

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

FINANCIAL STATEMENTS
(Audited)

Year Ended June 30, 2019

READING EDGE ACADEMY, INC.
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DAVID S. HOLLAND, CPA
THOMAS F. REILLY, CPA

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, 2019, 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 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 and each major fund of Reading Edge Academy, Inc. as of June 30, 2019 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, 2019 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 effectiveness of the School's 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, 2019

READING EDGE ACADEMY, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
for the year ended June 30, 2019

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, 2019. 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, 2019. 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 \$1,006,260 which represents a \$41,918 increase from the prior year's fund balance of \$964,342.
- Student enrollment at June 30, 2019 was 279 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 \$2,829,588. 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 \$919,160.

GASB Statement 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, 2019

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

	<u>2018</u>	<u>2019</u>
Program revenues:		
Charges for services	\$ 289,529	\$ 246,420
General revenues:		
Federal sources	-	3,909
State sources	2,187,924	1,974,589
Local sources	177,959	198,122
Donations	9,072	4,065
Total revenues	<u>2,664,484</u>	<u>2,427,105</u>
Expenses:		
Instruction-basic	1,238,553	1,230,252
Instruction-exceptional	128,462	152,848
General administration	27,906	28,608
School administration	391,285	397,056
Fiscal services	66,691	65,796
Pupil transportation services	21,052	20,170
Food services	169,336	167,949
Operation of plant	169,545	166,116
Other programs and services	85,433	68,813
Interest	116,165	109,961
Total expenses	<u>2,414,428</u>	<u>2,407,569</u>
Change in net position	250,056	19,536
Net position:		
Beginning of year	<u>2,559,996</u>	<u>2,810,052</u>
End of year	<u>\$ 2,810,052</u>	<u>\$ 2,829,588</u>

General revenues decreased by \$194,270 primarily due to decreases in the Florida Education Finance Program funding and capital outlay funding. Total expenses decreased \$6,859 from the prior fiscal year, mainly due to decreases in school administrative costs. Program revenues decreased by \$43,109 mainly due to decreased childcare and PTA fundraising revenue.

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

	<u>2018</u>	<u>2019</u>	<u>% change</u>
Total assets	\$ 5,029,872	\$ 4,944,087	(1.7)
Total liabilities	<u>2,219,820</u>	<u>2,114,499</u>	(4.7)
Net position:			
Net investment in capital assets	1,905,690	1,898,550	(0.4)
Restricted	154,259	11,878	(92.3)
Unrestricted	<u>750,103</u>	<u>919,160</u>	22.5
	<u>\$ 2,810,052</u>	<u>\$ 2,829,588</u>	

READING EDGE ACADEMY, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
for the year ended June 30, 2019

Total assets decreased by \$85,785 primarily due to the depreciation on capital assets. Total liabilities decreased by \$105,321, 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 \$962,141, the nonspendable fund balance was \$32,241, for a total of \$994,382. The total fund balance of the School was \$1,006,260. As a measure of the General Fund liquidity, it may be useful to compare total fund balance to total fund expenditures. Total General Fund balance represents 46%, or about five and a half months, of total General Fund expenditures.

Revenues were \$184,299 greater than expenditures for the General Fund and \$142,381 less than expenditures in the Capital Projects Fund. In the prior year, General Fund revenues were \$133,200 greater than General Fund expenditures.

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, 2019 was not revised this year. Actual revenues were less than budgeted revenues by \$116,081, primarily due to decreased FEFP funding, as well as reductions in childcare and other charges for services. Actual expenditures were less than the budget by \$163,115 due to overall reductions in instruction expenses.

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, 2019 is \$3,907,110 (net of accumulated depreciation). Current year additions include purchases of \$23,984 for a freezer, air conditioner, and security cameras. See Note 4 for additional information on capital assets.
- The School made principal payments of \$99,211 to reduce the mortgage loan balance to \$2,008,560, incurring interest expenditures of \$110,946. See Note 5 for additional information on long-term debt.

Economic Factors and Next Year's Budget

The Reading Edge Academy 2019-2020 budget will be approved at the September 2019 Governing Board meeting. The following was taken into consideration when compiling the budget: increase of payroll, reduction of teachers, reduction of student enrollment; reduction of expenditures in various areas; increased cost of full time speech language pathologist; increased student technology needs due to age of current devices; decreases in property and liability insurances, and reduced health insurance costs because one employee is now on Medicare. The School's annual budget is based on 270 students and we currently have 263 students. The expectation is that enrollment will increase before the October FTE survey following trends from prior years.

