



CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

**ALEE ACADEMY, INC.
A CHARTER SCHOOL AND COMPONENT UNIT OF THE DISTRICT
SCHOOL BOARD OF LAKE COUNTY, FLORIDA**

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

JUNE 30, 2007

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AUDITOR GENERAL

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MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the annual financial report of Alee Academy, Inc. (the "School") presents management's discussion and analysis of the School's financial performance during the fiscal year ended June 30, 2007. Please read it in conjunction with the School's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- The School's total net assets increased compared to the prior year.
- For the fiscal year ended June 30, 2007, the School's revenues exceeded expenses by \$5,368. This is a decrease from the prior year, when revenues exceeded expenses by \$148,118.

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 compliance and internal control required by *Government Auditing Standards*, as well as the management letter required by the Rules of the Florida Auditor General, Chapter 10.850, *Audits of Charter Schools and Similar Entities*.

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 assets Statement of activities	Balance sheet Statement of revenues, expenditures and changes in fund balances
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 and liabilities, both financial and capital, and short-term and long-term	Only assets expected to be used up and liabilities 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 assets includes all of the School’s assets and liabilities. 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 assets and how they have changed. Net assets – the difference between the School’s assets and liabilities – is one way to measure the School’s financial health or position. Over time, increases or decreases in the School’s net assets are an indicator of whether its financial health is improving or deteriorating, respectively. To assess the overall health of the School, one needs to consider additional non-financial factors such as changes in the School’s student base.

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 has one kind 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 Assets

The School's combined net assets increased from fiscal years 2006 to 2007 (see table below).

	<u>Governmental Activities</u>		<u>Increase</u>
	<u>2006</u>	<u>2007</u>	<u>(Decrease)</u>
Current and other assets	\$ 568,071	\$ 533,807	-6%
Capital assets, net	1,913,627	1,888,312	-1%
Total assets	<u>2,481,698</u>	<u>2,422,119</u>	<u>-2%</u>
Current and other liabilities	68,897	82,313	19%
Long-term liabilities	1,687,798	1,609,435	-5%
Total liabilities	<u>1,756,695</u>	<u>1,691,748</u>	<u>-4%</u>
Net assets:			
Invested in capital assets, net of related debt	287,053	317,932	11%
Restricted	212,978	252,952	19%
Unrestricted	224,972	159,487	-29%
Total net assets	<u>\$ 725,003</u>	<u>\$ 730,371</u>	<u>1%</u>

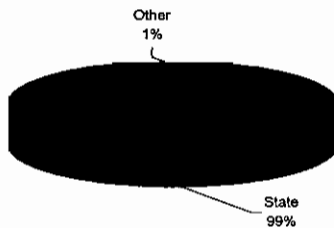
Current and other assets decreased due to the decrease in accounts receivable, which was attributed to the timing of receipts of funding under the Florida Education Finance Program ("FEFP"). The decrease in capital assets is a result of current year depreciation expense in excess of capital asset additions. The decrease in total liabilities is due to the current year principal payments on the mortgage note payable. The increase in total net assets from the prior fiscal year is due to the School's current year operating surplus.

Change in Net Assets

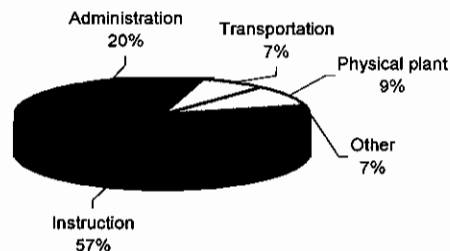
The School's total revenues increased by 12% to \$2,214,980, and the total cost of all programs and services increased by 21% to \$2,209,612 (see table below).

	Governmental Activities		Increase (Decrease)
	2006	2007	
Revenues:			
State and local sources	\$ 1,915,112	\$ 2,191,740	14%
Contributions and other revenues	62,046	23,240	-63%
Total revenues	1,977,158	2,214,980	12%
Expenses:			
Instruction and instruction-related services	983,812	1,258,854	28%
School administration	370,120	433,260	17%
Pupil transportation services	155,331	163,072	5%
Operation and maintenance of plant	165,232	205,782	25%
Interest	154,545	148,644	-4%
Total expenses	1,829,040	2,209,612	21%
Change in net assets	\$ 148,118	\$ 5,368	-96%

2007 Revenues



2007 Expenses



Revenues from state and local sources constitute 99% of total revenues. The increase during fiscal 2007 is primarily due to an increase in funds from the FEFP and capital outlay program, the School's primary sources of funding. Contributions and other revenues decreased due to a decrease in various fund raising and other activities in fiscal 2007.

