



**RICHARD MILBURN ACADEMY OF FLORIDA, INC.
RICHARD MILBURN ACADEMY OF VOLUSIA COUNTY**

**FINANCIAL STATEMENTS
WITH INDEPENDENT AUDITOR'S REPORTS THEREON**

JUNE 30, 2014



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MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the annual financial report of Richard Milburn Academy of Florida, Inc. – Richard Milburn Academy of Volusia County (the “School”) presents management’s discussion and analysis of the School’s financial performance during the fiscal year ended June 30, 2014. Please read it in conjunction with the School’s basic financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- The School's total net position increased compared to the prior year.
- For the fiscal year ended June 30, 2014, the School’s revenues exceeded expenses by \$372,318, which is an increase from the prior year when expenses exceeded revenues by \$305,548.
- Overall, revenues increased by approximately \$196,000, which was a 9% increase from the prior year.
- Overall, expenses decreased by approximately \$225,000, which was a 10% decrease from the prior year.
- Total assets were \$403,446, total liabilities were \$98,831, resulting in a net position of \$304,615 as of June 30, 2014.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts – management’s discussion and analysis (this section), the basic financial statements and required supplementary information. The basic financial statements include two kinds of statements that present different views of the School:

- The first two statements are *government-wide financial statements* that provide both long-term and short-term information about the School’s overall financial status.
- The remaining statements are *fund financial statements* that focus on individual parts of the School, reporting the School’s operations in more detail than the government-wide statements.
 - The *governmental funds* financial statements tell how general school services were financed in the short term, as well as what remains for future spending.

The financial statements also include *notes* that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of *required supplementary information* that further explains and supports the information in the financial statements.

This document also includes the independent auditor’s report on internal control over financial reporting and on compliance and other matters based on an audit of financial statements performed in accordance with *Government Auditing Standards*, as well as the management letter required by the Rules of the Auditor General, Chapter 10.850.

The following table summarizes the major features of the School's financial statements, including the portion of the School they cover and the types of information they contain. The remainder of this overview section of management's discussion and analysis explains the structure and contents of each of the statements.

	Government-wide Statements	Fund Statements Governmental Funds
Scope	Entire School	The activities of the School that are not proprietary or fiduciary
Required financial statements	Statement of net position Statement of activities	Balance sheet – governmental funds Statement of revenues, expenditures and changes in fund balances – governmental funds
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus
Type of asset/liability information	All assets, deferred outflows of resources, liabilities and deferred inflows of resources, both financial and capital, and short-term and long-term	Only assets/deferred outflows of resources expected to be used up and liabilities/deferred inflows of resources that come due during the year or soon thereafter; no capital assets included
Type of inflow/outflow information	All revenues and expenses during the year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and payment is due during the year or soon thereafter

Government-wide Financial Statements

The government-wide financial statements report information about the School as a whole using accounting methods similar to those used by private-sector companies. The statement of net position includes all of the School's assets and deferred outflows of resources, and its liabilities and deferred inflows of resources. All of the current year's revenues and expenses are accounted for in the statement of activities, regardless of when cash is received or paid.

The two government-wide financial statements report the School's net position and how it has changed. Net position – the difference between the School's assets and deferred outflows of resources and its liabilities and deferred inflows of resources – is one way to measure the School's financial condition. Over time, increases or decreases in the School's net position are an indicator of whether its financial condition is improving or deteriorating, respectively. To assess the overall health of the School, one needs to consider additional nonfinancial factors such as changes in the School's student base, the quality of the education and the safety of the School.

The government-wide financial statements of the School are generally divided into three categories:

- *Governmental activities* – most of the School's basic services are included here, such as instruction and school administration. Funds received through the Florida Education Finance Program ("FEFP") and state and federal grants finance most of these activities.
- *Business-type activities* – in certain instances, the School may charge fees to help it cover the costs of certain services it provides. The School currently has no business-type activities.
- *Component units* – there currently are no component units included within the reporting entity of the School.

Fund Financial Statements

The fund financial statements provide more detailed information about the School's most significant funds, not the School as a whole. A fund is a self-balancing set of accounts which the School uses to keep track of specific sources of funding and spending for particular purposes. Some funds are required by state law, and the School may establish other funds to control and manage money for particular purposes, such as for federal grants.

The School currently has one type of fund:

- *Governmental funds* – most of the School's basic services are included in governmental funds, which focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps one determine whether there are more or fewer financial resources that can be spent in the near future to finance the School's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information on the subsequent page that explains the differences between them.

FINANCIAL ANALYSIS OF THE SCHOOL AS A WHOLE

Net Position

The School's combined net position as of June 30, 2014 and 2013 is summarized as follows (see table below).

