,648.

### Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the School's basic financial statements. The School's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to 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, 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 Brevard County, Florida. The School Board of Brevard County, Florida includes the operations of the School in their operational results.

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

**Fund financial statements.** A fund is a collection of related accounts grouped together 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 in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the School'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 five individual government funds. Information is presented separately in the governmental fund balance sheet and statement of revenues, expenditures, and changes in fund balances. The general fund and debt service fund are considered to be major funds.

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

The School adopts an annual appropriated budget for its funds. A budgetary comparison schedule for required funds and a note to this schedule have been provided to demonstrate compliance with reported budgets and can be found as listed on the table of contents of this report.

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

## Government-wide Financial Analysis

As noted previously, net position may serve over time as a useful indicator of the School's financial position. In the case of the School, for the years ended June 30, 2017 and 2016, liabilities exceeded assets and deferred outflows by \$1,594,284 and \$1,195,458 (net deficits), respectively.

The largest portion of the School's net position reflects its net investment in capital assets (e.g., land, buildings and fixed equipment, improvements other than buildings, equipment, furniture and fixtures, educational materials, and motor vehicles), less any related debt used to acquire those assets that is still outstanding. The School uses these capital assets to provide services to students; consequently, these assets are not available for future spending. Although the School's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. At June 30, 2017, the net investment in capital assets totaled a negative \$4,826,330. The negative amount is due to the capital assets depreciating more rapidly than the reduction in debt.

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

	<b>Governmental Activities</b>		
	<b>2017</b>	<b>2016</b>	<b>Variance</b>
<b>ASSETS</b>			
Current and other assets	\$ 2,429,144	\$ 2,540,416	\$ (111,272)
Capital assets, net of accumulated depreciation	<u>8,122,520</u>	<u>8,385,176</u>	<u>(262,656)</u>
Total assets	<u>10,551,664</u>	<u>10,925,592</u>	<u>(373,928)</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
	<u>2,908,125</u>	<u>-</u>	<u>2,908,125</u>
<b>LIABILITIES</b>			
Current and other liabilities	304,073	346,849	(42,776)
Long-term liabilities outstanding	<u>14,750,000</u>	<u>11,774,201</u>	<u>2,975,799</u>
Total liabilities	<u>15,054,073</u>	<u>12,121,050</u>	<u>2,933,023</u>
<b>NET POSITION</b>			
Net investment in capital assets	(4,826,330)	(1,731,229)	(3,095,101)
Restricted	592,231	696,359	(104,128)
Unrestricted	<u>2,639,815</u>	<u>(160,588)</u>	<u>2,800,403</u>
Total net position	<u>\$ (1,594,284)</u>	<u>\$ (1,195,458)</u>	<u>\$ (398,826)</u>

Total assets decreased due to lower prepaid expenses and a decrease in capital assets as a result of depreciation. Total liabilities and deferred outflows of resources increased due to the modification and reissuance of the bonds. The changes in the categories of net position are primarily because of the increase in long-term liabilities.

**Palm Bay Academy, Inc.**  
**Statement of Activities**

	<b>Governmental Activities</b>		
	<b>2017</b>	<b>2016</b>	<b>Variance</b>
<b>Revenues:</b>			
Program revenues			
Charges for services	\$ 7,040	\$ 5,752	\$ 1,288
Operating grants and contributions	750,688	716,940	33,748
General revenues			
State passed through local school district	4,217,191	4,242,894	(25,703)
Other revenues	123,665	73,267	50,398
Total revenues	<u>5,098,584</u>	<u>5,038,853</u>	<u>59,731</u>
<b>Expenses:</b>			
Basic instruction	2,780,557	2,491,686	288,871
Exceptional instruction	20,374	77,052	(56,678)
Other instruction	-	201	(201)
Athletic program	12,196	27,606	(15,410)
Media services	9,531	10,462	(931)
Curriculum development	16,778	21,362	(4,584)
Instructional staff training	6,017	3,365	2,652
Board of directors	491,476	140,304	351,172
School administration	591,102	512,999	78,103
Facilities	279,304	277,557	1,747
Fiscal services	55,749	61,204	(5,455)
Food services	394,901	382,506	12,395
Information services	7,263	19,102	(11,839)
Internal services	1,457	32,734	(31,277)
Transportation	220,451	158,442	62,009
Operation of plant	313,007	302,074	10,933
Maintenance of plant	116,363	116,561	(198)
Interest and amortization expense	180,884	-	180,884
Total expenses	<u>5,497,410</u>	<u>4,635,217</u>	<u>862,193</u>
Change in net position	(398,826)	403,636	(802,462)
Net position - beginning	<u>(1,195,458)</u>	<u>(1,599,094)</u>	<u>403,636</u>
Net position - ending	<u>\$ (1,594,284)</u>	<u>\$ (1,195,458)</u>	<u>\$ (398,826)</u>

State passed through local school district revenues decreased primarily due to state based funding. Operating grants and contributions increased due to additional funding for the national school lunch program and higher pass through local revenues. Other revenues increased due to a private donation. In the current year, there was an increase in basic instruction due to the shift in funding and the increase of instructional staff. Board of directors expense increased due to costs associated with the bond reissuance. School administration expense increased due to more support staff. Transportation expense increased due to issues associated with county wide busing availability.

