



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

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

JUNE 30, 2009



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 (Deficit) – Governmental Funds	14
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances (Deficit) of Governmental Funds to the Statement of Activities	15
Notes to Financial Statements	16 – 25
Required Supplementary Information:	
Budgetary Comparison Schedule – General Fund	26
Budgetary Comparison Schedule – Special Revenue Fund	27
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>	28 – 31
Additional Information Required by Rules of the Florida Auditor General, Chapter 10.850, <i>Audits of Charter Schools and Similar Entities</i>:	
Management Letter	32 – 35
Written Statement of Explanation or Rebuttal	36 – 37

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the annual financial report of Summit Academy, 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

- For the fiscal year ended June 30, 2009, the School's expenses exceeded revenues by \$27,786.
- Total assets were \$38,039, and total liabilities were \$69,881, resulting in a deficit in net assets of \$31,842 as of June 30, 2009.
- The School served approximately 43 students during the year ended June 30, 2009.

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 condition. Over time, increases or decreases in the School's net assets are an indicator of whether its financial condition is improving or deteriorating, respectively. To assess the overall health of the School, one needs to consider additional nonfinancial 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 as of June 30, 2009 and 2008 are summarized as follows – see table below.

	Governmental Activities		Increase (Decrease)
	2008	2009	
Current and other assets	\$ 32,387	\$ 10,106	-69%
Capital assets, net	12,531	27,933	123%
Total assets	<u>44,918</u>	<u>38,039</u>	<u>-15%</u>
Current and other liabilities	<u>48,974</u>	69,881	<u>43%</u>
Total liabilities	<u>48,974</u>	<u>69,881</u>	<u>43%</u>
Net assets:			
Invested in capital assets	12,531	27,933	123%
Restricted for capital projects	6,572	11,344	73%
Unrestricted	<u>(23,159)</u>	<u>(71,119)</u>	<u>-207%</u>
Total net assets	<u>\$ (4,056)</u>	<u>\$ (31,842)</u>	<u>-685%</u>

Current and other assets decreased due to the collection of an outstanding receivable from the prior year. Net capital assets increased due to facility renovations due to flood damage. The decrease in the current and other liabilities is due to the timing of payables near year-end. Total net assets decreased due to the current year operating deficit.

The 2008 amounts in the above schedule include the effect of the prior period adjustment discussed in Note 7 to the financial statements.

Change in Net Assets

For the year ended June 30, 2009, the School's total expenses exceeded total revenues by approximately \$28,000 – see table below.

	Governmental Activities		Increase (Decrease)
	2008	2009	
Revenues:			
Federal sources passed through local school district	\$ 10,844	\$ 10,934	1%
State and local sources	446,442	290,775	-35%
Contributions and other revenue	2,427	82,762	3310%
Total revenues	459,713	384,471	-16%
Expenses:			
Instruction	225,440	172,976	-23%
Pupil personnel services	5,975	2,108	-65%
Board	-	79	100%
School administration	91,602	87,891	-4%
Fiscal services	21,321	15,891	-25%
Food services	35,972	27,148	-25%
Central services	801	5,591	598%
Pupil transportation	42,726	36,216	-15%
Operation of plant	49,093	51,269	4%
Maintenance of plant	19,946	13,088	-34%
Total expenses	492,876	412,257	-16%
Change in net assets	\$ (33,163)	\$ (27,786)	16%

The decrease in state and local sources is due to the decrease in student enrollment and the decrease in state funding per student. Contributions and other revenue increased due to gift-in-kind rent in the current year.

Instruction expense decreased due to less instructional personnel as a result of the decrease in student enrollment. The decrease in school administration is due to the decrease in management fees, which was the result of decreased revenue. The decrease in fiscal services is due to less accounting expenses in 2009. Central services increased due to the network infrastructure improvements made in 2009. The decrease in pupil transportation is due to the decrease in fuel costs associated with the decrease in student enrollment and consolidation of the bus routes. The change in maintenance of plant is due to less custodial-related costs.

Certain reclassifications were made in 2008 amounts to conform to their classifications in 2009. In addition, the 2008 amounts in the above schedule include the effect of the prior period adjustment discussed in Note 7 to the financial statements.

