



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

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

**JUNE 30, 2009**



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## MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the annual financial report of Discovery Academy of Lake Alfred, Inc. (the "School") presents management's discussion and analysis of the School's financial performance during the fiscal year ended June 30, 2009. Please read it in conjunction with the School's financial statements, which follow this section.

### FINANCIAL HIGHLIGHTS

- The School's total net assets increased from the prior year.
- For the fiscal year ended June 30, 2009, the School's revenues exceeded expenses by \$472,053, which represents an increase from the prior year, when revenues exceeded expenses by \$278,842.
- Revenues increased during fiscal 2009 by \$73,088, due to increases in enrollment from the prior year.
- Overall, expenses decreased during fiscal 2009 by \$120,122, primarily due to the more efficient use of personnel during the current year.

### 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 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 notes to the financial statements explain some of the information in the financial statements and provide more detail. 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*.

### 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 the private sector. 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 position. Over time, increases or decreases in the School's net assets are an indicator of whether its financial position is improving or deteriorating. To assess the overall financial position of the School, one needs to consider additional non-financial factors such as changes in the School's student base funding level.

### **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 sources of funding and spending.

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.

## **FINANCIAL ANALYSIS OF THE SCHOOL AS A WHOLE**

### **Net Assets**

The School's combined net assets increased from fiscal year 2008 to 2009 (see table below).

	<b>Governmental Activities</b>		<b>Increase</b>
	<b>2009</b>	<b>2008</b>	<b>(Decrease)</b>
Current and other assets	\$ 2,915,926	\$ 2,680,017	\$ 235,909
Capital assets, net	511,751	581,969	(70,218)
Total assets	<u>3,427,677</u>	<u>3,261,986</u>	<u>165,691</u>
Current and other liabilities	497,015	590,075	(93,060)
Long-term liabilities	-	213,302	(213,302)
Total liabilities	<u>497,015</u>	<u>803,377</u>	<u>(306,362)</u>
Net assets:			
Invested in capital assets, net of related debt	511,751	368,667	143,084
Restricted for capital projects	91,184	200,253	(109,069)
Unrestricted	<u>2,327,727</u>	<u>1,889,689</u>	<u>438,038</u>
Total net assets	<u>\$ 2,930,662</u>	<u>\$ 2,458,609</u>	<u>\$ 472,053</u>

Current and other assets increased primarily due to an increase in cash generated from the excess of revenues over expenses for the current fiscal year. Capital assets decreased primarily due to the amount of depreciation expense in excess of capital purchases during the fiscal year. Current and other liabilities decreased due to the timing of the payments made, and the decrease in accrued compensated absences and accrued salaries from fluctuations in personnel. Long-term liabilities decreased due to principal payments made during the year. Total net assets increased due to the excess of revenues over expenses for the current fiscal year.

### Change in Net Assets

The table below shows the comparative summary of changes in net assets and revenues and expenses for fiscal years 2009 and 2008.

	<b>Governmental Activities</b>		<b>Increase</b>
	<b>2009</b>	<b>2008</b>	<b>(Decrease)</b>
<b>Revenues:</b>			
Federal sources passed through local school district	\$ 120,324	\$ 91,441	\$ 28,883
State and local sources	6,154,803	6,099,950	54,853
Contributions and other revenue	272,232	282,880	(10,648)
<b>Total revenues</b>	<b>6,547,359</b>	<b>6,474,271</b>	<b>73,088</b>
<b>Expenses:</b>			
Instruction	3,357,295	3,409,652	(52,357)
Pupil personnel services	581,544	683,590	(102,046)
Instructional media services	110,546	116,038	(5,492)
Instructional and curriculum development	6,774	5,449	1,325
Instructional staff training	8,368	11,463	(3,095)
Board	75,102	31,194	43,908
School administration	869,417	777,438	91,979
Central services	8,435	9,007	(572)
Fiscal services	34,780	70,288	(35,508)
Pupil transportation	610,626	653,142	(42,516)
Operation of plant	409,936	413,483	(3,547)
Interest	2,483	14,685	(12,202)
<b>Total expenses</b>	<b>6,075,306</b>	<b>6,195,429</b>	<b>(120,123)</b>
<b>Change in net assets</b>	<b>\$ 472,053</b>	<b>\$ 278,842</b>	<b>\$ 193,211</b>

Federal sources increased due to the carryover of certain Federal grant monies from the prior year to the current year. State and local sources increased due to an increase in full-time equivalent students during the year. Instruction expense decreased due to a decrease in teacher salary expense. Pupil personnel expenses decreased primarily due to the elimination of two personnel positions in the current year. Board expenses increased primarily due to an increase in unemployment compensation claims during the year, an increase in liability insurance from the prior year, and an increase in legal expenses from the charter renewal

negotiations. School administration expenses increased due to the addition of one administrative. Fiscal services decreased due to the utilization of a more cost efficient external accounting firm. Interest expense decreased due to the payoff of the loan early in the current year.

