

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

FINANCIAL STATEMENTS
(Audited)

Year Ended June 30, 2012

READING EDGE ACADEMY, INC.
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INDEPENDENT AUDITORS' REPORT

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

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, 2012, which collectively comprise the School's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the School's management. Our responsibility is to express opinions on these financial statements based on our audit.

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. 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our 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, 2012, and the respective changes in financial position thereof for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 30, 2012 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* and should be considered in assessing the results of our audit.

U.S. generally accepted accounting principles require that the management's discussion and analysis on pages 3 through 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 (GASB), 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 response 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.

Orlando, FL
August 30, 2012

Holland & Reilly

READING EDGE ACADEMY, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
for the year ended June 30, 2012

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, 2012. 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. 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 Assets and Governmental Funds Balance Sheets presents information on all of the School's assets and liabilities, with the difference between the two reported as net assets, as of June 30, 2012. Over time, increases or decreases in net assets may serve as a useful indicator of whether the School's financial condition is improving or deteriorating.

The Statement of Activities and Governmental Fund Revenues, Expenditures, and Changes in Fund Balances presents information showing how the School's net assets 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 assets 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 renovation/construction project at Reading Edge Academy, Inc. which commenced in a prior fiscal year, continued with \$1,091,436 in expenditures and was completed during the year.
- Reading Edge Academy, Inc. utilized a construction loan of \$2.7 million for its \$3.6 million renovation construction project; converting it to a \$2.7 million mortgage loan at the conclusion of the project.
- The School's governmental funds had a positive fund balance of \$526,411 which represents an improvement over the prior year's fund balance of \$331,050.

READING EDGE ACADEMY, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
for the year ended June 30, 2012

Financial Analysis

Government-wide Financial Statements

Net assets 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 \$2,450,111. A substantial portion of net assets represents investment in capital assets, net of related debt, and thus is not available for future spending. The balance in unrestricted net assets was \$508,100.

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

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

	<u>2011</u>	<u>2012</u>	<u>% change</u>
Total assets	\$ 3,979,376	\$ 5,153,633	30
Total liabilities	<u>1,379,498</u>	<u>2,703,522</u>	96
Net assets:			
Invested in capital assets, net of related debt	2,250,901	1,942,011	(14)
Unrestricted	<u>348,977</u>	<u>508,100</u>	46
	<u>\$ 2,599,878</u>	<u>\$ 2,450,111</u>	

Total assets increased by \$1,174,257, primarily due to completion of construction and renovation of the Reading Edge facility. Total liabilities increased by \$1,324,024, primarily due to the issuance of a \$2.7 million loan payable, net of the pay off of prior existing debt.

The following is a summary of changes in the statement of activities:

	<u>2011</u>	<u>2012</u>	<u>% change</u>
Total expenses	\$ 1,590,903	\$ 2,250,437	41
Less program revenues	<u>205,656</u>	<u>252,071</u>	23
Net program expense	1,385,247	1,998,366	
General revenues	<u>1,840,572</u>	<u>1,848,599</u>	0
Change in net assets	<u>\$ 455,325</u>	<u>\$ (149,767)</u>	

Total expenses increased \$659,534 over the prior fiscal year, due mainly to increased operating costs associated with an expanded facility, increased student enrollment requiring additional instructional costs, as well as increased debt service expense due to the new mortgage loan. Program revenues increased by \$46,415 (23%) primarily due to more students using the school lunch program.

READING EDGE ACADEMY, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
for the year ended June 30, 2012

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 \$519,483, the nonspendable fund balance was \$6,928, while the total fund balance of the School was \$526,411. 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 26.9% of total General Fund expenditures.

Revenues were \$243,966 greater than expenditures in the General Fund and revenues were \$195,361 greater than expenditures for all governmental funds for the current year. In the prior year, General Fund revenues were \$141,180 greater than General Fund expenditures and revenues were \$313,963 greater than expenditures for all governmental funds. The current year activity reflects the expenditures made related to the renovation/construction project and the associated debt issuance; increased student enrollment, as well as more students participating in the lunch program.

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, 2012 was revised twice, in April and June 2012. Major changes reflected in the revised budgets related to increases in nearly all functional expenditure categories due to increased operating costs associated with the expanded facility.

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, 2012 is \$4,592,036 (net of accumulated depreciation). Current year additions include purchases of property and equipment and \$1,091,436 in expenditures related to the major renovation/construction project to improve and expand the existing facilities of Reading Edge Academy, Inc., which was completed in August 2011.
- The School utilized a \$2.7 million construction loan to complete its renovation construction project. In October 2011, the construction loan was replaced by a \$2.7 million mortgage loan.