Instruction and instruction-related expenses increased due to the increase in salaries and related benefit expenses. The increase in school administration and transportation is due to an increase in salaries and related benefits and the increase in the School's administrative fee, which is calculated based on total FEFP revenue. The increase in operation and maintenance of plant expenses is due to an increase in general operating costs for facility, including energy costs. Interest expense decreased as a result of the decrease in the mortgage principal balance.

FINANCIAL ANALYSIS OF THE SCHOOL'S FUNDS

As the School completed the year, its total governmental funds reported a fund balance of \$412,439, which is a decrease from the prior year. Revenues and expenditures increased overall due to the factors discussed above.

General Fund Budgetary Highlights

Over the course of the year, the School did not revise the operating budget. For the year ended June 30, 2007, actual revenues were approximately \$176,000 above budgeted revenues, primarily due to contributions and other revenue not being included in the budget and the School exceeding their budgeted student enrollment. Actual expenditures were approximately \$159,000 above budgeted expenditures, primarily due to the fact that budgeted personnel expenses were in excess of actual expense.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of fiscal 2007, the School had invested \$2,558,067 in a broad range of capital assets, including land, buildings and improvements, furniture, fixtures and equipment and motor vehicles (see table below).

	<u>Governmental Activities</u>		<u>Increase</u>
	<u>2006</u>	<u>2007</u>	<u>(Decrease)</u>
Land	\$ 303,417	\$ 303,417	0%
Buildings and improvements	1,696,146	1,709,143	1%
Furniture, fixtures and equipment	338,225	394,142	17%
Motor vehicles	151,365	151,365	0%
Total capital assets	<u>\$2,489,153</u>	<u>\$ 2,558,067</u>	<u>3%</u>

The School's fiscal year 2008 capital budget does not include significant spending for capital projects. More detailed information about the School's capital assets is presented in Note 2 to the financial statements.

Long-Term Debt

At year-end, the School had \$1,689,970 in notes payable outstanding, a decrease of \$65,394 over last year. This decrease is due to the current year principal payments. More detailed information about the School's long-term debt is presented in Note 3 to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The following factors were taken into account when adopting the general fund budget for fiscal year 2008:

- Projected increase in student population.
- Projected salary increases.

Amounts available for appropriation in the general fund are \$1,915,579, a less than 1% decrease over the 2007 actual of \$1,917,557. Budgeted expenditures are expected to decrease 10% to \$1,764,753 from the 2007 actual of \$1,957,539. The School has added no major new programs to the fiscal 2008 budget.

If these estimates are realized, the School's budgetary general fund balance is expected to increase by the close of fiscal 2008.

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 1705 East County Road 44A, Eustis, Florida 32726.



**Report of Independent Auditors on Basic Financial Statements
and Supplementary Information**

To the Board of Directors of Alee Academy, Inc., a Charter School
and Component Unit of the District School Board of Lake County, Florida

We have audited the accompanying financial statements of the governmental activities and each major fund of Alee Academy, Inc. (the "School"), a charter school and component unit of the District School Board of Lake County, Florida, as of and for the year ended June 30, 2007, which collectively comprise the School's basic financial statements as listed in the table of contents. These basic financial statements are the responsibility of the School's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of Alee Academy, Inc. at June 30, 2007, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 28, 2007 on our consideration of the School's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 1-7 and the budgetary comparison schedule on page 26 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

BKHM, P.A.

