



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, 2008

CONTENTS

	<u>Page</u>
Management’s Discussion and Analysis	1-7
Report of Independent Auditors on Basic Financial Statements and Supplementary Information	8-9
Basic Financial Statements:	
Statement of Net Assets	10
Statement of Activities	11
Balance Sheet – Governmental Funds	12
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets	13
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds	14
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	15
Notes to Financial Statements	16-25
Required Supplementary Information:	
Budgetary Comparison Schedule – General Fund	26
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 <i>Government Auditing Standards</i>	27-28
Additional Information Required by Rules of the Florida Auditor General, Chapter 10.850, <i>Audits of Charter Schools and Similar Entities</i>:	
Management Letter	29-31
Written Statement of Explanation or Rebuttal	32

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, 2008. 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, 2008, the School's revenues exceeded expenses by \$98,754. This is an improvement from the prior year, when revenues exceeded expenses by \$5,368.

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 2007 to 2008 (see table below).

	<u>Governmental Activities</u>		<u>Increase</u>
	<u>2007</u>	<u>2008</u>	<u>(Decrease)</u>
Current and other assets	\$ 533,807	\$ 657,474	23%
Capital assets, net	1,888,312	1,798,633	-5%
Total assets	<u>2,422,119</u>	<u>2,456,107</u>	<u>1%</u>
Current and other liabilities	82,313	123,659	50%
Long-term liabilities	1,609,435	1,503,323	-7%
Total liabilities	<u>1,691,748</u>	<u>1,626,982</u>	<u>-4%</u>
Net assets:			
Invested in capital assets, net of related debt	317,932	302,015	-5%
Restricted	252,952	259,214	2%
Unrestricted	159,487	267,896	68%
Total net assets	<u>\$ 730,371</u>	<u>\$ 829,125</u>	<u>14%</u>

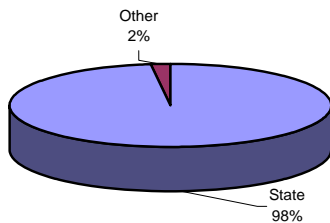
Current and other assets increased primarily due to an increase in cash as a result of the current year operating surplus and timing of cash receipts and disbursements. The decrease in capital assets, net is due to capital asset disposals and depreciation expense in excess of capital asset additions in the current year. The decrease in total liabilities is primarily 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

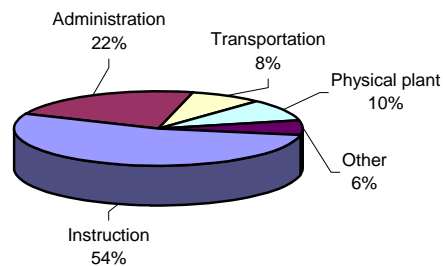
The School's total revenues increased by 10% to \$2,436,377, and the total cost of all programs and services increased by 6% to \$2,337,623 (see table below).

	Governmental Activities		Increase
	2007	2008	(Decrease)
Revenues:			
State and local sources	\$ 2,191,740	\$ 2,391,451	9%
Contributions and other revenues	23,240	44,926	93%
Total revenues	<u>2,214,980</u>	<u>2,436,377</u>	<u>10%</u>
Expenses:			
Instruction and instruction-related services	1,258,854	1,252,205	-1%
School administration	433,260	524,843	21%
Pupil transportation services	163,072	187,806	15%
Operation and maintenance of plant	205,782	223,313	9%
Interest	148,644	149,456	1%
Total expenses	<u>2,209,612</u>	<u>2,337,623</u>	<u>6%</u>
Change in net assets	<u>\$ 5,368</u>	<u>\$ 98,754</u>	<u>1740%</u>

2008 Revenues



2008 Expenses



Revenues from state and local sources constitute 98% of total revenues. The increase during fiscal 2008 is due to an increase in funds from the Florida Education Finance Program (FEFP) and capital outlay program, the School's primary sources of funding. Contributions and other revenues increased due to an increase in various fund raising and other activities.

The increase in school administration is due to an increase in salaries and related benefits and an increase in the School's administrative fee, which is calculated based on total FEFP revenue. The increase in pupil transportation services is primarily due to the overall increase in transportation operating costs, including bus fuel. The increase in operation and maintenance of plant expenses is due to an increase in general operating costs for the School's facility, including energy costs.

FINANCIAL ANALYSIS OF THE SCHOOL'S FUNDS

As the School completed the year, its total governmental funds reported a combined fund balance of \$527,110, which is an increase from the prior year. Revenues and expenditures increased overall due to the same factors discussed above.