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

As of the current fiscal year, the School's governmental funds reported combined ending fund balances of \$2,125,071.

The general fund is the main operating fund of the School. At the end of the current fiscal year, the unassigned fund balance of the general fund was \$1,524,648.

The fund balance of the School's general fund increased by \$44,714 during the current fiscal year.

### General Fund Budgetary Highlights

Actual general fund revenues were approximately the same as budgeted revenues. Actual general fund expenditures were less than budgeted expenditures. Actual debt service expenditures exceeded budgeted debt service expenditures.

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

### Capital Asset and Debt Administration

**Capital Assets.** The School's investment in capital assets for its governmental type activities as of June 30, 2017, amounts to \$8,122,520 (net of related depreciation). This investment in capital assets includes land, buildings and fixed equipment, improvements other than buildings, equipment, furniture and fixtures, educational materials, and motor vehicles. Additional information on the School's capital assets can be found in Note C.

**Debt Administration.** The School's long-term liabilities at June 30, 2017 totaled \$14,750,000, an increase of \$2,970,000 from the June 30, 2016 outstanding principal balance of \$11,780,000. The School restructured its bonds in February 2017. The Series 2006 and Series 2007 Bonds were modified and reissued by the Florida Development Finance Corporation. Additional information on the School's long-term obligations can be found in Note D.

**Economic factors.** A majority of the School's funding is determined by the number of enrolled students. The greater Palm Bay, Florida area is seeing an increase in commercial and residential development. The School continues to operate as a B rated school and has recently added athletic programs. As a result of these factors, enrollment has remained steady. The overall funding per student is forecasted to increase by approximately 1.03% for the 2017/2018 school year.

## **Request for Information**

This financial report is designed to provide a general overview of Palm Bay 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 Palm Bay Academy, Inc., 2112 Palm Bay Road NE, Palm Bay, Florida 32905.

Palm Bay Academy, Inc.

STATEMENT OF NET POSITION

June 30, 2017

	Governmental Activities
<b>ASSETS</b>	
Cash	\$ 389,042
Due from other agencies	230,760
Deposits	8,192
Restricted cash with fiscal agent	1,801,150
Total current and other assets	<u>2,429,144</u>
<b>CAPITAL ASSETS</b>	
Capital assets not being depreciated:	
Land	1,711,383
Capital assets, net	
Buildings and fixed equipment	6,216,208
Improvements other than buildings	27,170
Equipment	162,228
Furniture and fixtures	5,531
Total capital assets	<u>8,122,520</u>
Total assets	<u>10,551,664</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	
Deferred charge on refunding	<u>2,908,125</u>
<b>LIABILITIES</b>	
Accounts payable	83,152
Accrued payroll	220,921
Long-term liabilities:	
Bonds payable	
Portion due in more than one year	14,750,000
Total liabilities	<u>15,054,073</u>
<b>NET POSITION</b>	
Net investment in capital assets	(4,826,330)
Restricted for:	
Renewal and replacement	44,612
Debt service	547,619
Unrestricted	<u>2,639,815</u>
Total net position	<u>\$ (1,594,284)</u>

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

**Palm Bay Academy, Inc.**

**STATEMENT OF ACTIVITIES**

**For the year ended June 30, 2017**

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Governmental activities:					
Basic instruction	\$ 2,780,557	\$ -	\$ 418,309	\$ -	\$ (2,362,248)
Exceptional instruction	20,374	-	20,370	-	(4)
Athletic program	12,196	-	-	-	(12,196)
Media services	9,531	-	-	-	(9,531)
Curriculum development	16,778	-	-	-	(16,778)
Instructional staff training	6,017	-	-	-	(6,017)
Board of directors	491,476	-	-	-	(491,476)
School administration	591,102	-	-	-	(591,102)
Facilities	279,304	-	-	-	(279,304)
Fiscal services	55,749	-	-	-	(55,749)
Food services	394,901	7,040	312,009	-	(75,852)
Information services	7,263	-	-	-	(7,263)
Internal services	1,457	-	-	-	(1,457)
Transportation	220,451	-	-	-	(220,451)
Operation of plant	313,007	-	-	-	(313,007)
Maintenance of plant	116,363	-	-	-	(116,363)
Interest and amortization expense	180,884	-	-	-	(180,884)
<b>Total governmental activities</b>	<b>\$ 5,497,410</b>	<b>\$ 7,040</b>	<b>\$ 750,688</b>	<b>\$ -</b>	<b>(4,739,682)</b>
General revenues:					
State passed through local school district					4,217,191
Other revenues					123,665
<b>Total general revenues</b>					<b>4,340,856</b>
Change in net position					(398,826)
Net position at July 1, 2016					(1,195,458)
Net position at June 30, 2017					<b>\$ (1,594,284)</b>

