

SAN JOSE ACADEMY

(A CHARTER SCHOOL UNDER RIVER CITY
EDUCATION ORGANIZATION, INC.)

A Charter School and Component Unit of the
District School Board of Duval County, Florida

INDEPENDENT AUDITOR'S REPORT
(Reissued June 27, 2016)

for the fiscal year ended JUNE 30, 2015

King & Walker, CPAs, PL

Certified Public Accountants

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SAN JOSE ACADEMY
(A CHARTER SCHOOL UNDER RIVER CITY EDUCATION ORGANIZATION, INC.)
A Charter School and Component Unit of the District School Board of Duval County, Florida

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Independent Auditor's Report

To the Board of Directors of San Jose Academy
(A charter school under River City Education Organization, Inc.),
a Charter School and Component Unit of the
District School Board of Duval County, Florida

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of San Jose Academy ("School"), a charter school under River City Education Organization, Inc. and component unit of the District School Board of Duval County, Florida, as of and for the year ended June 30, 2015, 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 *Governmental 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 School'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 School's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting

policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of San Jose Academy, as of June 30, 2015, and the respective changes in financial position thereof for the year ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As described in Note 1, the accompanying financial statements referred to above present only the financial position of San Jose Academy at June 30, 2015, and the respective changes in financial position for the year then ended, and is not intended to be a complete presentation of River City Education Organization, Inc. These financial statements do not purport to and do not present fairly the financial position of River City Education Organization, Inc. as of June 30, 2015 and its changes in financial position for the year then ended in conformity 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, the Budgetary Comparison Schedule, and the Note to Required Supplementary Information, as listed in the table of contents, 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 historic 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 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.

Reissued Audit Report

The report is being reissued and is replacing the report dated September 15, 2015 to report the effects of changes due to the removal of long-term debt reported in the original audit. The previously issued auditor's report issued September 15, 2015 is not to be relied upon because the financial statements were materially misstated and the previously issued auditor's report is replaced by this report on the restated financial statements.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 27, 2016 on our consideration of San Jose Academy'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 San Jose Academy's internal control over financial reporting and compliance.

Respectfully submitted,

A handwritten signature in black ink that reads "King & Walker, CPAs". The signature is written in a cursive, flowing style.

June 27, 2016
Tampa, Florida

SAN JOSE ACADEMY
(A CHARTER SCHOOL UNDER RIVER CITY EDUCATION ORGANIZATION, INC.)
A Charter School and Component Unit of the District School Board of Duval County, Florida
MANAGEMENT’S DISCUSSION AND ANALYSIS - (Unaudited)

The Management’s Discussion and Analysis (MD&A) section of the annual financial report of the San Jose Academy (“School”), a charter school under River City Education Organization, Inc. provides an overview of the School’s activities for the fiscal year ended June 30, 2015.

Because the information contained in the MD&A is intended to highlight significant transactions, events, and conditions, it should be considered in conjunction with the School’s financial statements and notes to financial statements as listed in the table of contents.

FINANCIAL HIGHLIGHTS

- For the fiscal year ended June 30, 2015, the School’s expenses exceeded revenues as shown on the School’s statement of activities by \$11,253.
- As shown on the statement of net position, the School reported a total net position deficit balance of \$181,647.

OVERVIEW OF THE FINANCIAL STATEMENTS

The basic financial statements consist of three components:

- ✓ Government-wide financial statements
- ✓ Fund financial statements
- ✓ Notes to financial statements

Government-Wide Financial Statements

The government-wide financial statements provide both short-term and long-term information about the School’s overall financial condition in a manner similar to those of a private-sector business. The statements include a statement of net position and a statement of activities that are designed to provide consolidated financial information about the governmental activities of the School presented on the accrual basis of accounting. The statement of net position provides information about the government’s financial position, its assets and liabilities, using an economic resources measurement focus. The difference between the assets and liabilities, the net position, is a measure of the financial health of the School. The statement of activities presents information about the change in the School’s net position and the results of operations, during the fiscal year. An increase or decrease in net position is an indication of whether the School’s financial health is improving or deteriorating. To assess the overall financial position of the School, one needs to consider additional non-financial factors such as changes in the School student base funding level.

