

READING EDGE ACADEMY, INC.  
(A Component Unit of the District School Board of  
Volusia County, Florida)

FINANCIAL STATEMENTS  
(Audited)

Year Ended June 30, 2016

**READING EDGE ACADEMY, INC.**  
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DAVID S. HOLLAND, CPA  
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## INDEPENDENT AUDITORS' REPORT

To the Board of Directors of  
Reading Edge Academy, Inc.

### Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund of Reading Edge Academy, Inc. (the School), a component unit of the District School Board of Volusia County, Florida, as of and for the year ended June 30, 2016, 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.

### *Auditors' 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, 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 of 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 and each major fund of Reading Edge Academy, Inc. as of June 30, 2016 and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Other Matters***

#### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that management's discussion and analysis on pages 3-5 and budgetary comparison information on page 16 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated September 13, 2016 on our consideration of the School's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School's internal control over financial reporting and compliance.

*Holland & Reilly*

Orlando, Florida  
September 13, 2016

**READING EDGE ACADEMY, INC.**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**for the year ended June 30, 2016**

Our discussion and analysis of Reading Edge Academy, Inc.'s (the School) financial performance provides an overview of the School's activities for the year ended June 30, 2016. Please read it in conjunction with the financial statements, which begin on page 6.

**Overview of the Financial Statements**

The organization-wide and fund financial statements are combined for this report, as all activities of the School are governmental activities and the School is deemed to be a single-program government. The report consists of the organization-wide and fund statements and notes to the financial statements. The statements are designed to provide readers with an overview of the School's finances in a manner similar to a private-sector business.

The Statement of Net Position and Governmental Funds Balance Sheet presents information on all of the School's assets and liabilities, with the difference between the two reported as net position as of June 30, 2016. Over time, increases or decreases in net position may serve as a useful indicator of whether the School's financial condition is improving or deteriorating.

The Statement of Activities and Governmental Funds Revenues, Expenditures, and Changes in Fund Balances presents information showing how the School's net position changed during the most recent fiscal year. The School uses the economic resources measurement focus and the accrual basis of accounting, whereby changes in net position are reported when the underlying event giving rise to the change occurs, regardless of the timing of the 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., earned but unused personal leave). Governmental activities are primarily supported by state and local sources, and charges for services.

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The School uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. 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. Reconciliation of the organization-wide and fund financial statements is provided in Note 2 on page 12.

**Financial Highlights**

- The School's governmental funds had a positive fund balance of \$520,985 which represents a \$36,143 increase from the prior year's fund balance of \$484,842.
- Student enrollment at June 30, 2016 was 306 students.

**Financial Analysis**

**Government-wide Financial Statements**

Net position may serve over time as a useful indicator of the School's financial position. At the close of the fiscal year, assets exceeded liabilities by \$2,399,668. A substantial portion of net position represents net investment in capital assets, and thus is not available for future spending. The balance in unrestricted net position was \$458,439.

GASB 34 does not allow net position to be represented as "restricted" unless there are external legal restrictions on how it may be used. Thus, while there may be long-term management plans for unrestricted net position, it must be shown as unrestricted until such external restrictions occur.

**READING EDGE ACADEMY, INC.**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**for the year ended June 30, 2016**

The following is a summary of changes in the Statement of Activities:

	<u>2015</u>	<u>2016</u>
<b>Program revenues:</b>		
Charges for services	\$ 256,825	\$ 263,536
<b>General revenues:</b>		
Federal sources	1,673	-
State sources	1,986,575	2,044,042
Local sources	<u>141,167</u>	<u>152,432</u>
Total revenues	<u>2,386,240</u>	<u>2,460,010</u>
<b>Expenses:</b>		
Instruction-basic	1,286,844	1,279,609
Instruction-exceptional	74,389	96,969
General administration	27,382	27,670
School administration	327,306	356,265
Fiscal services	147,293	91,025
Pupil transportation services	22,890	24,688
Food services	146,681	171,281
Operation of plant	166,173	162,663
Other programs and services	85,428	97,742
Interest	<u>131,445</u>	<u>126,666</u>
Total expenses	<u>2,415,831</u>	<u>2,434,578</u>
Change in net position	(29,591)	25,432
Net position:		
Beginning of year	<u>2,403,827</u>	<u>2,374,236</u>
End of year	<u>\$ 2,374,236</u>	<u>\$ 2,399,668</u>

General revenues increased by \$67,059 primarily due to increases in FEFP funding per student. Total expenses increased \$18,747 over the prior fiscal year, due mainly to increases in administrative salaries and benefits and food costs. Program revenues increased by \$6,711 due mainly to increased student lunch and fundraising revenue.

The following is a summary of changes in the Statement of Net Position.