Winter Park, Florida
September 28, 2007

ALEE ACADEMY, INC.
A CHARTER SCHOOL AND COMPONENT UNIT OF
THE DISTRICT SCHOOL BOARD OF LAKE COUNTY, FLORIDA

STATEMENT OF NET ASSETS

JUNE 30, 2007

	<u>Governmental Activities</u>
ASSETS	
Cash and cash equivalents	\$ 411,733
Accounts receivable	750
Other assets	121,324
Capital assets:	
Land	303,417
Buildings and improvements	1,709,143
Furniture, fixtures and equipment	394,142
Motor vehicles	151,365
Less accumulated depreciation	<u>(669,755)</u>
Total capital assets, net	<u>1,888,312</u>
Total assets	<u><u>\$ 2,422,119</u></u>
LIABILITIES	
Accounts payable and accrued expenses	\$ 1,778
Long-term liabilities:	
Portion due or payable within one year:	
Mortgage note payable	80,535
Portion due or payable after one year:	
Mortgage note payable	<u>1,609,435</u>
Total liabilities	<u>1,691,748</u>
NET ASSETS	
Invested in capital assets, net of related debt	317,932
Restricted for:	
Debt service	238,481
Capital projects	14,471
Unrestricted	<u>159,487</u>
Total net assets	<u>730,371</u>
Total liabilities and net assets	<u><u>\$ 2,422,119</u></u>

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

ALEE ACADEMY, INC.
A CHARTER SCHOOL AND COMPONENT UNIT OF
THE DISTRICT SCHOOL BOARD OF LAKE COUNTY, FLORIDA

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2007

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Total
Governmental activities:						
Instruction and instruction-related services	\$ 1,258,854	\$ -	\$ -	-	\$ (1,258,854)	\$(1,258,854)
School administration	433,260	-	-	-	(433,260)	(433,260)
Pupil transportation services	163,072	-	-	-	(163,072)	(163,072)
Operation and maintenance of plant	205,782	-	-	-	(205,782)	(205,782)
Interest	148,644	-	-	148,644	-	-
Total primary government	\$ 2,209,612	\$ -	\$ -	\$ 148,644	(2,060,968)	(2,060,968)
General revenues:						
State and local sources					2,043,096	2,043,096
Contributions and other revenue					23,240	23,240
Total general revenues					2,066,336	2,066,336
Change in net assets					5,368	5,368
Net assets at beginning of year					725,003	725,003
Net assets at end of year					\$ 730,371	\$ 730,371

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

**ALEE ACADEMY, INC.
A CHARTER SCHOOL AND COMPONENT UNIT OF
THE DISTRICT SCHOOL BOARD OF LAKE COUNTY, FLORIDA**

BALANCE SHEET - GOVERNMENTAL FUNDS

JUNE 30, 2007

	General Fund	Capital Projects Fund	Total Governmental Funds
ASSETS			
Cash and cash equivalents	\$ 397,262	\$ 14,471	\$ 411,733
Accounts receivable	750	-	750
Other current assets	1,734	-	1,734
	\$ 399,746	\$ 14,471	\$ 414,217
 LIABILITIES AND FUND BALANCES			
Accounts payable and accrued expenses	\$ 1,778	\$ -	\$ 1,778
	1,778	-	1,778
 Fund balances:			
Reserved for:			
Debt service	238,481	-	238,481
Capital projects	-	14,471	14,471
Unreserved:			
Undesignated	159,487	-	159,487
	397,968	14,471	412,439
	\$ 399,746	\$ 14,471	\$ 414,217

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

ALEE ACADEMY, INC.
A CHARTER SCHOOL AND COMPONENT UNIT OF
THE DISTRICT SCHOOL BOARD OF LAKE COUNTY, FLORIDA
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS

June 30, 2007

Total fund balances - total governmental funds	\$	412,439
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Amounts reported for governmental activities in the statement of net assets 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 \$2,558,067, and the accumulated depreciation is \$669,755.		1,888,312
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Non-current assets, including deferred loan costs, are not financial resources and, therefore, are not reported as assets in the governmental funds.		119,590
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Long-term liabilities, including notes payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds. Long-term liabilities at year-end consist of:

Mortgage note payable		<u>(1,689,970)</u>
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Total net assets - governmental activities	\$	<u>730,371</u>
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The accompanying notes to financial statements are an integral part of this statement.