FINANCIAL ANALYSIS OF THE SCHOOL'S FUNDS

As the School completed the year, its governmental funds reported a combined fund deficit of \$59,775, which was a decrease from the prior year. Both revenues and expenditures decreased overall for the same reasons described above.

General and Special Revenue Fund Budgetary Highlights

Over the course of the year, the School revised its budget several times to account for the changes in student enrollment and appropriations.

For the year ended June 30, 2009, actual general fund revenues were approximately \$5,000 above the final budget amounts, which represents an approximate 2% budget variance. Actual general fund expenditures were approximately \$41,000 above the final budget, primarily due to retroactive state funding reductions per student.

For the year ended June 30, 2009, actual special revenue fund revenues and expenditures were not significantly different from the budgeted amounts.

CAPITAL ASSET ADMINISTRATION

At the end of fiscal 2009, the School had invested \$96,321 in a broad range of capital assets, including leasehold improvements, computers, furniture, fixtures and equipment and vehicles.

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

- Bus – \$11,684
- Leasehold improvements – \$7,994

More detailed information about the School's capital assets is presented in Note 2 to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

Effective July 1, 2009, the School was combined with two affiliated Flagler County charter schools (Cornerstone Elementary, Inc. and Heritage High School, Inc.) to form Heritage Academy, Inc. When adopting the general fund budget for fiscal year 2010, the School considered the expected increase in the base student allocation for FEFP revenue and an increase in student enrollment. The School also considered the impact of combining with the other two charter schools.

Amounts available for appropriation in the general fund of Heritage Academy, Inc. are approximately \$1,300,000. Budgeted expenditures of Heritage Academy, Inc. are expected to be approximately \$1,290,000.

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 administrative offices of the School at 303 W. Moody Blvd., Bunnell, FL 32110.



Report of Independent Auditors on Basic Financial Statements and Supplementary Information

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

We have audited the accompanying financial statements of the governmental activities and each major fund of Summit Academy, Inc. (the "School"), a charter school and component unit of the District School Board of Flagler 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 financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of Summit Academy, 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.

As discussed in Note 8 to the financial statements, effective July 1, 2009, the School ceased to exist and was combined with two affiliated charter schools.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 28, 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 – 7 and the budgetary comparison schedules on pages 26 – 27 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, 2009

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

STATEMENT OF NET ASSETS

JUNE 30, 2009

	Governmental Activities
ASSETS	
Cash and cash equivalents	\$ 3,817
Accounts receivable	629
Prepaid expenses	5,660
Capital assets:	
Leasehold improvements	7,994
Furniture, fixtures and equipment	76,643
Vehicles	11,684
Less accumulated depreciation	(68,388)
Total capital assets, net	27,933
Total assets	\$ 38,039
LIABILITIES	
Accounts payable and accrued expenses	\$ 69,881
Total liabilities	69,881
NET ASSETS	
Invested in capital assets	27,933
Restricted for:	
Capital projects	11,344
Unrestricted	(71,119)
Total net assets	(31,842)
Total liabilities and net assets	\$ 38,039

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

SUMMIT ACADEMY, INC.
A CHARTER SCHOOL AND COMPONENT UNIT OF
THE DISTRICT SCHOOL BOARD OF FLAGLER 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	\$ 172,976	\$ -	\$ -	\$ -	\$ (172,976)	\$ (172,976)
Pupil personnel services	2,108	-	-	-	(2,108)	(2,108)
Board	79	-	-	-	(79)	(79)
School administration	87,891	-	-	-	(87,891)	(87,891)
Fiscal services	15,891	-	-	-	(15,891)	(15,891)
Food services	27,148	1,395	10,934	-	(14,819)	(14,819)
Central services	5,591	-	-	-	(5,591)	(5,591)
Pupil transportation	36,216	-	-	-	(36,216)	(36,216)
Operation of plant	51,269	-	-	-	(51,269)	(51,269)
Maintenance of plant	13,088	-	-	-	(13,088)	(13,088)
Total primary government	\$ 412,257	\$ 1,395	\$ 10,934	\$ -	(399,928)	(399,928)
General revenues:						
State and local sources					290,775	290,775
Contributions and other revenue					81,367	81,367
Total general revenues					372,142	372,142
Change in net assets					(27,786)	(27,786)
Net assets at beginning of year, as previously reported					15,420	15,420
Prior period adjustment (see Note 7)					(19,476)	(19,476)
Net assets at beginning of year, as restated					(4,056)	(4,056)
Net assets at end of year					\$ (31,842)	\$ (31,842)