## **FINANCIAL ANALYSIS OF THE SCHOOL'S FUNDS**

As the School completed the year, its governmental funds reported a combined fund balance of \$2,614,187.

### **General Fund Budgetary Highlights**

Over the course of the year, the School revised its budget twice. The character of these amendments was as follows:

- Amendments and supplemental appropriations approved shortly after the beginning of the year to reflect the actual beginning account balances.
- Changes made to account for decreases in the per-student allocation.
- Changes made to account for fluctuations in personnel and benefits.

Actual revenues were \$7,114 more than budgeted amounts. Expenditures were \$115,179 less than budgeted amounts due primarily to certain payroll expenditures that were over budgeted due to changes in personnel.

## **CAPITAL ASSET AND DEBT ADMINISTRATION**

### **Capital Assets**

At the end of fiscal 2009, the School had invested \$1,066,374 in a broad range of capital assets, including buses, computers, furniture, fixtures and equipment.

The School did not have any major additions to capital assets during the year.

The School's fiscal year 2010 capital budget includes approximately \$30,000 in projected spending for capital outlay expenditures.

## **ECONOMIC FACTORS AND NEXT YEAR'S BUDGET**

Amounts estimated to be available for appropriation in the general fund are \$6,078,920, a decrease of \$184,348 from fiscal 2009 actual revenues, exclusive of revenues from internal accounts. This decrease is primarily due to the fact that the Reading First grant is discontinued in fiscal 2010 and the fact that the School typically begins each year with a conservative estimate of enrollment to balance the budget.

Budgeted expenditures are \$6,000,560, an increase of \$283,512 from fiscal 2009 actual expenditures, exclusive of expenditures related to internal accounts. The increase is primarily due to additional salary and related benefits. The School has added no major new programs to the fiscal 2010 budget.

Certain revenues and expenditures are not included in the budgeted figures above because the School does not prepare a budget for the internal accounts until school is in session; therefore, it has not been completed at this time.

### **CONTACTING THE SCHOOL'S FINANCIAL MANAGEMENT**

The 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 1000 North Buena Vista Drive, Lake Alfred, Florida 33850.



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

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

We have audited the accompanying financial statements of the governmental activities, the major fund and the aggregate remaining fund information of Discovery Academy of Lake Alfred, Inc. (the "School"), a charter school and component unit of the District School Board of Polk County, Florida, as of and for the year ended June 30, 2009, which collectively comprise the School's basic financial statements as listed in the table of contents. These 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 basic financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the major fund and the aggregate remaining fund information of Discovery Academy of Lake Alfred, Inc. as of June 30, 2009, 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 25, 2009 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 – 5 and the budgetary comparison schedule on page 24 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 25, 2009

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

**STATEMENT OF NET ASSETS**

**JUNE 30, 2009**

	<u>Governmental Activities</u>
<b>ASSETS</b>	
Cash and cash equivalents	\$ 1,680,862
Certificates of deposit	356,652
Investments	827,536
Accounts receivable	45,538
Other assets	5,338
Capital assets:	
Furniture, fixtures and equipment	381,459
Vehicles	684,915
Less accumulated depreciation	<u>(554,623)</u>
Total capital assets, net	<u>511,751</u>
Total assets	<u><u>\$ 3,427,677</u></u>
<b>LIABILITIES</b>	
Accounts payable and accrued expenses	<u>\$ 497,015</u>
Total liabilities	<u>497,015</u>
<b>NET ASSETS</b>	
Invested in capital assets	511,751
Restricted for:	
Capital projects	91,184
Unrestricted	<u>2,327,727</u>
Total net assets	<u>2,930,662</u>
Total liabilities and net assets	<u><u>\$ 3,427,677</u></u>

