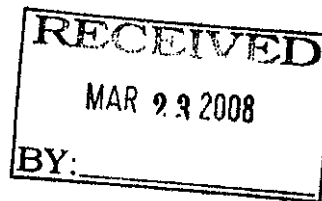


**ACADEMIES OF EXCELLENCE, INC.
d/b/a SUMMIT ACADEMY**

FINANCIAL STATEMENTS
(With Independent Auditor's Report Thereon)

For The Year Ended June 30, 2007



ACADEMIES OF EXCELLENCE, INC.
d/b/a SUMMIT ACADEMY

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Academies of Excellence, Inc.
d/b/a Summit Academy
Bunnell, Florida

We have audited the accompanying financial statements of the governmental activities and the major fund of *Academies of Excellence, Inc., d/b/a Summit Academy* (the School), a component unit of the Flagler County School Board, as of and for year ended June 30, 2007, which collectively comprise the School's basic financial statements as listed in the table of contents. These financial statements are the responsibility of *Summit Academy'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.

As more fully described in Note 9 to the financial statements, management has represented that a related party transaction with Brevard County Charter Schools was consummated on terms equivalent to those that prevail in arm's - length transactions; however, the auditor believes that the representation is not adequately substantiated by management.

In our opinion, except for the representation concerning the related party transaction described in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the major fund of *Academies of Excellence, Inc., d/b/a Summit Academy* as of June 30, 2007, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

MCDIRMIT DAVIS & COMPANY, LLC
605 E. ROBINSON STREET, SUITE 635 • ORLANDO, FLORIDA 32801
TELEPHONE 407-843-5406 • FAX 407-649-9339 • EMAIL: INFO@MCDIRMITDAVIS.COM

In accordance with *Government Auditing Standards*, we have also issued a report dated February 12, 2008, on our consideration of *Summit Academy's* internal control over financial reporting and 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.

As discussed in Note 7 to the financial statements, the School is dependent on continued grant funding from the State of Florida. A reduction in the amount of funding could prevent the School from continuing in its present form. As discussed in Note 10 to the financial statements, the School has an excess of liabilities over assets and a deficit fund balance in the governmental fund Balance Sheet.

The Management's Discussion and Analysis and Budgetary Comparison Schedule on pages 3-7 and page 19, 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 required supplementary information. However, we did not audit the information and express no opinion on it.

McDiarmid Davis & Company, LLC

February 12, 2008

Management's Discussion and Analysis

As management of *Academies of Excellence, Inc.*, we offer readers of *Summit Academy Inc.*'s, financial statements this narrative overview and analysis of the financial activities of *Academies of Excellence, Inc.*, d/b/a *Summit Academy* for the fiscal year ended June 30, 2007.

Financial Highlights

- The assets of *Summit Academy* exceeded its liabilities at the close of the most recent fiscal year by \$29,107.
- The School's total net assets increased by \$101,611.
- At the close of the current fiscal year, *Summit Academy's* governmental funds reported a combined ending fund deficit of \$4,562, a decrease of \$139,974 in the deficit in comparison with the prior year.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to *Summit Academy's* basic financial statements. *Summit Academy's* basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-Wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of *Summit Academy's* finances, in a manner similar to a private-sector business.

The statement of net assets presents information on all of *Summit Academy's* assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of *Summit Academy* is improving or deteriorating.

The statement of activities presents information showing how the School's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

Since *Summit Academy* has no business type activities, the government-wide financial statements include only governmental activities. The primary governmental activity of the School is education. FEFP revenue received from Flagler County School Board is the primary revenue source.

The government-wide financial statements can be found on pages 8-9 of this report.

Fund 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. *Summit Academy* uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of *Summit Academy* are governmental funds.

Management's Discussion and Analysis (Continued)

Governmental Funds - Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a School's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the School's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

Summit Academy adopts an annual appropriated budget for its general fund. A budgetary comparison schedule has been provided for the general fund to demonstrate compliance with this budget. This is presented as required supplementary information on page 19.

The basic governmental fund financial statements can be found on pages 10-12 of this report.

Notes to Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 13-18 of this report.

Government-Wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a School's financial position. In the case of *Summit Academy*, assets exceeded liabilities by \$29,107 at June 30, 2007 and liabilities exceeded assets by \$72,504 at June 30, 2006.

By far the largest portion of *Summit Academy's* net assets reflects its investment in capital assets (e.g., computers, furniture, equipment). *Summit Academy* uses these capital assets to provide services to students consequently; these assets are not available for future spending.

Management's Discussion and Analysis (Continued)

The following table reflects the condensed comparative statement of net assets at June 30, 2007 and 2006. For more detailed information see the Statement of Net Assets on page 8.

	<u>Governmental Activities</u>	
	<u>2007</u>	<u>2006</u>
Current and other assets	\$172,406	\$ 59,232
Capital assets	<u>18,504</u>	<u>38,617</u>
Total assets	<u>190,910</u>	<u>97,849</u>
 Total liabilities	 <u>161,803</u>	 <u>170,353</u>
 Net assets:		
Invested in capital assets	18,504	38,617
Unrestricted	<u>10,603</u>	<u>(111,121)</u>
Total net assets (deficit)	<u>\$ 29,107</u>	<u>\$ (72,504)</u>

The School's net assets increased by \$101,611 during the current fiscal year primarily because of the bad debt recovery. The following table reflects the condensed Statement of Activities for the years ended June 30, 2007 and 2006. For more detailed information, see the Statement of Activities on page 9.

