

**Pinellas Preparatory Academy, Inc.**  
**Largo, Florida**

**FINANCIAL STATEMENTS**

**Year Ended June 30, 2018**

**Pinellas Preparatory Academy, Inc.**  
**Largo, Florida**

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**LA MANNA HERNANDEZ P.A.**  
**CERTIFIED PUBLIC ACCOUNTANTS**

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of  
Pinellas Preparatory Academy, Inc.

We have audited the accompanying financial statements of Pinellas Preparatory Academy, Inc. (a nonprofit organization), which comprise the statement of financial position as of June 30, 2018 and 2017, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

**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 an opinion 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. 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 opinion.

## **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Pinellas Preparatory Academy, Inc. as of June 30, 2018 and 2017, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

*La Manna Hernandez, P.A.*

**La Manna Hernandez, P.A.**  
*Certified Public Accountants*

St. Petersburg, FL

September 7, 2018

**PINELLAS PREPARATORY ACADEMY, INC.**  
**Largo, Florida**

**STATEMENT OF FINANCIAL POSITION**  
**June 30, 2018 and 2017**

	<b>2018</b>	<b>2017</b>
<b>ASSETS</b>		
Current assets:		
Cash - unrestricted	\$ 2,684,787	\$ 1,783,857
Accounts receivable	-	17,892
Prepaid expenses	34,332	33,418
Total current assets	2,719,119	1,835,167
Land, building and equipment - net of accumulated depreciation	7,454,869	7,642,872
Cash - restricted	1,111,408	908,715
Total Assets	\$ 11,285,396	\$ 10,386,754
<b>LIABILITIES AND NET ASSETS</b>		
Current liabilities:		
Accounts payable	\$ 798	\$ 27,193
Accrued expenses	415,969	297,494
Bonds payable due within one year	125,000	115,000
Total current liabilities	541,767	439,687
Bonds payable	8,340,000	8,465,000
Total liabilities	8,881,767	8,904,687
Net assets:		
Unrestricted net assets:		
Undesignated	2,302,352	1,510,480
Invested in fixed assets, net of debt	(1,010,131)	(937,128)
Total unrestricted net assets	1,292,221	573,352
Temporarily restricted	1,111,408	908,715
Total net assets	2,403,629	1,482,067
Total Liabilities and Net Assets	\$ 11,285,396	\$ 10,386,754

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

**PINELLAS PREPARATORY ACADEMY, INC.**  
**Largo, Florida**

**STATEMENT OF ACTIVITIES**  
**For the Year ended June 30, 2018**  
**With Comparative Totals for 2017**

	<u>2018</u>			<u>2017</u>
	<u>UNRESTRICTED</u>	<u>TEMPORARILY RESTRICTED</u>	<u>TOTAL</u>	<u>(MEMO) TOTAL</u>
<b>REVENUES AND OTHER SUPPORT</b>				
Federal, state and local grants	\$ 5,987,290	\$ 202,693	\$ 6,189,983	\$ 5,418,578
Contributions	96,438	-	96,438	55,368
Program fees	532,531	-	532,531	563,411
Investment income	662	-	662	455
Net assets released from restrictions:				
Satisfaction of program restrictions	-	-	-	-
Total revenues and other support	<u>6,616,921</u>	<u>202,693</u>	<u>6,819,614</u>	<u>6,037,812</u>
<b>EXPENSES:</b>				
Program services	4,390,662	-	4,390,662	4,462,444
Management and general	1,507,390	-	1,507,390	1,492,265
Fund raising	-	-	-	-
Total expenses	<u>5,898,052</u>	<u>-</u>	<u>5,898,052</u>	<u>5,954,709</u>
Change in net assets	718,869	202,693	921,562	83,103
Net assets, beginning of year	<u>573,352</u>	<u>908,715</u>	<u>1,482,067</u>	<u>1,398,964</u>
Net assets, end of year	<u>\$ 1,292,221</u>	<u>\$ 1,111,408</u>	<u>\$ 2,403,629</u>	<u>1,482,067</u>