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

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

**STATEMENT OF ACTIVITIES**

**FOR THE YEAR ENDED JUNE 30, 2009**

	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets	
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Total
Governmental activities:						
Instruction	\$ 3,357,295	\$ -	\$ 12,949	\$ -	\$ (3,344,346)	\$ (3,344,346)
Pupil personnel services	581,544	-	88,411	-	(493,133)	(493,133)
Instructional media services	110,546	-	-	-	(110,546)	(110,546)
Instruction and curriculum development	6,774	-	-	-	(6,774)	(6,774)
Instructional staff training	8,368	-	-	-	(8,368)	(8,368)
Board	75,102	-	-	-	(75,102)	(75,102)
School administration	869,417	-	-	-	(869,417)	(869,417)
Central services	8,435	-	-	-	(8,435)	(8,435)
Fiscal services	34,780	-	-	-	(34,780)	(34,780)
Pupil transportation	610,626	-	-	-	(610,626)	(610,626)
Operation of plant	409,936	-	-	-	(409,936)	(409,936)
Interest	2,483	-	-	-	(2,483)	(2,483)
<b>Total primary government</b>	<b>\$ 6,075,306</b>	<b>\$ -</b>	<b>\$ 101,360</b>	<b>\$ -</b>	<b>(5,973,946)</b>	<b>(5,973,946)</b>
General revenues:						
Federal sources passed through local school district					18,964	18,964
State and local sources					6,154,803	6,154,803
Contributions and other revenue					272,232	272,232
<b>Total general revenues</b>					<b>6,445,999</b>	<b>6,445,999</b>
Change in net assets					472,053	472,053
Net assets at beginning of year					2,458,609	2,458,609
Net assets at end of year					\$ 2,930,662	\$ 2,930,662

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

**DISCOVERY ACADEMY OF LAKE ALFRED, INC.  
A CHARTER SCHOOL AND COMPONENT UNIT OF  
THE DISTRICT SCHOOL BOARD OF POLK COUNTY, FLORIDA  
BALANCE SHEET - GOVERNMENTAL FUNDS**

**JUNE 30, 2009**

	General Fund	Other Governmental Funds	Total Governmental Funds
<b>ASSETS</b>			
Cash and cash equivalents	\$ 1,680,862	\$ -	\$ 1,680,862
Certificate of deposit	356,652	-	356,652
Investments	827,536	-	827,536
Accounts receivable	7,046	38,492	45,538
Other current assets	5,338	-	5,338
Due from other governmental funds	23,375	-	23,375
Total assets	<b>\$ 2,900,809</b>	<b>\$ 38,492</b>	<b>\$ 2,939,301</b>
 <b>LIABILITIES AND FUND BALANCES</b>			
Accounts payable and accrued expenditures	\$ 286,622	\$ 15,117	\$ 301,739
Due to general funds	-	23,375	23,375
Total liabilities	286,622	38,492	325,114
 Fund balances:			
Reserved for:			
Capital projects	91,184	-	91,184
Unreserved:			
Designated for School-based student activity organizations	94,685	-	94,685
Undesignated	2,428,318	-	2,428,318
Total fund balances	2,614,187	-	2,614,187
Total liabilities and fund balances	<b>\$ 2,900,809</b>	<b>\$ 38,492</b>	<b>\$ 2,939,301</b>

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

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

**JUNE 30, 2009**

<b>Total fund balances - governmental funds</b>	\$ 2,614,187
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Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds. The cost of the capital assets is \$1,066,374 and the accumulated depreciation is \$554,623.	511,751
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Amounts accrued for compensated absences are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.	<u>(195,276)</u>
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<b>Total net assets - governmental activities</b>	<u><u>\$ 2,930,662</u></u>
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The accompanying notes to financial statements are an integral part of this statement.