	<u>2015</u>	<u>2016</u>	<u>% change</u>
Total assets	\$ 4,868,098	\$ 4,805,578	(1)
Total liabilities	<u>2,493,862</u>	<u>2,405,910</u>	(4)
Net position:			
Net investment in capital assets	1,947,467	1,941,229	-
Unrestricted	<u>426,769</u>	<u>458,439</u>	7
	<u>\$ 2,374,236</u>	<u>\$ 2,399,668</u>	

**READING EDGE ACADEMY, INC.**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**for the year ended June 30, 2016**

Total assets decreased by \$62,520 primarily due to a reduction in capital assets. Total liabilities decreased by \$87,952, primarily due to the reduction in notes payable.

**Governmental Fund Financial Statements**

The General Fund is the chief operating fund of the School. At the end of the current fiscal year, the unassigned fund balance of the General Fund was \$515,639, the nonspendable fund balance was \$5,346, while the total fund balance of the School was \$520,985. As a measure of the general fund liquidity, it may be useful to compare total fund balance to total fund expenditures. Total fund balance represents 24%, or almost three months, of total General Fund expenditures.

Revenues were \$36,143 greater than expenditures for the General Fund as well as all governmental funds for the current year. In the prior year, General Fund revenues were \$16,232 greater than General Fund expenditures and revenues as well as all governmental funds.

**General Fund and Special Revenue Fund – Budget and Actual**

A comparison of budgeted and actual amounts is shown on page 16 of the financial statements. The original budget for the year ended June 30, 2016 was not revised this year.

**Capital Assets and Debt Administration**

- Capital Assets – The School's investment in capital assets includes land, building and improvements, and furniture and equipment. The investment in capital assets at June 30, 2016 is \$4,249,532 (net of accumulated depreciation). Current year additions include purchases of \$34,400 for building improvements and \$6,305 for furniture and equipment.
- The School made principal payments of \$92,180 to reduce the mortgage loan balance to \$2,308,303, incurring interest expenditures of \$127,048.

**Economic Factors and Next Year's Budget**

The approved Reading Edge Academy 2016-2017 budget took into consideration the increase of payroll, the reduction of expenditures in several areas, and the upgrades to the internet infrastructure and increased classroom and student technology needs. The School's annual budget is based on 315 students and we currently have 329 students.

**Requests for Information**

This financial report is designed to provide a general overview of the School'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 the Principal, Reading Edge Academy, Inc., 2975 Enterprise Road, DeBary, Florida 32713.

**READING EDGE ACADEMY, INC.**  
**STATEMENT OF NET POSITION AND**  
**GOVERNMENTAL FUNDS BALANCE SHEET**

June 30, 2016

	<u>Governmental Funds</u>				<u>Adjust-</u> <u>ments</u>	<u>Statement</u> <u>of Net</u> <u>Position</u>
	<u>General</u>	<u>Capital</u> <u>Projects</u>	<u>Debt</u> <u>Service</u>	<u>Total</u>		
<b>Assets:</b>						
Cash and cash equivalents	\$ 536,559	\$ -	\$ -	\$ 536,559	\$ -	\$ 536,559
Grants receivable	8,076			8,076		8,076
Accounts receivable				-		-
Accounts receivable - other	6,065			6,065		6,065
Inventory	4,346			4,346		4,346
Deposits	1,000			1,000		1,000
Capital assets not being depreciated				-	503,616	503,616
Capital assets, net of accumulated depreciation				-	3,745,916	3,745,916
<b>Total assets</b>	<u>\$ 556,046</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 556,046</u>	<u>\$ 4,249,532</u>	<u>\$ 4,805,578</u>
<b>Liabilities:</b>						
Accrued liabilities	35,061			35,061	56,773	91,834
Accrued interest payable				-	5,773	5,773
Notes payable:						
Current				-	99,277	99,277
Long-term				-	2,209,026	2,209,026
<b>Total liabilities</b>	<u>35,061</u>	<u>-</u>	<u>-</u>	<u>35,061</u>	<u>2,370,849</u>	<u>2,405,910</u>
<b>Fund Balances/Net Position</b>						
Fund balances:						
Nonspendable	5,346			5,346	(5,346)	-
Unassigned	515,639			515,639	(515,639)	-
<b>Total fund balances</b>	<u>520,985</u>	<u>-</u>	<u>-</u>	<u>520,985</u>	<u>(520,985)</u>	<u>-</u>
<b>Total liabilities and fund balances</b>	<u>\$ 556,046</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 556,046</u>		
Net position:						
Net investment in capital assets					1,941,229	1,941,229
Unrestricted					458,439	458,439
<b>Total net position</b>					<u>\$ 2,399,668</u>	<u>\$ 2,399,668</u>

See accompanying notes.