Fund Financial Statements

Fund financial statements are one of the components of the basic financial statements. 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. Fund financial statements provide more detailed information about the School’s financial activities, focusing on its most significant funds rather than fund types. This is in contrast to the entity-wide perspective contained in the government-wide financial statements.

Governmental Funds: Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, the governmental funds utilize a spendable financial resources measurement focus rather than the economic resources measurement focus found in the government-wide financial statements. The financial resources measurement focus allows the governmental fund financial statements to provide information on near-term inflows and outflows of spendable resources as well as balances of spendable resources available at the end of the fiscal year.

The governmental fund financial statements provide a detailed short-term view that may be used to evaluate the School's near-term financing requirements. This short-term view is useful when compared to the long-term view presented as governmental activities in the government-wide financial statements. To facilitate this comparison, both the governmental funds balance sheet and the governmental funds statement of revenues, expenditures, and changes in fund balances provide a reconciliation of governmental fund to governmental activities.

The governmental funds balance sheet and statement of revenues, expenditures, and changes in fund balances provide detailed information about the School's most significant funds. The School operates two funds: a General Fund and a Special Revenue Fund. The School has elected to show each fund as a major fund.

The School adopts an annual budget for its governmental funds. A budgetary comparison schedule, as required, has been provided for the General Fund and the Major Special Revenue Fund to demonstrate compliance with the budget.

Notes to Financial Statements

The notes provide additional information that is essential for a full understanding of the data provided in the government-wide and fund financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net position may serve over time as a useful indicator of a government's financial position. The following is a summary of the School's net position for the fiscal years ended June 30, 2014 and June 30, 2015 are as follows:

	Net Position, End of Year		
	Governmental Activities		Increase (Decrease)
	6-30-14	6-30-15	
ASSETS			
Current and Other Assets	\$ 135,846	\$ 67,358	\$ (68,488)
Capital Assets, net	15,674	71,987	56,313
Total Assets	<u>151,520</u>	<u>139,345</u>	<u>(12,175)</u>
LIABILITIES			
Current and Other Liabilities	<u>321,914</u>	<u>320,992</u>	<u>(922)</u>
Total Liabilities	<u>321,914</u>	<u>320,992</u>	<u>(922)</u>
NET POSITION			
Net Investment in Capital Assets	15,674	71,987	56,313
Unrestricted	<u>(180,394)</u>	<u>(253,634)</u>	<u>(73,240)</u>
Total Net Position	<u>\$ (164,720)</u>	<u>\$ (181,647)</u>	<u>\$ (16,927)</u>

Assets primarily consist of prepaid expenses and deposits, as well as capital assets (net of accumulated depreciation). Liabilities are comprised primarily of vendor accounts payable, and collateralized borrowing. The total net deficit position balance amounts to \$181,647.

The key elements of the changes in the School's net position for the fiscal years ended June 30, 2014 and June 30, 2015 are as follows:

	Operating Results for the Year		
	Governmental Activities		
	6-30-14	6-30-15	Increase (Decrease)
Revenues:			
Federal Through State and Local	\$ 246,107	\$ 103,893	\$ (142,214)
State Sources	1,026,242	1,438,761	412,519
Local & Other	38,923	43,724	4,801
Total Revenues	1,311,272	1,586,378	275,106
Expenses:			
Instruction	663,151	611,961	(51,190)
Instruction & Curriculum Development		942	942
Instructional Staff Training	14,642	1,963	(12,679)
Instructional-Related Technology	64,166	18,526	(45,640)
Board of Education	229,928	332,913	102,985
General Administration	2,014	-	(2,014)
School Administration	222,323	210,144	(12,179)
Facilities Acquisition & Construction	144,418	182,910	38,492
Fiscal Services	27,439	38,421	10,982
Food Services	1,274	28,162	26,888
Central Services	21,673	3,065	(18,608)
Pupil Transportation	4,044	4,329	285
Operation of Plant	75,623	89,117	13,494
Maintenance of Plant	7,958	16,930	8,972
Community Service	-	14,369	14,369
Debt Service - Interest and Fiscal Charges	-	28,670	28,670
Unallocated Depreciation	3,013	15,209	12,196
Total Expenses	1,481,666	1,597,631	115,965
Increase/(Decrease) in Net Position	\$ (170,394)	\$ (11,253)	\$ 159,141

The largest revenue source for the School is the State of Florida (91%). Revenues from State sources for current operations are primarily received through the Florida Education Finance Program (FEFP) funding formula. The FEFP formula utilizes student enrollment data to determine the funds available for the School. The School also received Federal funding (7%) for the Charter School Implementation Grant. The overall increase in revenue is due to increased FEFP funding resulting from an increase in student enrollment.