	Governmental Activities		Increase (Decrease)
	2014	2013	
Current and other assets	\$ 397,709	\$ 187,006	113%
Capital assets, net	5,737	9,761	-41%
Total assets	<u>403,446</u>	<u>196,767</u>	<u>105%</u>
Current and other liabilities	<u>98,831</u>	<u>264,470</u>	<u>-63%</u>
Total liabilities	<u>98,831</u>	<u>264,470</u>	<u>-63%</u>
Net position:			
Net investment in capital assets	5,737	9,761	-41%
Restricted for:			
Capital projects	214,063	152,789	40%
Unrestricted	<u>84,815</u>	<u>(230,253)</u>	<u>137%</u>
Total net position	<u><u>\$ 304,615</u></u>	<u><u>\$ (67,703)</u></u>	<u><u>550%</u></u>

The increase in current and other assets is primarily due to the current year operating surplus. The decrease in capital assets, net is due to the current year depreciation expense. The decrease in current and other liabilities is due to the timing of payments made near the end of the year. The change in total net position is due to the current year operating surplus and the activity noted above.

Change in Net Position

The School's total revenues increased by 9% to \$2,303,560, and the total cost of all programs and services decreased by 10% to \$1,931,242 – see table below.

	Governmental Activities		Increase
	2014	2013	(Decrease)
Revenues:			
Federal sources passed through local school district	\$ -	\$ 12,772	-100%
State and local sources	2,293,560	2,093,814	10%
Contributions and other revenue	10,000	660	1415%
Total revenues	2,303,560	2,107,246	9%
Expenses:			
Instruction	732,861	764,493	-4%
Pupil personnel services	70,565	63,073	12%
Instructional media services	3,925	-	100%
Instruction and curriculum development	12,176	3,243	275%
Board	37,693	20,035	88%
General administration	111,187	206,865	-46%
School administration	294,463	338,710	-13%
Fiscal services	208,429	307,144	-32%
Food services	1,000	900	11%
Central services	9,366	-	100%
Operation of plant	449,577	451,688	0%
Total expenses	1,931,242	2,156,151	-10%
Special item:			
Loss on due from related parties	-	256,643	-100%
Change in net position	\$ 372,318	\$ (305,548)	222%

Federal revenue decreased due to a reduction of Title I funds in the current year. State and local sources increased due to an increase in weighted FTE counts and an increase in capital outlay funding. General administration decreased due to administrative positions that were vacant throughout the current year. School administration decreased due to sharing certain payroll and related expenses with a related party charter school in the current year. Fiscal services decreased due to reduced administrative and management fees associated with a change in education service providers during the school year. The School wrote-off amounts due from related parties in the prior year, which was reported as the special item.

FINANCIAL ANALYSIS OF THE SCHOOL'S FUNDS

As the School completed the year, its governmental funds reported a combined fund balance of \$298,878. Revenues increased and expenditures decreased for the same reasons described above.

General Fund Budgetary Highlights

For the year ended June 30, 2014, actual general fund revenues were approximately 5% (\$91,070) greater than budgeted due to higher than expected weighted student counts.

General fund expenditures were approximately 7% (\$127,000) less than budgeted. The decrease in expenditures for pupil personnel services reflects salaries that were lower than what was budgeted. Increased expenditures for board and general administration were due to transitioning to a new educational service provider. Other administrative and management fees were less than the budgeted amounts due to a change in education service providers during the school year. The combined effect was that total expenditures were less than budgeted.

CAPITAL ASSET ADMINISTRATION

At the end of fiscal 2014, the School had invested \$126,194 in capital assets, which consisted of leasehold improvements and furniture, fixtures and equipment. There were no major additions or disposals during fiscal 2014. More detailed information about the School's capital assets is presented in Note 3 to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

When adopting the general fund budget for fiscal year 2015, the School considered the expected increase in student enrollment and resulting increase in salaries due to additional teachers.

Amounts available for appropriation in the general fund are approximately \$2,021,000, a decrease of 3% from the final 2014 amount of \$2,082,718. A projected reduction in capital outlay funding is expected to lead this decrease.

Budgeted expenditures are expected to be approximately \$1,949,000, an increase of 12% above the final 2014 amount of \$1,737,536. The largest increase will be related to instructional and school administration costs to support additional staff. The School has added no major new programs to the fiscal 2015 budget.

If these estimates are realized, the School's budgetary general fund balance is expected to increase by the close of fiscal 2015.

CONTACTING THE SCHOOL'S FINANCIAL MANAGEMENT

This financial report is designed to provide interested parties with a general overview of the School's finances and to demonstrate the School's accountability for the money it receives. Should additional information be required, please contact the School's administrative offices at 150 North Radnor Chester Road Suite F-200 Radnor, PA 19087.

Independent Auditor's Report on Basic Financial Statements and Supplementary Information

To the Board of Directors of Richard Milburn Academy of Florida, Inc. –
Richard Milburn Academy of Volusia County

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund of Richard Milburn Academy of Florida, Inc. – Richard Milburn Academy of Volusia County (the "School") as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the School's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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



Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of Richard Milburn Academy of Florida, Inc. – Richard Milburn Academy of Volusia County as of June 30, 2014, 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 the management's discussion and analysis on pages 1 – 6 and the budgetary comparison information on page 24 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 October 30, 2014 on our consideration of the School's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School's internal control over financial reporting and compliance.

BKHM, P.A.