**READING EDGE ACADEMY, INC.**  
**STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUNDS**  
**REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES**  
for the year ended June 30, 2016

	<u>Governmental Funds</u>				Adjust- ments	Statement of Activities
	<u>General</u>	<u>Capital Projects</u>	<u>Debt Service</u>	<u>Total</u>		
<b>Expenditures/expenses:</b>						
Instruction - basic	\$ 1,180,405	\$ 34,400	\$ -	\$ 1,214,805	\$ 64,804	\$ 1,279,609
Instruction - exceptional	96,969			96,969		96,969
General administration	27,670			27,670		27,670
School administration	325,078			325,078	31,187	356,265
Fiscal services	90,869			90,869	156	91,025
Pupil transportation services	24,688			24,688		24,688
Food services	159,224	3,720		162,944	8,337	171,281
Operation of plant	161,289	2,585		163,874	(1,211)	162,663
Other programs and services	97,742			97,742		97,742
Debt service:						
Principal			92,180	92,180	(92,180)	-
Interest			127,048	127,048	(382)	126,666
Total expenditures/expenses	<u>2,163,934</u>	<u>40,705</u>	<u>219,228</u>	<u>2,423,867</u>	<u>10,711</u>	<u>2,434,578</u>
<b>Program revenues:</b>						
Charges for services	<u>263,536</u>	-	-	<u>263,536</u>		<u>263,536</u>
Net program expense						<u>2,171,042</u>
<b>General revenues:</b>						
State sources	1,952,103	91,939		2,044,042		2,044,042
Local sources	152,432			152,432		152,432
Transfers - internal activities	<u>(167,994)</u>	<u>(51,234)</u>	<u>219,228</u>	<u>-</u>		<u>-</u>
Total general revenues	<u>1,936,541</u>	<u>40,705</u>	<u>219,228</u>	<u>2,196,474</u>	<u>-</u>	<u>2,196,474</u>
Excess of revenues and transfers over expenditures	36,143	-	-	36,143	(36,143)	-
Change in net position					25,432	25,432
Fund balance/net position:						
Beginning of year	<u>484,842</u>	<u>-</u>	<u>-</u>	<u>484,842</u>	<u>-</u>	<u>2,374,236</u>
End of year	<u>\$ 520,985</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 520,985</u>	<u>\$ -</u>	<u>\$ 2,399,668</u>

See accompanying notes.

**READING EDGE ACADEMY, INC.**  
**NOTES TO FINANCIAL STATEMENTS**

**1. Summary of Significant Accounting Policies:**

Reporting Entity - Reading Edge Academy, Inc. (the School) is part of the Florida system of public education under the general direction of the Florida Department of Education (Department). The School was created pursuant to Chapter 228, Florida Statutes, following approval of its charter by the District School Board of Volusia County, Florida (School Board). The School Board originally approved a three year charter effective July 1, 1998. During 2006, the School Board approved a five-year extension of the agreement through June 30, 2013. During 2011, the School Board approved another five year extension of the agreement through June 30, 2016. Recently, the School Board approved another five-year extension of the agreement through June 30, 2021. (See Note 11) The charter is subject to annual review and may be terminated during the term of the charter. In the event the School is dissolved or terminated, any public unencumbered funds and all school property purchased with public funds automatically revert to the School Board.

The Florida Department of Education has concluded that Florida charter schools are component units of the sponsoring school board. To facilitate accounting and reporting to school boards, charter schools are encouraged to use the governmental reporting model and follow the fund and account structure provided in the "Financial and Program Cost Accounting and Reporting for Florida Schools - The Red Book," issued by the Department. The School's charter with the School Board requires the use of the governmental reporting model and The Red Book.

As required by U.S. generally accepted accounting principles, the financial reporting entity consists of (1) the primary government, (2) organizations for which the School is financially accountable, and (3) other organizations for which the nature and significance of their relationship with the School is such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. The School is financially accountable if it appoints a voting majority of the organization's governing body and (a) it is able to impose its will on that organization or (b) there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the School. Based on these criteria, the School's management examined all organizations that were legally separate in order to determine which organizations, if any, should be included in the School's financial statements. Management determined there are no component units.

Income Taxes - Reading Edge Academy, Inc. is a Florida not-for-profit organization that is exempt from state and federal income taxes under Internal Revenue Service Code Section 501(c)(3). Accordingly, no provision for federal or state income tax is recorded in these financial statements.

Government-wide and Fund Financial Statements – The government-wide financial statements (i.e. the statement of net position and the statement of activities) report information on all of the activities of the School. The effect of interfund activities has been removed from these statements. The School had only governmental activities and does not engage in any business-type activities. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include charges for goods and services provided to participants on a voluntary basis. General revenues represent amounts received from federal, state and local sources. Fund financial statements are presented for the School's General, Capital Projects, and Debt Service funds. All of these funds are considered to be major funds.