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

**Palm Bay Academy, Inc.**

**BALANCE SHEET - GOVERNMENTAL FUNDS**

**June 30, 2017**

	General Fund	Debt Service Fund	Other Governmental Funds	Total
<b>ASSETS</b>				
Cash	\$ 340,727	\$ -	\$ 48,315	\$ 389,042
Due from other funds	1,257,234	-	-	1,257,234
Due from other agencies	230,760	-	-	230,760
Deposits	8,192	-	-	8,192
Restricted cash with fiscal agent	44,612	1,756,538	-	1,801,150
Total assets	<u>\$ 1,881,525</u>	<u>\$ 1,756,538</u>	<u>\$ 48,315</u>	<u>\$ 3,686,378</u>
<b>LIABILITIES AND FUND BALANCES</b>				
<b>LIABILITIES</b>				
Accounts payable	\$ 83,152	\$ -	\$ -	\$ 83,152
Accrued payroll	220,921	-	-	220,921
Due to other funds	-	1,208,919	48,315	1,257,234
Total liabilities	<u>304,073</u>	<u>1,208,919</u>	<u>48,315</u>	<u>1,561,307</u>
<b>FUND BALANCES</b>				
Nonspendable - Deposits	8,192	-	-	8,192
Committed				
Debt service	-	547,619	-	547,619
Assigned				
Renewal and replacement	44,612	-	-	44,612
Unassigned	1,524,648	-	-	1,524,648
Total fund balances	<u>1,577,452</u>	<u>547,619</u>	<u>-</u>	<u>2,125,071</u>
Total liabilities and fund balances	<u>\$ 1,881,525</u>	<u>\$ 1,756,538</u>	<u>\$ 48,315</u>	<u>\$ 3,686,378</u>

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

Palm Bay Academy, Inc.

RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS TO  
THE STATEMENT OF NET POSITION

June 30, 2017

Fund balances - total governmental funds		\$ 2,125,071
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:		
Land	\$ 1,711,383	
Buildings and fixed equipment, net	6,216,208	
Improvements other than buildings, net	27,170	
Equipment, net	162,228	
Furniture and fixtures, net	5,531	
Total capital assets		8,122,520
Deferred outflows are not current assets or financial resources and are therefore not reported in the governmental funds.		
		2,908,125
Some liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds.		
		<u>(14,750,000)</u>
Total net position of governmental activities		<u>\$ (1,594,284)</u>

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

**Palm Bay Academy, Inc.**

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

**For the year ended June 30, 2017**

	General Fund	Debt Service Fund	Other Governmental Funds	Total
<b>Revenues</b>				
Federal passed through state	\$ -	\$ -	\$ 312,009	\$ 312,009
Federal passed through local school district	-	-	438,679	438,679
State passed through local school district	4,012,460	-	204,731	4,217,191
Other revenues	123,665	-	7,040	130,705
Total revenues	<u>4,136,125</u>	<u>-</u>	<u>962,459</u>	<u>5,098,584</u>
<b>Expenditures</b>				
<b>Current</b>				
Basic instruction	2,409,814	-	370,743	2,780,557
Exceptional instruction	20,374	-	-	20,374
Athletic program	12,196	-	-	12,196
Media services	9,531	-	-	9,531
Curriculum development	-	-	16,778	16,778
Instructional staff training	2,424	-	3,593	6,017
Board of directors	491,476	-	-	491,476
School administration	534,536	-	36,805	571,341
Fiscal services	55,749	-	-	55,749
Food services	-	-	394,901	394,901
Information services	7,263	-	-	7,263
Internal services	1,457	-	-	1,457
Transportation	220,240	-	211	220,451
Operation of plant	313,007	-	-	313,007
Maintenance of plant	14,613	-	101,750	116,363
Capital outlay	25,859	-	10,550	36,409
<b>Debt service</b>				
Principal	-	11,780,000	-	11,780,000
Interest	-	3,083,210	-	3,083,210
Total expenditures	<u>4,118,539</u>	<u>14,863,210</u>	<u>935,331</u>	<u>19,917,080</u>
Excess (deficiency) of revenues over (under) expenditures	<u>17,586</u>	<u>(14,863,210)</u>	<u>27,128</u>	<u>(14,818,496)</u>
<b>Other financing sources and (uses)</b>				
Refunding debt issued	-	14,750,000	-	14,750,000
Transfer in	27,128	-	-	27,128
Transfer out	-	-	(27,128)	(27,128)
Total other financing sources and (uses)	<u>27,128</u>	<u>14,750,000</u>	<u>(27,128)</u>	<u>14,750,000</u>
Net change in fund balances	44,714	(113,210)	-	(68,496)
Fund balances at July 1, 2016	1,532,738	660,829	-	2,193,567
Fund balances at June 30, 2017	<u>\$ 1,577,452</u>	<u>\$ 547,619</u>	<u>\$ -</u>	<u>\$ 2,125,071</u>

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

**Palm Bay Academy, Inc.**

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

**For the year ended June 30, 2017**

Net change in fund balances - total government funds	\$	(68,496)
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Amounts reported for governmental activities in the statement of activities are 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 and reported as depreciation expense.