General Fund Budgetary Highlights

Over the course of the year, the School revised its operating budget several times. These budget amendments fall into three categories:

- Amendments and supplemental appropriations approved shortly after the beginning of the year to reflect the actual beginning balances.
- Changes made during the year to account for variations in student enrollment.
- Increases in appropriations to prevent budget overruns.

For the year ended June 30, 2008, actual revenues were approximately \$142,000 above budgeted revenues, primarily due to contributions and other revenue not being included in the budget and the School exceeding its budgeted student enrollment. Actual expenditures were approximately \$143,000 above budgeted expenditures, primarily due to the fact that actual personnel expenses were higher than projected.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of fiscal 2008, the School had invested \$2,483,513 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>2007</u>	<u>2008</u>	<u>(Decrease)</u>
Land	\$ 303,417	\$ 303,417	0%
Buildings and improvements	1,709,143	1,709,143	0%
Furniture, fixtures and equipment	394,142	319,588	-19%
Motor vehicles	151,365	151,365	0%
Total capital assets	<u>\$2,558,067</u>	<u>\$ 2,483,513</u>	<u>-3%</u>

This year's major capital asset additions included the following:

- Computers - \$14,880
- Furniture, fixtures and equipment - \$7,030

This year's major capital asset disposals included the following:

- Furniture, fixtures and equipment - \$96,464

The School's fiscal year 2009 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 \$1,607,008 in notes payable outstanding, a decrease of \$82,962 from the prior year. This decrease is due to the current year principal payments on the mortgage note payable. 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 2009:

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

Amounts available for appropriation in the general fund are \$1,883,525, a 13% decrease over the 2008 actual of \$2,160,797. Budgeted expenditures are expected to decrease 10% to \$1,858,244 from the 2008 actual of \$2,067,378. The School has added no major new programs to the fiscal 2009 budget.

If these estimates are realized, the School's budgetary general fund balance is expected to increase by the close of fiscal 2009.

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.



CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

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, 2008, 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. as of June 30, 2008, 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, 2008 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, 2008

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

STATEMENT OF NET ASSETS

JUNE 30, 2008

	Governmental Activities
ASSETS	
Cash and cash equivalents	\$ 544,600
Accounts receivable	750
Other assets	112,124
Capital assets:	
Land	303,417
Buildings and improvements	1,709,143
Furniture, fixtures and equipment	319,588
Motor vehicles	151,365
Less accumulated depreciation	(684,880)
Total capital assets, net	1,798,633
Total assets	\$ 2,456,107
LIABILITIES	
Accounts payable and accrued expenses	\$ 19,974
Long-term liabilities:	
Portion due or payable within one year:	
Mortgage note payable	103,685
Portion due or payable after one year:	
Mortgage note payable	1,503,323
Total liabilities	1,626,982
NET ASSETS	
Invested in capital assets, net of related debt	302,015
Restricted for:	
Debt service	223,491
Capital projects	35,723
Unrestricted	267,896
Total net assets	829,125
Total liabilities and net assets	\$ 2,456,107

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, 2008

	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	\$ 1,252,205	\$ -	\$ -	\$ -	\$ (1,252,205)	\$(1,252,205)
School administration	524,843	-	-	-	(524,843)	(524,843)
Pupil transportation services	187,806	-	-	-	(187,806)	(187,806)
Operation and maintenance of plant	223,313	-	-	-	(223,313)	(223,313)
Interest	149,456	-	-	149,456	-	-
Total primary government	\$ 2,337,623	\$ -	\$ -	\$ 149,456	(2,188,167)	(2,188,167)
General revenues:						
State and local sources					2,241,995	2,241,995
Contributions and other revenue					44,926	44,926
Total general revenues					2,286,921	2,286,921
Change in net assets					98,754	98,754
Net assets at beginning of year					730,371	730,371
Net assets at end of year					\$ 829,125	\$ 829,125