The largest concentration of expenses was for Instruction related functions (40%), Board of Education costs (21%), and School Administration (13%).

FINANCIAL ANALYSIS OF THE SCHOOL'S FUNDS

Governmental Funds

As the School completed the year, its governmental funds reported a combined fund balance deficit of \$162,434.

BUDGETARY HIGHLIGHTS

The general fund budget for the fiscal year ended June 30, 2015, was developed based on the School's anticipated revenues and expenditures and the expected student population for the school year. Over the course of the year, the school revised its general fund budget several times. For the fiscal year ended June 30, 2015, the actual expenditures were equal to the final budget. Refer to the Budgetary Comparison Schedule for additional information.

CAPITAL ASSETS

The School's investment in capital assets for its governmental activities as of June 30, 2015, amounts to \$71,987 (net of accumulated depreciation). This investment in capital assets includes leasehold improvements and furniture, fixtures, and equipment. Additional information regarding the School's capital assets can be found in the notes to the financial statements.

DEBT

The School entered into a collateralized borrowing agreement with Charter School Capital, Inc. The School has \$91,200 outstanding at June 30, 2015 which is to be repaid with future FEFP revenue in the next fiscal year.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

Facts, decisions, or conditions that are expected to have a significant effect on the financial position or results of operations of the School in fiscal year 2016 include:

- Continued funding from FEFP.
- Expected increase in enrollment.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the San Jose Academy's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to San Jose Academy, 4072 Sunbeam Road, Jacksonville, Florida 32257.

NOTES TO FINANCIAL STATEMENTS
June 30, 2015

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

➤ **Reporting Entity**

San Jose Academy (“School”), a charter school under River City Education Organization, Inc. is a component unit of the District School Board of Duval County, Florida. The School is sponsored by its charter-holder, River City Educational Services, Inc., a not-for-profit corporation organized pursuant to Chapter 617, Florida Statutes, the Florida Not-For-Profit Corporation Act. The governing body of the School is the not-for-profit corporation Board of Directors, which is comprised of not less than three members.

The basic financial statements of the School present only the balances, activity and disclosures related to the School. They do not purport to, and do not, present fairly the financial position of River City Education Organization, Inc. as of June 30, 2015, and its changes in financial position or budgetary comparisons, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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 Duval County School Board, Florida, (“District”). The current charter is effective until June 30, 2018, and is subject to annual review and may be renewed by mutual agreement between the School and the District. At the end of the term of the charter, the District may choose not to renew the charter under grounds specified in the charter. In this case, the District 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 District may also terminate the charter if good cause is shown. In the event of termination of the charter, the District shall assume operation of the School. The School is considered a component unit of the District; therefore, 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 which should be reported within the School's basic financial statements are identified and described in the Governmental Accounting Standards Board's (GASB) *Codification of Governmental Accounting and Financial Reporting Standards*, Sections 2100 and 2600. 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.

NOTES TO FINANCIAL STATEMENTS
June 30, 2015

➤ **Allocation of Common Expenses**

The School share the same physical location with San Jose Preparatory High School, a related party though common control, and common expenditures. These common expenditures have been allocated between the Schools based on student enrollment.

Expenditures that are subject to allocation include, but are not limited to the following functional categories:

- Instruction
- Administration
- Operation of Plant
- Maintenance of Plant

The process of the allocation of common expenses takes place when the expenses are recorded based on a methodical and non-discriminatory basis.

➤ **Basis of Presentation**

Government-wide Financial Statements – Government-wide financial statements, including the statement of net position and the statement of activities, present information about the School as a whole.

Government-wide financial statements are prepared using the economic resources measurement focus. The statement of activities presents a comparison between direct expenses and program revenues for each function or program of the School's governmental activities. Direct expenses are those that are specifically associated with a service, program, or department and are thereby clearly identifiable to a particular function.

Program revenues include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of the School.