ALEE ACADEMY, INC.
A CHARTER SCHOOL AND COMPONENT UNIT OF
THE DISTRICT SCHOOL BOARD OF LAKE COUNTY, FLORIDA

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

FOR THE YEAR ENDED JUNE 30, 2007

	General Fund	Capital Projects Fund	Debt Service Fund	Total Governmental Funds
REVENUES				
State and local sources	\$ 1,894,317	\$ 297,423	\$ -	\$ 2,191,740
Contributions and other revenue	23,240	-	-	23,240
Total revenues	1,917,557	297,423	-	2,214,980
EXPENDITURES				
Current:				
Instruction and instruction-related services	1,199,490	-	-	1,199,490
School administration	392,077	-	-	392,077
Pupil transportation services	160,190	-	-	160,190
Operation and maintenance of plant	205,782	-	-	205,782
Debt service:				
Principal	-	-	65,394	65,394
Interest	-	-	148,644	148,644
Capital outlay	-	68,914	-	68,914
Total expenditures	1,957,539	68,914	214,038	2,240,491
Excess (deficiency) of revenues over expenditures	(39,982)	228,509	(214,038)	(25,511)
OTHER FINANCING SOURCES (USES)				
Operating transfers in	-	-	214,038	214,038
Operating transfers out	-	(214,038)	-	(214,038)
Total other financing sources (uses)	-	(214,038)	214,038	-
Net changes in fund balances	(39,982)	14,471	-	(25,511)
Fund balances at beginning of year	437,950	-	-	437,950
Fund balances at end of year	<u>\$ 397,968</u>	<u>\$ 14,471</u>	<u>\$ -</u>	<u>\$ 412,439</u>

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

ALEE ACADEMY, INC.
A CHARTER SCHOOL AND COMPONENT UNIT OF
THE DISTRICT SCHOOL BOARD OF LAKE COUNTY, FLORIDA
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2007

Net changes in fund balances - total governmental funds	\$	(25,511)
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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 by which depreciation expense (\$94,229) exceeds capital outlays (\$68,914) in the current period.		(25,315)
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Governmental funds report deferred loan costs paid as expenditures. However, in the statement of activities, the cost of those assets is allocated over the loan term and reported as amortization expense. This is the amount of amortization expense in the current period.		(9,200)
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Repayments of long-term liabilities are reported as expenditures in the governmental funds because they require the use of current financial resources. They are reported as a decrease in long-term liabilities in the statement of net assets. This amount represents the current year repayment of principal on long term debt:

Principal payments on mortgage note payable		65,394
Change in net assets of governmental activities	\$	5,368

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

**ALEE ACADEMY, INC.
A CHARTER SCHOOL AND COMPONENT UNIT OF
THE DISTRICT SCHOOL BOARD OF LAKE COUNTY, FLORIDA**

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2007

1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

Alee Academy, Inc. (the "School") 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. The governing body of the School is the not-for-profit corporation Board of Directors, which is composed of nine 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 Lake County, Florida (the "School Board"). The current charter is effective until June 30, 2012 and may be renewed thereafter 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 to be redistributed among eligible charter schools. The School is considered a component unit of the School Board and meets the definition of a governmental entity under the *Audit and Accounting Guide – State and Local Governments* issued by the American Institute of Certified Public Accountants; 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 of the School which should be reported with 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.

ALEE ACADEMY, INC.
A CHARTER SCHOOL AND COMPONENT UNIT OF
THE DISTRICT SCHOOL BOARD OF LAKE COUNTY, FLORIDA

NOTES TO FINANCIAL STATEMENTS
(continued)

Basis of presentation

The School's financial statements have been prepared in accordance with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board. 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 assets includes all of the School's assets and liabilities. 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, liabilities, 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.
- Debt Service Fund – to account for the accumulation of resources for, and payment of, general long-term debt principal, interest and related costs.

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

ALEE ACADEMY, INC.
A CHARTER SCHOOL AND COMPONENT UNIT OF
THE DISTRICT SCHOOL BOARD OF LAKE COUNTY, FLORIDA

NOTES TO FINANCIAL STATEMENTS
(continued)

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 60 days of the end of the fiscal year. Under the modified accrual basis of 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 object level (e.g., salaries, purchased services and capital outlay).