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

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

**FOR THE YEAR ENDED JUNE 30, 2009**

	General Fund	Other Governmental Funds	Total Governmental Funds
	<u>          </u>	<u>          </u>	<u>          </u>
<b>REVENUES</b>			
Federal sources passed through local school district	\$ -	\$ 120,324	\$ 120,324
State and local sources	6,154,803	-	6,154,803
Contributions and other revenue	272,232	-	272,232
	<u>6,427,035</u>	<u>120,324</u>	<u>6,547,359</u>
<b>EXPENDITURES</b>			
Current:			
Instruction	3,319,140	12,949	3,332,089
Pupil personnel services	488,306	88,411	576,717
Instructional media services	109,934	-	109,934
Instructional and curriculum development	6,774	-	6,774
Instructional staff training	8,368	-	8,368
Board	75,102	-	75,102
School administration	871,122	-	871,122
Central services	8,435	-	8,435
Fiscal services	34,780	-	34,780
Pupil transportation	543,242	-	543,242
Operation of plant	404,029	-	404,029
Debt service:			
Principal	-	213,302	213,302
Interest	-	2,483	2,483
Capital outlay	24,341	18,964	43,305
	<u>5,893,573</u>	<u>336,109</u>	<u>6,229,682</u>
Total expenditures	<u>5,893,573</u>	<u>336,109</u>	<u>6,229,682</u>
Excess (deficiency) of revenues over expenditures	<u>533,462</u>	<u>(215,785)</u>	<u>317,677</u>
<b>OTHER FINANCIAL SOURCES (USES)</b>			
Operating transfer in	-	215,785	215,785
Operating transfer out	(215,785)	-	(215,785)
	<u>(215,785)</u>	<u>215,785</u>	<u>-</u>
Total other financial sources (uses)	<u>(215,785)</u>	<u>215,785</u>	<u>-</u>
Net changes in fund balances	317,677	-	317,677
Fund balances at beginning of year	2,296,510	-	2,296,510
Fund balances at end of year	<u>\$ 2,614,187</u>	<u>\$ -</u>	<u>\$ 2,614,187</u>

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

**DISCOVERY ACADEMY OF LAKE ALFRED, INC.  
A CHARTER SCHOOL AND COMPONENT UNIT OF  
THE DISTRICT SCHOOL BOARD OF POLK 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, 2009**

<b>Net changes in fund balances - total governmental funds</b>	<b>\$</b>	<b>317,677</b>
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Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those capital assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation expense (\$113,028) exceed capital outlays (\$43,305) in the current period.		(69,723)
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The loss on the disposal of capital assets is reported in the statements of activities, whereas nothing is reported in the governmental funds as there were no proceeds.		(494)
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Compensated absences included in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds.		11,291
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Principal payments on long-term liabilities are expenditures in the governmental funds, but the repayments reduce long-term liabilities in the statement of net assets.		213,302
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<b>Change in net assets of governmental activities</b>	<b>\$</b>	<b>472,053</b>
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The accompanying notes to financial statements are an integral part of this statement.

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

**NOTES TO FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED JUNE 30, 2009**

**1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Organization**

Discovery Academy of Lake Alfred, 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 five members. Effective July 1, 2001, the School converted from a public school to a charter school.

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 Polk County, Florida (the "School Board"). The current charter is effective until June 30, 2018 and may be renewed in increments of five or fifteen years by mutual written agreement between the School and the School Board. At the end of the term of the charter, the School Board may choose not to renew the charter under grounds specified in the charter. In this case, the School Board is required to notify the School in writing at least 90 days prior to the charter's expiration. During the term of the charter, the School Board may also terminate the charter if good cause is shown. In the event of termination of the charter, any property purchased by the School with public funds and any unencumbered public funds revert back to the School Board. The School is considered a component unit of the School Board; 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 provide for identification of any entities for which the School is financially accountable and other organizations for which the nature and significance of their relationship with the School are such that exclusion would cause the School's basic financial statements to be misleading or incomplete. Based on these criteria, no component units are included within the reporting entity of the School.

**Basis of presentation**

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

See report of independent auditors.

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

**NOTES TO FINANCIAL STATEMENTS  
(Continued)**

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.
- Special Revenue Fund – to account for the proceeds of specific revenue sources and federal grants that are restricted by law or administrative action to expenditure for specific purposes.
- 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 fund is a major fund. All other funds are considered non-major and are presented in aggregate.

**Basis of accounting**

Basis of accounting refers to when revenues and 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.

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

**NOTES TO FINANCIAL STATEMENTS  
(Continued)**

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 are recognized when earned and expenses are recognized when incurred.

The modified accrual basis of accounting and current financial resources focus is followed by the governmental funds. Under the modified accrual basis, revenues are recognized when they become measurable and available. Available means collectible within the current period or soon enough thereafter to pay current liabilities. The School considers revenues to be available if they are collected within sixty days 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 deposits and certificates of deposit with financial institutions. All of the School's investments consist of U.S. government bonds which carry the explicit guarantee of the United States government, except for its investment in the World Bank.