Economic Factors and Next Year's Budget

The new addition was completed with a Certificate of Completion dated August 11, 2011. The approved Reading Edge Academy 2012-2013 budget took into consideration the additional revenue and expenses that will be incurred with the expansion of the school. The annual budget was based on 310 students and we currently have 318 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 ASSETS AND
GOVERNMENTAL FUNDS BALANCE SHEETS
June 30, 2012

Reading Edge Academy, Inc.						
Governmental Funds						
	General	Capital Projects	Debt Service	Total	Adjust- ments	Statement of Net Assets
Assets:						
Cash and cash equivalents	\$ 508,180	\$ -	\$ -	\$ 508,180	\$ -	\$ 508,180
Accounts receivable	2,641			2,641		2,641
Inventory	4,270			4,270		4,270
Deposits	23,000			23,000		23,000
Loan issuance costs				-	20,848	20,848
Prepaid items	2,658			2,658		2,658
Capital assets, net of accumulated depreciation				-	4,592,036	4,592,036
Total assets	<u>\$ 540,749</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 540,749</u>	<u>\$ 4,612,884</u>	<u>\$ 5,153,633</u>
Liabilities:						
Accounts payable	12,346			12,346		12,346
Accrued liabilities	1,992			1,992	31,402	33,394
Accrued interest payable				-	7,757	7,757
Notes payable:						
Current				-	80,782	80,782
Long-term				-	2,569,243	2,569,243
Total liabilities	<u>14,338</u>	<u>-</u>	<u>-</u>	<u>14,338</u>	<u>2,689,184</u>	<u>2,703,522</u>
Fund Balances/Net Assets:						
Fund balances:						
Nonspendable	6,928			6,928	(6,928)	-
Unassigned	519,483		-	519,483	(519,483)	-
Total fund balances	<u>526,411</u>	<u>-</u>	<u>-</u>	<u>526,411</u>	<u>(526,411)</u>	<u>-</u>
Total liabilities and fund balances	<u>\$ 540,749</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 540,749</u>		
Net assets:						
Invested in capital assets, net of related debt					1,942,011	1,942,011
Unrestricted					508,100	508,100
Total net assets					<u>\$ 2,450,111</u>	<u>\$ 2,450,111</u>

See accompanying notes.

READING EDGE ACADEMY, INC.
STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUND
REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
for the year ended June 30, 2012

	<u>Governmental Funds</u>				Adjust- ments	Statement of Activities
	General	Capital Projects	Debt Service	Total		
Expenditures/expenses:						
Instruction - basic	\$ 1,050,405	\$ 1,244	\$ -	\$ 1,051,649	\$ 78,868	\$ 1,130,517
Instruction - exceptional	104,357			104,357		104,357
General administration	24,518			24,518		24,518
School administration	288,852	1,868		290,720	21,607	312,327
Facilities acquisitions		1,091,436		1,091,436	(1,091,436)	-
Fiscal services	133,460			133,460		133,460
Pupil transportation services	19,411			19,411		19,411
Food services	137,524			137,524	10,977	148,501
Operation of plant	129,795	13,627		143,422	(11,462)	131,960
Other programs and services	67,605			67,605		67,605
Debt service:						
Principal			49,975	49,975	(49,975)	-
Interest			122,904	122,904	7,757	130,661
Debt issuance costs			24,642	24,642	22,478	47,120
Total expenditures/expenses	<u>1,955,927</u>	<u>1,108,175</u>	<u>197,521</u>	<u>3,261,623</u>	<u>(1,011,186)</u>	<u>2,250,437</u>
Program revenues:						
Charges for services	<u>252,071</u>	<u>-</u>	<u>-</u>	<u>252,071</u>		<u>252,071</u>
Net program expense						<u>1,998,366</u>
General revenues:						
State sources	1,626,562	100,568		1,727,130		1,727,130
Local sources	124,335			124,335		124,335
Debt proceeds			1,353,448	1,353,448	(1,353,448)	-
Sale of capital assets				-	(2,866)	(2,866)
Transfers - internal activities	<u>196,925</u>	<u>959,002</u>	<u>(1,155,927)</u>	<u>-</u>		<u>-</u>
Total general revenues	<u>1,947,822</u>	<u>1,059,570</u>	<u>197,521</u>	<u>3,204,913</u>	<u>(1,356,314)</u>	<u>1,848,599</u>
Excess (deficiency) of revenues and transfers over expenditures	243,966	(48,605)	-	195,361	(195,361)	-
Change in net assets					(149,767)	(149,767)
Fund balance/net assets:						
Beginning of year	<u>282,445</u>	<u>48,605</u>	<u>-</u>	<u>331,050</u>	<u>-</u>	<u>2,599,878</u>
End of year	<u>\$ 526,411</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 526,411</u>	<u>\$ -</u>	<u>\$ 2,450,111</u>

See accompanying notes.