Deposits and investments

Cash deposits are held by banks qualified as public depositories under Florida law. All deposits are insured by federal depository insurance and collateralized with securities held in Florida's multiple financial institution collateral pool as required by Chapter 280, Florida Statutes. The School's cash consists primarily of demand and savings deposits with financial institutions.

ALEE ACADEMY, INC.
A CHARTER SCHOOL AND COMPONENT UNIT OF
THE DISTRICT SCHOOL BOARD OF LAKE COUNTY, FLORIDA

NOTES TO FINANCIAL STATEMENTS
(continued)

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 range as follows:

	<u>Years</u>
Buildings and improvements	10 - 39
Furniture, fixtures and equipment	3 - 5
Motor vehicles	5

Information relative to changes in capital assets is described in Note 2.

Long-term debt

Long-term obligations that will be financed by resources to be received in the future by the General Fund are reported in the government-wide financial statements, not in the General Fund. Changes in long-term debt for the current year are reported in Note 3.

Reserved fund balance

Restricted/reserved fund balance in the capital projects fund at June 30, 2007 represents the unspent portion of capital outlay funds in the amount of \$14,471, which may only be used for lawful capital outlay expenditures. A portion of the general fund balance is also restricted/reserved for debt service payments, in the amount of \$238,481 as required by the mortgage note (see Note 3).

Revenue sources

Revenues for current operations are received primarily from the District School Board of Lake County, Florida pursuant to the funding provisions included in the School's charter. 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.

**ALEE ACADEMY, INC.
A CHARTER SCHOOL AND COMPONENT UNIT OF
THE DISTRICT SCHOOL BOARD OF LAKE COUNTY, FLORIDA**

**NOTES TO FINANCIAL STATEMENTS
(continued)**

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 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 Florida Education Finance Program 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 school administration expense/expenditure in the accompanying statement of activities and statement of revenues, expenditures and changes in fund balances – governmental funds.

The School may receive federal 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 net assets and reserved fund balance in the accompanying statement of net assets and balance sheet – governmental fund, respectively, to the extent that they remain unexpended.

Use of estimates

In preparing the financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities 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.

ALEE ACADEMY, INC.
A CHARTER SCHOOL AND COMPONENT UNIT OF
THE DISTRICT SCHOOL BOARD OF LAKE COUNTY, FLORIDA

NOTES TO FINANCIAL STATEMENTS
(continued)

2 CHANGES IN CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2007 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 303,417	\$ -	\$ -	\$ 303,417
Total capital assets not being depreciated	<u>303,417</u>	<u>-</u>	<u>-</u>	<u>303,417</u>
Other capital assets:				
Buildings and improvements	1,696,146	12,997	-	1,709,143
Furniture, fixtures and equipment	338,225	55,917	-	394,142
Motor vehicles	151,365	-	-	151,365
Total other capital assets at historical cost	<u>2,185,736</u>	<u>68,914</u>	<u>-</u>	<u>2,254,650</u>
Less accumulated depreciation for:				
Buildings and improvements	(164,661)	(60,035)	-	(224,696)
Furniture, fixtures and equipment	(262,707)	(31,312)	-	(294,019)
Motor vehicles	(148,158)	(2,882)	-	(151,040)
Total accumulated depreciation	<u>(575,526)</u>	<u>(94,229)</u>	<u>-</u>	<u>(669,755)</u>
Other capital assets, net	<u>1,610,210</u>	<u>(25,315)</u>	<u>-</u>	<u>1,584,895</u>
Governmental activities capital assets, net	<u>\$ 1,913,627</u>	<u>\$ (25,315)</u>	<u>\$ -</u>	<u>\$ 1,888,312</u>

Depreciation expense was charged to functions as follows:

Governmental activities:	
Instruction and instruction-related services	\$ 59,364
School administration	31,983
Pupil transportation services	<u>2,882</u>
Total governmental activities depreciation expense	<u>\$ 94,229</u>

**ALEE ACADEMY, INC.
A CHARTER SCHOOL AND COMPONENT UNIT OF
THE DISTRICT SCHOOL BOARD OF LAKE COUNTY, FLORIDA**

**NOTES TO FINANCIAL STATEMENTS
(continued)**

3 LONG-TERM DEBT

Long-term debt at June 30, 2007 consists of a mortgage note payable to a financial institution that is secured by the School's Eustis, Florida facility. Terms of the note include monthly principal and interest payments, with interest being calculated at the Wall Street Journal prime rate plus 1% (9.25% at June 30, 2007). Maturity date of the note is August 2019.