**READING EDGE ACADEMY, INC.**  
**NOTES TO FINANCIAL STATEMENTS**

**1. Summary of Significant Accounting Policies - continued:**

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 recorded when earned, and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the School considers revenues to be available if they are collected within 60 days of the end of the current period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, expenditures related to compensated absences and long-term debt agreements are recorded only when payment is due.

When both restricted and unrestricted resources are available for use, it is the School's policy to use restricted resources first, then unrestricted resources as they are needed.

Amounts reported as program revenues include charges to customers or applicants for goods, services, or privileges provided. Internally dedicated resources are reported as general revenues rather than as program revenues.

The School reports the following major governmental funds:

General Fund – accounts for all financial resources not required to be accounted for in another fund and for certain revenues from Federal and State sources that are legally restricted to be expended for specific current operating purposes.

Capital Projects Fund – to account for financial resources (e.g., Public Education Capital Outlay) that are restricted, committed, or assigned for expenditure for capital outlay, including acquisition or construction of major capital facilities or other capital assets.

Debt Service Fund – to account for the resources and payments made for principal and interest on the School's long-term debt obligations.

Budgets and Budgetary Accounting – Budgets are prepared and original budgets are adopted annually for all governmental funds in accordance with procedures and time intervals prescribed by the Board of Directors (Board) of the School. During the fiscal year ended June 30, 2016, the Board adopted an annual budget for the General Fund. The School is not required to submit its budget to any regulatory agencies.

Appropriations are controlled at the object level (e.g., salaries, purchased services, and capital outlay) within each activity (e.g., instructional, school administration, and fiscal services) and may be amended at any Board meeting prior to the due date of the annual financial report. Budgets are prepared using the same modified accrual basis as is used to account for actual transactions.

Cash and Cash Equivalents – Cash and cash equivalents include cash on hand, demand accounts, money market, and savings accounts. Money market accounts are stated at fair value.

**READING EDGE ACADEMY, INC.**  
**NOTES TO FINANCIAL STATEMENTS**

**1. Summary of Significant Accounting Policies - continued:**

Inventory and Prepaid Items – Inventories are valued at cost using the first-in, first-out (FIFO) method. Inventories are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

Capital Assets – Capital assets consist of land, buildings, improvements other than building, and furniture, fixtures and equipment. Capital assets purchased in the governmental funds are recorded as expenditures at time of purchase. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Capital assets are defined as assets with a cost of \$750 or more with a useful life of more than one year. Donated capital assets are recorded at fair value at the date of donation. Depreciation has been provided on capital assets as a direct charge using the straight-line method over the estimated useful lives of the various classes of depreciable assets, as follows:

	<u>Years</u>
Improvements other than building	8-15
Buildings	40
Furniture and equipment	3-10

Compensated Absences – It is the School's policy to grant employees sick leave based upon employment agreements with the School. Sick leave may be used as time off or accrued up to a prescribed maximum. An employee resigning or retiring with two weeks' notice shall be paid for their credited sick leave up to the maximum allowable rate. Such leave pay shall be made in accordance with individual employment contracts. Employees who terminate prior to completion of six months' continuous service will not be paid for any accrued sick leave time.

State Revenue Sources - Revenue from State sources for current operations are primarily from the Florida Education Finance Program administered by the Florida Department of Education under the provisions of Section 1011.60, Florida Statutes. In accordance with this law, the Board determines and reports the number of full-time equivalent (FTE) students and related data to the Department.

The Department performs certain edit checks on the reported number of FTEs and related data and calculates the allocation of funds to the School. The School is permitted to amend its original reporting for a period of one year following the date of the original reporting. Such amendments may impact funding allocations for subsequent years. The Department may also adjust subsequent fiscal period allocations based upon an audit of the School's compliance in determining and reporting FTE and related data. Normally, such adjustments are treated as reductions or additions of revenue in the year when the adjustments are made.

The State provides financial assistance to administer certain categorical educational programs. Florida Department of Education 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. The Department generally requires that categorical educational program revenues be accounted for in the General Fund.

**READING EDGE ACADEMY, INC.**  
**NOTES TO FINANCIAL STATEMENTS**

**1. Summary of Significant Accounting Policies - continued:**

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 Florida Department of Education. The School Board remits funds to the School on a monthly basis, at which time the School recognizes revenues from these sources.

Estimates – The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts and disclosures. Actual results may differ from those estimates.