	<u>Governmental Activities</u>	
	<u>2007</u>	<u>2006</u>
Revenues:		
Program revenues:		
Charges for services	\$ 22,321	\$ 22,091
General revenues:		
Flagler County School School Board	393,302	516,359
Federal Sources	-	200,000
Bad Debt Recovery	86,490	
Gain on Sales of Assets	<u>36,368</u>	<u>-</u>
Total revenues	<u>538,481</u>	<u>738,450</u>
Expenses:		
Instruction	209,048	263,154
Pupil personnel services	273	3,434
Instruction and curriculum development	-	13,894
General administration	7,262	188,225
School administration	44,265	69,154
Fiscal services	48,496	52,592
Food services	29,797	16,686
Central Services	2,911	3,766
Student transportation	44,890	56,036
Operation of plant	<u>49,928</u>	<u>180,151</u>
Total expenses	<u>436,870</u>	<u>847,092</u>
 Increase (Decrease) in net assets	 101,611	 (108,642)
Net assets (deficit) - beginning	<u>(72,504)</u>	<u>36,138</u>
Net assets (deficit) - ending	<u>\$ 29,107</u>	<u>\$ (72,504)</u>

Management's Discussion and Analysis (Continued)

The changes in Revenues and Expenses are primarily a result of decreased student attendance. Operation of plant decreased primarily because rent which was paid in fiscal year 2006, was donated in fiscal year 2007.

Financial Analysis of the School's Funds

As noted earlier, *Summit Academy* uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds - The focus of *Summit Academy's* governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing *Summit Academy's* financing requirements. In particular, unreserved fund balance may serve as a useful measure of a School's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the School's governmental funds reported a combined ending fund deficit of \$4,562, an decrease of \$139,974 in the deficit in comparison with the prior year. Management plans to eliminate this deficit by increasing student enrollment, seeking outside funding to provide sufficient funds for continued operations and monitoring expenditures.

Capital Asset and Debt Administration

Capital Assets - *Summit Academy's* investment in capital assets for its governmental activities as of June 30, 2007 and 2006 amounts to \$18,504 and \$38,617 respectively (net of accumulated depreciation). This investment in capital assets includes furniture, fixtures, equipment and computer equipment. The total decrease in the School's investment in capital assets for the current fiscal year was \$18,941, current year depreciation expense.

	<u>2007</u>	<u>2006</u>
Furniture, Fixtures and Equipment	\$ 29,131	\$ 29,131
Computers	<u>47,512</u>	<u>47,512</u>
	76,643	76,643
Less Accumulated Depreciation	<u>(58,139)</u>	<u>(38,026)</u>
	<u>\$ 18,504</u>	<u>\$ 38,617</u>

Additional information on *Summit Academy's* capital assets can be found in Note 6 of this report.

Management's Discussion and Analysis - (Continued)

General Fund Budgetary Highlights - Due to management oversight, the budget was not amended during the year. See Note 10 on budgetary and fund operations.

Economic Factors and Next Year's Budgets and Rates - *Academies of Excellence, d/b/a/ Summit Academy* is a charter school sponsored by the Flagler County School Board. The initial charter is effective for five years from July 1, 2004 through June 30, 2009.

We are currently revising the annual budget that will be presented to the Board of Directors for approval. In the budget, costs are being contained or reduced by the following:

- Student enrollment is currently increasing on a weekly basis.
- The student/teacher ratio is being increased to the level of the Class Size Reduction Act. This will reduce staffing needs.
- Bus routes have been combined to cut fuel cost in half, as well as reduce personnel costs for transportation by one-third.
- Other cost containment and reductions will be implemented as we continue to evaluate expenditures.

Requests for Information

This financial report is designed to provide a general overview of *Summit Academy's* finances for all those with an interest in the School's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Executive Director, *Academies of Excellence, Inc.*, 303 W. Moody Blvd., Bunnell, FL 32110.

BASIC FINANCIAL STATEMENTS

ACADEMIES OF EXCELLENCE
d/b/a SUMMIT ACADEMY

STATEMENT OF NET ASSETS

June 30, 2007

	Governmental Activities
Assets:	
Current assets:	
Cash	\$ 6,801
Due from other schools, net	148,936
Prepaid expenses	7,583
Total current assets	<u>163,320</u>
Noncurrent assets:	
Prepaid expenses	7,582
Deposits	1,504
Capital assets, net	18,504
Total noncurrent assets	<u>27,590</u>
Total Assets	<u>190,910</u>
Liabilities:	
Due to other schools	140,580
Accounts payable	20,592
Payable to other governments	631
Total liabilities	<u>161,803</u>
Net Assets:	
Invested in capital assets	18,504
Unrestricted	10,603
Total net assets	<u>\$ 29,107</u>

The accompanying Notes to Financial Statements are an integral part of this statement.