Winter Park, Florida
October 30, 2014

**RICHARD MILBURN ACADEMY OF FLORIDA, INC.
RICHARD MILBURN ACADEMY OF VOLUSIA COUNTY**

STATEMENT OF NET POSITION

JUNE 30, 2014

	<u>Governmental Activities</u>
ASSETS	
Cash and cash equivalents	\$ 278,757
Accounts receivable	19,786
Due from related parties	47,533
Other assets	51,633
Capital assets:	
Leasehold improvements	30,253
Furniture, fixtures and equipment	95,941
Less accumulated depreciation	<u>(120,457)</u>
Total capital assets, net	<u>5,737</u>
Total assets	<u><u>\$ 403,446</u></u>
LIABILITIES	
Accounts payable and accrued expenses	<u>\$ 98,831</u>
Total liabilities	<u>98,831</u>
NET POSITION	
Net investment in capital assets	5,737
Restricted for:	
Capital projects	214,063
Unrestricted	<u>84,815</u>
Total net position	<u>304,615</u>
Total liabilities and net position	<u><u>\$ 403,446</u></u>

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

**RICHARD MILBURN ACADEMY OF FLORIDA, INC.
RICHARD MILBURN ACADEMY OF VOLUSIA COUNTY**

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2014

	Program Revenues			Net (Expense) Revenue and Changes in Net Position	
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
Governmental activities:					
Instruction	\$ 732,861	\$ -	\$ -	\$ -	\$ (732,861)
Pupil personnel services	70,565	-	-	-	(70,565)
Instructional media services	3,925	-	-	-	(3,925)
Instruction and curriculum development	12,176	-	-	-	(12,176)
Board	37,693	-	-	-	(37,693)
General administration	111,187	-	-	-	(111,187)
School administration	294,463	-	-	-	(294,463)
Fiscal services	208,429	-	-	-	(208,429)
Food services	1,000	-	-	-	(1,000)
Central services	9,366	-	-	-	(9,366)
Operation of plant	449,577	-	-	-	(449,577)
Total primary government	\$ 1,931,242	\$ -	\$ -	\$ -	(1,931,242)
General revenues:					
State and local sources					2,293,560
Contributions and other revenue					10,000
Total general revenues					2,303,560
Change in net position					372,318
Net position at beginning of year					(67,703)
Net position at end of year					\$ 304,615

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

**RICHARD MILBURN ACADEMY OF FLORIDA, INC.
RICHARD MILBURN ACADEMY OF VOLUSIA COUNTY**

BALANCE SHEET - GOVERNMENTAL FUNDS

JUNE 30, 2014

	General Fund	Capital Projects Fund	Total Governmental Funds
ASSETS			
Cash and cash equivalents	\$ 142,741	\$ 136,016	\$ 278,757
Accounts receivable	-	19,786	19,786
Due from related parties	47,533	-	47,533
Other assets	51,633	-	51,633
	\$ 241,907	\$ 155,802	\$ 397,709
 LIABILITIES AND FUND BALANCES			
Accounts payable and accrued expenditures	\$ 98,831	\$ -	\$ 98,831
Total liabilities	98,831	-	98,831
Fund balances:			
Nonspendable:			
Prepaid expenditures	33,868	-	33,868
Deposits receivable	17,765	-	17,765
Restricted for:			
Capital projects	58,261	155,802	214,063
Unassigned	33,182	-	33,182
Total fund balances	143,076	155,802	298,878
Total liabilities and fund balances	\$ 241,907	\$ 155,802	\$ 397,709

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

**RICHARD MILBURN ACADEMY OF FLORIDA, INC.
RICHARD MILBURN ACADEMY OF VOLUSIA COUNTY**

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

JUNE 30, 2014

Total fund balances - total governmental funds \$ 298,878

Amounts reported for governmental activities in the statement of net position are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds. The cost of the assets is \$126,194 and the accumulated depreciation is \$120,457.

5,737

Total net position - governmental activities \$ 304,615

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

**RICHARD MILBURN ACADEMY OF FLORIDA, INC.
RICHARD MILBURN ACADEMY OF VOLUSIA COUNTY**

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

FOR THE YEAR ENDED JUNE 30, 2014

	General Fund	Capital Projects Fund	Total Governmental Funds
REVENUES			
State and local sources	\$ 2,072,718	\$ 220,842	\$ 2,293,560
Contributions and other revenue	10,000	-	10,000
Total revenues	<u>2,082,718</u>	<u>220,842</u>	<u>2,303,560</u>
EXPENDITURES			
Current:			
Instruction	732,861	-	732,861
Pupil personnel services	70,565	-	70,565
Instructional media services	3,925	-	3,925
Instruction and curriculum development	12,176	-	12,176
Board	37,693	-	37,693
General administration	111,187	-	111,187
School administration	290,439	-	290,439
Fiscal services	208,429	-	208,429
Food services	1,000	-	1,000
Central services	9,366	-	9,366
Operation of plant	259,895	189,682	449,577
Total expenditures	<u>1,737,536</u>	<u>189,682</u>	<u>1,927,218</u>
Net changes in fund balances	345,182	31,160	376,342
Fund balance (deficit) at beginning of year	<u>(202,106)</u>	<u>124,642</u>	<u>(77,464)</u>
Fund balances at end of year	<u><u>\$ 143,076</u></u>	<u><u>\$ 155,802</u></u>	<u><u>\$ 298,878</u></u>

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

**RICHARD MILBURN ACADEMY OF FLORIDA, INC.
RICHARD MILBURN ACADEMY OF VOLUSIA COUNTY**

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

FOR THE YEAR ENDED JUNE 30, 2014

Net changes in fund balances - total governmental funds	\$ 376,342
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Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount of depreciation expense in the current period.