Fund Financial Statements – Fund financial statements report detailed information about the School in the governmental funds. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major fund is reported in a separate column. Because the focus of governmental fund financial statements differs from the focus of government-wide financial statements, a reconciliation is presented with each of the governmental fund financial statements.

NOTES TO FINANCIAL STATEMENTS
June 30, 2015

The School considers all of its funds as major governmental funds:

- General Fund – to account 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.
- Special Revenue Fund – to account for certain Federal grant program resources.

➤ **Basis of Accounting**

Basis of accounting refers to when revenues and expenditures, or expenses, 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 prepared using the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when a liability is incurred, regardless of the timing of the related cash flows. Revenues from grants, entitlements, and donations are recognized in the fiscal year in which all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are prepared using the modified accrual basis of accounting. Revenues, except for certain grant revenues, are recognized when they become 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. The School considers revenues to be available if they are collected within 30 days of the end of the current fiscal year. When grant terms provide that the expenditure of resources is the prime factor for determining eligibility for Federal, State, and other grant resources, revenue is recognized at the time the expenditure is made. Under the modified accrual basis of accounting, expenditures are generally recognized when the related fund liability is incurred, except for principal and interest on long-term debt, claims and judgments, and compensated absences, which are recognized when due. Allocations of cost, such as depreciation, are not recognized in governmental funds.

➤ **Deposits and Investments**

Cash and cash equivalents are defined as demand deposits, money market accounts, and short term investments with original maturities of eight months or less from date of acquisition. The School considers all demand accounts and money market funds which are not subjected to withdrawal restrictions to be cash and cash equivalents.

The School's deposits must be placed with banks and savings and loans which are qualified as public depositories, prior to receipt of public monies, under Chapter 280, Florida Statutes and the School's policy. The School maintains its cash accounts with one qualified public depository. The accounts routinely exceed the federally insured limit of \$250,000. Monies deposited in amounts greater than the insurance coverage are secured by the bank's pledging securities with the state

NOTES TO FINANCIAL STATEMENTS
June 30, 2015

treasurer in the collateral pool. The School has not experienced any losses in such accounts and does not believe it is exposed to any significant credit or custodial.

➤ **Capital Assets**

Expenditures for capital assets acquired or constructed for general School purposes are reported in the governmental fund that financed the acquisition or construction. The capital assets so acquired are reported at cost in the government-wide statement of net position but are not reported in the governmental fund financial statements. Capital assets are defined by the School as those costing more than \$750. Such assets are recorded at historical cost or estimated historical cost, if purchased or constructed. Donated assets are recorded at fair value at the date of donation.

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

<u>Description</u>	<u>Estimated Lives</u>
Leasehold Improvements	5-20 years
Furniture, Fixtures and Equipment	3-7 years

➤ **Deferred Outflows/Inflows of Resources**

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/expenditure) until then. The School does not have any items that qualify for reporting in this category.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until then. The School does not have any items that qualify for reporting in this category.

➤ **Net Position and Fund Balance Classification**

Government-wide Financial Statements

Net Position are classified and reported in three components:

- Net Investment in Capital Assets – consists of capital assets, net of accumulated depreciation, and reduced by the outstanding balances of any borrowings that are attributed to the acquisition or improvement of those assets.
- Restricted Net Position – consists of net position with constraints placed on their use either by external groups such as creditors, contributors, or laws or regulations of other governments.

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

- Unrestricted Net Position – all other net position that does not meet the definition of “restricted” or “net investment in capital assets.”

Fund Financial Statements

GASB Codification Section 1800.142, *Fund Balance Reporting and Governmental Fund Type Definitions*, defines the different types of fund balances that a governmental entity must use for financial reporting purposes. GASB requires the fund balance amounts to be reported within one of the following fund balance categories:

- Nonspendable – fund balance associated with inventories, prepaid expenses, long-term loans and notes receivable, and property held for resale (unless the proceeds are restricted, committed or assigned). All nonspendable fund balances at year end relate to assets that are in nonspendable form.
- Restricted – fund balance that can be spent only for the specific purposes stipulated by the constitution, external resource providers, or through enabling legislation.
- Committed – fund balance that can be used only for the specific purposes determined by a formal action of the School’s Board of Governance.
- Assigned – fund balance that is intended to be used by the School’s management for specific purposes but does not meet the criteria to be classified as restricted or committed.
- Unassigned – fund balance that is the residual amount for the School’s general fund and includes all spendable amounts not contained in the other classifications.