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

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

BALANCE SHEET - GOVERNMENTAL FUNDS

JUNE 30, 2009

	<u>General Fund</u>	<u>Capital Projects Fund</u>	<u>Total Governmental Funds</u>
ASSETS			
Cash and cash equivalents	\$ 3,817	\$ -	\$ 3,817
Accounts receivable	629	-	629
Prepaid expenses	5,660	-	5,660
Due from general fund	-	11,344	11,344
	<u> </u>	<u> </u>	<u> </u>
Total assets	<u>\$ 10,106</u>	<u>\$ 11,344</u>	<u>\$ 21,450</u>
 LIABILITIES AND FUND BALANCES (DEFICIT)			
Accounts payable and accrued expenditures	\$ 69,881	\$ -	\$ 69,881
Due to capital projects fund	11,344	-	11,344
	<u> </u>	<u> </u>	<u> </u>
Total liabilities	<u>81,225</u>	<u>-</u>	<u>81,225</u>
 Fund balances (deficit):			
Reserved for:			
Capital projects	-	11,344	11,344
Unreserved:			
Undesignated	<u>(71,119)</u>	<u>-</u>	<u>(71,119)</u>
Total fund balances (deficit)	<u>(71,119)</u>	<u>11,344</u>	<u>(59,775)</u>
Total liabilities and fund balances (deficit)	<u>\$ 10,106</u>	<u>\$ 11,344</u>	<u>\$ 21,450</u>

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

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

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS

JUNE 30, 2009

Total fund balances (deficit) - total governmental funds	\$	(59,775)
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Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds. The cost of the assets is \$96,321, and the accumulated depreciation is \$68,388.

27,933

Total net assets - governmental activities	\$	<u>(31,842)</u>
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The accompanying notes to financial statements are an integral part of this statement.

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

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

FOR THE YEAR ENDED JUNE 30, 2009

	<u>General Fund</u>	<u>Special Revenue Fund</u>	<u>Capital Projects Fund</u>	<u>Total Governmental Funds</u>
REVENUES				
Federal sources passed through local school district	\$ -	\$ 10,934	\$ -	\$ 10,934
State and local sources	266,325	-	24,450	290,775
Contributions and other revenue	34,787	-	-	34,787
	<u>301,112</u>	<u>10,934</u>	<u>24,450</u>	<u>336,496</u>
EXPENDITURES				
Current:				
Instruction	169,420	-	-	169,420
Pupil personnel services	2,108	-	-	2,108
Board	79	-	-	79
School administration	87,171	-	-	87,171
Fiscal services	15,891	-	-	15,891
Food services	16,214	10,934	-	27,148
Central services	5,591	-	-	5,591
Pupil transportation	36,216	-	-	36,216
Operation of plant	3,294	-	-	3,294
Maintenance of plant	13,088	-	-	13,088
Capital outlay	-	-	19,678	19,678
	<u>349,072</u>	<u>10,934</u>	<u>19,678</u>	<u>379,684</u>
Net changes in fund balances (deficit)	<u>(47,960)</u>	<u>-</u>	<u>4,772</u>	<u>(43,188)</u>
Fund balances (deficit) at beginning of year, as previously reported	(11,266)	-	6,572	(4,694)
Prior period adjustment (see Note 7)	(11,893)	-	-	(11,893)
Fund balances (deficit) at beginning of year, as restated	<u>(23,159)</u>	<u>-</u>	<u>6,572</u>	<u>(16,587)</u>
Fund balances (deficit) at end of year	<u><u>\$ (71,119)</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 11,344</u></u>	<u><u>\$ (59,775)</u></u>

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

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

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES (DEFICIT) OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2009

Net changes in fund balances (deficit) - total governmental funds	\$ (43,188)
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Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays (\$19,678) exceed depreciation expense (\$4,276) in the current period.

<u>15,402</u>

Change in net assets of governmental activities	<u>\$ (27,786)</u>
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The accompanying notes to financial statements are an integral part of this statement.

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

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2009

1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

Summit 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 three members. Prior to July 1, 2008, the School operated as part of Academies of Excellence, Inc., d/b/a Summit Academy. Effective July 2008, the School was incorporated as a separate legal entity known as Summit Academy, Inc.