(4,024)

Change in net position of governmental activities	\$ 372,318
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\$ 372,318

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

**RICHARD MILBURN ACADEMY OF FLORIDA, INC.
RICHARD MILBURN ACADEMY OF VOLUSIA COUNTY**

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2014

1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

Richard Milburn Academy of Florida, Inc. (the "Company") is a not-for-profit corporation organized pursuant to Chapter 617, Florida Statutes, the Florida Not For Profit Corporation Act and Section 1002.33, Florida Statutes. Richard Milburn Academy of Volusia County (the "School") operates as part of the Company with one other charter school. The governing body of the School is the not-for-profit corporation Board of Directors, which is composed of three members.

The general operating authority of the School is contained in Section 1002.33, Florida Statutes. The School operates under a charter of the sponsoring school district, the District School Board of Volusia County, Florida (the "School Board"). The revised charter is effective until June 30, 2018 and may be renewed in increments of five years by mutual written agreement between the School and the School Board. At the end of the term of the charter, the School Board may choose not to renew the charter under grounds specified in the charter. In this case, the School Board is required to notify the School in writing at least 90 days prior to the charter's expiration. During the term of the charter, the School Board may also terminate the charter if good cause is shown. In the event of termination of the charter, any property purchased by the School with public funds and any unencumbered public funds, except capital outlay funds, revert back to the School Board. Any unencumbered capital outlay funds revert back to the Florida Department of Education ("FDOE") to be redistributed among eligible charter schools. The School is not considered a component unit of the School Board; however, the School meets the definition of a governmental entity under Governmental Accounting Standards Board ("GASB") accounting guidance. As a result, for financial reporting purposes, the School is required to follow generally accepted accounting principles applicable to state and local governmental units.

Criteria for determining if other entities are potential component units of the School which should be reported with the School's basic financial statements are identified and described in the *GASB Codification of Governmental Accounting and Financial Reporting Standards*. The application of these criteria provides for identification of any entities for which the School is financially accountable and other organizations for which the nature and significance of their relationship with the School are such that exclusion would cause the School's basic financial statements to be misleading or incomplete. Based on these criteria, no component units are included within the reporting entity of the School.

Basis of presentation

The School's financial statements have been prepared in accordance with generally accepted accounting principles as prescribed by the GASB. Accordingly, both government-wide and fund financial statements are presented.

The government-wide financial statements report information about the School as a whole using accounting methods similar to those used by private-sector companies. The statement of net position includes all of the School's assets, deferred outflows of resources, liabilities and deferred

**RICHARD MILBURN ACADEMY OF FLORIDA, INC.
RICHARD MILBURN ACADEMY OF VOLUSIA COUNTY**

**NOTES TO FINANCIAL STATEMENTS
(continued)**

inflows of resources. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The government-wide financial statements of the School are generally divided into three categories:

- *Governmental activities* – most of the School's basic services are included here, such as instruction and school administration. Funds received through the Florida Education Finance Program ("FEFP") and state and federal grants finance most of these activities.
- *Business-type activities* – in certain instances, the School may charge fees to help it cover the costs of certain services it provides. The School currently has no business-type activities.
- *Component units* – there currently are no component units included within the reporting entity of the School.

The fund financial statements provide more detailed information about the School's most significant funds, not the School as a whole. A fund is an accounting entity having a self-balancing set of accounts for recording assets, deferred outflows of resources, liabilities, deferred inflows of resources, fund balance, revenues, expenditures, and other financing sources and uses. Resources are allocated to and accounted for in individual funds based on the purposes for which they are to be spent and the means by which spending activities are controlled. The funds in the financial statements of this report are as follows:

Governmental Funds:

- General Fund – to account for all financial resources not required to be accounted for in another fund.
- Capital Projects Fund – to account for all resources for the acquisition of capital items by the School purchased with capital outlay funds.

For purposes of these statements, the general and capital projects funds constitute major funds. There are no other governmental funds.

Basis of accounting

Basis of accounting refers to when revenues and expenses/expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

The government-wide financial statements are presented using the accrual basis of accounting and an economic resources focus. Under the accrual basis of accounting, revenues and expenses are recognized when they occur.

The modified accrual basis of accounting and current financial resources focus is followed by the governmental funds. Under the modified accrual basis, revenues are recognized when they become measurable and available. Available means collectible within the current period or soon enough thereafter to pay current liabilities. The School considers revenues to be available if they are collected within sixty days after the end of the fiscal year. Under the modified accrual basis of

**RICHARD MILBURN ACADEMY OF FLORIDA, INC.
RICHARD MILBURN ACADEMY OF VOLUSIA COUNTY**

**NOTES TO FINANCIAL STATEMENTS
(continued)**

accounting, expenditures are generally recognized when the related fund liability is incurred. The principal exceptions to this general rule are: (1) interest on general long-term debt is recognized when due and (2) expenditures related to liabilities reported as general long-term debt are recognized when due.