ACADEMIES OF EXCELLENCE, INC.
d/b/a SUMMIT ACADEMY

STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2007

	<u>Expenses</u>	<u>Program Revenue</u>	<u>Net (Expense) Revenue and Changes in Net Assets</u>
		<u>Charges for Services</u>	<u>Governmental Activities</u>
Functions/Programs:			
Instruction	\$ 209,048	\$ -	\$ (209,048)
Pupil personnel services	273	5,939	5,666
General administration	7,262	-	(7,262)
School administration	44,265	-	(44,265)
Fiscal services	48,496	-	(48,496)
Food services	29,797	16,382	(13,415)
Central services	2,911	-	(2,911)
Student transportation	44,890	-	(44,890)
Operation of plant	49,928	-	(49,928)
Total governmental activities	<u>\$ 436,870</u>	<u>\$ 22,321</u>	<u>(414,549)</u>
General revenues:			
School Board of Flagler County			393,302
Bad debt recovery			86,490
Gain on sales of assets			36,368
Total general revenues			<u>516,160</u>
Change in net assets			101,611
Net assets (deficit), beginning			<u>(72,504)</u>
Net assets, ending			<u>\$ 29,107</u>

The accompanying Notes to Financial Statements are an integral part of this statement.

ACADEMIES OF EXCELLENCE, INC.
d/b/a SUMMIT ACADEMY

BALANCE SHEET
GOVERNMENTAL FUNDS

June 30, 2007

	General Fund
Assets:	
Cash	\$ 6,801
Due from other schools	148,936
Deposits	1,504
Total assets	\$ 157,241
Liabilities and Fund Balances:	
Liabilities:	
Due to other schools	\$ 140,580
Accounts payable	20,592
Payable to other governments	631
Total liabilities	161,803
Fund balance (deficit):	
Unreserved	(4,562)
Total fund balances	(4,562)
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 are not reported in the funds.	18,504
Certain expenditures in the funds are considered prepaid expenses.	15,165
Net assets of governmental activities	\$ 29,107

The accompanying Notes to Financial Statements are an integral part of this statement.

ACADEMIES OF EXCELLENCE, INC.
d/b/a SUMMIT ACADEMY

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

For the Year Ended June 30, 2007

	<u>General Fund</u>
Revenues:	
School Board of Flagler County	\$ 393,302
Charge for services	22,321
Bad debt recovery	86,490
Gain on asset sales	36,368
Total revenues	<u>538,481</u>
Expenditures:	
Instruction	178,761
Pupil personnel services	273
General administration	7,262
School administration	43,772
Fiscal Services	48,496
Food Services	29,797
Central services	2,911
Student transportation	44,890
Operation of plant	42,345
Total expenditures	<u>398,507</u>
Excess of Revenues Over Expenditures	139,974
Fund Balance (Deficit) - Beginning of Year	<u>(144,536)</u>
Fund Balance (Deficit) - End of Year	<u>\$ (4,562)</u>

The accompanying Notes to Financial Statements are an integral part of this statement.

ACADEMIES OF EXCELLENCE, INC.
d/b/a SUMMIT ACADEMY

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

For the Year Ended June 30, 2007

Net change in fund balances	\$ 139,974
Amounts reported for Governmental Activities in the Statement of Activities are different because:	
Governmental funds report outlays for capital assets as expenditures because such outlays use current financial resources. In contrast, the Statement of Activities reports only a portion of the outlay as expense. The outlay is allocated over the assets' estimated useful lives as depreciation expense for the period.	
This is the amount by which capital outlays \$0 exceeded depreciation \$20,113 in the current period.	(20,113)
Some expenses reported in the statement of activities do not require the use of current financial resources and these are not reported as expenditures in governmental funds:	
Prepaid rent	(7,583)
Prepaid subscriptions	(10,667)
Change in net assets	<u>\$ 101,611</u>

The accompanying Notes to Financial Statements are an integral part of this statement.

NOTES TO FINANCIAL STATEMENTS

ACADEMIES OF EXCELLENCE, INC.
d/b/a SUMMIT ACADEMY

NOTES TO FINANCIAL STATEMENTS

For Year Ended June 30, 2007

Note 1 - Summary of Significant Accounting Policies:

Reporting Entity - The *Academies of Excellence, Inc. d/b/a Summit Academy* (the School) is part of the Florida system of public education under the general direction of the Florida Department of Education (Department). The *Academies of Excellence, Inc.* is a not-for-profit organization created pursuant to Chapter 228, Florida Statutes and oversees the operations of several charter schools, of which *Summit Academy* is one (Heritage High School and *Summit Academy* are the others) in Flagler County. These financial statements include only the activities of *Summit Academy* and exclude the activities of the *Academies of Excellence, Inc.* (Academies) and any other charter school operated by the Academies. The District School Board of Flagler County, Florida (District) approved the School's charter in July 2004 and is effective for a five-year period from July 1, 2004 to June 30, 2009. The charter may be renewed at the end of the five-year period upon mutual agreement of the School and 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 that the charter is terminated, the School shall be responsible for all the debts of the School. If the School is dissolved or terminated, any public unencumbered funds and all school property purchased with public funds automatically revert to the District.