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, 2008

	<u>General Fund</u>	<u>Capital Projects Fund</u>	<u>Total Governmental Funds</u>
ASSETS			
Cash and cash equivalents	\$ 508,877	\$ 35,723	\$ 544,600
Accounts receivable	750	-	750
Other current assets	1,734	-	1,734
	<u>511,361</u>	<u>35,723</u>	<u>547,084</u>
Total assets	<u>\$ 511,361</u>	<u>\$ 35,723</u>	<u>\$ 547,084</u>
 LIABILITIES AND FUND BALANCES			
Accounts payable and accrued expenses	\$ 19,974	\$ -	\$ 19,974
	<u>19,974</u>	<u>-</u>	<u>19,974</u>
Total liabilities	<u>19,974</u>	<u>-</u>	<u>19,974</u>
 Fund balances:			
Reserved for:			
Debt service	223,491	-	223,491
Capital projects	-	35,723	35,723
Unreserved:			
Undesignated	267,896	-	267,896
	<u>491,387</u>	<u>35,723</u>	<u>527,110</u>
Total fund balances	<u>491,387</u>	<u>35,723</u>	<u>527,110</u>
Total liabilities and fund balances	<u>\$ 511,361</u>	<u>\$ 35,723</u>	<u>\$ 547,084</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 GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS

JUNE 30, 2008

Total fund balances - total governmental funds	\$	527,110
-------------------------------------------------------	----	---------

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 \$2,483,513, and the accumulated depreciation is \$684,880.		1,798,633
----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------	--	-----------

Non-current assets, including deferred loan costs, are not financial resources and, therefore, are not reported as assets in the governmental funds.		110,390
------------------------------------------------------------------------------------------------------------------------------------------------------	--	---------

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>(1,607,008)</u>
-----------------------	--	--------------------

Total net assets - governmental activities	\$	<u>829,125</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 REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS

FOR THE YEAR ENDED JUNE 30, 2008

	General Fund	Capital Projects Fund	Debt Service Fund	Total Governmental Funds
REVENUES				
State and local sources	\$ 2,115,871	\$ 275,580	\$ -	\$ 2,391,451
Contributions and other revenue	44,926	-	-	44,926
	2,160,797	275,580	-	2,436,377
EXPENDITURES				
Current:				
Instruction and instruction-related services	1,186,665	-	-	1,186,665
School administration	480,829	-	-	480,829
Pupil transportation services	176,571	-	-	176,571
Operation and maintenance of plant	223,313	-	-	223,313
Debt service:				
Principal	-	-	82,962	82,962
Interest	-	-	149,456	149,456
Capital outlay	-	21,910	-	21,910
	2,067,378	21,910	232,418	2,321,706
Excess (deficiency) of revenues over expenditures	93,419	253,670	(232,418)	114,671
OTHER FINANCING SOURCES (USES)				
Operating transfers in	-	-	232,418	232,418
Operating transfers out	-	(232,418)	-	(232,418)
Total other financing sources (uses)	-	(232,418)	232,418	-
Net changes in fund balances	93,419	21,252	-	114,671
Fund balances at beginning of year	397,968	14,471	-	412,439
Fund balances at end of year	\$ 491,387	\$ 35,723	\$ -	\$ 527,110

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, 2008

Net changes in fund balances - total governmental funds	\$	114,671
----------------------------------------------------------------	----	---------

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 (\$93,628) exceeds capital outlays (\$21,910) in the current period.		(71,718)
-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------	--	----------

The loss on the disposal of capital assets is reported in the statement of activities, whereas nothing is reported in the governmental funds as there were no proceeds.		(17,961)
-------------------------------------------------------------------------------------------------------------------------------------------------------------------------	--	----------

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)
-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------	--	---------

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		82,962
Change in net assets of governmental activities	\$	98,754

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, 2008

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 governmental funds are reported in the government-wide financial statements, not in the governmental funds. Changes in long-term debt for the current year are reported in Note 3.

Restricted net assets/ reserved fund balance

Restricted net assets/reserved fund balance in the accompanying financial statements as of June 30, 2008 represents the unspent portion of capital outlay funds in the amount of \$35,723, which may only be used for lawful capital outlay expenditures. A portion of net asset and the general fund balance is also restricted/ reserved for debt service payments, in the amount of \$223,491 as required by the mortgage note.

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

NOTES TO FINANCIAL STATEMENTS
(continued)

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. As such, the School's revenue stream is largely dependent upon the general state of the economy and the amounts allotted to the Florida Department of Education (FDOE) by the state legislature. In accordance with the funding provisions of the charter and Section 1002.33(18), Florida Statutes, the School reports the number of full-time equivalent students and related data to the School Board.