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 Flagler County, Florida (the "School Board"). The current charter is effective until June 30, 2009. Effective July 1, 2009, the School's charter was renewed for a one-year period and was combined with two affiliated Flagler County charter schools (Cornerstone Elementary, Inc. and Heritage High School, Inc.) to form Heritage Academy, Inc. The charter may be renewed 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.

SUMMIT ACADEMY, INC.
A CHARTER SCHOOL AND COMPONENT UNIT OF
THE DISTRICT SCHOOL BOARD OF FLAGLER 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.
- 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.
- Capital Projects Fund – to account for all the resources for the acquisition of capital items by the School purchased with capital outlay funds.

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

SUMMIT ACADEMY, INC.
A CHARTER SCHOOL AND COMPONENT UNIT OF
THE DISTRICT SCHOOL BOARD OF FLAGLER 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 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 generally held by banks qualified as public depositories under Florida law. All deposits held by qualified public depositories are insured by federal depository insurance. The School's cash consists primarily of demand deposits with financial institutions.

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. For purposes of recording capital assets, the School has a capitalization threshold of \$1,500.

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

NOTES TO FINANCIAL STATEMENTS
(continued)

Depreciation is computed using the straight-line method over the estimated useful lives of the assets, which range as follows:

	<u>Years</u>
Leasehold improvements	5 – 10
Furniture, fixtures and equipment	5 – 7
Vehicles	5

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

Reserved fund balance

Reserved fund balance in the capital projects fund as of June 30, 2009 represents the unspent portion of capital outlay funds. Capital outlay funds may only be used for lawful capital outlay expenditures.

Revenue sources

Revenues for current operations are received primarily from the District School Board of Flagler 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 years. 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.

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

**NOTES TO FINANCIAL STATEMENTS
(continued)**

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/reserved fund balance in the accompanying statement of net assets and balance sheet – governmental funds 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 expenditures for the year presented. Actual results could differ significantly from those estimates.

2 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:				
Leashold improvements	\$ -	\$ 7,994	\$ -	\$ 7,994
Furniture, fixtures and equipment	76,643	-	-	76,643
Vehicles	-	11,684	-	11,684
Total capital assets at historical cost	<u>76,643</u>	<u>19,678</u>	<u>-</u>	<u>96,321</u>
Less accumulated depreciation for:				
Furniture, fixtures and equipment	<u>(64,112)</u>	<u>(4,276)</u>	<u>-</u>	<u>(68,388)</u>
Total accumulated depreciation	<u>(64,112)</u>	<u>(4,276)</u>	<u>-</u>	<u>(68,388)</u>
Governmental activities capital assets, net	<u>\$ 12,531</u>	<u>\$ 15,402</u>	<u>\$ -</u>	<u>\$ 27,933</u>

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

NOTES TO FINANCIAL STATEMENTS
(continued)

Depreciation expense was charged to functions as follows:

Governmental activities:	
Instruction	\$ 3,556
School administration	<u>720</u>
Total governmental activities depreciation expense	<u><u>\$ 4,276</u></u>

3 RELATED PARTY TRANSACTIONS

Academies of Excellence, Inc.

Academies of Excellence, Inc. ("Academies"), a Florida not-for-profit corporation, provides certain management and administrative services to the School. The Chief Executive Officer of Academies served as President of the Board of Directors of the School during fiscal 2009. Effective July 2009, this individual resigned his position as Board President. The School pays Academies a management fee of up to 18% of gross school revenues. In fiscal year 2009, the School recorded management fees of \$39,626. Of this amount, \$12,459 was paid to Academies, and the remaining \$27,167 was forgiven by Academies and is included in contributions and other revenue in the accompanying financial statements. Additionally, the School reimburses Academies for expenses Academies may pay on their behalf. As of June 30, 2009, the School owes Academies \$7,756 for expenses paid on their behalf. This amount is included in accounts payable and accrued expenses/expenditures in the accompanying financial statements.

School Management Solutions, Inc.