The Academies is a Florida not-for-profit organization that is exempt from state and federal income tax under Internal Revenue Service Code Section 501(c)(3).

The Florida Department of Education has concluded that Florida charter schools are component units of the sponsoring school board. To facilitate accounting and reporting to school boards, charter schools are encouraged to use the governmental reporting model and follow the fund and account structure provided in the "Financial and Program Cost Accounting and Reporting for Florida Schools - The Red Book", issued by the Florida Department of Education.

In accordance with U.S. generally accepted accounting principles, the School has determined that there are no potential component units that it must include within its financial statements.

Government-Wide and Fund Financial Statements - The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the activities of the School. The effect of interfund activity has been removed from these statements. The School has only governmental activities and does not engage in any business-type activities. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include charges for services for goods and services provided to participants on a voluntary basis. General revenues represent amounts received from federal, state and local sources. Fund financial statements are presented for the School's General Fund, and is accounted for by providing a separate set of self-balancing accounts that constitute assets, liabilities, fund equity, revenues and expenditures. The General Fund is considered to be a major fund.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

For the Year Ended June 30, 2007

Note 1 - Summary of Significant Accounting Policies (Continued):

Measurement Focus, Basis of Accounting, and Financial Statement Presentation - The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

The School reports the following major governmental fund:

General Fund - accounts for all financial resources. Not required to be accounted for in another fund and for certain revenues from the State that are legally restricted to be expended for specific current operating purposes.

Budgets and Budgetary Accounting - Budgets are prepared and original budgets are adopted annually for the General Fund in accordance with procedures and time intervals prescribed by the Board of Directors (Board) of the School. During the fiscal year ended June 30, 2007, the Board adopted an annual budget for the General Fund. The School is not required to submit its budget to any regulatory agencies.

Appropriations are controlled at the object level (e.g., salaries, purchased services, and capital outlay) within each activity (e.g., instruction, school administration, and transportation) and may be amended at any Board meeting prior to the due date of the annual financial report. Budgets are prepared using the same modified accrual basis as is used to account for actual transactions.

ACADEMIES OF EXCELLENCE, INC.
d/b/a SUMMIT ACADEMY

NOTES TO FINANCIAL STATEMENTS - CONTINUED

For the Year Ended June 30, 2007

Note 1 - Summary of Significant Accounting Policies (Continued):

Deposits - The School's cash and cash equivalents is cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of the acquisition.

Receivables - Receivables consist of amounts due from other schools.

Capital Assets - Capital assets consist of leasehold improvements, furniture, fixtures, and equipment, and computers. Capital assets purchased in the governmental funds are recorded as expenditures at time of purchase. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Capital assets are defined as assets with a cost of \$750 or more. Donated capital assets are recorded at fair market value at the date of donation. Depreciation has been provided on capital assets using the straight-line method over the estimated useful lives of the various classes of depreciable assets, which range from 3-7 years.

State Revenue Sources - Revenue from State sources for current operations are primarily from the Florida Education Finance Program administered by the Florida Department of Education under the provisions of Section 1011.62 (formerly 236.081), Florida Statutes. In accordance with this law, the Board determines and reports the number of full-time equivalent (FTE) students and related data to the Department. The Department performs certain edit checks on the reported number of FTEs and related data and calculates the allocation of funds to the School. The School is permitted to amend its original reporting for a period of one year following the date of the original reporting. Such amendments may impact funding allocations 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 adjustments are made.

The State provides financial assistance to administer certain categorical educational programs. Florida Department of Education rules require that revenue earmarked for these programs be expended only for the program for which the money is provided and require that the money not expended as of the close of the fiscal year be carried forward into the following year to be expended for the same categorical educational programs. The Department generally requires that categorical educational program revenues be accounted for in the General Fund.

ACADEMIES OF EXCELLENCE, INC.
d/b/a SUMMIT ACADEMY

NOTES TO FINANCIAL STATEMENTS - CONTINUED

For the Year Ended June 30, 2007

Note 2 - Reconciliation of Government Wide and Fund Financial Statements:

Explanation of certain differences between the governmental fund balance sheet and the government-wide statement of net assets - The governmental fund balance sheet includes a reconciliation between fund-balance - total governmental funds and net assets - governmental activities as reported in the government-wide statement of net assets.

Explanation of certain differences between the governmental fund statement of revenues, expenditures, and changes in fund balances and the government-wide statements of activities - The governmental fund statement of revenues, expenditures, and changes in fund balances includes a reconciliation between net changes in fund balances - total governmental funds and changes in net assets of governmental activities as reported in the government-wide statement of activities.

Note 3 - Deposits:

Deposits - At year-end, the carrying amount of the School's deposits was \$6,801 and the bank balance was \$7,267. All bank deposits were fully covered by federal depository insurance.

Note 4 - Due From Other Schools:

Amounts due from *Academies of Excellence* represents FEFP money deposited in Academies' bank account and never deposited in the School's bank.