Under the provisions of Section 1011.62, Florida Statutes, the School Board reports the number of full-time equivalent students and related data to the FDOE for funding through the Florida Education Finance Program (FEFP). Funding for the School is adjusted during the year to reflect the revised calculations by the FDOE under the FEFP and the actual weighted full-time equivalent students reported by the School during 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, 2008 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	1,709,143	-	-	1,709,143
Furniture, fixtures and equipment	394,142	21,910	(96,464)	319,588
Motor vehicles	151,365	-	-	151,365
Total other capital assets at historical cost	<u>2,254,650</u>	<u>21,910</u>	<u>(96,464)</u>	<u>2,180,096</u>
Less accumulated depreciation for:				
Buildings and improvements	(224,696)	(60,603)	78,503	(206,796)
Furniture, fixtures and equipment	(294,019)	(32,895)	-	(326,914)
Motor vehicles	(151,040)	(130)	-	(151,170)
Total accumulated depreciation	<u>(669,755)</u>	<u>(93,628)</u>	<u>78,503</u>	<u>(684,880)</u>
Other capital assets, net	<u>1,584,895</u>	<u>(71,718)</u>	<u>(17,961)</u>	<u>1,495,216</u>
Governmental activities capital assets, net	<u>\$ 1,888,312</u>	<u>\$ (71,718)</u>	<u>\$ (17,961)</u>	<u>\$ 1,798,633</u>

Depreciation expense was charged to functions as follows:

Governmental activities:	
Instruction and instruction-related services	\$ 65,540
School administration	16,853
Pupil transportation services	<u>11,235</u>
Total governmental activities depreciation expense	<u>\$ 93,628</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 as of June 30, 2008 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% (6.25% as of June 30, 2008). Maturity date of the note is August 2019. The loan agreement also contains certain financial covenants with which the School must comply. As of June 30, 2008, the School was in compliance with these restrictive covenants.

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

Balance outstanding at beginning of year	\$ 1,689,970
Additions	-
Reductions	(82,962)
	\$ 1,607,008
Balance outstanding at end of year	\$ 1,607,008
Amount due within one year	\$ 103,685

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

Year ending	Principal	Interest	Total
June 30,			
2009	\$ 103,685	\$ 97,501	\$ 201,186
2010	110,354	90,832	201,186
2011	117,452	83,734	201,186
2012	125,007	76,179	201,186
2013	133,047	68,139	201,186
2014 - 2018	805,161	200,771	1,005,932
2019 - 2020	212,302	7,901	220,203
Total	\$ 1,607,008	\$ 625,057	\$ 2,232,065

Interest paid during the year ended June 30, 2008 totaled \$149,456.

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	\$ 1,281,824
Class size reduction	290,702
Capital outlay	275,580
Discretionary millage funds	131,927
ESE guaranteed allocation	126,115
Transportation	102,904
Supplemental academic instruction	76,876
Reading Coach	46,197
Instructional materials	32,746
Discretionary lottery funds	14,168
Safe schools	6,979
Teacher lead	<u>5,433</u>
Total	<u><u>\$ 2,391,451</u></u>

The administration fee paid to the School Board during the year ended June 30, 2008 totaled approximately \$103,000, 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 2008 totaled approximately \$16,000.

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, 2008 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, 2008 under these leases are summarized as follows:

<u>Year ended June 30,</u>	<u>Amount</u>
2009	\$ 33,600
2010	19,600
	<u>\$ 53,200</u>

Rental expense for the year ended June 30, 2008 approximated \$44,000.

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

REQUIRED SUPPLEMENTARY INFORMATION

BUDGETARY COMPARISON SCHEDULE – GENERAL FUND

FOR THE YEAR ENDED JUNE 30, 2008

	Budgeted Amounts		Actual (Budgetary Basis)	Variance with Final Budget- Positive (Negative)
	Original	Final		
REVENUES				
State and local sources	\$ 2,019,063	\$ 2,019,063	\$ 2,115,871	\$ 96,808
Contributions and other revenue	-	-	44,926	44,926
Total revenues	<u>2,019,063</u>	<u>2,019,063</u>	<u>2,160,797</u>	<u>141,734</u>
EXPENDITURES				
Current:				
Instruction and instruction-related services	1,084,703	1,080,853	1,186,665	(105,812)
School administration	454,773	460,517	480,829	(20,312)
Pupil transportation services	117,954	117,954	176,571	(58,617)
Operation and maintenance of plant	230,307	230,307	223,313	6,994
Capital outlay	<u>35,000</u>	<u>35,000</u>	-	<u>35,000</u>
Total expenditures	<u>1,922,737</u>	<u>1,924,631</u>	<u>2,067,378</u>	<u>(142,747)</u>
Net changes in fund balance	96,326	94,432	93,419	(1,013)
Fund balance at beginning of year	<u>397,968</u>	<u>397,968</u>	<u>397,968</u>	-
Fund balance at end of year	<u>\$ 494,294</u>	<u>\$ 492,400</u>	<u>\$ 491,387</u>	<u>\$ (1,013)</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, 2008, which collectively comprise the School’s basic financial statements and have issued our report thereon dated September 28, 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 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.