Fund Balances – In accordance with GASB Statement 54, the School is required to report fund balance amounts in five classifications – nonexpendable and the spendable categories of restricted, committed, assigned, and unassigned, as follows:

Nonspendable – includes fund balance amounts that cannot be spent either because they are not in spendable form or because of legal or contractual requirements. The School had \$5,346 in nonspendable fund balance amounts at June 30, 2016 for inventory (\$4,346), and deposits (\$1,000).

Restricted – amounts that are constrained for specific purposes which are externally imposed by creditors, grantors, contributors, or laws or regulations of other governments. The School had no restricted fund balance amounts at June 30, 2016.

Committed – amounts that can only be used for specific purposes pursuant to constraints imposed by formal action by the School's highest level of decision-making authority. The School's Board of Directors addresses these commitments through formal board action prior to the School's year end. The School had no committed fund balance amounts at June 30, 2016.

Assigned – amounts that are intended to be used for specific purposes that are neither considered restricted or committed. Fund balance amounts may be assigned by the School's Board of Directors and/or the Executive Committee if so delegated by the School's Board of Directors. The School had no assigned fund balance amounts at June 30, 2016.

Unassigned – includes residual positive fund balance within the General Fund which has not been classified within the other above mentioned categories. Unassigned fund balances may also include negative fund balances for any other governmental fund if expenditures exceed amounts restricted, committed, or assigned for those specific purposes.

The School uses restricted amounts to be spent first when both restricted and unrestricted fund balance is available unless there are legal documents/contracts that prohibit doing this. Additionally, the School would first use committed, then assigned, and lastly unassigned amounts.

The School does not have a formal minimum fund balance policy, nor has it established any stabilization arrangements within fund balances.

**READING EDGE ACADEMY, INC.  
NOTES TO FINANCIAL STATEMENTS**

**2. Reconciliation of Government-Wide and Fund Financial Statements:**

Adjustments were made to include capital assets (net of accumulated depreciation), compensated absences, accrued interest payable, and notes payable on the statement of net position. This resulted in a net difference of \$1,878,683 between ending governmental fund balances and total net position as follows:

Governmental fund balances	\$ 520,985
Capital assets, net	4,249,532
Compensated absences	(56,773)
Accrued interest payable	(5,773)
Notes payable	(2,308,303)
Total net position	<u>\$ 2,399,668</u>

Adjustments were made to include depreciation expense, eliminate capital outlay expenditures, adjust change in compensated absences, and eliminate principal payments and accrued interest on notes payable. This resulted in a net difference of (\$10,711) between "excess of revenues over expenditures" and "change in net position" as follows:

Excess of revenues over expenditures	\$ 36,143
Add: Capital outlay expenditures	40,705
Principal payments on notes payable	92,180
Accrued interest expense	382
Less: Depreciation expense	(139,123)
Increase in compensated absences	(4,855)
Change in net position	<u>\$ 25,432</u>

**3. Cash and Cash Equivalents:**

At June 30, 2016, the carrying amount of demand deposits and cash on hand totaled \$536,559.

As State of Florida Statutes requires, all cash and cash equivalents are held at financial institutions approved by the State Treasurer to hold public deposits in accordance with the "Florida Security for Public Deposits Act", Chapter 280 Florida Statutes. This statute requires that every qualified public depository institution maintain eligible collateral to secure the public entity's funds. The minimum collateral to be pledged by an institution, the collateral eligible for pledge, and reporting requirements of the qualified public depository to the State Treasurer is defined by the statute. In the event of a failure of any member in the pool, the Public Deposit Security Trust Fund has a procedure whereby the remaining member institutions would be responsible for covering any resulting losses. Since the School's deposits are held in a qualified public depository, they are covered by the collateral pool as the School had identified itself as a public entity at June 30, 2016.

**READING EDGE ACADEMY, INC.**  
**NOTES TO FINANCIAL STATEMENTS**

**4. Capital Assets:**

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

	Balance June 30, 2015	Increases	Decreases, Adjustments, Transfers	Balance June 30, 2016
Capital assets not being depreciated:				
Land	\$ 503,616	-	-	503,616
Total capital assets not being depreciated	<u>503,616</u>	<u>-</u>	<u>-</u>	<u>503,616</u>
Capital assets being depreciated:				
Buildings and improvements	4,484,337	34,400	-	4,518,737
Furniture and equipment	178,777	6,305	-	185,082
Total capital assets being depreciated	<u>4,663,114</u>	<u>40,705</u>	<u>-</u>	<u>4,703,819</u>
Less accumulated depreciation for:				
Buildings and improvements	719,860	115,992	-	835,852
Furniture and equipment	98,920	23,131	-	122,051
Total accumulated depreciation	<u>818,780</u>	<u>139,123</u>	<u>-</u>	<u>957,903</u>
Total capital assets being depreciated, net	<u>3,844,334</u>	<u>(98,418)</u>	<u>-</u>	<u>3,745,916</u>
Total capital assets, net	<u>\$ 4,347,950</u>	<u>(98,418)</u>	<u>-</u>	<u>4,249,532</u>