During fiscal 2009, School Security Solutions, Inc., d/b/a School Management Solutions ("SMS"), an unrelated party, provided payroll and other management services to the School. Effective June 30, 2009, SMS was newly incorporated as School Management Solutions, Inc., a Florida corporation, and the Chief Executive Officer of SMS served as President of the Board of Directors of the School during fiscal 2009. Effective July 2009, this individual resigned his position as Board President. During the fiscal year ended June 30, 2009, SMS provided payroll processing services at no cost to the School. As of June 30, 2009, the School owes SMS approximately \$46,000 for payroll for the months of March 2009 through June 2009. These amounts are included in accounts payable and accrued expenses/expenditures in the accompanying financial statements.

For the 2010 fiscal year and beyond, SMS has effectively replaced Academies as the management company for the School.

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

**NOTES TO FINANCIAL STATEMENTS
(continued)**

During fiscal 2009, the School purchased a bus to be used for student transportation from SMS in the amount of \$11,684.

Common Board of Directors and Facilities

Academies and the three Flagler County charter schools (Cornerstone Elementary, Inc., Summit Academy, Inc. and Heritage High School, Inc.) have the same Board of Directors. In addition, the three schools share the same classroom facilities and instructional and administrative personnel. Effective July 1, 2009, the three schools were combined into one legal entity known as Heritage Academy, Inc. The charters for all three schools were also combined on this same date.

Accounts receivable included in the accompanying financial statements include \$555 in capital outlay funds receivable from Cornerstone Elementary, Inc. Since the schools share the same facilities, all capital outlay funds are received by Cornerstone Elementary, Inc. and are allocated to the other schools based on each school's student count.

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 Flagler County, Florida:	
Florida Education Finance Program	\$ 159,082
Class size reduction	36,980
Capital outlay	24,450
Discretionary tax equalization funds	21,984
ESE guaranteed allocation	16,821
Transportation	14,389
Supplemental academic instruction	9,189
Instructional materials	3,951
Reading allocation	1,392
Discretionary lottery funds	952
Safe schools	949
Teacher lead	636
	<hr/>
Total	<u><u>\$ 290,775</u></u>

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

**NOTES TO FINANCIAL STATEMENTS
(continued)**

The administration fee paid to the School Board during the year ended June 30, 2009 totaled approximately \$13,000, 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.

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.

6 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

The School is currently commencing litigation against certain former employees, whereby the School asserts that these employees charged personal expenses to the School's debit card and did not reimburse the School. As of June 30, 2009, the amount of funds that these individuals may have taken has not been quantified, but management does not expect that it will have a material effect on the accompanying financial statements. While no actual litigation proceedings have commenced, it is anticipated that criminal charges will be filed against the individuals by the State Attorney's office. The outcome of this pending litigation cannot presently be determined; therefore, any potential recovery is not reflected in the accompanying financial statements.

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

**NOTES TO FINANCIAL STATEMENTS
(continued)**

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.

Lease commitments

The School leases its classroom facilities under a noncancelable operating lease from Human Services Associates Properties Corporation (“HSA”), an unrelated party. The Chief Executive Officer of HSA was one of the School’s board members prior to fiscal 2009. Under the lease agreement, the School is required to pay monthly rent of \$1,050, with the lease expiring in June 2015.

The School also leases certain other property and equipment under noncancelable operating leases. These leases contain varying renewal options and require the School to pay insurance and other costs. Aggregate remaining minimum rental commitments as of June 30, 2009 under all leases are summarized as follows:

Year ended June 30,	Amount
2010	\$ 12,600
2011	25,200
2012	25,200
2013	25,200
2014	25,200
2015	25,200
Total future minimum lease payments	\$ 138,600

During the year ended June 30, 2009, HSA donated the use of the rental facilities to the School. Gift-in-kind rent in the amount of \$47,975 has been recorded for the year ended June 30, 2009 and is included in contributions and other revenue and operation of plant expenses in the accompanying statement of activities. These amounts are not reflected in the fund financial statements since they do not involve the receipt or use of current financial resources.

Rental expense for the year ended June 30, 2009 was approximately \$57,000, which includes gift-in-kind rent discussed above.

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

NOTES TO FINANCIAL STATEMENTS
(continued)

7 PRIOR PERIOD ADJUSTMENT AND RESTATEMENT OF NET ASSETS

The prior period adjustment included in the accompanying statement of activities represents an adjustment to record salary expense in the proper period. The effect of the adjustment was to decrease net assets of governmental activities by \$19,476 as of June 30, 2008.