**Capital assets and depreciation**

Expenditures for capital assets acquired for general School purposes are reported in the governmental fund that financed the acquisition. The capital assets acquired 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>
Furniture, fixtures and equipment	3 – 5
Vehicles	10

Information relative to changes in capital assets is described in Note 4.

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

**NOTES TO FINANCIAL STATEMENTS  
(Continued)**

**Compensated absences**

Compensated absences (i.e. paid absences for employee vacation leave and sick leave) are recorded as an expenditure in governmental funds when leave is used or when accrued as payable to employees entitled to cash payment in lieu of taking leave. In the government-wide financial statements, compensated absences are recorded as an expense when earned by the employees. The liability for compensated absences is classified as current in the government-wide financial statements because the amount of vacation and sick time to be used after the following year cannot be reasonably estimated.

**Revenue sources**

Revenues for current operations are received primarily from the District School Board of Polk 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 expenditure in the accompanying statement of activities and statement of revenues, expenditures and changes in fund balances - governmental funds. This administrative fee is calculated on the FEFP revenue up to 500 students. The difference between the actual fee and the fee as calculated on total FEFP revenue is restricted for capital outlay expenditures. As of June 30, 2009, the School had restricted funds for this purpose in the amount of \$91,184.

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.

**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 expenditures for the period presented. Actual results could differ significantly from those estimates.

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

**NOTES TO FINANCIAL STATEMENTS  
(Continued)**

**2 INVESTMENTS**

As of June 30, 2009, the School had the following investments and maturities:

<b>Investment Type</b>	<b>Investment Maturities (in Years)</b>		
	<b>Fair Value</b>	<b>Less than 1</b>	<b>1 - 5</b>
Bonds issued by:			
U.S. Agencies	\$ 768,821	\$ 734,256	\$ 34,565
World Bank	58,715	58,715	-
<b>Total Investments</b>	<b>\$ 827,536</b>	<b>\$ 792,971</b>	<b>\$ 34,565</b>

*Interest Rate Risk.* As a means of limiting its exposure to fair value losses arising from rising interest rates, the School's investment policy strictly adheres to Section 218.415 of the Florida Statutes. Furthermore, the School limits its investments to individual securities held to maturity rather than alternatives such as mutual funds that can lose principal.

*Credit Risk.* State law limits investments of surplus public funds to investments in U.S. Agencies. The School's investment policy is to follow the strict guidelines of the Florida statutes. As of June 30, 2009, all of the School's investments were in U.S. Agencies, except for its investment in the World Bank.

*Concentration of Credit Risk:* The School places no limit on the amount the School may invest in any one issuer. More than 5 percent of the School's investments are in bonds from the following issuers:

<b>Issuer:</b>	<b>Amount</b>	<b>Percent of total investments</b>
Financing Corporation	\$ 405,701	49%
Federal Home Loan Bank	168,860	20%
Federal Home Loan Mortgage Corporation	89,889	11%
World Bank	58,715	7%
Tennessee Valley Authority	56,634	7%

**3 ACCOUNTS RECEIVABLE**

Accounts receivable included in the accompanying statement of net assets and balance sheet – governmental funds includes \$44,984 in reimbursements from the School Board and \$554 in other receivables. Based on collectibility of funds from these sources, an allowance for doubtful accounts is not considered necessary.

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

**NOTES TO FINANCIAL STATEMENTS  
(Continued)**

**4 CHANGES IN CAPITAL ASSETS**

Capital asset activity for the year ended June 30, 2009 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental activities:				
Furniture, fixtures and equipment	\$ 339,143	\$ 43,305	\$ (989)	\$ 381,459
Vehicles	684,915	-	-	684,915
Total governmental activities	<u>1,024,058</u>	<u>43,305</u>	<u>(989)</u>	<u>1,066,374</u>
Less accumulated depreciation for:				
Furniture, fixtures and equipment	(246,676)	(45,480)	494	(291,662)
Vehicles	(195,413)	(67,548)	-	(262,961)
Total accumulated depreciation	<u>(442,089)</u>	<u>(113,028)</u>	<u>494</u>	<u>(554,623)</u>
Governmental activities capital assets, net	<u>\$ 581,969</u>	<u>\$ (69,723)</u>	<u>\$ (495)</u>	<u>\$ 511,751</u>

Depreciation expense was charged to functions as follows:

Governmental activities:		
Instruction	\$	27,756
Pupil personnel services		7,393
School administration		5,545
Pupil transportation		67,548
Operation of plant		<u>4,786</u>
Total governmental activities depreciation expense	<u>\$</u>	<u>113,028</u>