<i>Academies of Excellence</i>	\$206,936
Allowance for Uncollectible Accounts	<u>(58,000)</u>
	<u>\$148,936</u>

Note 5 - Due To Other Schools:

Various operating expenses of the School have been paid by other related charter schools.

Heritage High School	\$ 96,434
Cornerstone Academy	<u>44,146</u>
	<u>\$140,580</u>

ACADEMIES OF EXCELLENCE, INC.
d/b/a SUMMIT ACADEMY

NOTES TO FINANCIAL STATEMENTS - CONTINUED

For the Year Ended June 30, 2007

Note 6 - Capital Assets:

The following is a summary of changes in capital assets during the fiscal year ended June 30, 2007.

	Balance July 1, 2006	<u>Increases</u>	<u>Decreases</u>	Balance June 30, 2007
Capital assets being depreciated:				
Furniture, fixtures and equipment	\$ 29,131	\$ -	\$ -	\$ 29,131
Computers	<u>47,512</u>	-	-	<u>47,512</u>
Total capital assets being depreciated	76,643	-	-	76,643
Less accumulated depreciation for:				
Furniture, fixtures and equipment	(8,049)	(4,276)	-	(12,325)
Computers	<u>(29,977)</u>	<u>(15,837)</u>	-	<u>(45,814)</u>
Total accumulated depreciation	<u>(38,026)</u>	<u>(20,113)</u>	-	<u>(58,139)</u>
 Total capital assets, net	 <u>\$ 38,617</u>	 <u>\$(20,113)</u>	 <u>\$ -</u>	 <u>\$ 18,504</u>
 Depreciation was charged to functions as follows:				
Instruction	\$ 19,620			
School administration	<u>493</u>			
	<u>\$ 20,113</u>			

Note 7 - Concentrations of Local Revenue Sources:

The School receives substantially all of its support and revenue from federal and state funding sources, passed through the District, in the form of performance and budget based contracts. Continuing operations of the School is greatly dependent upon the continued support of these funding sources. A reduction in the amount of funding could prevent the School from continuing in its present form.

Note 8 - Risk Management Programs:

General liability, automotive, and health and hospitalization coverage are provided through purchased commercial insurance with minimum deductibles for each line of coverage. There have been no significant reductions in insurance coverage during the year ended June 30, 2007. Settled claims resulting from these risks have not exceeded commercial coverage.

ACADEMIES OF EXCELLENCE, INC.
d/b/a SUMMIT ACADEMY

NOTES TO FINANCIAL STATEMENTS - CONTINUED

For the Year Ended June 30, 2007

Note 9 - Related Party Transactions:

Academies of Excellence

Academies of Excellence, Inc. manages the operation of Summit Academy. Summit pays Academies a management fee of 2% - 20% of gross school revenues. In fiscal year 2007, Summit paid Academies a management fee of \$27,772.

Human Services Associates

Academies of Excellence, Inc. leases its classroom facilities from Human Services Associates Properties Corporation (HSA) whose chief executive officer is one of the School's Board members. The five year lease expires in June 2009. Payment terms include a \$50,184 initial payment for the first two months of the lease and \$6,000 a month thereafter. During the 2007 fiscal year, HSA donated the rent to the school.

Brevard County Charter Schools

During the year ended June 30, 2005, Academies received approved charters for two new charter schools with the School Board of Brevard County. In June 2005, the new charter schools in Brevard County received \$600,000 in federal start-up funds. Academies transferred some of those funds in June 2005 to its Flagler County charter schools. Certain operating expenditures were made by the School with those funds. At June 30, 2006, the School still owed \$46,776 to the Brevard schools. During the current fiscal year, this debt was settled. *Summit Academy* transferred textbooks and computer equipment to settle \$36,368 of the debt, with the remainder paid in cash. Management believes that this transaction was consummated on terms equivalent to those that prevail in arm's - length transactions.

Common Board of Directors

Academies and its three charter schools, Cornerstone Elementary, *Summit Academy*, and Heritage High School, have the same board of directors.

Note 10 - Stewardship, Compliance and Accountability:

General Fund expenditures exceeded appropriations by \$17,099 in the budgetary comparison schedule for the year ended June 30, 2007. In addition, appropriations in 2007 were in excess of anticipated revenue and prior years fund balance. Appropriations totaled \$381,408 while anticipated revenue and prior years fund balance totaled \$268,264.

At June 30, 2007, the School had an excess of liabilities of \$161,803 over assets of \$157,241 in the governmental fund Balance Sheet. Also, the governmental fund Balance Sheet reflects a deficit fund balance of \$4,562 in the General Fund.