Budgetary basis accounting

Budgets are presented on the modified accrual basis of accounting. During the fiscal year, expenditures were controlled at the fund level.

Cash and cash equivalents

The School maintains its cash accounts in a financial institution subject to insurance coverage issued by the Federal Deposit Insurance Corporation ("FDIC"). Under FDIC rules, the Company is entitled to aggregate coverage of \$250,000 per account type per separate legal entity per financial institution. As of June 30, 2014, the Company's cash balances exceeded FDIC coverage by approximately \$226,000. The School's cash accounts make-up approximately 69% of the Company's total cash and cash equivalents. The School has not historically experienced losses on its cash and cash equivalents. Investments with an original maturity of three months or less at the time they are purchased are considered to be cash equivalents.

Accounts receivable and due from related parties

Receivables consist of amounts due from governmental agencies for various programs and from related parties. Allowances are reported when management estimates that accounts may be uncollectible.

Capital assets and depreciation

Expenditures for capital assets acquired for general School purposes are reported in the governmental fund that financed the acquisition. Purchased capital assets are reported at cost, net of accumulated depreciation, in the government-wide financial statements. Donated assets are recorded at fair value at the date of donation. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, which are as follows:

	<u>Years</u>
Leasehold improvements	5
Furniture, fixtures and equipment	3-5

Information regarding changes in capital assets is described in Note 3.

**RICHARD MILBURN ACADEMY OF FLORIDA, INC.
RICHARD MILBURN ACADEMY OF VOLUSIA COUNTY**

**NOTES TO FINANCIAL STATEMENTS
(continued)**

Fund balance spending policy

The School's adopted spending policy is to spend from the restricted fund balance first, followed by committed, assigned, then the unassigned fund balance. Most funds were designated for one purpose at the time of their creation. Therefore, expenditures made out of the fund will be allocated to the applicable fund balance classifications in the order of the aforementioned spending policy. If expenditures are incurred that meet the purpose of more than one fund, they will be allocated to restricted fund balance first and then follow the order above. Funds can only be committed by formal action of the Board. The Board has delegated authority to the Director to assign funds up to the amount of \$500. There are no minimum fund balance requirements for any of the School's funds.

Revenue sources

Revenues for current operations are received primarily from the School Board pursuant to the funding provisions included in the School's charter. As such, the School's revenue stream is largely dependent upon the general state of the economy and the amounts allotted to the FDOE by the state legislature. In accordance with the funding provisions of the charter and Section 1002.33(18), Florida Statutes, the School reports the number of full-time equivalent students and related data to the School Board.

Under the provisions of Section 1011.62, Florida Statutes, the School Board reports the number of full-time equivalent students and related data to the FDOE for funding through the FEFP. Funding for the School is adjusted during the year to reflect the revised calculations by the FDOE under the FEFP and the actual weighted full-time equivalent students reported by the School during the designated full-time equivalent student survey periods. The School Board receives a 5% administrative fee from the School, which is reflected as a general administration expense/expenditure in the accompanying statement of activities and statement of revenues, expenditures and changes in fund balances - governmental funds. This administrative fee is calculated on the FEFP revenue up to 250 students. The difference between the actual fee and the fee as calculated on total FEFP revenue is restricted for capital outlay expenditures. As of June 30, 2014, the School had restricted funds for this purpose in the amount of \$58,261.

The School may receive federal and state awards for the enhancement of various educational programs. This assistance is generally received based on applications submitted to and approved by various granting agencies. For federal awards in which a claim to these grant proceeds is based on incurring eligible expenditures, revenue is recognized to the extent that eligible expenditures have been incurred.

The School is also eligible for charter school capital outlay funding. The amounts received under this program are based on the School's actual and projected student enrollment during the fiscal year. Funds received under this program may only be used for lawful capital outlay expenditures and, as such, are reflected as restricted in the accompanying financial statements to the extent they remain unexpended.

**RICHARD MILBURN ACADEMY OF FLORIDA, INC.
RICHARD MILBURN ACADEMY OF VOLUSIA COUNTY**

**NOTES TO FINANCIAL STATEMENTS
(continued)**

Income taxes

The Company is an organization exempt from income taxation under Section 501(a) as an entity described in Section 501(c)(3) of the Internal Revenue Code of 1986, as amended. Accordingly, no provision for federal income taxes is included in the accompanying financial statements.

The Company has adopted guidance related to accounting for uncertainty in income taxes, which prescribes a recognition threshold and measurement attribute for financial statement recognition and measurement of a tax position that an entity takes or expects to take in a tax return. This guidance is applicable to not-for-profit organizations that may be conducting unrelated business activities, which are potentially subject to income taxes, including state income taxes.

The Company assess its income tax positions, including its continuing tax status as a not-for-profit entity, and recognizes tax benefits only to the extent that the Company believes it is “more likely than not” that its tax positions will be sustained upon an examination by the Internal Revenue Service (“IRS”) or the applicable state taxing authority. Accordingly, there is no provision for federal income taxes in the accompanying financial statements, as the Company believes all tax positions, including its continuing status as a not-for-profit entity, have a greater than 50% chance of realization in the event of an IRS audit. State income taxes, which may be due in certain jurisdictions, have been assessed following the same “more likely than not” measurement threshold. With few exceptions, the Company is no longer subject to U.S. federal, state and local income tax examinations by tax authorities for years before 2010.