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

**NOTES TO FINANCIAL STATEMENTS  
(Continued)**

**5 LONG-TERM DEBT**

Long-term debt consisted of a note payable to a financial institution, secured by the vehicles financed under the note. Terms of the note include an annual payment of principal and interest of \$90,000 through October 2010. The interest rate charged on the note is a fixed rate of 5.75%. The note was satisfied on August 22, 2008. Activity during the current fiscal year was as follows:

Balance outstanding at beginning of year		\$	213,302
Additions			-
Reductions			<u>(213,302)</u>
Balance outstanding at end of year		<u>\$</u>	<u>-</u>

Interest paid on long-term liabilities during the year ended June 30, 2009 was approximately \$2,500.

**6 SCHEDULE OF STATE AND LOCAL REVENUE SOURCES**

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

District School Board of Polk County, Florida:

Florida Education Finance Program		\$	4,270,652
Class size reduction			903,518
Transportation			400,002
Discretionary millage funds			269,906
Discretionary tax equalization			151,612
Instructional materials			94,150
Discretionary lottery funds			23,257
Safe schools			21,880
Florida lead teacher			12,330
Excellent teaching programs			4,883
Equal percentage adjustment			1,388
Other state funding			<u>1,225</u>
Total		<u>\$</u>	<u>6,154,803</u>

The administration fee paid to the School Board during the year ended June 30, 2009 totaled \$152,644, 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.

**DISCOVERY ACADEMY OF LAKE ALFRED, INC.  
A CHARTER SCHOOL AND COMPONENT UNIT OF  
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**NOTES TO FINANCIAL STATEMENTS  
(Continued)**

**7 RISK MANAGEMENT PROGRAM**

Workers' compensation coverage, health and hospitalization, general liability, professional liability and property coverage 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.

**8 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, 2009 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.

**9 CAMPUS FACILITY**

Title to the school building and facilities and other capital assets acquired prior to July 1, 2001 remains with the School Board. Florida Statutes provide that the use of the school building and facilities be furnished to charter schools on the same basis as made available to other public schools in the district. No rental or leasing fee may be charged by the district school board to the charter school or to the parents and teachers who organize the charter school.

Administrators of the School and School Board believe that considerable uncertainty exists regarding the valuation of facilities utilized by the School. Consequently, the financial statements reflect no such charges of expense. This is consistent with the accounting policies of the School Board related to facilities utilized by conversion charter schools.

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

**NOTES TO FINANCIAL STATEMENTS  
(Continued)**

In management’s opinion, the value of facilities utilized by the School is significant; therefore, any substantial changes in Florida Statutes related to facilities use by conversion charter schools could have a material effect on the School’s operations.

**10 RETIREMENT PROGRAM**

**Defined benefit plan**

All regular employees of the School are covered by the Florida Retirement System (FRS). The FRS is primarily a State-administered, cost-sharing, multiple-employer, defined benefit retirement plan (Plan). Plan provisions are established by Chapters 121 and 122, Florida Statutes; Chapter 112, Part IV, Florida Statutes; Chapter 238, Florida Statutes; and Florida Retirement System Rules, Chapter 60S, Florida Administrative Code, wherein eligibility, contributions and benefits are defined and described in detail. Essentially all regular employees of participating employers are eligible and must enroll as members of the FRS. Benefits in the Plan vest at six years of service. The Plan also includes an early retirement provision, but imposes a penalty for each year a member retires before the specified retirement age. The Plan provides retirement, disability and death benefits and annual cost-of-living adjustments, as well as supplements for certain employees to cover social security benefits lost by virtue of retirement system membership.

A Deferred Retirement Option Program (DROP) subject to provisions of Section 121.091, Florida Statutes, permits employees eligible for normal retirement under the Plan to defer receipt of monthly benefit payments while continuing employment with a FRS employer. An employee may participate in the DROP for a period not to exceed 60 months after electing to participate. During the period of DROP participation, deferred monthly benefits are held in the FRS Trust and accrue interest. The School had two DROP participants during fiscal 2009.

**Funding policy**

The contribution rates for members are established, and may be amended, by the State of Florida. During the 2009 fiscal year, contribution rates were as follows:

<u>Class or Plan</u>	<u>Percent of Gross Salary</u>	
	<u>Employee</u>	<u>Employer (A)</u>
Florida Retirement System, Regular	0%	9.85%
Florida Retirement System, Reemployed Retiree	(B)	(B)

(A) Employer rates include 1.11% for the post-employment health insurance supplement and 0.05% for administrative costs of the Public Employee Optional Retirement Program.