READING EDGE ACADEMY, INC.
NOTES TO FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies:

Reporting Entity - Reading Edge Academy, Inc. 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, 2012. During 2011, the School Board approved another five year extension of the agreement through June 30, 2016. 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.

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). Years subject to examination by the taxing authorities are 2010 to 2012.

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.

Government-wide and Fund Financial Statements – The government-wide financial statements (i.e. the statement of net assets 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.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board (GASB).

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 the State 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, 2012, the Board adopted annual budgets for the General Fund. The School is not required to submit its budget to any regulatory agencies.

READING EDGE ACADEMY, INC.
NOTES TO FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies - continued:

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.

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 market 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

READING EDGE ACADEMY, INC.
NOTES TO FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies - continued:

State Revenue Sources (cont.) for the same categorical educational programs. The Department generally requires that categorical educational program revenues be accounted for in the General Fund.

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 it is not in spendable form or because of legal or contractual requirements. The School had \$6,928 in nonspendable fund balance amounts at June 30, 2012.

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, 2012.

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, 2012.

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, 2012.

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), loan issuance costs, compensated absences, accrued interest payable, and long-term liabilities on the statement of net assets. This resulted in a net difference of \$1,923,700 between ending governmental fund balances and total net assets as follows:

Ending fund balances	\$ 526,411
Capital assets, net	4,592,036
Loan issuance costs	20,848
Compensated absences	(31,402)
Accrued interest payable	(7,757)
Notes payable	<u>(2,650,025)</u>
Total net assets	<u>\$ 2,450,111</u>

Adjustments were made to include depreciation expense, eliminate capital outlay expenditures, adjust change in compensated absences, eliminate loan issuance expenditures, and eliminate proceeds and principal payments on notes payable. This resulted in a net difference of \$345,128 between "excess of revenues and transfers over expenditures" and "change in net assets" as follows:

Excess of revenues over expenditures	\$ 195,361
Add: Capital outlay expenditures	1,108,175
Principal payments on notes payable	49,975
Loan issuance cost expenditures	22,892
Less: Depreciation expense	(110,725)
Loss on disposition of capital assets	(2,866)
Accrued interest expense	(7,757)
Loan costs amortization expense	(2,044)
Loan costs written off	(43,326)
Increase in compensated absences	(6,004)
Debt proceeds	<u>(1,353,448)</u>
Change in net assets	<u>\$ (149,767)</u>

3. Related Parties:

Four Board members are also employees of the School. One is the School's principal and another is her spouse, the office administrator. The School's assistant principal is also a board member. A fourth board member, who serves as the Treasurer of the Board, is the Chief Financial Officer and oversaw the renovation/construction project. His spouse is also a teacher at Reading Edge Academy, Inc.

In addition, the principal's son was paid \$1,200 for construction related services.

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, 2011	Increases	Decreases, Adjustments, Transfers	Balance June 30, 2012
Capital assets not being depreciated:				
Land	\$ 503,616	-	-	503,616
Construction in progress	2,118,141	1,091,436	(3,209,577)	-
Total capital assets not being depreciated	<u>2,621,757</u>	<u>1,091,436</u>	<u>(3,209,577)</u>	<u>503,616</u>
Capital assets being depreciated:				
Buildings and improvements	1,261,065	-	3,113,849	4,374,914
Furniture and equipment	77,203	16,739	45,262	139,204
Vehicles	2,842	-	-	2,842
Total capital assets being depreciated	<u>1,341,110</u>	<u>16,739</u>	<u>3,159,111</u>	<u>4,516,960</u>
Less accumulated depreciation for:				
Buildings and improvements	303,535	92,738	(12,925)	383,348
Furniture and equipment	60,931	17,419	(34,673)	43,677
Vehicles	947	568	-	1,515
Total accumulated depreciation	<u>365,413</u>	<u>110,725</u>	<u>(47,598)</u>	<u>428,540</u>
Total capital assets being depreciated, net	<u>975,697</u>	<u>(93,986)</u>	<u>3,206,709</u>	<u>4,088,420</u>
Total capital assets, net	<u>\$ 3,597,454</u>	<u>997,450</u>	<u>(2,868)</u>	<u>4,592,036</u>