Use of estimates

In preparing the financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets, deferred outflows of resources, liabilities and deferred inflows of resources as of the date of the balance sheet and affect revenues and expenses/expenditures for the period presented. Actual results could differ significantly from those estimates.

Subsequent events

The School has adopted guidance that requires the disclosure of the date through which an entity has evaluated subsequent events and the basis for that date (that is, whether that date represents the date the financial statements were issued or were available to be issued). The School has evaluated subsequent events through October 30, 2014, which is the date the financial statements were available to be issued.

**RICHARD MILBURN ACADEMY OF FLORIDA, INC.
RICHARD MILBURN ACADEMY OF VOLUSIA COUNTY**

**NOTES TO FINANCIAL STATEMENTS
(continued)**

2 ACCOUNTS RECEIVABLE

Accounts receivable in the accompanying statement of net position and balance sheet – governmental funds includes approximately \$20,000 of capital outlay funds receivable from the School Board. Based on the collectibility of funds from this source, in the opinion of management, an allowance for doubtful accounts is not considered necessary.

3 CHANGES IN CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2014 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental activities:				
Leasehold improvements	\$ 30,253	\$ -	\$ -	\$ 30,253
Furniture, fixtures and equipment	95,941	-	-	95,941
Total capital assets being depreciated	<u>126,194</u>	<u>-</u>	<u>-</u>	<u>126,194</u>
Less accumulated depreciation for:				
Building improvements	(26,522)	(2,116)	-	(28,638)
Furniture, fixtures and equipment	<u>(89,911)</u>	<u>(1,908)</u>	<u>-</u>	<u>(91,819)</u>
Total accumulated depreciation	<u>(116,433)</u>	<u>(4,024)</u>	<u>-</u>	<u>(120,457)</u>
Governmental activities capital assets, net	<u>\$ 9,761</u>	<u>\$ (4,024)</u>	<u>\$ -</u>	<u>\$ 5,737</u>

Depreciation expense was charged to the school administration function in the accompanying financial statements.

**RICHARD MILBURN ACADEMY OF FLORIDA, INC.
RICHARD MILBURN ACADEMY OF VOLUSIA COUNTY**

**NOTES TO FINANCIAL STATEMENTS
(continued)**

4 SCHEDULE OF STATE AND LOCAL REVENUE SOURCES

The following is a schedule of state and local revenue sources and amounts:

District School Board of Volusia County, Florida:	
Florida Education Finance Program	\$ 1,288,943
Class size reduction	310,739
Capital outlay	220,842
ESE guaranteed allocation	157,813
Discretionary local effort	104,710
Supplemental academic instruction	93,034
Teacher salary allocation	56,274
Instructional materials	26,637
Discretionary millage	21,692
Safe schools	8,558
Discretionary lottery funds	3,168
Additional allocation	<u>1,150</u>
Total	<u><u>\$ 2,293,560</u></u>

The administration fee paid to the School Board during the year ended June 30, 2014 totaled approximately \$74,000 and is included as a general administration expense/expenditure in the accompanying statement of activities and statement of revenues, expenditures and changes in fund balances – governmental funds.

5 RELATED PARTY TRANSACTIONS

During the routine course of business, invoices and payroll, which apply to both the School and other related entities or schools, may be paid by a single entity. Also, schools with surplus funds may pay expenses on behalf of other related entities or schools. The School tracks these amounts due to or from each related entity or school separately. Amounts due from related parties as of June 30, 2014 totaled approximately \$48,000 and is included in due from related parties in the accompanying statement of net position and balance sheet – governmental funds.

The Company has entered into lease agreements for the facilities used by the School. The leases require monthly rent payments of approximately \$11,000. The School pays the monthly rent on behalf of the Company. Facility lease rental expense for the year ended June 30, 2014 totaled approximately \$190,000 and is included in operation of plant expense/expenditure in the accompanying statement of activities and statement of revenues, expenditures and changes in fund balances - governmental funds.

**RICHARD MILBURN ACADEMY OF FLORIDA, INC.
RICHARD MILBURN ACADEMY OF VOLUSIA COUNTY**

**NOTES TO FINANCIAL STATEMENTS
(continued)**

The Company subleases a portion of the School's facility to a related party charter school. The Company contributes the sublease payments to the School. Contributions of \$10,000 are recorded as other income in the accompanying statement of activities and statement of revenues, expenditures and changes in fund balances - governmental funds.

6 RISK MANAGEMENT PROGRAM

Workers' compensation coverage, general liability, professional liability, employee health and hospitalization and property coverages are being provided through purchased commercial insurance with minimum deductibles for each line of coverage. Settled claims resulting from these risks have historically not exceeded commercial coverage.

7 CONTINGENT LIABILITIES

Grants

The School participates in state and federal grant programs, which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the School has not complied with the rules and regulations governing the grants, refunds of any money received may be required and the collectibility of any related receivable as of June 30, 2014 may be impaired.

In the opinion of the School, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying financial statements for such contingencies.

Legal matters

In the normal course of conducting its operations, the School occasionally becomes party to various legal actions and proceedings. In the opinion of management, the ultimate resolution of such legal matters will not have a significant adverse effect on the accompanying financial statements.