REQUIRED SUPPLEMENTARY INFORMATION

ACADEMIES OF EXCELLENCE, INC.
d/b/a SUMMIT ACADEMY

BUDGETARY COMPARISON SCHEDULE
GENERAL FUND

For the Year Ended June 30, 2007

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>	<u>Amounts</u>	<u>Final Budget</u> <u>Positive</u> <u>(Negative)</u>
Revenues:				
School Board of Flagler County	\$ 372,000	\$ 372,000	\$ 393,302	\$ 21,302
Charges for services	15,600	15,600	22,321	6,721
Bad debt recovery	-	-	86,490	86,490
Gain on asset dispositions	25,200	25,200	36,368	11,168
Total revenues	<u>412,800</u>	<u>412,800</u>	<u>538,481</u>	<u>125,681</u>
Expenditures:				
Current:				
Instruction	178,705	178,705	178,761	(56)
Pupil personnel services	90	90	273	(183)
General administration	7,577	7,577	7,262	315
School administration	45,078	45,078	43,772	1,306
Fiscal services	30,988	30,988	48,496	(17,508)
Food services	31,781	31,781	29,797	1,984
Central services	2,724	2,724	2,911	(187)
Student transportation	47,599	47,599	44,890	2,709
Operation of plant	35,354	35,354	42,345	(6,991)
Capital Outlay	1,512	1,512	-	1,512
Total expenditures	<u>381,408</u>	<u>381,408</u>	<u>398,507</u>	<u>(17,099)</u>
Net change in fund balances	31,392	31,392	139,974	108,582
Fund balances - beginning	(144,536)	(144,536)	(144,536)	-
Fund balances - ending	<u>\$ (113,144)</u>	<u>\$ (113,144)</u>	<u>\$ (4,562)</u>	<u>\$ 108,582</u>

REPORT ON INTERNAL CONTROL AND COMPLIANCE

**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**

Board of Directors
Academies of Excellence, Inc. d/b/a Summit Academy
Bunnell, Florida

We have audited the financial statements of *Summit Academy* (the School) as of and for the year ended September 30, 2007, and have issued our report thereon dated February 12, 2008. 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 as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the School's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the School's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a deficiency in internal control over financial reporting that we consider to be a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management of 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. We consider the deficiency described below to be a significant deficiency in internal control over financial reporting.

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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 and accordingly would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we consider the significant deficiency described below to be a material weakness.

Material Weakness

SAS No. 12, Communicating Internal Control Related Matters Identified in an Audit, establishes new requirements for auditors to communicate certain control deficiencies that they have identified during the audit. Under this new SAS, if *Summit Academy* does not have controls over preparation of the financial statements which would prevent or detect a misstatement in the financial statements, then we must report a material weakness. We recommend that the School consider hiring another CPA to prepare the financial statements to be audited, since a CPA firm other than the auditor's firm can be part of the School's internal control.

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*.

We noted certain matters that we reported to management of Summit Academy in a separate letter dated February 12, 2008. The School's response to our findings identified in our audit is included in this report. We did not audit the School's response, and accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the Board of Directors and the Auditor General of the State of Florida, and is not intended to be, and should not be used by anyone other than these specified parties.

McDiarmid Davis & Company, LLC

February 12, 2008

MANAGEMENT LETTER

To the Board of Directors
Academies of Excellence, Inc.
d/b/a Summit Elementary
Bunnell, Florida

We have audited the financial statements of *Academies of Excellence, Inc., d/b/a Summit Elementary*, Bunnell, Florida, as of and for the fiscal year ended June 30, 2007 and have issued our report thereon dated February 12, 2008.

We conducted our audit in accordance with United States generally accepted auditing standards, and *Government Auditing Standards* issued by the comptroller General of the United States. We have issued our Report on Internal Control over Financial Reporting and on Compliance and Other Matters. Disclosures in that report, which is dated February 12, 2008, should be considered in conjunction with this management letter.

Additionally, our audit was conducted in accordance with the provisions of Chapter 10.850, Rules of the Auditor General, which govern the conduct of charter school audits performed in the State of Florida and require that certain items be addressed in this letter.

The Rules of the Auditor General (Section 10.854(1)(d)1.) require that we address in the management letter, if not already addressed in the auditor's reports on compliance and internal controls whether or not recommendations made in the preceding annual financial audit report have been followed. The recommendations made in the preceding annual financial audit report have not all been connected, as discussed in attached Prior Year Findings, Comments and Recommendations.

The Rules of the Auditor General (Section 10.854(1)(d)4.) require disclosure in the management letter of the following matters that are inconsequential to the financial statements considering both quantitative and qualitative factors based on the auditor's professional judgement: (1) violations of laws, rules, regulations, and contractual provisions that have occurred, or are likely to have occurred; (2) improper expenditures; and (3) deficiencies in internal control of inconsequential effect in relation to the financial statements and other recommendations to improve present financial management, accounting procedures, and internal controls. Our audit disclosed certain matters required to be disclosed, as discussed in attached Current Year Findings, Comments, and Recommendations.

As required by the Rules of the Auditor General (Section 10.854(1)(d)2.), a statement must be included as to whether or not the charter school has met one or more of the conditions described in Section 218.503(1), Florida Statutes. In connection with our audit, we determined that *Summit Elementary* did meet one of the conditions described in Section 218.503(1), Florida Statutes. There is a fund balance deficit in the general fund and there are not sufficient resources to cover the deficit.

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Rules of the Auditor General (Section 10.854(1)(d)3.) requires that the management letter include recommendation to address deteriorating financial conditions disclosed pursuant to Section 218.39(5), Florida Statutes. This recommendation is discussed in attached Current Findings, Comments, and Recommendations.