Capital outlay	\$	36,409	
Less Depreciation		<u>(299,065)</u>	
			(262,656)

The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction 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.

Bonds payable issuance		(14,750,000)	
Bonds payable principal payment		11,780,000	
Bonds payable discount		<u>(5,799)</u>	
			(2,975,799)

Some expenses reported in the statement of activities do not require current financial resources and therefore are not reported as expenditures in the funds.

		<u>2,908,125</u>
Change in net position of governmental activities	\$	<u><u>(398,826)</u></u>

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

**Palm Bay Academy, Inc.**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2017**

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

1. Reporting entity

Palm Bay Academy, Inc. (the "School") is 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, which is composed of four 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, which is the School Board of Brevard County, Florida (the "District"). The current charter was renewed on April 23, 2013 and will expire on June 30, 2027. Palm Bay Academy, Inc. is considered a component unit of the School Board of Brevard County, Florida.

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, and deferred outflows and deferred inflows of resources, as presented in the statement of net position, are subdivided into three categories: net investment in capital assets, restricted net position, and unrestricted net position. Net investment in capital assets, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those 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.

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.

**Palm Bay Academy, Inc.**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2017**

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

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

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. The School reports the general fund and debt service fund as 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. For this purpose, the School considers revenues to be available if they are collected within sixty days of the end 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 is recorded as an expenditure 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.

**Palm Bay Academy, Inc.**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2017**

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

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

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 - is the general operating fund of the School and is used to account for all financial resources not required to be accounted for in another fund.

Debt Service Fund - this fund accounts for the resources accumulated and payments made for principal and interest on the bonds issued by the School.

4. Cash

Cash is made up of cash on hand at the School, various accounts, and a money market account held at financial institutions. The School does not have any cash equivalents.

5. Receivables

The School's receivables consist of due from other agencies. Based on prior experience the School's management considers that 100% of receivables are fully collectible. Therefore, no allowance for doubtful accounts has been provided.

6. Interfund receivables and payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as due to/due from other funds.

Transfers are used to move unrestricted fund revenues to finance programs and debt service activities that the School must account for in other funds.

Palm Bay Academy, Inc.

NOTES TO FINANCIAL STATEMENTS

June 30, 2017

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

7. Capital assets

Capital assets are reported in the 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 \$750 and an estimated useful life of more than two years. Such assets are recorded at historical cost. Donated capital assets are recorded at their estimated fair market values at the date of donation.

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>
Buildings and fixed equipment	5 - 40
Improvements other than buildings	10
Equipment	3 - 15
Furniture and fixtures	5 - 7
Educational materials	5 - 7
Motor vehicles	5

8. Long-term obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net position. In the fund financial statements, governmental funds report the face amount of debt issued as other financing sources and the repayment of debt as debt service expenditures. Loan costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

9. 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.

**Palm Bay Academy, Inc.**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2017**

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

9. Revenue sources (continued)

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. Funding for the School is adjusted during the year to reflect 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 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.

Additionally, other revenues are derived from various fundraising activities and other miscellaneous revenues.

10. 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. The School is generally no longer subject to examination by the Internal Revenue Service three years after a return was due or filed.

11. 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 estimated amounts.

**Palm Bay Academy, Inc.**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2017**

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

**12. Fund balance classification**

The governmental fund financial statements present fund balances based on classifications that comprise a hierarchy that is based primarily on the extent to which the School is bound to honor constraints on the specific purposes for which amounts in the respective governmental funds can be spent.

The classifications used in the governmental fund financial statements are as follows:

Nonspendable fund balance - amounts that are not spendable (such as inventory and prepaid expense) or are required to be maintained intact.

Restricted fund balance - amounts constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government), through constitutional provisions, or by enabling legislation.

Committed fund balance - amounts constrained to specific purposes by the School itself, using its highest level of decision-making authority (i.e., Board of Directors). To be reported as committed, amounts cannot be used for any other purpose unless the School takes the same highest level of action to remove or change the constraint.

Assigned fund balance - amounts the School intends to use for a specific purpose. Intent can be expressed by the Board of Directors or by an official or body to which the Board of Directors delegates the authority.

Unassigned fund balance - amounts that are available for any purpose. No other fund except the General Fund can report positive amounts of unassigned fund balance.

The School would typically use restricted fund balances first, followed by committed resources, and then assigned resources, as appropriate opportunities arise, but reserves the right to selectively spend unassigned resources first to defer the use of these other classified funds.

**13. Impact of recently issued accounting principles**

In February 2015, the GASB issued Statement No. 72, *Fair Value Measurement and Application*, to enhance the transparency and comparability of fair value measurements and disclosures in state and local governments' financial statements. Management has evaluated this statement and has determined it is not applicable to the School.