8 RETIREMENT PLAN

Until May 1, 2014, the School participated in a profit-sharing plan of the former management company. The plan operated under Section 401(k) of the Internal Revenue Code, whereby all eligible employees were entitled to defer up to \$17,500 during the 2014 calendar year. Substantially all employees were eligible to participate in the plan depending on the length of service and attainment of minimum age requirements. Under the terms of the plan, the School contributed an amount to the plan at the discretion of the Board of Directors. The School did not make any contributions to the plan in fiscal 2014.

**RICHARD MILBURN ACADEMY OF FLORIDA, INC.
RICHARD MILBURN ACADEMY OF VOLUSIA COUNTY**

**NOTES TO FINANCIAL STATEMENTS
(continued)**

9 MANAGEMENT AGREEMENT TERMINATION

During fiscal 2014, the Company entered into a termination agreement (the "Agreement") with the former management company, which was effective as of April 30, 2014. As part of the Agreement, both parties agreed to a settlement amount for all outstanding management fees accrued as of the effective date. The settlement amount resulted in the forgiveness of approximately \$119,000 of the School's accrued management fees, which is included as a contra expense in fiscal services expense/expenditure in the accompanying statement of activities and statement of revenues, expenditures and changes in fund balances - governmental funds.

**RICHARD MILBURN ACADEMY OF FLORIDA, INC.
RICHARD MILBURN ACADEMY OF VOLUSIA COUNTY**

REQUIRED SUPPLEMENTARY INFORMATION

BUDGETARY COMPARISON SCHEDULE - GENERAL FUND

FOR THE YEAR ENDED JUNE 30, 2014

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>	<u>(Budgetary</u>	<u>Final Budget-</u>
			<u>Basis)</u>	<u>Positive</u>
				<u>(Negative)</u>
REVENUES				
State and local sources	\$ 1,991,648	\$ 1,991,648	\$ 2,072,718	\$ 81,070
Contributions and other revenue	-	-	10,000	10,000
Total revenues	<u>1,991,648</u>	<u>1,991,648</u>	<u>2,082,718</u>	<u>91,070</u>
EXPENDITURES				
Current:				
Instruction	772,897	772,897	732,861	40,036
Pupil personnel services	105,223	105,223	70,565	34,658
Instructional media services	-	-	3,925	(3,925)
Instruction and curriculum development	-	-	12,176	(12,176)
Board	7,500	7,500	37,693	(30,193)
General administration	54,832	54,832	111,187	(56,355)
School administration	384,378	384,378	290,439	93,939
Fiscal services	294,737	294,737	208,429	86,308
Food services	-	-	1,000	(1,000)
Central services	18,372	18,372	9,366	9,006
Operation of plant	<u>226,550</u>	<u>226,550</u>	<u>259,895</u>	<u>(33,345)</u>
Total expenditures	<u>1,864,489</u>	<u>1,864,489</u>	<u>1,737,536</u>	<u>126,953</u>
Net change in fund balance	127,159	127,159	345,182	218,023
Fund deficit at beginning of year	<u>(202,106)</u>	<u>(202,106)</u>	<u>(202,106)</u>	<u>-</u>
Fund balance (deficit) at end of year	<u>\$ (74,947)</u>	<u>\$ (74,947)</u>	<u>\$ 143,076</u>	<u>\$ 218,023</u>

See independent auditor's report.

Independent Auditor’s Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

To the Board of Directors of Richard Milburn Academy of Florida, Inc. –
Richard Milburn Academy of Volusia County

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities and each major fund of Richard Milburn Academy of Florida, Inc. – Richard Milburn Academy of Volusia County (the “School”) as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the School’s basic financial statements, and have issued our report thereon dated October 30, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the School’s internal control over financial reporting (“internal control”) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the School’s internal control. Accordingly, we do not express an opinion on the effectiveness of the School’s internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described below, we identified deficiencies in internal control that we consider to be material weaknesses.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency or a combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity’s financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies described below to be material weaknesses.



2014-01 Financial Close: All of the School's transactions should be recorded timely and in accordance with generally accepted accounting principles ("GAAP"). We identified many instances where adjustments to assets, liabilities, revenues and expenses/expenditures were required to record transactions in accordance with GAAP. We also identified an instance where a significant cash receipt was not recorded in the general ledger until approximately a month after it was deposited. These conditions were caused by a failure to perform timely reconciliations and ineffective management review of financial records during the financial close process. After we identified these errors, management recorded all necessary adjustments to correct the School's records. We recommend that reconciliations for all accounts be prepared and approved on a timely basis. We also recommend that management enhance their policies and procedures related to the review of financial records during the financial close process.

2014-02 Bank Reconciliations: Performing timely reconciliations between bank statements and the recorded cash accounts is an important internal control that protects an entity's assets and ensures that all transactions have been properly recorded. We noted that the bank statements for three of the Company's cash accounts were not reconciled to the Company's general ledger on a regular basis or at year-end. This condition was caused by insufficient monitoring of the bank reconciliation process. As a result, the School's assets were at an increased risk of misappropriation. We recommend that reconciliations for all bank accounts be prepared and approved on a timely basis. We also recommend that management close bank accounts that are not being used.