(B) Contribution rates are dependent upon the retirement class in which reemployed.

**DISCOVERY ACADEMY OF LAKE ALFRED, INC.  
A CHARTER SCHOOL AND COMPONENT UNIT OF  
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**NOTES TO FINANCIAL STATEMENTS  
(Continued)**

The School's liability for participation in the Plan is limited to the payment of the required contribution at the rates and frequencies established by law on future payrolls of the School. The School's contribution to the Plan for the year ended June 30, 2009 totaled approximately \$301,000, which was equal to the required contributions for the fiscal year.

**Defined contribution plan**

Effective July 1, 2002, the Public Employee Optional Retirement Program (PEORP) was implemented as a defined contribution plan alternative available to all FRS members in lieu of the defined benefit plan. Employer contributions are defined by law, but the ultimate benefit depends in part on the performance of investment funds. The PEORP is funded by employer contributions that are based on salary and membership class (i.e.: regular class, reemployed retiree, etc.). Contributions are directed to individual member accounts, and the individual members allocate contributions and account balances among various approved investment choices. The School had no PEORP participants during fiscal 2009.

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

**REQUIRED SUPPLEMENTARY INFORMATION**

**BUDGETARY COMPARISON SCHEDULE - GENERAL FUND**

**FOR THE YEAR ENDED JUNE 30, 2009**

	<u>Budgeted Amounts</u>		Actual (Budgetary Basis)	Variance with Final Budget- Positive (Negative)
	<u>Original</u>	<u>Final</u>		
<b>REVENUES</b>				
State and local sources	\$ 6,071,161	\$ 6,158,654	\$ 6,154,803	\$ (3,851)
Contributions and other revenue	79,000	261,267	272,232	10,965
<b>Total revenues</b>	<b>6,150,161</b>	<b>6,419,921</b>	<b>6,427,035</b>	<b>7,114</b>
<b>EXPENDITURES</b>				
Current:				
Instruction	3,365,056	3,360,106	3,319,141	40,965
Pupil personnel services	387,644	509,611	488,306	21,305
Instructional media services	121,662	122,033	109,934	12,099
Instructional and curriculum development	8,000	7,500	6,774	726
Instructional staff training	33,000	10,500	8,368	2,132
Board	43,950	77,652	75,102	2,550
School administration	865,620	881,298	871,122	10,176
Central services	11,000	10,500	8,435	2,065
Fiscal services	35,500	35,000	34,780	220
Pupil transportation	634,075	571,151	543,242	27,909
Operation of plant	447,589	411,401	404,029	7,372
Capital outlay	33,000	12,000	24,340	(12,340)
<b>Total expenditures</b>	<b>5,986,096</b>	<b>6,008,752</b>	<b>5,893,573</b>	<b>115,179</b>
Excess of revenues over expenditures	164,065	411,169	533,462	122,293
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers out	(88,500)	(215,785)	(215,785)	-
<b>Total other financing uses</b>	<b>(88,500)</b>	<b>(215,785)</b>	<b>(215,785)</b>	<b>-</b>
Net changes in fund balance	75,565	195,384	317,677	122,293
Fund balance at beginning of year	2,296,510	2,296,510	2,296,510	-
<b>Fund balance at end of year</b>	<b>\$ 2,372,075</b>	<b>\$ 2,491,894</b>	<b>\$ 2,614,187</b>	<b>\$ 122,293</b>

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 Discovery Academy of Lake Alfred, Inc., a Charter School  
and Component Unit of the District School Board of Polk County, Florida

We have audited the accompanying financial statements of the governmental activities, the major fund and the aggregate remaining fund information of Discovery Academy of Lake Alfred, Inc. (the "School"), a charter school and component unit of the District School Board of Polk County, as of and for the year ended June 30, 2009, which collectively comprise the School's basic financial statements and have issued our report thereon dated September 25, 2009. 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.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the School's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the School's financial statements that is more than inconsequential will not be prevented or detected by the School's internal control.