➤ **Order of Fund Balance Spending Policy**

The School’s policy is to apply expenditures against nonspendable fund balance, restricted fund balance, committed fund balance, assigned fund balance, and unassigned fund balance at the end of the fiscal year. First, nonspendable fund balances are determined. Then restricted fund balances for specific purposes are determined (not including nonspendable amounts). Any remaining fund balance amounts for the non-general funds are to be classified as restricted fund balance. It is possible for the non-general funds to be classified as restricted fund balance. It is possible for the non-general funds to have negative unassigned fund balance when nonspendable amounts plus the amount of restricted fund balances for specific purposes exceed the positive fund balance for non-general fund.

➤ **Revenue Sources**

Revenues for current operations are received primarily from the District pursuant to the funding provisions included in the School’s charter. In accordance with the funding provisions of the charter and Section 1002.33(17), Florida Statutes, the

NOTES TO FINANCIAL STATEMENTS
June 30, 2015

School reports the number of full-time equivalent students and related data to the District.

Under provisions of Section 1011.62, Florida Statutes, the District reports the number of full-time equivalent students (FTE) and related data to the Florida Department of Education (FDOE) for funding through the Florida Education Finance Program (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 designated full-time equivalent student survey periods. 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 basic amount of funding through the FEFP under Section 1011.62 is the product of the (1) unweighted FTE, multiplied by (2) the cost factor for each program, multiplies by (3) the base student allocation established by the legislature. Additional funds for exceptional students who do not have a matrix of services are provided through the guaranteed allocation designated in Section 1011.62(1)(e)2., Florida Statutes. For the fiscal year ended June 30, 2015, the School reported 243.59 unweighted FTE and 244.18 weighted FTE.

FEFP funding may also be adjusted as a result of subsequent FTE audits conducted by the Florida Auditor General pursuant to Section 1010.305, Florida Statutes, and Rule 6A-1.0453, Florida Administrative Code (FAC). Schools are required to maintain the following documentation for three years or until the completion of an FTE audit:

- Attendance and membership documentation (Rule 6A-1.044, FAC).
- Teacher certificates and other certification documentation (Rule 6A-1.0503, FAC).
- Documentation for instructors teaching out-of-field (Rule 6A-1.0503, FAC).
- Procedural safeguards for weighted programs (Rule 6A-6.03411, FAC).
- Evaluation and planning documents for weighted programs (Section 1010.305, Florida Statutes, and Rule 6A-6.03411, FAC).

The School receives federal or 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 or state 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 follows the policy of applying restricted resources prior to applying unrestricted resources when an expense is incurred for purposes for which both restricted and unrestricted assets are available.

NOTES TO FINANCIAL STATEMENTS
June 30, 2015

➤ **Income Taxes**

The School has filed for exemption from Federal tax under Section 501(c)(3) of the Internal Revenue Code. The School has not received approval, but is in anticipation of approval. Accordingly, no provision for income taxes has been included in the accompanying financial statements. Additionally, no uncertain tax positions have been made requiring disclosure in the related notes to financial statements. The School's income tax returns for the past three years are subject to examination by tax authorities and may change upon examination.

➤ **Use of Estimates**

In preparing the financial statements in conformity with generally accepted accounting principles in the United States management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the statement of net position and affect revenues and expenditures for the period presented. Actual results could differ from those estimates.

➤ **Subsequent Events**

Management has evaluated all events subsequent to the balance sheet date and through the report date, which is the date these financial statements were available to be issued. Management has determined there is a subsequent event which requires disclosure.

On June 23, 2016, the Board approved an agreement with Newpoint Education Partners, LLC, the School's management company (the "Company") that would terminate the management agreement effective June 30, 2016. In addition, the agreement calls for the forgiveness of any outstanding liabilities to the Company in exchange for a \$100,000 promissory note payable in 36 installments with an annual interest rate of 6% beginning July 1, 2016.