This management letter is intended solely for the information of *Summit Elementary* and management, and the State of Florida Office of the Auditor General, and is not intended to be and should not be used by anyone other than these specified parties.

McDiernit Davis & Company LLC

February 12, 2008

PRIOR YEAR FINDINGS, COMMENTS & RECOMMENDATIONS

1. Lack of Segregation of Duties

Internal control activities include assigning the responsibility for authorizing and recording transactions and maintaining custody of assets to different people within the organization. This "segregation of duties" often presents difficulties due to the limited number of employees. However, even organizations with few employees may be able to assign responsibilities to achieve adequate segregation. If this is not possible, direct oversight by management or qualified volunteers can usually provide the necessary control.

At *Academies of Excellence, Inc.* (the "Academies") the president is the visionary behind the School's operations. He is responsible for critical operating functions, which significantly affect accounting areas. He initiates significant transactions, approves them, directs their implementation, signs checks and drafts money from the bank account. We recognize that the organization is not large enough to ensure complete duty segregation, but its Board of Directors and that of its affiliated charter schools should be aware of the implications of this relationship. We suggest that the Boards take a proactive role in oversight and management of the organization and consider expanding Board membership to include members who have a business and finance expertise.

Corrective Action

The Board was expanded in 2007 to include someone with over 30 years of experience in school finances. In addition, the School adopted a policy that any purchase for non-recurring expense over \$500 would be approved by a Board member, as well as the President.

2. Recording of Transactions

For the first half of the fiscal year ended June 30, 2007, amounts received from the School Board of Flagler County, Florida (sponsor) were deposited into the Academies' Administrative bank account. Then expenses for *Summit Elementary*, as well as other schools managed by Academies, were paid out of the Academies' bank account. Even during the second half of 2006, when wire transfers from the School Board of Flagler County were being deposited into the Summit bank account, large amounts were then transferred to Academies administrative bank account for payroll and other bills. Amounts transferred should only be for the exact amount of payroll and bills to eliminate receivables and payables created by these transactions. In addition, there were instances where Summit was paying expenses for other schools and setting up a balance due from other schools. All of the above have resulted in large amounts due from and due to other schools and also the *Academies of Excellence* Administrative account. Transactions for each school should be recorded separately in their own accounts in order to insure that financial data is being reported correctly for each school. There should not be large amounts due from and to other schools and *Academies of Excellence*.

Corrective Action

During 2007, each school had its own bank account and transactions for each school were recorded separately in their own accounts. This comment will not be reported in the current year.

PRIOR YEAR FINDINGS, COMMENTS & RECOMMENDATIONS (Continued)

3. Comply With Charter Provisions

The School's Charter with the School Board of Flagler County, Florida (Sponsor) contains certain provisions to which the School did not comply.

- A. Section 3.6.1 requires the School to submit an Annual Progress Report to the Sponsor no later than August 1. We ascertained that this report had not been filed. We recommend that the report be prepared and submitted as required, and that the due date be added to a tickler file as a reminder for future filings.
- B. Section 4.9.1 requires the School to submit quarterly financial reports to its Sponsor no later than the 30 days following the quarter. We determined that the School did submit required reports, however they were late. We recommend these reports be filed on a timely basis.
- C. Section 4.11 requires that any contract entered into between the School and a third party contain a provision that the third party is not entering into a contract with the Sponsor. We noted several lease documents, as well as the leased employee service agreement with third parties, that did not contain the required provision. We recommend that all third-party contracts be modified to contain the required provision.
- D. As we discussed in prior auditor comments, Section 4.9.3 requires the School to budget for and maintain a "Reserve Fund" equal to a minimum of 3% of the School's total annual operating fund. We noted that the School was unable to comply with this provision due to its financial condition. We recommend that the School analyze its financial situation and develop plans to comply with its reserve funding requirement.

Corrective Action

During 2007, we noted that items A and C above were implemented by the School.

4. Comingling of School Funds

Charter schools are individually funded through federal and state funds passed-through at the county level with the expectation that all funds will be directed to the supported school. We observed that two charter schools in Brevard County (Brevard operating account) each received proceeds from a \$300,000 start-up grant on June 2, 2005, totaling \$600,000. On June 2005, \$42,769 of Osprey Elementary School's grant funds were transferred to *Summit Elementary* and still has not been repaid as of June 30, 2006. The use of a school's funds for purposes other than that of the intended school is a violation of grant requirements. Subsequent to June 30, 2006, this amount was repaid.

We strongly recommend that funds from one charter school should not be used for activities in another charter school.

Corrective Action

The above recommendation was implemented and will not be included in current year.

PRIOR YEAR FINDINGS, COMMENTS & RECOMMENDATIONS (Continued)

5. Financial Emergency

A charter school shall notify the charter school sponsor when they meet one or more of the conditions specified in Florida Statutes Section 218.503. *Summit Elementary* does meet one of the conditions, and therefore must notify their sponsor. Florida Statutes Section 218.503 also requires the sponsor to determine what actions have been taken by the charter school governing body to resolve the condition.

We recommend that *Summit Elementary's* governing body develop a financial recovery plan that will cause the charter school to no longer be subject to this Section.