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. We consider the deficiency described below to be a significant deficiency.

2014-03 Supporting Documentation: Many aspects of the internal control over disbursements rely on the review and approval of supporting documentation. While performing a test of twenty-five disbursements, management was unable to provide invoices for two selections and was unable to provide any supporting documentation for one selection. This condition was caused by insufficient monitoring of the controls over the disbursement process and insufficient controls over check stock. As a result, the School's assets were at an increased risk of misappropriation. In addition, this condition impairs management's ability to review and approve transactions. We recommend that supporting documentation for transactions be maintained, reviewed and approved and the controls over check stock be enhanced.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the School's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The School's Response to Findings

The School's response to the findings identified in our audit are described in the written statement of explanation or rebuttal on page 31. 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.

BKHM, P.A.

Winter Park, Florida
October 30, 2014

**ADDITIONAL INFORMATION REQUIRED BY
RULES OF THE AUDITOR GENERAL,
CHAPTER 10.850**

To the Board of Directors of Richard Milburn Academy of Florida, Inc. -
Richard Milburn Academy of Volusia County

We have audited the financial statements of the governmental activities and each major fund of Richard Milburn Academy of Florida, Inc. – Richard Milburn Academy of Volusia County (the “School”) as of and for the fiscal year ended June 30, 2014, and have issued our report thereon dated October 30, 2014.

Auditor’s Responsibility

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.

Other Reporting Required by *Government Auditing Standards*

We have issued our Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*. Disclosures in that report, which is dated October 30, 2014, should be considered in conjunction with this management letter.

Prior Audit Findings

Section 10.854(1)(e)1., Rules of the Auditor General, requires that we determine whether or not corrective actions have been taken to address findings and recommendations made in the preceding annual financial audit report. Corrective actions have not been taken to address finding 2013-01 and it has been updated and repeated as finding 2014-01. Fiscal year 2013 was the first year this finding was reported.

Financial Condition

Sections 10.854(1)(e)2. and 10.855(11), Rules of the Auditor General, require that we apply appropriate procedures to determine whether or not the School has met one or more of the conditions described in Section 218.503(1), Florida Statutes, and identification of the specific condition met. In connection with our audit, we determined that the School did not meet any of the conditions described in Section 218.503(1), Florida Statutes.

Sections 10.854(1)(e)6.a. and 10.855(12), Rules of the Auditor General, require that we apply financial condition assessment procedures for the School. It is management’s responsibility to monitor the School’s financial condition, and our financial condition assessment was based in part on representations made by management and the review of financial information provided by same. The financial condition assessment was done as of the fiscal year-end.



Transparency

Sections 10.854(1)(e)7. and 10.855(13), Rules of the Auditor General, require that we apply appropriate procedures to determine whether the School maintains on its website the information specified in Section 1002.33(9)(p), Florida Statutes. In connection with our audit, we determined that the School maintained on its website the information specified in Section 1002.33(9)(p), Florida Statutes.

Other Matters

Section 10.854(1)(e)3., Rules of the Auditor General, requires that we address in the management letter any recommendations to improve financial management. In connection with our audit, we did not have any such recommendations.

Section 10.854(1)(e)4., Rules of the Auditor General, requires that we address noncompliance with provisions of contracts or grant agreements, or abuse that have occurred, or are likely to have occurred, that have an effect on the financial statements that is less than material but which warrants the attention of those charged with governance. In connection with our audit, we did not have any such findings.

Section 10.854(1)(e)5., Rules of the Auditor General, requires the name or official title of the entity. The official title of the entity is Richard Milburn Academy of Volusia County.

Purpose of this Letter

Our management letter is intended solely for the information and use of the Legislative Auditing Committee, members of the Florida Senate and the Florida House of Representatives, the Florida Auditor General, the Board of Trustees and applicable management and is not intended to be and should not be used by anyone other than these specified parties.

BKHM, P.A.

Winter Park, Florida
October 30, 2014

**RICHARD MILBURN ACADEMY OF FLORIDA, INC.
RICHARD MILBURN ACADEMY OF VOLUSIA COUNTY**

WRITTEN STATEMENT OF EXPLANATION OR REBUTTAL

2014-01 School Response: The School acknowledges that adjustments were required as a result of the integration of records from the former management company and the current new management company. The new management company has reviewed previous procedures and has already implemented the necessary steps to ensure proper financial reporting moving forward.

2014-02 School Response: The School acknowledges that performing timely reconciliations between bank statements and the recorded cash accounts is an important internal control that protects an entity's assets and ensures that all transactions have been properly recorded. Adjustments were required as a result of the integration of records from the former management company and the current new management company. The new management company has already taken steps to ensure that reconciliations for all bank accounts be prepared and approved on a timely basis. Steps have already been taken to close bank accounts that are not being used.

2014-03 School Response: The School acknowledges that many aspects of the internal controls over disbursements rely on the review and approval of supporting documentation. Adjustments were required as a result of the integration of records from the former management company and the current new management company. The new management company has already increased internal controls to ensure that supporting documentation for transactions be maintained, reviewed and approved. Also, tight controls are in place to ensure that check stock is not compromised.