2. PRIOR PERIOD ADJUSTMENT – ERROR CORRECTION

In the previous audit report a long-term loan was disclosed and was subsequently discovered to have been incorrectly reported as such. This error was caused the beginning net position balance to be understated by \$10,000. The results of the correction are shown below:

	Governmental Activities Net Position June 30, 2014
As previously Stated	\$ (180,394)
Change in reporting for error correction	10,000
As Restated	<u>\$ (170,394)</u>

SAN JOSE ACADEMY
(A CHARTER SCHOOL UNDER RIVER CITY EDUCATION ORGANIZATION, INC.)
A Charter School and Component Unit of the District School Board of Duval County, Florida

NOTES TO FINANCIAL STATEMENTS
June 30, 2015

3. CASH DEPOSITS

Custodial Credit Risk – Deposits. In the case of deposits, this is the risk that in the event of a bank failure, the School’s deposits may not be returned to the School. The School does not have a custodial credit risk policy. All cash deposits are held in banks that qualify as public depositories under Florida law. All such deposits are insured by federal depository insurance and/or collateralized with securities held in Florida’s multiple financial institution collateral pool as required by Chapter 280, Florida Statutes.

4. ACCOUNTS RECEIVABLE – RELATED PARTY

The School reported receivables as a result of money advanced for expenses to San Jose Preparatory High School (\$5,215) a charter school operated by the School’s charter-holder, in its statement of net position and balance sheet – governmental funds. The School expects to receive full payment within one year from the financial statement date and no allowance for uncollectible accounts has been established.

5. DUE FROM OTHER AGENCY

Amounts included in due from other agencies on the School’s statement of net position and balance sheet – governmental funds consists of amounts due from the School District of Duval County for FEFP funding. This receivable is considered to be fully collectible and as such, no allowance for uncollectibles is accrued.

6. CHANGES IN CAPITAL ASSETS

Changes in capital assets are presented in the table below:

	Beginning Balance	Additions	Deletions	Ending Balance
<u>Governmental Activities:</u>				
Furniture, Fixtures and Equipment	\$ 18,687	\$ 62,422	\$ -	\$ 81,109
Leasehold Improvements	-	9,100		9,100
Total Capital Assets Being Depreciated	<u>18,687</u>	<u>71,522</u>	<u>-</u>	<u>90,209</u>
Less Accumulated Depreciation for:				
Furniture, Fixtures and Equipment	(3,013)	(14,792)		(17,805)
Leasehold Improvements	-	(417)		(417)
Total Accumulated Depreciation	<u>(3,013)</u>	<u>(15,209)</u>	<u>-</u>	<u>(18,222)</u>
Governmental Activities Capital Assets, Net	<u>\$ 15,674</u>	<u>\$ 56,313</u>	<u>\$ -</u>	<u>\$ 71,987</u>

All depreciation expense was shown as unallocated on the statement of activities.

SAN JOSE ACADEMY
(A CHARTER SCHOOL UNDER RIVER CITY EDUCATION ORGANIZATION, INC.)
A Charter School and Component Unit of the District School Board of Duval County, Florida

NOTES TO FINANCIAL STATEMENTS
June 30, 2015

7. COLLATERALIZED BORROWING

The School entered into a collateralized borrowing agreement with Charter School Capital, Inc. The agreement calls for advances to the School of \$91,200 to fund operating costs which equated to 1 month of fiscal year 2014-15 FEFP revenue. Repayment commences on July 2015 does not require interest to be accrued on the outstanding balance. The amount is reflected in the accompanying statement of net position and statement of revenues, expenditures and changes in fund balances – governmental funds.

8. SCHEDULE OF STATE REVENUE SOURCES

The following is a schedule of the School’s State revenue:

Source	Amount
Florida Education Finance Program	\$ 1,008,295
Class Size Reduction	222,157
Discretionary Local Effort	92,656
Supplementary Academic Instruction	55,051
ESE Guaranteed Allocation	29,337
Instructional Materials	18,682
Safe School	5,850
Transportation	3,450
Digital Classroom Allocation	2,427
Florida Teachers' Lead Program	840
School Improvement	16
Total State Revenue	\$ 1,438,761

As provided in the charter school contract, the District has charged the School an administrative fee of \$71,850.