Depreciation was charged to functions as follows:

Instruction - basic	\$ 74,108
School administration	23,452
Food services	10,977
Operation of plant	2,188
	<u>\$ 110,725</u>

In a prior year the School commenced a major renovation/construction project to improve and expand its existing facilities. This year it expended \$1,091,436 on this project, completing it and placing it in service in October 2011.

5. Long-term Obligations:

Construction loan – The School entered into a \$2,700,000 construction loan payable from a financial institution dated April 27, 2011 with draws totaling \$2,700,000 through August 2011. Terms were interest only monthly payments through the construction period at the bank's "construction rate" plus 2%. The loan was converted into a permanent loan with another financial institution in October 2011.

READING EDGE ACADEMY, INC.
NOTES TO FINANCIAL STATEMENTS

5. Long-term Obligations - continued:

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 the \$2,700,00 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, 2012 was \$2,650,025.

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

	Balance June 30, 2011	Increases	Decreases	Balance June 30, 2012	Due Within One Year
Accrued liabilities:					
Compensated absences	\$ 25,398	6,004	-	31,402	31,402
Mortgage payable	-	2,700,000	49,975	2,650,025	80,782
Construction loan	1,346,552	1,353,448	2,700,000	-	-
	<u>\$ 1,371,950</u>	<u>4,059,452</u>	<u>2,749,975</u>	<u>2,681,427</u>	<u>112,184</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
2013	\$ 80,782	138,446	219,228
2014	85,169	134,059	219,228
2015	89,794	129,434	219,228
2016	94,670	124,558	219,228
2017	99,812	119,416	219,228
Thereafter	<u>2,199,798</u>	<u>159,782</u>	<u>2,359,580</u>
	<u>\$ 2,650,025</u>	<u>805,695</u>	<u>3,455,720</u>

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, 2012. Settled claims resulting from these risks have not exceeded commercial coverage in the past three years.

READING EDGE ACADEMY, INC.
NOTES TO FINANCIAL STATEMENTS

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, 2012, the School contribution was \$40,339.

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. Subsequent Events:

Management has evaluated events and transactions for potential recognition or disclosure through August 30, 2012, 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 AND SPECIAL REVENUE FUND
for the year ended June 30, 2012

	Reading Edge Academy, Inc.		
	Budgeted Amounts		Actual
	Original	Final	Amounts
General Fund			
Program Revenues:			
Charges for services	\$ 218,600	\$ 235,050	\$ 252,071
General Revenues:			
State sources	1,527,550	1,527,550	1,626,562
Local sources	151,896	121,000	124,335
Transfers - internal activities	-	-	196,925
Total revenues	<u>1,898,046</u>	<u>1,883,600</u>	<u>2,199,893</u>
Expenditures:			
Instruction - basic	889,736	1,065,601	1,050,405
Instruction - exceptional	96,526	107,908	104,357
Instructional staff training	500	500	-
General administration	37,691	37,691	24,518
School administration	228,687	292,137	288,852
Fiscal services	130,628	137,628	133,460
Pupil transportation services	12,000	12,000	19,411
Food services	108,602	140,201	137,524
Operation of plant	95,500	145,870	129,795
Other programs and services	70,548	71,576	67,605
Transfers - internal activities	72,378	56,800	-
Total expenditures	<u>1,742,796</u>	<u>2,067,912</u>	<u>1,955,927</u>
Net change in fund balance	155,250	(184,312)	243,966
Fund balance at beginning of year	<u>282,445</u>	<u>282,445</u>	<u>282,445</u>
Fund balance at end of year	<u>\$ 437,695</u>	<u>\$ 98,133</u>	<u>\$ 526,411</u>

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ASSOCIATION OF
CERTIFIED FRAUD EXAMINERS

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 the financial statements 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, 2012, and have issued our report thereon dated August 30, 2012. 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.

Internal Control Over Financial Reporting

Management of the School is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the School's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the School's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the School's internal control over financial reporting.

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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined previously.

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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. See Comment No. 2012-1 under Auditors' Comments on page 20.

We noted certain matters that we reported to the School's management – see Comment No. 2012-2 under Auditors' Comments on page 20.