Depreciation was charged to functions as follows:

Instruction - basic	\$ 94,349
School administration	31,187
Fiscal services	156
Food services	12,057
Operation of plant	1,374
	<u>\$ 139,123</u>

**5. Long-term Obligations:**

Mortgage loan – In October 2011, the School entered into a \$2,700,000 mortgage note payable with a financial institution with the proceeds paying off a \$2,700,000 construction loan with another financial institution. Terms call for monthly payments of principal and interest (5.3%) of \$18,269, based on a twenty year amortization period. Final maturity date is October 13, 2018 when a balloon payment and any accrued interest are due. The balance of the mortgage note payable at June 30, 2016 was \$2,308,303.

**READING EDGE ACADEMY, INC.**  
**NOTES TO FINANCIAL STATEMENTS**

**5. Long-term Obligations - continued:**

The following is a summary of changes in long-term obligations during the fiscal year:

	Balance June 30, 2015	Increases	Decreases	Balance June 30, 2016	Due Within One Year
Accrued liabilities:					
Compensated absences	\$ 51,918	4,855	-	56,773	56,773
Mortgage payable	<u>2,400,483</u>	<u>-</u>	<u>92,180</u>	<u>2,308,303</u>	<u>99,277</u>
	<u>\$ 2,452,401</u>	<u>4,855</u>	<u>92,180</u>	<u>2,365,076</u>	<u>156,050</u>

The following is the estimated debt service requirements on the mortgage loan related to the acquisition and construction of the current School facilities.

Year ending June 30,	Principal	Interest	Total
2017	\$ 99,277	119,952	219,229
2018	104,668	114,560	219,228
2019	<u>2,104,358</u>	<u>36,938</u>	<u>2,141,296</u>
	<u>\$ 2,308,303</u>	<u>271,450</u>	<u>2,579,753</u>

Interest expense for the year ended June 30, 2016 was \$126,666.

**6. Risk Management Programs:**

The School is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees, and natural disasters. General liability, automotive, and health and hospitalization coverage are being provided through purchased commercial insurance with minimum deductibles for each line of coverage. There have been no significant reductions in insurance coverage during the year ended June 30, 2016. Settled claims resulting from these risks have not exceeded commercial coverage in the past three years.

**7. Retirement Plan:**

The School established a 401(k) savings plan beginning July 1, 2011. Under this plan an employee is eligible to participate immediately upon hire, with no service requirement or age limitation. The plan allows matching employer contributions up to 3% of eligible participants' compensation. During the year ended June 30, 2016, the School's contribution was \$39,053.

**8. Contingent Liabilities:**

Amounts received from grantor agencies are subject to audit and adjustment by grantor agencies, principally the Federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount of expenditures which may be disallowed by the grantor cannot be determined at this time although the School expects such amounts, if any, to be immaterial.



**READING EDGE ACADEMY, INC.**  
**NOTES TO FINANCIAL STATEMENTS**

**9. Interfund Transfers:**

Transfers are used to 1) move revenues from the fund with collection authorization to the debt service fund as debt service principal and interest payments become due, and 2) move unrestricted revenue to finance various programs that the School must account for in other funds in accordance with budgeting authorization.

**10. Expenditures in Excess of Appropriations:**

In the General Fund, the School experienced an excess of expenditures over appropriations by \$119,848 due primarily to instruction - basic (see page 16).

**11. Subsequent Events:**

Management has evaluated events and transactions for potential recognition or disclosure through September 13, 2016, the date on which the financial statements were available to be issued.

Subsequent to June 30, 2016, the School Board approved a five-year extension of the charter agreement through June 30, 2021.

**READING EDGE ACADEMY, INC.**  
**SCHEDULE OF REVENUES, EXPENDITURES AND**  
**CHANGES IN FUND BALANCES - BUDGET AND ACTUAL**  
**GENERAL FUND**