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, 2019

	Governmental Funds				Adjust- ments	Statement of Net Position
	General	Capital Projects	Debt Service	Total		
Assets:						
Cash and cash equivalents	\$ 992,858	\$ 1,787	\$ -	\$ 994,645	\$ -	\$ 994,645
Grants receivable		10,091		10,091		10,091
Inventory	7,071			7,071		7,071
Prepaid items	24,170			24,170		24,170
Deposits	1,000			1,000		1,000
Capital assets not being depreciated				-	503,616	503,616
Capital assets, net of accumulated depreciation				-	3,403,494	3,403,494
Total assets	\$ 1,025,099	\$ 11,878	\$ -	\$ 1,036,977	\$ 3,907,110	\$ 4,944,087
Liabilities:						
Accounts payable	11,369			11,369		11,369
Accrued liabilities	16,848			16,848	70,787	87,635
Due to Samsula Academy	2,500			2,500		2,500
Construction payable				-		-
Accrued interest payable				-	4,435	4,435
Notes payable:						
Current				-	115,555	115,555
Long-term				-	1,893,005	1,893,005
Total liabilities	30,717	-	-	30,717	2,083,782	2,114,499
Fund Balances/Net Position						
Fund balances:						
Nonspendable	32,241			32,241	(32,241)	-
Restricted		11,878		11,878	(11,878)	-
Unassigned	962,141	-	-	962,141	(962,141)	-
Total fund balances	994,382	11,878	-	1,006,260	(1,006,260)	-
Total liabilities and fund balances	\$ 1,025,099	\$ 11,878	\$ -	\$ 1,036,977		
Net position:						
Net investment in capital assets					1,898,550	1,898,550
Restricted					11,878	11,878
Unrestricted					919,160	919,160
Total net position					\$ 2,829,588	\$ 2,829,588

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, 2019

	<u>Governmental Funds</u>				Adjust- ments	Statement of Activities
	<u>General</u>	<u>Capital Projects</u>	<u>Debt Service</u>	<u>Total</u>		
Expenditures/expenses:						
Instruction - basic	\$ 1,119,051	\$ -	\$ -	\$ 1,119,051	\$ 111,201	\$ 1,230,252
Instruction - exceptional	152,848			152,848		152,848
General administration	28,608			28,608		28,608
School administration	366,195			366,195	30,861	397,056
Fiscal services	65,705			65,705	91	65,796
Pupil transportation services	20,170			20,170		20,170
Food services	164,887	6,384		171,271	(3,322)	167,949
Operation of plant	164,769	17,600		182,369	(16,253)	166,116
Other programs and services	68,813			68,813		68,813
Debt service:						
Principal			99,211	99,211	(99,211)	-
Interest			110,946	110,946	(985)	109,961
Total expenditures/expenses	<u>2,151,046</u>	<u>23,984</u>	<u>210,157</u>	<u>2,385,187</u>	<u>22,382</u>	<u>2,407,569</u>
Program revenues:						
Charges for services	<u>246,420</u>			<u>246,420</u>		<u>246,420</u>
Net program expense						<u>2,161,149</u>
General revenues:						
Federal sources	3,909			3,909		3,909
State sources	1,829,495	145,094		1,974,589		1,974,589
Local sources	198,122			198,122		198,122
Donations	4,065			4,065		4,065
Total general revenues	<u>2,035,591</u>	<u>145,094</u>	<u>-</u>	<u>2,180,685</u>	<u>-</u>	<u>2,180,685</u>
Excess of revenues over (under) expenditures	130,965	121,110	(210,157)	41,918		
Other funding sources (uses):						
Transfer in (out)	<u>53,334</u>	<u>(263,491)</u>	<u>210,157</u>	<u>-</u>		<u>-</u>
Total other funding sources (uses)	<u>53,334</u>	<u>(263,491)</u>	<u>210,157</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess of revenues and other funding sources (uses) over (under) expenditures	184,299	(142,381)	-	41,918	(41,918)	
Change in net position					19,536	19,536
Fund balance/net position:						
Beginning of year	<u>810,083</u>	<u>154,259</u>	<u>-</u>	<u>964,342</u>	<u>-</u>	<u>2,810,052</u>
End of year	<u>\$ 994,382</u>	<u>\$ 11,878</u>	<u>\$ -</u>	<u>\$ 1,006,260</u>	<u>\$ -</u>	<u>\$ 2,829,588</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. In July 2016, the School Board approved another five-year extension of the agreement through June 30, 2021. 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.

Samsula Academy is a separate charter school that operates under the legal structure of the School. It has a separate charter with the School Board and issues separate financial statements in accordance with its charter. Samsula Academy's operations are not included in these financial statements.

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 prescribed by the Governmental Accounting Standards Board (GASB), 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 to pay expenses, 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 and Local Capital Improvement Revenue) 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, 2019, 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 deposit 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 of food and school uniforms 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 buildings, and furniture, 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 acquisition 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 buildings	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 number of hours. Employees 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 Florida Department of Education allocates gross receipt taxes, generally known as Public Education Capital Outlay money, to local school boards on an annual basis. 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 \$32,241 in nonspendable fund balance amounts at June 30, 2019 for prepaid items (\$24,170), inventory (\$7,071) 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 \$11,878 restricted fund balance for capital outlay at June 30, 2019.