**Palm Bay Academy, Inc.**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2017**

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

13. Impact of recently issued accounting principles (continued)

In June 2015, the GASB issued Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets that are not within the Scope of GASB Statement 68 and Amendments to Certain Provisions of GASB Statements 67 and 68*, which clarifies certain provisions of GASB No. 68, *Accounting and Financial Reporting for Pensions*, and it establishes requirements for defined contribution pensions that was not within the scope of GASB No. 68. Management has evaluated this statement and has determined it is not applicable to the School.

In January 2016, the GASB issued Statement No. 80, *Blending Requirements for Certain Component Units - An Amendment of GASB Statement No. 14*, which amends GASB Statement No. 14, *The Financial Reporting Entity*, as amended, by addressing the blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. This statement is effective for the School's June 30, 2017 fiscal year end. Management has evaluated this statement and has determined it is not applicable to the School.

**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's operating deposits are held at two financial institutions. The bank balances of the School's deposits were \$348,243 at June 30, 2017. The deposits are insured by the FDIC up to \$250,000 per financial institution. Monies invested in amounts greater than the insurance coverage are secured by the qualified public depositories pledging securities with the State Treasurer in such amounts required by the Florida Security for Public Deposits Act. In the event of a default or insolvency of a qualified public depositor, the State Treasurer will implement procedures for payment of losses according to the validated claims of the School pursuant to Section 280.08, Florida Statutes. As of June 30, 2017, none of the School's balances held in banks was exposed to custodial credit risk.

*Credit Risk* - Credit risk arises from the potential default of investments that are not financially sound. In connection with the issuance of debt discussed in Note D, the School was required to deposit part of the proceeds and other required deposits with the trustee. At June 30, 2017, the trustee held \$1,801,150 of unspent bond proceeds and reserve funds in money market accounts. The deposits are restricted for future construction of capital assets and debt payments. The trust indenture addresses credit risk by only permitting the trustee to invest in qualified investments as defined in the indenture.

**Palm Bay Academy, Inc.**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2017**

**NOTE C - CAPITAL ASSETS**

Changes in capital assets activity are as follows:

	Balance at July 1, 2016	Additions	Deletions	Balance at June 30, 2017
Capital assets not depreciated:				
Land	\$ 1,711,383	\$ -	\$ -	\$ 1,711,383
Total capital assets not depreciated:	<u>1,711,383</u>	<u>-</u>	<u>-</u>	<u>1,711,383</u>
Capital assets depreciated:				
Buildings and fixed equipment	8,734,837	5,000	-	8,739,837
Improvements other than buildings	78,674	7,672	-	86,346
Equipment	478,234	23,737	-	501,971
Furniture and fixtures	102,769	-	-	102,769
Educational materials	20,134	-	-	20,134
Motor vehicles	14,500	-	-	14,500
Total assets depreciated	<u>9,429,148</u>	<u>36,409</u>	<u>-</u>	<u>9,465,557</u>
Less accumulated depreciation:				
Buildings and fixed equipment	2,285,475	238,154	-	2,523,629
Improvements other than buildings	49,499	9,677	-	59,176
Equipment	291,569	48,174	-	339,743
Furniture and fixtures	94,178	3,060	-	97,238
Educational materials	20,134	-	-	20,134
Motor vehicles	14,500	-	-	14,500
Total accumulated depreciation	<u>2,755,355</u>	<u>299,065</u>	<u>-</u>	<u>3,054,420</u>
Total governmental activities capital assets, net	<u>\$ 8,385,176</u>	<u>\$ (262,656)</u>	<u>\$ -</u>	<u>\$ 8,122,520</u>

Depreciation expense for the year ended June 30, 2017 was charged to functions of the School as follows:

School administration	\$ 19,761
Facilities	<u>279,304</u>
	<u>\$ 299,065</u>

**Palm Bay Academy, Inc.**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2017**

**NOTE D - LONG-TERM LIABILITIES**

1. Changes in long-term liabilities

Changes in long-term liabilities are as follows:

	Balance at July 1, 2016	Additions	Reductions	Balance at June 30, 2017	Due within one year
Bond payable - 2006 and 2007 net of \$5,799 discount	\$ 11,774,201	\$ -	\$ 11,774,201	\$ -	\$ -
Bonds payable - 2017	-	14,750,000	-	14,750,000	-
Total	<u>\$ 11,774,201</u>	<u>\$ 14,750,000</u>	<u>\$ 11,774,201</u>	<u>\$ 14,750,000</u>	<u>\$ -</u>

2. Bonds payable

\$5,920,000 Series 2006 Bonds - In September 2006, the School entered into a Trust Indenture ("loan agreement") with the Florida Development Finance Corporation, associated with revenue term bonds issued, in the aggregate amount of \$5,920,000. The revenue term bonds were divided into two lots with \$5,130,000 paying 6.0% maturing on May 15, 2036, and \$790,000 paying 7.5% maturing on May 15, 2017. The proceeds of the conduit bonds were used to finance and refinance the acquisition of land and construction and renovation improvements, fund a deposit to the debt service reserve fund, and pay a portion of the bond issuance costs. The loan is to be repaid in accordance with the bond debt service schedules. The principal and interest on the loan will be paid from net revenue (pledged revenue) of the School's operations. The note is secured by real estate, buildings and improvements, and pledged revenue.