9. FACILITY LEASE

The School entered into a 20 year lease commencing October 2, 2013 through September 30, 2034. The lease requires monthly payments and includes increases of .75% in year 2, .833% in year 3 and beginning in year 4 an annual increase of the greater of 2% or the increase in consumer price index. Agreement terms with American Charter Development LLC (Landlord) was to purchase land, as well as to engineer, design and construct buildings with related parking facilities, structures and other improvements (Facility) to enable the property to be used as a charter school facility. The School has the option to purchase the Facility within the purchase Option Window, anticipated between the fifth and seventh year from occupancy, but the School is able to extend the Option Window upon written notice within 90 days of the expiration. The option purchase price shall be determined by dividing the current annual gross lease payment by .08 or a cap rate of 8%. Rental expenditures under this lease agreement for the fiscal year amounted to \$281,400. For the 2014-15 fiscal year, a portion of the space was assigned to and paid by San Jose Preparatory High School in the amount of \$98,490.

SAN JOSE ACADEMY
(A CHARTER SCHOOL UNDER RIVER CITY EDUCATION ORGANIZATION, INC.)
A Charter School and Component Unit of the District School Board of Duval County, Florida

NOTES TO FINANCIAL STATEMENTS
June 30, 2015

The following is a schedule by years of the minimum rental payments assuming the School does not exercise the Option Window to purchase the Facility:

Fiscal Year Ending June 30:	Minimum Lease Payments
2016	\$ 346,122
2017	368,541
2018	375,909
2019	383,430
2020	391,098
2021-2025	2,075,997
2026-2030	2,292,051
2030-2034	1,615,272
Total Minimum Lease Payments	\$ 7,848,420

10. OPERATING AGREEMENTS

Management Agreement – The School entered into a management agreement for the period July 1, 2013, to June 30, 2018, with Newpoint Education Partners, LLC (the “Company”). Thereafter the agreement will automatically renew for additional, successive five (5) year terms unless one party notifies the other party at least six (6) months prior to the expiration of the then-current term of its intention not to renew the agreement. The contract calls for the Company to be responsible and accountable to the School Board for the administration, operation and performance of the School in accordance with the School’s contract, the statement of mission and purpose and the laws of the State of Florida. The agreement includes various other responsibilities of the Company involving school operations and reporting requirements. The contract provides for an Educational Model Development fee defined as the sum of any grants intended to cover start-up costs of the School to the extent permitted by the terms of such grants, which shall be non-refundable and deemed fully earned when paid. The contract further provides for a continuing fee defined as 18 percent of the School’s qualified gross revenues, less the amount of any outstanding default costs and expenses. Qualified gross revenues shall mean revenues and income received by the School from Basic State Funding, FEFP Funding, Special Education Funding, Class Size Funding, Safety Funding, and income sources provided by state, federal and local law and/or obtained through the Company’s efforts.

Under this contract, the School incurred \$245,891 of expenses for the 2014-15 fiscal year.

Professional Accounting Services Company – The School has a contract with a professional accounting services company which provides accounting and financial services and other assistance to the School at a fixed percentage (3%) of the net FEFP revenue collected from the District. Fees under this agreement incurred during the 2014-15 fiscal year amounted to \$38,421. The contract may be cancelled by either party with 30 days advance notice.

NOTES TO FINANCIAL STATEMENTS
June 30, 2015

11. RELATED PARTY TRANSACTIONS

During the current fiscal year, the School's management company, Newpoint Education Partners, LLC, made payments on behalf of the School. As of June 30, 2015, of the \$223,665 accounts payable balance on the statement of net position and balance sheet – governmental funds, an amount of \$186,402 is payable to Newpoint Education Partners, LLC for the expenditures paid by the Company on behalf of the School and accrued management fees.

12. DEFICIT NET POSITION AND DEFICIT FUND BALANCE

As shown on the statement of net position and balance sheet - governmental funds, the School reported a deficit net position balance of \$181,647 and deficit fund balance of \$162,434, respectively. The 2014-15 year was the School's second year of operations and certain start-up costs and management costs were considered to be the primary cause for the deficit. As disclosed in Note 1 - Subsequent Events, the School has negotiated for the cancellation of the management agreement as well as forgiveness of all outstanding unpaid liabilities for the 2015-16 fiscal year in return for a long-term promissory note payable over 36 months starting July 1, 2016.

13. 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; and natural disasters for which the School carries commercial insurance. There have been no significant reductions in insurance coverage and settlement amounts have not exceeded insurance coverage for the current year or the prior year.