Committed – amounts that can be used only 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, 2019.

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, 2019.

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 \$1,823,328 between ending governmental fund balances and total net position as follows:

Governmental fund balances	\$ 1,006,260
Capital assets, net	3,907,110
Compensated absences	(70,787)
Accrued interest payable	(4,435)
Notes payable	<u>(2,008,560)</u>
Total net position	<u>\$ 2,829,588</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 (\$22,382) between "excess of revenues over expenditures" and "change in net position" as follows:

Excess of revenues over expenditures	\$ 41,918
Add: Capital outlay expenditures	23,984
Principal payments on notes payable	99,211
Accrued interest expense	985
Less: Depreciation expense	(130,335)
Increase in compensated absences	<u>(16,227)</u>
Change in net position	<u>\$ 19,536</u>

3. Cash and Cash Equivalents:

At June 30, 2019, the carrying amount of demand deposits and cash on hand totaled \$994,645.

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 every qualified public depository institution to 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, 2019.

The School has not adopted a formal investment policy. Thus, there are no policies relative to interest rate risk or credit risk.

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, 2018	Increases	Decreases, Adjustments, Transfers	Balance June 30, 2019
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	4,564,751	6,695	-	4,571,446
Furniture and equipment	185,722	17,289	-	203,011
Total capital assets being depreciated	<u>4,750,473</u>	<u>23,984</u>	<u>-</u>	<u>4,774,457</u>
Less accumulated depreciation for:				
Buildings and improvements	1,074,000	119,460	-	1,193,460
Furniture and equipment	166,628	10,875	-	177,503
Total accumulated depreciation	<u>1,240,628</u>	<u>130,335</u>	<u>-</u>	<u>1,370,963</u>
Total capital assets being depreciated, net	<u>3,509,845</u>	<u>(106,351)</u>	<u>-</u>	<u>3,403,494</u>
Total capital assets, net	<u>\$ 4,013,461</u>	<u>(106,351)</u>	<u>-</u>	<u>3,907,110</u>

Depreciation was charged to functions as follows:

Instruction - basic	\$ 94,974
School administration	30,861
Fiscal services	91
Food services	3,062
Operation of plant	1,347
	<u>\$ 130,335</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 was October 13, 2018 when a balloon payment and any accrued interest were due. The School refinanced the note extending the maturity date to October 13, 2025. The interest rate and monthly payments remain the same. The balance of the mortgage note payable at June 30, 2019 was \$2,008,560. The loan is collateralized by the School building.

Under terms of the mortgage note, upon any default as specified in the note documents (i.e., failure to pay amounts when due or upon final maturity, providing required financial statements within specified time frames, false statements, insolvency, foreclosure proceedings, failure to comply with certain loan covenants, among others), the interest rate will increase to 18%, but not in excess of the maximum interest rate limitations under applicable law.

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, 2018	Increases	Decreases	Balance June 30, 2019	Due Within One Year
Accrued liabilities:					
Compensated absences	\$ 54,560	16,227	-	70,787	70,787
Mortgage payable	<u>2,107,771</u>	<u>-</u>	<u>99,211</u>	<u>2,008,560</u>	<u>115,555</u>
	<u>\$ 2,162,331</u>	<u>16,227</u>	<u>99,211</u>	<u>2,079,347</u>	<u>186,342</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
2020	\$ 115,555	103,673	219,228
2021	121,830	97,398	219,228
2022	128,446	90,782	219,228
2023	135,421	83,807	219,228
2024	142,776	76,452	219,228
Thereafter	<u>1,364,532</u>	<u>89,803</u>	<u>1,454,335</u>
	<u>\$ 2,008,560</u>	<u>541,915</u>	<u>2,550,475</u>

Interest expense for the year ended June 30, 2019 was \$109,961.

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, 2019. 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, 2019, the School's contribution was \$36,873.

READING EDGE ACADEMY, INC.
NOTES TO FINANCIAL STATEMENTS

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.

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. Related Party Transactions:

At June 30, 2019, the School had a payable of \$2,500 to Samsula Academy to repay funds related to the purchase of a capital asset for the School. Repayment of these funds is anticipated during the next school year.

11. New Accounting Standard:

The School implemented GASB Statement 88 - *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*. The implementation of this statement had no effect on the change in net position or fund balance, but did impact certain disclosures related to long-term debt – see Note 5.

12. Subsequent Events:

Management has evaluated events and transactions for potential recognition or disclosure through September 13, 2019, the date on which the financial statements were available to be issued.