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

**PINELLAS PREPARATORY ACADEMY, INC.**  
**Largo, Florida**

**STATEMENT OF CASH FLOWS**  
**For the Year Ended June 30, 2018**  
**With Comparative Totals for 2017**

	<u>2018</u>	<u>2017</u>
<b>Cash flows from operating activities:</b>		
Change in net assets	\$ 921,562	\$ 83,103
Adjustments to reconcile change in net asset to net cash provided by operating activities		
Depreciation and amortization	331,766	322,430
Increase in operating assets		
Accounts receivable	17,892	(7,611)
Prepaid expenses	(914)	58,566
Decrease in operating liabilities		
Accounts payable and accrued expenses:	<u>92,080</u>	<u>107,163</u>
Net cash provided by operating activities:	<u>1,362,386</u>	<u>563,651</u>
<b>Cash flows from investing activities:</b>		
Purchase of fixed assets	<u>(143,763)</u>	<u>(139,071)</u>
Net cash used by investing activities:	<u>(143,763)</u>	<u>(139,071)</u>
<b>Cash flows from financing activities:</b>		
Payment of principal	<u>(115,000)</u>	<u>(90,000)</u>
Net cash used by investing activities:	<u>(115,000)</u>	<u>(90,000)</u>
<b>Net increase in cash</b>	1,103,623	334,580
<b>Cash and cash equivalents, beginning of year</b>	<u>2,692,572</u>	<u>2,357,992</u>
<b>Cash and cash equivalents, end of year</b>	<u>\$ 3,796,195</u>	<u>\$ 2,692,572</u>
 <b>OTHER SUPPLEMENTARY DATA:</b>		
Income Taxes Paid	\$ -	\$ -
Interest Paid	\$ 601,053	\$ 552,962

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

**PINELLAS PREPARATORY ACADEMY, INC.**  
**Largo, Florida**

**STATEMENT OF FUNCTIONAL EXPENSES**  
**For the Year ended June 30, 2018**  
**With Comparative Totals for 2017**

	<u>Program Services</u>	<u>Management and General</u>	<u>Fund Raising</u>	<u>2018 Totals</u>	<u>2017 (Memo) Totals</u>
Salaries	\$ 2,827,797	\$ 626,594	\$ -	\$ 3,454,391	\$ 3,780,204
Employee benefits	195,218	39,985	-	235,203	23,309
Payroll taxes	<u>215,141</u>	<u>44,065</u>	-	<u>259,206</u>	<u>279,381</u>
Total salaries and related expenses	3,238,156	710,644	-	3,948,800	4,082,894
Administrative fees	-	68,507	-	68,507	121,819
Advertising	-	200	-	200	-
Dues and subscriptions	83,715	17,146	-	100,861	96,349
Insurance	48,154	9,863	-	58,017	136,098
Interest	-	601,053	-	601,053	552,962
Noncapitalized furniture, fixtures, and equipment	22,073	1,409	-	23,482	9,383
Occupancy	228,517	14,586	-	243,103	225,539
Postage and printing	12,526	800	-	13,326	7,061
Professional services	113,190	23,183	-	136,373	205,034
Supplies	309,440	19,752	-	329,192	149,119
Student Activities	21,314	-	-	21,314	-
Telephone	-	19,989	-	19,989	17,379
Travel and auto mileage	<u>1,717</u>	<u>352</u>	-	<u>2,069</u>	<u>28,642</u>
Total expenses before depreciation	4,078,802	1,487,484	-	5,566,286	5,632,279
Depreciation and amortization	<u>311,860</u>	<u>19,906</u>	-	<u>331,766</u>	<u>322,430</u>
Total Expenses	<u>\$ 4,390,662</u>	<u>\$ 1,507,390</u>	<u>\$ -</u>	<u>\$ 5,898,052</u>	<u>\$ 5,954,709</u>

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



**PINELLAS PREPARATORY ACADEMY, INC.**  
**LARGO, FLORIDA**

**NOTES TO FINANCIAL STATEMENTS**  
**Year Ended June 30, 2018**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Reporting Entity**

Pinellas Preparatory Academy, Inc. (the “School”) was chartered as a Florida corporation, not-for-profit in March, 2000 with the initial school year opening in August, 2002. The School administers and operates two charter schools, which offers many coordinated programs designed to significantly improve the probability of success of its students, consisting of children in Largo, Florida.

The School operates under charters approved by their sponsor, the District School Board of Pinellas County, Florida, (the “School Board”). The School is a Florida not-for-profit organization that is exempt from state and federal income taxes under Internal Revenue Code Section 501(c)3.

On February 28, 2011, Pinellas Preparatory Academy, Inc. was awarded a second charter for Pinellas Primary Academy, serving grades K through 3.

**Basis of Accounting**

The financial statements of the School have been prepared on the accrual basis of accounting and accordingly reflect all significant receivables, payables, and other liabilities in accordance with U.S. generally accepted accounting principles.

**Basis of Presentation**

Financial statement presentation follows the recommendations of the Financial Accounting Standards Board (“FASB”) in its Accounting Standards Codification (“ASC”) 958-205, *Presentation of Financial Statements*. Under ASC 958-205, not-for-profit organizations are required to provide a statement of financial position, a statement of activities, and a statement of cash flows, which are prepared to focus on the organization as a whole and to present balances and transactions according to the existence or absence of donor imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Unrestricted net assets: Net assets that are not subject to donor-imposed restrictions or law.