\$6,260,000 Series 2007 Bonds - In September 2007, the School entered into a Trust Indenture ("loan agreement") with the Florida Development Finance Corporation, associated with revenue term bonds issued, in the aggregate amount of \$6,260,000. The revenue term bonds were divided into two lots with \$5,565,000 paying 6.125% maturing on May 15, 2037, and \$695,000 paying 9.0% maturing on May 15, 2018. The proceeds of the conduit bonds were used to finance the construction, expansion, and equipping certain improvements of the educational facility, fund a deposit to the debt service reserve fund, and pay a portion of the bond issuance costs. The loan is to be repaid in accordance with the bond debt service schedules. The principal and interest on the loan will be paid from net revenue (pledged revenue) of the School's operations.

**Palm Bay Academy, Inc.**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2017**

**NOTE D - LONG-TERM LIABILITIES (continued)**

2. Bonds payable (continued)

As a result of the School's inability to pay principal and interest as due on the 2006 and 2007 bonds, the School entered into a forbearance agreement ("the agreement") with the Trustee on May 15, 2014. The agreement was amended on June 15, 2015 and granted the School forbearance and relief through February 28, 2017.

On February 28, 2017, the Series 2006 and Series 2007 bonds were modified and reissued by Florida Development Finance Corporation into six subseries as follows:

Senior Lien Bonds

- Series 2017A \$7,265,000
- Series 2017B \$735,000

Subordinate Lien Bonds

- Series 2017C \$3,430,000
- Series 2017D \$350,000

Secondary Subordinate Lien Bonds

- Series 2017E \$2,610,000
- Series 2017F \$360,000

In addition, the obligations of the School with respect to the Notes relating to the Secondary Subordinate Lien Bonds (Series 2017E and Series 2017F) will be deemed paid and discharged on July 15, 2022 as follows: two-thirds of a percentage of the Notes relating to the Secondary Subordinate Lien Bonds shall be deemed paid and discharged by the Trustee, which percentage shall equal the percentage on the principal amount of Notes relating to the Subordinate Lien Bonds (Series 2017C and Series 2017D) paid as of such date.

This agreement further requires the School to meet certain additional conditions. The School shall maintain Days Cash on Hand equal to at least 40 days as measured on the last day of each fiscal quarter, commencing with the fiscal quarter ending March 31, 2017, increasing by five days annually measured each June 30 until Days Cash on Hand shall equal at least 60 days as measured on June 30, 2020 and the last day of each fiscal quarter thereafter.

On a quarterly basis, the School shall report a Debt Service Coverage Ratio based on the immediate prior four fiscal quarters of no less than 1.00.

At June 30, 2017, the School had 82.07 days unrestricted cash on hand and the coverage ratio was 3.86.

**Palm Bay Academy, Inc.**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2017**

**NOTE D - LONG-TERM LIABILITIES (continued)**

2. Bonds payable (continued)

The following is a schedule of future minimum payments for the Tax-Exempt Senior Lien Revenue Bonds Series 2017A and the Taxable Senior Lien Revenue Bonds Series 2017B based on the new bond agreement for the years ending June 30,

	Principal	Interest	Total
2017	\$ -	\$ 113,210	\$ 113,210
2018	-	529,294	529,294
2019	-	529,294	529,294
2020	-	529,294	529,294
2021	-	529,294	529,294
2022-2026	1,690,000	2,386,201	4,076,201
2027-2031	2,350,000	1,729,857	4,079,857
2032-2037	3,960,000	928,200	4,888,200
	\$ 8,000,000	\$ 7,274,644	\$ 15,274,644

The following is a schedule of future minimum payments for the Tax-Exempt Subordinate Lien Revenue Bonds Series 2017C and the Taxable Subordinate Lien Revenue Bonds Series 2017D based on the new bond agreement for the years ending June 30,

	Principal	Interest	Total
2017-2022	\$ -	\$ -	\$ -
2023-2037	3,780,000	3,752,445	7,532,445
	\$ 3,780,000	\$ 3,752,445	\$ 7,532,445

The following is a schedule of future minimum payments for the Tax-Exempt Secondary Subordinate Lien Revenue Bonds Series 2017E and the Taxable Secondary Subordinate Lien Revenue Bonds Series 2017F based on the new bond agreement for the years ending June 30,

	Principal	Interest	Total
2017-2036	\$ -	\$ -	\$ -
2037	2,970,000	-	2,970,000
	\$ 2,970,000	\$ -	\$ 2,970,000

**Palm Bay Academy, Inc.**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2017**

**NOTE E - OPERATING LEASE**

The School entered into a noncancelable operating lease agreement in February 2014 as a lessee for copier equipment to be used at the School. The total amount paid for the lease was \$13,706 for the year ended June 30, 2017. The future minimum lease payments for the noncancelable operating lease are as follows:

Fiscal year ending June 30,		
2018	\$	13,706
2019		<u>10,280</u>
Total minimum lease payable	\$	<u><u>23,986</u></u>

**NOTE F - INTERFUND ACTIVITY**

Activities 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.