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

for the year ended June 30, 2019

	<u>Budgeted</u> <u>Amounts</u>		
	Original and Final	<u>Actual</u> <u>Amounts</u>	Positive (Negative) Variance
General Fund			
Program Revenues:			
Charges for services	\$ 313,000	\$ 246,420	\$ (66,580)
General Revenues:			
Federal sources	-	3,909	3,909
State sources	1,905,092	1,829,495	(75,597)
Local sources	180,000	198,122	18,122
Donations	-	4,065	4,065
Total revenues	<u>2,398,092</u>	<u>2,282,011</u>	<u>(116,081)</u>
Expenditures:			
Instruction - basic	1,254,771	1,119,051	135,720
Instruction - exceptional	163,512	152,848	10,664
General administration	27,673	28,608	(935)
School administration	367,104	366,195	909
Fiscal services	62,237	65,705	(3,468)
Pupil transportation services	10,000	20,170	(10,170)
Food services	154,803	164,887	(10,084)
Operation of plant	182,850	164,769	18,081
Other programs and services	91,211	68,813	22,398
Total expenditures	<u>2,314,161</u>	<u>2,151,046</u>	<u>163,115</u>
Excess of revenues over expenditures	83,931	130,965	47,034
Other funding sources:			
Transfers in	<u>18,772</u>	<u>53,334</u>	<u>34,562</u>
Total other funding sources	<u>18,772</u>	<u>53,334</u>	<u>34,562</u>
Excess of revenues and other funding sources over expenditures	102,703	184,299	81,596
Fund balance at beginning of year	810,083	810,083	-
Fund balance at end of year	<u>\$ 912,786</u>	<u>\$ 994,382</u>	<u>\$ 81,596</u>

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THOMAS F. REILLY, CPA

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ASSOCIATION OF
CERTIFIED FRAUD EXAMINERS

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, 2019, 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, 2019.

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. 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 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 2019-3 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.

Holland & Reilly

Orlando, Florida
September 13, 2019

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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, 2019 and have issued our report thereon dated September 13, 2019.

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, 2019, 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 official title and school code of the entity assigned by the Florida Department of Education are The Reading Edge Academy and 6891.

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) 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 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) Noncompliance with 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 2019-1, 2019-2 and 2019-3 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 the audit report for the year ended June 30, 2018. See Comment 2019-3 on page 20.

Comments 2019-1 and 2019-3 on page 20 have been repeated in the prior two audit reports.

This management letter is intended solely for the information of the Board of Directors and management of Reading Edge Academy, Inc., 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, Florida
September 13, 2019



AUDITORS' COMMENTS – CURRENT YEAR

Other Comments

2019-1 Ensure Proper Coding of Activity in the General Ledger Accounts

We again noted a 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. This is a repeat comment.

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.

We noted some improvement regarding account distribution being documented on each invoice or other supporting documentation. This better enables anyone to ascertain the proper accounts are being coded, and to facilitate their traceability.

2019-2 Remove Old Voided and Duplicate Checks From Bank Reconciliations

We noted a number of old voided and/or duplicate checks listed as outstanding in the School's monthly bank reconciliations. Some go back two years. These outstanding checks make the bank reconciliations more tedious and less accurate.

We recommend these checks be removed from the reconciliations to ensure greater accuracy in these reconciliations.

Compliance

2019-3 Ensure the Audit Report 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 prior year audit report was not evident. This is a repeat comment.

We recommend the School post the prior year audit report to its website to be in compliance.

STATUS OF PRIOR YEAR COMMENTS

2018-1 Ensure Proper Coding of Activity in the General Ledger Accounts

We again noted errors and inconsistencies in the coding of transactions in the general ledger accounts. See current year Comment 2019-1.

2018-2 Ensure the Financial Budget is Posted to the School's Website

We noted the financial budget and Board minutes were properly and timely posted to the School's website. However, the prior year audit report was not evident. See current year Comment 2019-3.



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September 13, 2019

Holland and Reilly
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To whom it may concern:

In response to the "Auditors' Comments – Current Year" 2019-1: The school began scanning invoices in August with the coding and approval on them with the purpose for the Contracted Accountant to review actual invoices and verify proper coding in the General Ledger. The internal bookkeeping and administration will work more closely to place greater effort in completing this task more efficiently with additional assistance from the Treasurer.

In response to the "Auditors' Comments – Current Year" 2019-2: The old voided and duplicate checks from bank reconciliations which are listed as outstanding checks will be removed prior to the October statement reconciliations. The school will work closely with the Contracted Accountant to ensure this task is completed.

In response to the "Auditors' Comments – Current year" 2019-3: The school's audit report from 2017-18 fiscal year is now posted on our website. We will ensure the yearly audit is posted timely in the future.

Sincerely,

Margaret Comardo, Principal