Temporarily restricted net assets: Net assets subject to restrictions imposed by donor or law that may or will be met by actions of the School and/or the passage of time.

Permanently restricted net assets: Net assets subject to donor-imposed restrictions that the principal be maintained in perpetuity. Generally, the donors of these assets permit the School to use all or part of the income earned on related investments for unrestricted purposes.

**Cash and Cash Equivalents**

Cash deposits are held by banks qualified as public depositories under Florida law. All deposits are insured by Federal depository insurance. The statement of financial position considers cash and cash equivalents to consist of cash on hand, demand deposits and savings accounts.

**PINELLAS PREPARATORY ACADEMY, INC.**  
**LARGO, FLORIDA**

**NOTES TO FINANCIAL STATEMENTS**  
**YEAR ENDED JUNE 30, 2018**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):**

**Accounts Receivable**

The School believes that all receivable balances are fully collectible.

**Capital Assets**

Capital assets consist of real property, furniture, fixtures and equipment. The School defines capital assets as those assets costing more than \$750 individually or in the aggregate. Such assets are recorded at historical cost. Donated assets are recorded at fair market value at the date received. Capital assets are depreciated using the straight-line method over the estimated useful lives of the various classes of depreciable assets, which range from 3 to 40 years.

Construction loan costs are included as capital assets and amortized over period between loan origination date and loan refinancing through bond issued in October, 2011.

Maintenance and repairs are charged to expense when incurred.

The School is subject to accounting guidance related to the impairment or disposal of long-lived assets. This guidance requires impairment losses to be recorded on long-lived assets when indicators of impairment are present and when the undiscounted cash flows estimated to be generated by those assets (excluding interest) are less than the carrying amount of the assets. In such cases, the carrying value of assets to be held and used are adjusted to their estimated fair value and assets held for sale are adjusted to their estimated fair value less selling expenses.

**Functional Allocation of Expenses**

The costs related to the administration of the School's programs have been detailed in the statement of functional expenses, and are summarized on a functional basis in the statement of activities. Certain costs have been allocated among program, management and general and fundraising expenses. Program expenses have been divided into charter school activities and before and after care, and represent the costs of goods and services directly related to fulfilling the mission of the school. Management and general expenses represent indirect costs of administering these programs. Fundraising expenses represent costs related to activities performed to generate funds and/or resources to support its programs and operations. Expenses are allocated to the various functions based on a method established by management to reflect its relative benefit.

**Compensated Absences**

It is the School's policy to grant employees leave based upon the number of years of employment with the School. Personal leave may be used as time off or accrued up to the maximum the employee would earn in two years. An employee resigning or retiring with two weeks' notice shall be paid for their credited personal leave up to the maximum allowable rate referred to above. Such leave pay shall be made at the employee's current rate of pay. Employees who terminate prior to completion of six months of continuous service will not be paid for any accrued personal leave time.

**PINELLAS PREPARATORY ACADEMY, INC.**  
**LARGO, FLORIDA**

**NOTES TO FINANCIAL STATEMENTS**  
**YEAR ENDED JUNE 30, 2018**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):**

**Donated Services**

A number of volunteers have donated significant amounts of their time to the School's operations. However, they are not reflected on the accompanying financial statements, since they do not meet the requirements of generally accepted accounting principles.

**State Sources**

The state provides financial assistance to administer certain categorical educational programs. Department rules require that revenue earmarked for these programs be expended only for the program for which the money is provided and require that the money not expended as of the close of the fiscal year be carried forward into the following year to be expended for the same categorical educational programs. There were no carry forward funds as of June 30, 2018.

The state allocates gross receipt taxes, generally known as Public Education Capital Outlay money, to local school boards on an annual basis. The boards are authorized to expend these funds only upon applying for and receiving an encumbrance authorization from the Department. The School was awarded an allocation of \$136,995 for the year ended June 30, 2018.

**Contributions**

Contributions are recognized when the donor makes a promise to give to the School that is, in substance, unconditional. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

The School reports gifts of fixed assets or materials as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent donor stipulations regarding how long donated assets or assets acquired with restricted contributions must be maintained, the School reports expirations of donor restrictions when donated or acquired assets are placed in service. Contributions are considered unrestricted unless specifically restricted by donor.

**Use of Estimates**

The preparation of the basic financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**PINELLAS PREPARATORY ACADEMY, INC.  
LARGO, FLORIDA**

**NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2018**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):**

**Subsequent Events**

Subsequent events have been evaluated through September 7, 2018, which is the date the financial statements were issued.