Due to/from activities are as follows:

	<u>Due from other funds</u>	<u>Due to other funds</u>
General fund	\$ 1,257,234	\$ -
Debt service fund	-	1,208,919
Other governmental funds	<u>-</u>	<u>48,315</u>
	<u><u>\$ 1,257,234</u></u>	<u><u>\$ 1,257,234</u></u>

Transfers are used to 1) move unrestricted general fund revenues to finance programs that the School must account for in other funds, 2) move restricted amounts from borrowings to debt service funds to establish mandatory reserve accounts 3) move unrestricted cash released by fiscal agents and 4) move amounts from the general fund to the debt service fund as debt service principal and interest payments become due.

Transfer activities are as follows:

	<u>Transfer In</u>	<u>Transfer Out</u>
General fund	\$ 27,128	\$ -
Other governmental funds	<u>-</u>	<u>27,128</u>
	<u><u>\$ 27,128</u></u>	<u><u>\$ 27,128</u></u>

**Palm Bay Academy, Inc.**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2017**

**NOTE G - COMMITMENTS AND CONTINGENCIES**

The School entered into an operating facility lease agreement with a related private business entity for the use of classroom space. On July 28, 2010, the lease was amended to include an additional seven years expiring July 31, 2015, with an option to renew for five twelve month periods, thereafter. The base rent is \$108,000, payable in equal monthly installments of \$9,000 plus applicable insurance and maintenance items estimated at \$880 per month. Beginning July 1, 2013, the base rent was reduced by \$400 per month based on the forbearance agreement with bond holders dated May 15, 2013. Beginning July 1, 2014, the base rent was reduced by an additional \$1,000 per month based on the forbearance agreement with bond holders dated May 15, 2014. Current year facilities expense charged to operations totaled \$101,750.

The following is a schedule of future minimum lease payments for the years ending June 30:

2018	\$	101,750
2019		101,750
2020		101,750
2021		<u>8,479</u>
Total facilities lease expense payable	\$	<u>313,729</u>

**Palm Bay Academy, Inc.**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2017**

**NOTE H - CONCENTRATIONS**

Revenue sources

As stated in Note A-9, the School receives revenues for current operations primarily from the State of Florida through the District. The following is a schedule of revenue sources:

Sources	Amounts
School Board of Brevard County, Florida	
Base funding	\$ 2,547,539
Class size reduction	692,336
Discretionary millage	199,568
Supplemental academic instruction funds	155,938
ESE guaranteed allocation	134,259
Discretionary compression	58,659
Instructional materials allocation	41,470
Safe schools	12,455
Transportation	105,030
Florida teachers lead	9,829
Library media allocation	2,672
Discretionary lottery	9,589
Digital classroom	13,135
Proration	(1,357)
Capital outlay	204,731
Reading coaches	26,232
Instruction assistant program	5,106
Total State passed through School Board of Brevard County, Florida	4,217,191
Title 1 funding	418,309
Title 2 funding	20,370
Total School Board of Brevard County, Florida	4,655,870
National school lunch program	312,009
Student lunches	7,040
Other revenues	123,665
Total revenues	\$ 5,098,584

**Palm Bay Academy, Inc.**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2017**

**NOTE I - RELATED PARTY TRANSACTION**

The School entered into a lease with a related private business entity for the use of classroom space. The private entity is related through ownership of the School's Principal. No amounts were due to this related party at June 30, 2017. See further discussion at Note G.

**NOTE J - RISK MANAGEMENT**

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. Under the property insurance policy, the School's liability is \$2,500 per deductible. Settled claims resulting from the risks described above have not exceeded the insurance coverage during the previous three years. There have been no significant reductions in insurance coverage during fiscal year 2017.

**NOTE K - SUBSEQUENT EVENTS**

The School has evaluated subsequent events through August 30, 2017, 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.