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 certain deficiencies in internal control over financial reporting that we considered to be significant deficiencies.

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. We consider the deficiencies described below to be significant deficiencies in internal control over financial reporting.

Reconciling fixed assets to the general ledger: At the present time, there is no documented procedure for reconciling detailed capital asset records to the general ledger on a regular basis. The lack of such a procedure has led to inaccurate reporting of capital asset cost and related accumulated depreciation in the annual financial statements. To avoid the need for audit adjustments to the property accounts at the end of each year, we recommend that the general ledger capital asset accounts be reconciled to the detailed records on at least a monthly basis.

Record and allocate expenses to proper functions: During our audit procedures, we noted that the School does not record payroll taxes and benefits to the appropriate functions (i.e.: instruction, administration, transportation and plant). In connection with the audit, the auditors proposed reclassification entries in order to correct the allocation of these expenses to the appropriate function. We recommend that the School revise its procedures to ensure all expenses are reported in the appropriate functions.

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. However, we believe that the significant deficiencies described above are not material weaknesses.

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*.

The School's response to the findings identified in our audit is included in the Written Statement of Explanation or Rebuttal on page 32. 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 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, 2008

**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, 2008, 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.

Section 10.855(10), Rules of the Auditor General, require that we apply financial condition assessment procedures. In connection with our audit, we have applied financial condition assessment procedures as of June 30, 2008, which included calculation and analysis of certain financial indicators we considered relevant to the School. Our financial condition assessment procedures did not include the use of benchmarks. It is management's responsibility to monitor the School's financial condition, and our financial condition assessment was based in part on representations made by management and the review of financial information provided by management.

This report is intended solely for the information and use of the Board of Directors, management and others within Alee Academy, Inc. 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, 2008

**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, 2008

There are no findings or recommendations in the current year.

STATUS OF PRIOR YEAR FINDINGS AND RECOMMENDATIONS

There were no findings or recommendations in the prior year.



National Dropout
Prevention Network
2002 Crystal Star Award Winner



Jennings Neeld
Director

Board of Directors
Martha Cohen
Chairperson
Rachel Holtzclaw, CPA
Vice-Chairperson
G.D. Manley, DVM
Secretary/Treasurer
Carl Pettitt
Louis Radnothy, DO FACOFP
Maria Faryna
Chloe Bonds Wormack
Mary Jane Hartwright

September 29, 2008

BKHM
1560 Orange Avenue, Suite 600
Winter Park, FL 32789

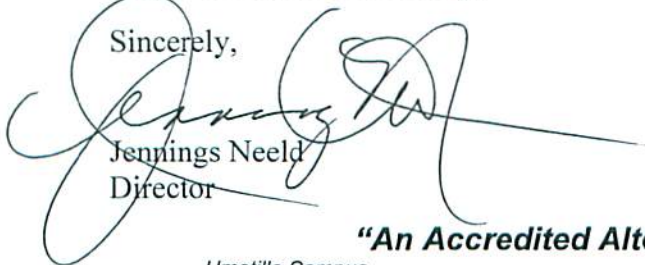
RE: Audit Report Findings and Recommendations

In connection with the School's audit for the year ended June 30, 2008, our auditors identified areas of improvement related to the School's internal control. Alee Academy and its Board of Directors have reviewed these recommendations and will implement the following procedures.

The School and its Board of Directors recognize the variances between the capital asset records and the general ledger balances. With the assistance of the School's outside accounting firm, the variances will be corrected and the School will implement procedures to ensure the schedule are reconciled with the general ledger on a monthly basis.

The School, its Board of Directors and outside accounting firm will implement corrective procedures to ensure expenses are reported and allocated to the appropriate functions. The School prepares its budgets in accordance with each function. Due to the limitations of the accounting firm's software, the full function and object code cannot be utilized, therefore, a conversion table for the accounting codes used on the general ledger and the associated function and object codes will be prepared. In addition, the School will include additional general ledger accounts to ensure that all expenses are recorded and allocated to the appropriate functions and object code. Management and the School's Board of Directors will implement procedures to continually review expenses to ensure proper allocation and coding.

Sincerely,



Jennings Neeld
Director

"An Accredited Alternative Charter School"

Umatilla Campus
P.O. Box 2481
755 South Central Ave.
Umatilla, FL 32784
Phone (352) 669-1280
Fax (352) 669-1282

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

Phone (352) 357-9426
Fax (352) 357-8426