**NOTE 2 – CAPITAL ASSETS**

The following is a summary of changes in capital assets during the fiscal year:

Building	\$ 6,762,889	\$ -	\$ 6,762,889
Improvements	435,777	99,882	535,659
Land	1,093,667	-	1,093,667
Furniture, fixtures, and equipment	973,930	39,390	1,013,320
Construction loan cost	383,400	-	383,400
	<u>9,649,663</u>	<u>139,272</u>	<u>9,788,935</u>
Less accumulated depreciation / amortization for:			
Building	(934,217)	(173,408)	(1,107,625)
Improvements	(164,999)	(34,280)	(199,279)
Furniture, fixtures, and equipment	(803,858)	(99,807)	(903,665)
Construction loan cost	(103,717)	(19,780)	(123,497)
Total accumulated depreciation	<u>(2,006,791)</u>	<u>(327,275)</u>	<u>(2,334,066)</u>
Total capital assets, net	<u>\$ 7,642,872</u>	<u>\$ (188,003)</u>	<u>\$ 7,454,869</u>

Depreciation expense was \$311,986 and \$302,650 in fiscal year 2018 and 2017, respectively. Amortization expense was \$19,780 and \$19,780 in fiscal year 2018 and 2017, respectively.

**NOTE 3 – 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; injuries to employees; and natural disasters. The School purchases commercial insurance for all types of claims with nominal deductible amounts. There have been no significant reductions in insurance coverage during fiscal year 2018. Settled claims have not exceeded the commercial excess coverage in any of the past five years.

**PINELLAS PREPARATORY ACADEMY, INC.  
LARGO, FLORIDA**

**NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2018**

**NOTE 4 – LEASES**

The School leases equipment under a long-term operating lease. The lease commenced on August 1, 2006, was amended effective August 1, 2008 and expires on June 30, 2018. Rent expense was \$46,294 and \$56,707 in fiscal year ended June 30, 2018 and 2017, respectively.

**NOTE 5 – BONDS PAYABLE**

*Series 2011A Bonds* – On October 13, 2011, the School entered into a Tax Regulatory agreement with the Pinellas County Educational Authority associated with revenue term bonds issued, in the aggregate amount of \$8,670,000. The revenue term bonds were divided into two lots with \$7,905,000 paying 7.125% maturing on September 15, 2041, and \$765,000 paying 6.125% maturing on September 15, 2021. The proceeds were used to finance and refinance the cost of the acquisition and renovation of school facilities, and pay a portion of bond issuance costs. The bond is to be repaid in accordance with bond debt service schedules. The principal and interest on the note 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. In accordance with the bond agreement, a reserve of approximately \$1,111,400 has been established to provide for debt service as of June 30, 2018.

Following is a schedule of future minimum payment for the years ending June 30,

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	135,000	589,875	724,875
2020	140,000	581,606	721,606
2021	160,000	573,031	733,031
2022 - 2023	355,000	1,114,350	1,469,350
2024 - 2028	1,140,000	2,538,283	3,678,283
2029 - 2033	1,615,000	2,069,456	3,684,456
2034 - 2038	2,270,000	1,407,188	3,677,188
2039 - 2041	<u>2,525,000</u>	<u>418,237</u>	<u>2,943,237</u>
	<u>\$ 8,340,000</u>	<u>\$ 9,292,026</u>	<u>\$ 17,632,026</u>

**NOTE 6 - TEMPORARILY RESTRICTED NET ASSETS**

Net assets were temporarily restricted for the following purposes as of June 30, 2018:

Debt Service	<u>\$ 1,111,408</u>
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**PINELLAS PREPARATORY ACADEMY, INC.  
LARGO, FLORIDA**

**NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2018**

**NOTE 7 – ECONOMIC DEPENDENCE**

For the year ended June 30, 2018, support for program services from the School Board represented eighty nine percent (89%) of the School's total revenues. The School's ability to continue operating and to provide program services is predicated on the School Board's continued support and funding of its programs. If a significant reduction were to occur, it would have an adverse effect on the School's ability to continue operations.

**NOTE 8 – EMPLOYEE BENEFIT PLAN**

The School sponsors a salary reduction contribution plan pursuant to Section 403(b) of the Internal Revenue Code, covering substantially all employees. Under the plan, employees contribute a specified percentage of their salary, or a fixed dollar amount, to the plan. The School may agree to make nonelective contributions to their employees' 403(b) plans. Nonelective contributions made by the School were \$58,444 and \$0 for the years ended June 30, 2018 and 2017, respectively.