Long-term debt activity during the current fiscal year was as follows:

Balance outstanding at beginning of year	\$ 1,755,364
Additions	-
Reductions	(65,394)
	<u>1,689,970</u>
Balance outstanding at end of year	\$ 1,689,970
Amount due within one year	\$ 80,535

Future debt service requirements related to the mortgage payable are as follows:

Year ending	Principal	Interest	Total
<u>June 30,</u>	<u> </u>	<u> </u>	<u> </u>
2008	\$ 80,535	\$ 152,965	\$ 233,500
2009	88,308	145,192	233,500
2010	96,832	136,668	233,500
2011	106,179	127,321	233,500
2012	116,427	117,073	233,500
2013 - 2017	774,034	393,466	1,167,500
2018 - 2020	427,655	42,735	470,390
Total	\$ 1,689,970	\$ 1,115,420	\$ 2,805,390

Interest paid during the year ended June 30, 2007 totaled \$148,644.

**ALEE ACADEMY, INC.
A CHARTER SCHOOL AND COMPONENT UNIT OF
THE DISTRICT SCHOOL BOARD OF LAKE COUNTY, FLORIDA**

**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 Lake County, Florida:	
Florida Education Finance Program	\$ 1,277,615
Capital outlay	297,367
Class size reduction	233,323
Discretionary millage funds	123,111
Transportation	95,763
Supplemental academic instruction	71,650
ESE guaranteed allocation	37,685
Instructional materials	31,638
Discretionary lottery funds	11,787
Safe schools	6,786
Teacher lead	5,015
Total	<u><u>\$ 2,191,740</u></u>

The administration fee paid to the School Board during the year ended June 30, 2007 totaled approximately \$95,000, which is reflected as a school administration expense/expenditure in the accompanying statement of activities and statement of revenues, expenditures and changes in fund balances – governmental funds.

5 RISK MANAGEMENT PROGRAM

Workers' compensation coverage, health and hospitalization, general liability, professional liability 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 not exceeded commercial coverage.

**ALEE ACADEMY, INC.
A CHARTER SCHOOL AND COMPONENT UNIT OF
THE DISTRICT SCHOOL BOARD OF LAKE COUNTY, FLORIDA**

**NOTES TO FINANCIAL STATEMENTS
(continued)**

6 SALARY SAVINGS PLAN

The School has adopted a salary savings plan in accordance with Section 401(k) of the Internal Revenue Code, which covers substantially all employees who have earned at least \$5,000. Eligible employees may elect to contribute a portion of their earnings to the plan. The School makes contributions to the Plan by matching 100% of employee contributions up to 3% of compensation. Employer contributions during fiscal 2007 totaled approximately \$13,000.

7 COMMITMENTS AND 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, 2007 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.

ALEE ACADEMY, INC.
A CHARTER SCHOOL AND COMPONENT UNIT OF
THE DISTRICT SCHOOL BOARD OF LAKE COUNTY, FLORIDA

NOTES TO FINANCIAL STATEMENTS
(continued)

Lease commitments

The School leases certain property under non-cancelable operating leases expiring June 2010. The leases are payable in monthly installments of \$2,800 and contain varying renewal options and require the School to pay insurance and other costs. Aggregate remaining minimum rental commitments as of June 30, 2007 under these leases are summarized as follows:

<u>Year ended June 30,</u>	<u>Amount</u>
2008	\$ 33,600
2009	33,600
2010	33,600

Rental expense for the year ended June 30, 2007 approximated \$26,000.