**REQUIRED SUPPLEMENTARY INFORMATION**

**Palm Bay Academy, Inc.**

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

**For the year ended June 30, 2017**

	Original	Final	Actual	Variance with Budget
<b>Revenues</b>				
State passed through local school district	\$ 4,320,175	\$ 4,012,460	\$ 4,012,460	\$ -
Other revenues	39,751	123,664	123,665	1
Total revenues	<u>4,359,926</u>	<u>4,136,124</u>	<u>4,136,125</u>	<u>1</u>
<b>Expenditures</b>				
<b>Current</b>				
Basic instruction	2,195,732	2,409,636	2,409,814	(178)
Exceptional instruction	118,200	20,375	20,374	1
Athletic program	32,800	12,195	12,196	(1)
Media services	10,950	9,531	9,531	-
Instructional staff training	2,500	2,424	2,424	-
Board of directors	141,000	491,476	491,476	-
School administration	481,395	534,535	534,536	(1)
Fiscal services	61,512	55,750	55,749	1
Information services	19,300	7,263	7,263	-
Internal services	33,200	1,457	1,457	-
Central services	6,500	-	-	-
Transportation	152,500	220,240	220,240	-
Operation of plant	307,500	284,931	313,007	(28,076)
Maintenance of plant	117,550	116,364	14,613	101,751
Capital outlay	48,000	25,858	25,859	(1)
Total expenditures	<u>3,728,639</u>	<u>4,192,035</u>	<u>4,118,539</u>	<u>73,496</u>
Excess (deficiency) of revenues over (under) expenditures	631,287	(55,911)	17,586	73,497
<b>Other financing uses</b>				
Transfer in	-	-	27,128	(27,128)
Total other financing sources	<u>-</u>	<u>-</u>	<u>27,128</u>	<u>(27,128)</u>
Net change in fund balances	631,287	(55,911)	44,714	46,369
Fund balances at July 1, 2016	1,532,738	1,532,738	1,532,738	-
Fund balances at June 30, 2017	<u>\$ 2,164,025</u>	<u>\$ 1,476,827</u>	<u>\$ 1,577,452</u>	<u>\$ 46,369</u>

See accompanying note to required supplementary information.

**Palm Bay Academy, Inc.**

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -  
BUDGET AND ACTUAL - DEBT SERVICE FUND**

**For the year ended June 30, 2017**

	Final	Actual	Variance with Budget
Expenditures			
Debt service			
Principal	\$ -	\$ 11,780,000	\$ (11,780,000)
Interest	113,210	3,083,210	(2,970,000)
Total expenditures	113,210	14,863,210	(14,750,000)
Excess (deficiency) of revenues over (under) expenditures	(113,210)	(14,863,210)	(14,750,000)
Other financing sources and (uses)			
Refunding debt issued	-	14,750,000	14,750,000
Total other financing sources and (uses)	-	14,750,000	14,750,000
Net change in fund balances	(113,210)	(113,210)	-
Fund balances at July 1, 2016	660,829	660,829	-
Fund balances at June 30, 2017	\$ 547,619	\$ 547,619	\$ -

See accompanying note to required supplementary information.

**Palm Bay Academy, Inc.**

**NOTE TO REQUIRED SUPPLEMENTARY INFORMATION**

**June 30, 2017**

**NOTE A - BUDGETARY INFORMATION**

Budgetary basis of accounting

The School's annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. Annual budgets are adopted for the general fund and debt service fund and may be amended by the Board of Directors (the "Board"). The budgets presented for the fiscal year ended June 30, 2017, have been amended according to Board procedures.

Budgets are presented on the modified accrual basis of accounting. The legal level of budgetary control is the fund level.

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

To the Board of Directors  
Palm Bay Academy, Inc.  
Palm Bay, 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 Palm Bay Academy, Inc. ("the School") a component unit of the School Board of Brevard County, Florida, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the School's basic financial statements and have issued our report thereon dated August 30, 2017.

**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 to be material weaknesses. However, material weaknesses may exist that have not been identified.

## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the School's financial statements are free from material misstatement, we performed tests of 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 School's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

August 30, 2017  
Melbourne, Florida

*Berman Hopkins Wright & LaHam*  
*CPAs and Associates, LLP*

## MANAGEMENT LETTER

To the Board of Directors  
Palm Bay Academy, Inc.  
Palm Bay, Florida

### Report on the Financial Statements

We have audited the financial statements of Palm Bay Academy, Inc. (the "School"), a component unit of the School Board of Brevard County, Florida, as of and for the fiscal year ended June 30, 2017, and have issued our report thereon dated August 30, 2017.

### Auditor's Responsibility

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Chapter 10.850, Rules of the Auditor General.

### Other Reports and Schedules

We have issued our Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with *Government Auditing Standards*. Disclosures in this report, which is dated August 30, 2017, 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. There were no audit findings in the preceding audit report.

### Official Title

Section 10.854(1)(e)5., Rules of the Auditor General, requires the name or official title of the entity. The official title of the entity is Palm Bay Academy, Inc.

## **Financial Condition**

Section 10.854(1)(e)2., Rules of the Auditor General, requires that we report the results of our determination as to whether or not the School has met one or more of the conditions described in Section 218.503(1), Florida Statutes, and identification of the specific condition(s) met. In connection with our audit, we determined that the School did not meet any of the conditions described in Section 218.503(1), Florida Statutes.

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.

## **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.

## **Other Matters**

Section 10.854(1)(e)3., Rules of the Auditor General, requires that we address in the management letter any recommendations to improve financial management. The School underwent debt restructuring in February 2017. We recommend that the School adhere to the covenants and payment terms of the new loan agreement.

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 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, and applicable management and is not intended to be and should not be used by anyone other than these specified parties.

August 30, 2017  
Melbourne, Florida

*Berman Hopkins Wright & LaHam*  
*CPAs and Associates, LLP*