The School's response to the findings identified in our audit are described in the accompanying letter of response by management on page 21. We did not audit the School's response, and accordingly, we express no opinion on it.

This report is intended solely for the information and use of Reading Edge Academy, Inc., its management, others within the organization, and the Volusia County School Board and is not intended to be and should not be used by anyone other than these specified parties.



Orlando, Florida
August 30, 2012

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CERTIFIED FRAUD EXAMINERS

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, 2012 and have issued our report thereon dated August 30, 2012.

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 August 30, 2012, 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, fraud, illegal acts, or abuse, that have occurred, or are likely to have occurred, that have a material effect on the financial statements that is less than material but more than inconsequential;
- 3) For matters that have an inconsequential effect on the financial statements considering both quantitative and qualitative factors, the following may be reported based on professional judgment:
 - a) Violations of provisions of contracts or grant agreements, fraud, illegal acts or abuse,
 - b) Deficiencies in internal control that are not significant deficiencies.

See page 20 for several matters that came to the attention of the auditor, that, in our judgment, are required to be reported.

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.

There were no findings in the prior audit report. Thus, no corrective action was necessary.

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
August 30, 2012

Holland & Reilly

AUDITORS' COMMENTS – CURRENT YEAR

Compliance

2012-1 Comply With the Provisions of the Revised Charter

The School's charter was renewed this year – several sections were revised creating different requirements from the original charter. We noted the School did not comply with certain of these new requirements as follows:

- A. Section IIC specifies the School will have open enrollment and “all applications shall have an equal chance of being admitted through a random selection process.” Since the School's inception, it has used a first-come, first-serve process. Student applications are placed on a waiting list in the order in which they are received. Students are then accepted in that order – with certain priorities allowed for siblings and other criteria specified in Florida Statutes 1002.33(10)(d).

We recommend the School change its procedure of student admissions to comply with the revised charter by using a random selection process.

- B. Section VII revised several insurance policy limits and deductibles. The charter states the “commercial general liability” policy can have a maximum deductible of \$1,000 per occurrence for general liability and property damage. The School's insurance policy provides for a \$5,000 deductible for property damage. The charter also states the “school leader's errors and omissions” policy must provide for a minimum coverage of \$3 million annual aggregate and \$100,000 maximum deductible. The School's policy provides for a \$2 million limit.

We recommend the School revisit its insurance policies and make whatever changes are necessary to be in compliance with the charter provisions.

- C. Section VIII now specifies that no employee of the School can be a member of the School's Executive Board. We noted the School's principal, assistant principal, chief financial officer, and office administrator are members (some are officers) of the Executive Board.

We understand these individuals have been members of the Executive Board for years; however, the revised charter now has a specific prohibition of that policy. We recommend the School comply with the new requirements.

Other Comments

2012-2 Ensure Software is Updated to Conform to New Federal Withholding Rates

The Internal Revenue Service (IRS) periodically changes/updates the withholding rates for payroll purposes. During our testing of the payroll cycle, we noted the School's accounting software was not updated to conform with the revised rates as of January 1, 2012.

We recommend the School monitor the changes/updates by the IRS and coordinate with its software vendor to ensure the proper rates are implemented on a timely basis.

STATUS OF PRIOR YEAR COMMENTS

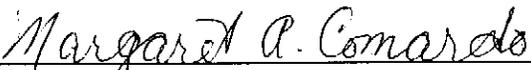
NONE

Reading Edge Academy, Inc.
2975 Enterprise Road
DeBary, FL 32713
August 30, 2012

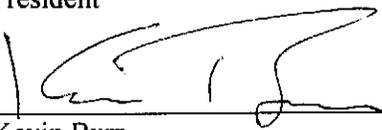
Holland & Reilly
601 Ferncreek Ave.
Suite 200
Orlando, FL 32803

We are providing this letter in response to the auditor's comments on complying with the provisions of our newest Charter:

- The school is now in compliance, using the lottery for enrollment, as of August 1, 2012
- The school is in compliance with the "commercial general liability" policy as the school has no deductibles under our current general liability policy.
- The school is currently having conversation with the District concerning the amount of coverage for these policies.
- The structure of the school's Executive Board has been brought into compliance at the August 28, 2012 Board meeting.
- The school purchases the accounting software from the CPA and this firm is responsible for making sure the software is up to date. The software was brought into compliance on July 26, 2012.



Margaret A. Comardo
President



Kevin Burr
Treasurer