ALEE ACADEMY, INC.
A CHARTER SCHOOL AND COMPONENT UNIT OF
THE DISTRICT SCHOOL BOARD OF LAKE COUNTY, FLORIDA

REQUIRED SUPPLEMENTARY INFORMATION

BUDGETARY COMPARISION SCHEDULE – GENERAL FUND

FOR THE YEAR ENDED JUNE 30, 2007

	Budgeted Amounts		Actual (Budgetary Basis)	Variance with Final Budget- Positive (Negative)
	Original	Final		
REVENUES				
State and local sources	\$ 1,742,017	\$ 1,742,017	\$ 1,894,317	\$ 152,300
Contributions and other revenue	-	-	23,240	23,240
Total revenues	<u>1,742,017</u>	<u>1,742,017</u>	<u>1,917,557</u>	<u>175,540</u>
EXPENDITURES				
Current:				
Instruction and instruction-related services	1,061,658	1,061,658	1,199,490	(137,832)
School administration	435,471	435,471	392,077	43,394
Pupil transportation services	123,478	123,478	160,190	(36,712)
Operation and maintenance of plant	142,790	142,790	205,782	(62,992)
Capital outlay	35,000	35,000	-	35,000
Total expenditures	<u>1,798,397</u>	<u>1,798,397</u>	<u>1,957,539</u>	<u>(159,142)</u>
Net changes in fund balance	(56,380)	(56,380)	(39,982)	16,398
Fund balance at beginning of year	<u>437,950</u>	<u>437,950</u>	<u>437,950</u>	<u>-</u>
Fund balance at end of year	<u>\$ 381,570</u>	<u>\$ 381,570</u>	<u>\$ 397,968</u>	<u>\$ 16,398</u>

See report of independent auditors.



**Report of Independent Auditors 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 Alee Academy, Inc., a Charter School
and Component Unit of the District School Board of Lake County, Florida

We have audited the financial statements of the governmental activities and each major fund of Alee Academy, Inc. (the "School"), a charter school and component unit of the District School Board of Lake County, Florida, as of and for the year ended June 30, 2007, and have issued our report thereon dated September 28, 2007. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the School's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the School's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the School's internal control over financial reporting.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the School's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the School's financial statements that is more than inconsequential will not be prevented or detected by the School's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the School's internal control.

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

Compliance and Other Matters

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

This report is intended solely for the information and use of management of the School, the District School Board of Lake County, Florida, the Florida Department of Education and the Florida Auditor General and is not intended to be and should not be used by anyone other than these specified parties.

BKHM, P.A.

Winter Park, Florida
September 28, 2007

**ADDITIONAL INFORMATION REQUIRED BY
RULES OF THE FLORIDA AUDITOR GENERAL,
CHAPTER 10.850, *AUDITS OF CHARTER SCHOOLS
AND SIMILAR ENTITIES***



CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

To the Board of Directors of Alee Academy, Inc., a Charter School
and Component Unit of the District School Board of Lake County, Florida

In planning and performing our audit of the financial statements of the governmental activities and each major fund of Alee Academy, Inc. (the "School"), a charter school and component unit of the District School Board of Lake County, Florida, as of and for the year ended June 30, 2007, we considered the School's internal control in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the School's internal control. Accordingly, we do not express an opinion on the effectiveness of the School's internal control.

During the course of our audit, nothing came to our attention to indicate that the School had met any of the conditions described in Section 218.503(1), Florida Statutes ("the conditions"). However, in planning and performing our audit, we considered whether the School had met any of the conditions as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion as to whether the School had met any of the conditions. Accordingly, we do not express an opinion as to whether the School had met any of the conditions.

This report is intended solely for the information and use of the Board of Directors, management and others within Alee Academy, Inc. and is not intended to be and should not be used by anyone other than these specified parties.

BKHM, P.A.

Winter Park, Florida
September 28, 2007

**ALEE ACADEMY, INC.
A CHARTER SCHOOL AND COMPONENT UNIT OF
THE DISTRICT SCHOOL BOARD OF LAKE COUNTY, FLORIDA**

**RECOMMENDATIONS TO IMPROVE COMPLIANCE, INTERNAL CONTROL
AND THE FINANCIAL REPORTING PROCESS**

JUNE 30, 2007

There are no findings or recommendations in the current year.

STATUS OF PRIOR YEAR FINDINGS AND RECOMMENDATIONS

Corrective actions have been taken to address significant findings and recommendations made in the preceding annual financial audit report.