for the year ended June 30, 2016

	<u>Budgeted</u> <u>Amounts</u>		
	Original and Final	Actual Amounts	Positive (Negative) Variance
<b>General Fund</b>			
Program Revenues:			
Charges for services	\$ 277,700	\$ 263,536	\$ (14,164)
General Revenues:			
State sources	1,848,079	1,952,103	104,024
Local sources	111,526	152,432	40,906
Total revenues	<u>2,237,305</u>	<u>2,368,071</u>	<u>130,766</u>
Expenditures:			
Instruction - basic	1,067,750	1,180,405	(112,655)
Instruction - exceptional	132,300	96,969	35,331
General administration	28,000	27,670	330
School administration	325,850	325,078	772
Facilities acquisition	2,000	-	2,000
Fiscal services	159,630	90,869	68,761
Pupil transportation services	21,000	24,688	(3,688)
Food services	142,000	159,224	(17,224)
Operation of plant	127,900	161,289	(33,389)
Other programs and services	74,650	97,742	(23,092)
Transfers - internal activities	131,000	167,994	(36,994)
Total expenditures	<u>2,212,080</u>	<u>2,331,928</u>	<u>(119,848)</u>
Net change in fund balance	25,225	36,143	10,918
Fund balance at beginning of year	484,842	484,842	-
Fund balance at end of year	<u>\$ 510,067</u>	<u>\$ 520,985</u>	<u>\$ 10,918</u>

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

To the Board of Directors of  
Reading Edge Academy, Inc.

We have audited, 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, the financial statements of the governmental activities and each major fund of Reading Edge Academy, Inc. (the School), a component unit of the District School Board of Volusia County, Florida, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the School's basic financial statements, and have issued our report thereon dated September 13, 2016.

### **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 opinion 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 School'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, and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control that we consider to be significant deficiencies. See Comment No. 2016-1 under Auditors' Comments – Current Year on page 20.

## **Compliance and Other Matters**

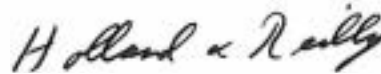
As part of obtaining reasonable assurance about whether the School's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect 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 one instance of noncompliance or other matter that is required to be reported under *Government Auditing Standards*. See Comment No. 2016-4 under Auditors' Comments – Current Year on page 20.

## **Entity's Response to Findings**

The School's response to the findings identified in our audit is described on page 22. The School's response was not subjected to the auditing procedures applied in the audit of the financial statements, and, accordingly, we express no opinion on it.

## **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.



Orlando, Florida  
September 13, 2016

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DAVID S. HOLLAND, CPA  
THOMAS F. REILLY, CPA

To the Board of Directors of  
Reading Edge Academy, Inc.

We have audited the financial statements of Reading Edge Academy, Inc. (the School) as of and for the year ended June 30, 2016 and have issued our report thereon dated September 13, 2016.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. We have issued our Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters. Disclosures in that report, which is dated September 13, 2016, should be considered in conjunction with this management letter. Additionally, our audit was conducted in accordance with Chapter 10.850, Rules of the Auditor General.

The Rules of the Auditor General (Section 10.854(1)(e)) require disclosure in the management letter of the following matters if not already addressed in the auditors' report on compliance and internal controls:

- 1) Any recommendations to improve financial management.
- 2) Violation of 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 which warrant the attention of those charged with governance.
- 3) For matters that do not warrant the attention of those charged with governance, the following may be reported based on professional judgment:
  - a) Violations of provisions of contracts or grant agreements, fraud or abuse,
  - b) Deficiencies in internal control that are not material weaknesses or significant deficiencies.

There were several matters that came to the auditors' attention, that, in our judgment, are required to be reported. See Comments 2016-2 and 2016-3 on page 20.

Based on our audit procedures performed, the School did not meet any of the conditions described in Florida Statutes Section 218.503(1).

The auditors applied financial condition assessment procedures. 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.

We determined the School maintained on its website the information specified in Section 1002.33(9)(p), Florida Statutes, except for budget information. See Comment 2016-4 on page 20.

None of the comments on pages 20 and 21 have been repeated in the prior two audit reports.

This management letter is intended solely for the information of Reading Edge Academy, Inc., its management, others within the entity, the Volusia County School Board, and the State of Florida Office of the Auditor General, and is not intended to be and should not be used by anyone other than these specified parties.

Orlando, FL  
September 13, 2016



## **AUDITORS' COMMENTS – CURRENT YEAR**

### **Significant Deficiencies**

#### **2016-1 Bank Reconciliations Should Be Properly Prepared**

Our review of the year-end bank reconciliations indicated a large number of old outstanding reconciling items – deposits and checks, as well as the balances per the reconciliations not agreeing to the general ledger. Upon further investigation, it was determined that some items had actually cleared during the year but were never removed from the reconciliations, as well as other items that were erroneous and should be removed from the reconciliations.

We recommend greater care be exercised in the bank reconciliation process by investigating old outstanding reconciling items and removing them from the reconciliation on a timely basis. Staff should also ensure the reconciliations are performed monthly and that they are in agreement with the general ledger balances.

### **Other Comments**

#### **2016-2 Ensure Proper Coding of Activity in the General Ledger Accounts**

We again noted a large number of errors or inconsistencies in the coding of transactions in the general ledger accounts. These errors impact the comparability of accounts from year to year. They also cause extra audit effort to ensure the accounts are properly stated.