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



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

#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the School's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance that is required to be reported under *Government Auditing Standards*, which is described as follows:

2009-1 Investment Policy: Florida Statutes Chapter 218.415 and the School's investment policy describe the types of investments that the School is allowed to make with surplus public funds. During our audit procedures, we noted that the School's investment portfolio contains a disallowed investment. We recommend that the School review the Florida Statutes and the School's investment policy on a regular basis to ensure that the investment portfolio is in compliance.

The School's response to the finding identified in our audit is included in the Written Statement of Explanation or Rebuttal on page 30. We did not audit the School's response and, accordingly, we express no opinion on it.

This report is intended for the information and use of management of the School, the School Board, the FDOE 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 25, 2009

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



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

We have audited the financial statements of the governmental activities, the major fund and the aggregate remaining fund information of Discovery Academy of Lake Alfred, Inc. (the "School") as of and for the year ended June 30, 2009, and have issued our report thereon dated September 25, 2009.

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. We have issued our Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters. Disclosures in that report, which is dated September 25, 2009, should be considered in conjunction with this management letter.

Additionally, our audit was conducted in accordance with Chapter 10.850, Rules of the Auditor General, which governs the conduct of charter school and similar entity audits performed in the State of Florida. This letter includes the following information, which is not included in the aforementioned auditor's reports:

- Section 10.854(1)(e)1., Rules of the Auditor General, requires that we determine whether or not corrective actions have been taken to address findings and recommendations made in the preceding annual financial audit report. There were no findings or recommendations in the prior year.
- Section 10.854(1)(e)3., Rules of the Auditor General, requires that we address in the management letter any recommendations to improve financial management. In connection with our audit, we did not have any such recommendations.
- Section 10.854(1)(e)4., Rules of the Auditor General, requires that we address violations of laws, regulations, contracts or grant agreements, or abuse that have occurred, or are likely to have occurred, that have an effect on the financial statements that is less than material but more than inconsequential. In connection with our audit, we did not have any such findings.
- Section 10.854(1)(e)5., Rules of the Auditor General, provides that the auditor may, based on professional judgment, report the following matters that are inconsequential to the determination of financial statement amounts, considering both quantitative and qualitative factors: (1) violations of laws, regulations, contracts or grant agreements, or abuse that have occurred, or are likely to have occurred, and (2) control deficiencies that are not significant deficiencies, including, but not limited to (a) improper or inadequate accounting procedures



(e.g., the omission of required disclosures from the annual financial statements); (b) failures to properly record financial transactions; and (c) inaccuracies, shortages, defalcations, and instances of fraud discovered by, or that come to the attention of, the auditor. In connection with our audit, we did not have any such findings.

- Section 10.854(1)(e)6, Rules of the Auditor General, requires the name or official title of the School. The official name of the School is Discovery Academy of Lake Alfred, Inc.
- Section 10.854(1)(e)2., Rules of the Auditor General, requires a statement be included as to whether or not the School has met one or more of the conditions described in Section 218.503(1), Florida Statutes, and identification of the specific condition met. 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.
- Pursuant to Sections 10.854(1)(3)7.a. and 10.855(10), Rules of the Auditor General, we applied financial condition assessment procedures as of June 30, 2009, 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.

Pursuant to Chapter 119, Florida Statutes, this management letter is a public record and its distribution is not limited. Auditing standards generally accepted in the United States of America require us to indicate that this letter is intended solely for the information and use of management, the Board of Directors 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 25, 2009



BKHM, P.A.  
1560 Orange Avenue; Suite 600  
Winter Park, Florida, 32789

Dear Ms. McCrady:

During the audit for the fiscal year ended June 30, 2009, you noted in your recommendations to improve compliance, internal control and the financial reporting process that the investment portfolio for Discovery Academy of Lake Alfred, Inc. (the "School") contained an investment which is not specifically allowed by the School's investment policy.

We retain an investment brokerage to attempt to eliminate any instances of noncompliance in this area. In this case, the brokerage incorrectly classified one investment as a U.S. Government-guaranteed obligation. Upon learning that this investment was not in compliance with the investment policy, the School immediately sold the investment to bring the School into compliance.

Our current audit committee will meet to review your concerns identified in your audit and explore alternatives that might further mitigate the issue, within our budgetary constraints.

This response should complete our audit process. On behalf of the Discovery Academy of Lake Alfred, Inc. Board of Directors, I would like to thank your Firm for completing the audit and for bringing to our attention areas that might better our accounting and operating practices.

Sincerely,

A handwritten signature in cursive script that reads "Carol Fulks".

Carol Fulks  
Executive Director