Corrective Action

At June 30, 2007, *Summit Elementary* still meets one of the conditions in Section 218.503 of Florida Statutes. There is a fund balance deficit and there are not sufficient resources to cover the deficit, therefore this comment will be repeated in 2007.

6. Cost Allocation Process Should be Revisited

Academies allocates the cost of joint purchases using the number of enrolled students at affected schools. Some purchases affecting more than one school were not allocated or allocated incorrectly.

While we realize that the cost allocation process may be appropriate using student populations for certain categories of expenditures, we recommend that management evaluate the appropriateness of all categories. It should consider allocating costs on other criteria such as actual physical use, building square footage, number of telephones or employee salaries, depending on the nature of expenditure. Management should also review purchases for proper allocation among the schools.

Corrective Action

This recommendation was implemented.

7. Missing Documentation for Disbursements

The organization's purchasing and payment policies require that adequate documentation be maintained for vendor payments. Receipt of merchandise should be acknowledged with a signature. Tests of selected disbursements revealed a lack of appropriate documentation to support a few transactions. Also, some disbursements were coded to the wrong account number.

We recommend that all personnel who participate in the purchasing process be reminded of the organization's documentation requirements and that management review disbursements to insure they are charged to the correct general ledger account number.

Corrective Action

This recommendation was implemented.

PRIOR YEAR FINDINGS, COMMENTS & RECOMMENDATIONS (Continued)

8. Related Party Transactions

Significant contracts for services should be written and properly document the terms of the agreement including the basis of charges for performance. During the year under audit, Academies (on behalf of the School) paid related parties, School Security Solutions, Inc. d/b/a School Management Solutions, and C2T2 Educational Systems, Inc. d/b/a Educational Research Foundation substantial amounts for services rendered for curriculum development, accounting services and other types of services. Our examination revealed that no written contracts documented these agreements detailing what services would be rendered and the basis for charges to be paid.

We recommend that management review all services performed in support of its charter schools and establish in clear written terms the nature of the services and their cost to the recipient.

Corrective Action

None of the above listed entities are related parties in 2007 and therefore this comment will not be repeated in current year.

CURRENT YEAR FINDINGS, COMMENTS & RECOMMENDATIONS

1. Compliance With Charter Provisions

The School's Charter with the School Board of Flagler County, Florida (Sponsor) contains certain provisions to which the School did not comply.

- A. Section 4.9.1 requires the School to submit quarterly financial reports to its Sponsor no later than the 30 days following the quarter. We determined that the School did submit required reports, however they were late. We recommend these reports be filed on a timely basis.
- B. As we discussed in prior auditor comments, Section 4.9.3 requires the School to budget for and maintain a "Reserve Fund" equal to a minimum of 3% of the School's total annual operating fund. We noted that the School was unable to comply with this provision due to its financial condition. We recommend that the School analyze its financial situation and develop plans to comply with its reserve funding requirement.

2. Financial Emergency

A charter school shall notify the charter school sponsor when they meet one or more of the conditions specified in Florida Statutes Section 218.503. *Summit Elementary* does meet one of the conditions, and therefore must notify their sponsor. Florida Statutes Section 218.503 also requires the sponsor to determine what actions have been taken by the charter school governing body to resolve the condition.

We recommend that *Summit Elementary's* governing body develop a financial recovery plan that will cause the charter school to no longer be subject to this Section.

3. Expenditures in Excess of Appropriations

General Fund expenditures exceeded appropriations by \$17,099 in 2007.

We recommended that the School amend the budget within 60 days after year end to insure that expenditures do not exceed appropriations.

4. Appropriations in Excess of Funds Available

Appropriations in 2007 were in excess of anticipated revenue and prior years fund balance. Appropriations totaled \$381,408 while anticipated revenue and prior years fund balance totaled \$268,264.

We recommend that when budgeting, the School consider both anticipated revenue along with prior years fund balance (deficit) before amending budget for appropriations.

Summit Academy Management Response

Material Weakness

This is a new standard that the school was not aware of. The schools have contracted with a CPA who will put the financial information in an auditing format for the upcoming year.

Comment 1

- A. An external CPA has been hired to prepare all financial reports. This should result in timely reporting to the Sponsor.
- B. The school achieved an almost 10% increase in revenue over expenses which resulted in a significant reduction of the fund balance deficit. We anticipate meeting the 3% reserve goal for the current fiscal year.

Comment 2

The school closed the 2007 fiscal year by significantly reducing the fund balance deficit ahead of the schedule for its emergency financial plan. It is anticipated that the close of the current year will result in a positive fund balance. Part of this accomplishment will be accomplished by the Go Green initiative that the school has adopted.

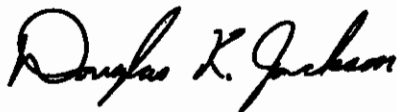
Comment 3

When budgeting, the school will consider both anticipated revenue along with the prior year fund deficit, before amending the budget for appropriations.

Comment 4

When budgeting, the school will consider both anticipated revenue along with the prior year fund balance.

Sincerely,



Douglas K. Jackson
President
Academies of Excellence