We recommend greater effort be made to code the activity into the proper general ledger account, as well as providing adequate descriptions of each entry in the general ledger. In addition, we recommend a monthly review of the general ledger activity to determine if the postings were recorded in the proper accounts.

Although we noted some improvement, we continue to recommend the account distribution be documented on each invoice or other supporting documentation to enable anyone to ascertain the proper accounts are being coded, and to facilitate their traceability.

#### **2016-3 Maintain Confirmation from Plan Administrator of Payments to 401(k) Plan**

On a semi-monthly payroll basis, a payment is made to the 401(k) Pension Plan through an on-line submission initiated by the School. The Plan Administrator provides a confirmation through an “Automated Funding Request Plan Member” report. This confirmation is sometimes printed out and attached to the supporting payroll documentation. Other times it is not. Due to reconciliation issues encountered near the year end, we strongly recommend printing the confirmation for each payment and attaching it to the supporting payroll documentation.

This procedure should facilitate any reconciliation issues encountered during the year.

### **Compliance**

#### **2016-4 Ensure the Financial Budget is Posted to the School’s Website**

Florida Statute 1002.23(9)(p) requires the School to maintain certain information on its website. The School was generally in compliance with those requirements. However, we noted the financial budget was not evident.

We recommend the School post the financial budget to its website to be in compliance.

## **STATUS OF PRIOR YEAR COMMENTS**

### **2015-1 Lack of Segregation of Duties**

We noted the School made improvements in internal control to compensate for the weaknesses identified in the lack of segregation of duties. These include:

1. Removing the finance director/bookkeeper as an authorized check signer.
2. Assigning another person to be the custodian of petty cash.
3. Placing greater emphasis on exercising a higher level of management review and supervision.
4. Continuing the use of an outside accounting firm to provide preparation of periodic financial statements and review.

We continue to recommend the School consider hiring an in-house bookkeeper and return to the former structure that allowed for an adequate separation of duties. In any event, management should be acutely aware of this weakness and continue to make improvements in internal control to overcome this inherent weakness in internal control.

### **2015-2 Bank Reconciliations Should Be Properly Prepared**

We again noted problems with the year-end bank reconciliations. See current year comment No. 2016-1.

### **2015-3 Qualified Public Depositories**

We noted that Mainstreet Community Bank is now on the Florida Department of Financial Services Collateral Management "Active Qualified Public Depositories" listing. Thus, this compliance issue has been corrected.

### **2015-4 Ensure Proper Coding of Activity in the General Ledger Accounts**

We again noted problems with improper postings of activity in the general ledger accounts. See current year comment No. 2016-2

### **2015-5 Retitle Certain General Ledger Accounts for Understandability**

For the most part, the recommended changes were made to relabel "Other Miscellaneous" to "District Admin Fee" where appropriate.

### **2015-6 Ensure Software is Updated to Conform to New Federal Withholding Rates**

We did not note any issues similar to those encountered in the prior year.



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September 13, 2016

Holland and Reilly  
601 North Fern Creek Ave.  
Suite 200  
Orlando, Florida 32803

To whom it may concern:

In response to the "Auditors' Comments -- Current Year" 2016-1: The school is in the process of looking to hire an additional bookkeeper with the expertise required for bank reconciliations to exercise greater care and accuracy posting detailed descriptions of transactions for the three school bank accounts; Main, Lunch and PTA. The expectation is to have this person in place by the end of September or mid-October, 2016.

In response to the "Other' Comments -- Current Year" 2016-2: The following will occur: hire an additional bookkeeper with the training and or expertise of Governmental Red Book accounting to support the accuracy of details when coding transactions in the General Ledger; having the Governing Board treasurer complete a monthly check and balance of proper coding practice; have Governing Board treasurer check bank reconciliations prior to sending to outside accounting firm; monthly communication between the outside accounting firm and Principal for the purpose of knowing bookkeepers are meeting expectations for proper coding, posting and accuracy in accounting.

In response to the "Other' Comments -- Current Year" 2016-3: The 401(k) Pension plan report will be printed and attached to each payroll submission.

In response to the "Other' Comments -- Current Year" 2016-4: The 2016-17 school year budget will be posted on the website as soon as it is approved. Expectation for budget to be posted is by the end of September, 2016.

In response to Lack of Segregation of Duties 2015-1: Management is acutely aware of this weakness and will continue to make improvements on internal control. The following will occur: The Reading Edge Academy, Inc. will hire an additional bookkeeper with the training and or expertise of Governmental Red Book accounting to support the accuracy of details when coding transactions in banking and the General Ledger.

Sincerely,

Peggy Comardo, Principal