14. COMMITMENTS AND CONTINGENT LIABILITIES

The School participates in state 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 receivables at June 30, 2015, may be impaired.

In the opinion of the School, there are no significant 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.

15. FUNDING AND CREDIT CONCENTRATIONS

The School receives substantially all of its support and revenue from federal, state and local funding sources, passed through the District, in the form of performance and budget based contracts. Continuing operation of the School is greatly dependent upon the continued support of these governmental agencies.

SAN JOSE ACADEMY
(A CHARTER SCHOOL UNDER RIVER CITY EDUCATION ORGANIZATION, INC.)
A Charter School and Component Unit of the District School Board of Duval County, Florida

NOTES TO FINANCIAL STATEMENTS
June 30, 2015

16. LEGAL MATTERS

In the normal course of conducting its operations, the School occasionally becomes party to various legal actions and proceedings. The School has no legal actions or pending proceedings in progress.

SAN JOSE ACADEMY
(A CHARTER SCHOOL UNDER RIVER CITY EDUCATION ORGANIZATION, INC.)
A Charter School and Component Unit of the District School Board of Duval County, Florida

NOTE TO REQUIRED SUPPLEMENTARY INFORMATION
June 30, 2015

1. BUDGETARY BASIS OF ACCOUNTING

Budgets are presented on the modified accrual basis of accounting. During the fiscal year, expenditures were controlled at the object level (e.g., salaries and benefits, purchased services, materials and supplies and capital outlay) within each activity (e.g., instruction, pupil personnel services and school administration). Budgets may be amended by resolution at any Board meeting prior to the date for the annual 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 San Jose Academy
(A charter school under River City Education Organization, Inc.),
a Charter School and Component Unit of the
District School Board of Duval County, Florida

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, each major fund, and the aggregate remaining fund information of San Jose Academy ("School"), a charter school under River City Education Organization, Inc. and component unit of the District School Board of Duval County, Florida, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the School's basic financial statements, and have issued our report thereon dated June 27, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the School's internal control over financial reporting ("internal control") to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our 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.

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 combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the School's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the School's financial statements are free from material misstatement, we performed tests of 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*.

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.

Respectfully submitted,

A handwritten signature in black ink that reads "King & Walker, CPAs". The signature is written in a cursive style.

June 27, 2016
Tampa, Florida

Members:
Florida Institute of CPAs
American Institute of CPAs
Government Audit Quality Center

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**Management Letter as Required by Rules of the Florida Auditor General,
Chapter 10.850, Florida Statutes, *Charter School Audits***

To the Board of Directors of San Jose Academy
(A charter school under River City Education Organization, Inc.),
a Charter School and Component Unit of the
District School Board of Duval County, Florida

Report on the Financial Statements

We have audited the financial statements of the San Jose Academy, a charter school under River City Education Organization, Inc. ("School"), and a component unit of the District School Board of Duval County, Florida, as of and for the fiscal year ended June 30, 2015, and have issued our report thereon dated June 27, 2016.

Auditor's Responsibility

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and Chapter 10.850, Rules of the Auditor General.

Other Reporting Required by *Government Auditing Standards*

We have issued our Independent Auditor's Report on Internal Control over Financial Reporting and Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with *Government Auditing Standards*. Disclosures in those reports and schedule, which are dated June 27, 2016, 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. The School did not have findings and recommendations made in the preceding annual financial audit report.

Official Title

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 San Jose Academy.

Financial Condition

Section 10.854(1)(e)2., Rules of the Auditor General, requires that we report the results of our determination as to 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(s) 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.

Pursuant to Sections 10.854(1)(e)6.a. and 10.855(12), Rules of the Auditor General, we applied 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.

Transparency

Sections 10.854(1)(e)7. and 10.855(13), Rules of the Auditor General, require that we report the results of our determination as to whether the School maintains on its Web site the information specified in Section 1002.33(9)(p), Florida Statutes. In connection with our audit, we determined that the School maintained on its Web site 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.

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, Federal and other granting agencies, the Board of Directors, applicable management, and the District School Board of Duval County and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

Handwritten signature in black ink that reads "King & Walker, CPAs". The signature is written in a cursive, flowing style.

June 27, 2016
Tampa, Florida