The prior period adjustment included in the accompanying statement of revenues, expenditures and changes in fund balances (deficit) – governmental funds represents an adjustment to record the capitalization of prepaid expenses of \$7,582 in the general fund and the aforementioned adjustment to record salary expense in the proper period of \$19,476. The net effect of the adjustment was to decrease the general fund balance by \$11,893 as of June 20, 2008.

8 SUBSEQUENT EVENT

Effective July 1, 2009, the School ceased to exist and was combined with two affiliated charter schools (Cornerstone Elementary, Inc. and Heritage High School, Inc.) into one legal entity known as Heritage Academy, Inc.

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

REQUIRED SUPPLEMENTARY INFORMATION

BUDGETARY COMPARISON SCHEDULE – GENERAL FUND

FOR THE YEAR ENDED JUNE 30, 2009

	Budgeted Amounts		Actual (Budgetary Basis)	Variance with Final Budget- Positive (Negative)
	Original	Final		
REVENUES				
State and local sources	\$ 502,508	\$ 295,278	\$ 266,325	\$ (28,953)
Contributions and other revenue	1,200	958	34,787	33,829
Total revenues	<u>503,708</u>	<u>296,236</u>	<u>301,112</u>	<u>4,876</u>
EXPENDITURES				
Current:				
Instruction	221,860	141,939	169,420	(27,481)
Pupil personnel services	3,051	2,674	2,108	566
Instructional staff training	-	177	-	177
Board	-	-	79	(79)
School administration	119,928	65,826	87,171	(21,345)
Facilities acquisition and construction	227	-	-	-
Fiscal services	45,091	15,231	15,891	(660)
Food services	15,287	17,288	16,214	1,074
Central services	5,024	1,245	5,591	(4,346)
Pupil transportation	40,906	36,396	36,216	180
Operation of plant	19,118	16,538	3,294	13,244
Maintenance of plant	24,358	10,228	13,088	(2,860)
Community services	-	281	-	281
Total expenditures	<u>494,850</u>	<u>307,823</u>	<u>349,072</u>	<u>(41,249)</u>
Net change in fund deficit	8,858	(11,587)	(47,960)	(36,373)
Fund deficit at beginning of year, as restated	<u>(23,159)</u>	<u>(23,159)</u>	<u>(23,159)</u>	<u>-</u>
Fund deficit at end of year	<u>\$ (14,301)</u>	<u>\$ (34,746)</u>	<u>\$ (71,119)</u>	<u>\$ (36,373)</u>

See report of independent auditors.

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

REQUIRED SUPPLEMENTARY INFORMATION

BUDGETARY COMPARISON SCHEDULE – SPECIAL REVENUE FUND

FOR THE YEAR ENDED JUNE 30, 2009

	Budgeted Amounts		Actual (Budgetary Basis)	Variance with Final Budget- Positive (Negative)
	Original	Final		
REVENUES				
Federal sources through local school district	\$ 13,814	\$ 5,794	\$ 10,934	\$ 5,140
Total revenues	<u>13,814</u>	<u>5,794</u>	<u>10,934</u>	<u>5,140</u>
EXPENDITURES				
Current:				
Food services	13,814	5,794	10,934	(5,140)
Total expenditures	<u>13,814</u>	<u>5,794</u>	<u>10,934</u>	<u>(5,140)</u>
Net change in fund balance	-	-	-	-
Fund balance at beginning of year	-	-	-	-
Fund balance at end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</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 Summit Academy, Inc., a Charter School
and Component Unit of the District School Board of Flagler County, Florida

We have audited the financial statements of the governmental activities and each major fund of Summit Academy, Inc. (the "School"), a charter school and component unit of the District School Board of Flagler County, Florida, 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 28, 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.

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 consider 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.



2009-01: Preparation of Financial Statements: During our audit procedures, we identified deficiencies related to the accuracy and reliability of key account balances. This deficiency affects the ability of the School to produce financial statements that are free from material misstatement, which is evident in the number of adjustments proposed during the audit, as well as the prior year restatement. We recommend that the School hire an employee or an outside accountant with sufficient governmental accounting expertise to complete the monthly accounting and to prepare periodic financial reports for the School Board and the Board of Directors.

2009-02: Segregation of Duties: Our evaluation of the internal control disclosed that one person has the primary responsibility for most of the accounting duties surrounding the cash receipts function, which serves to weaken internal controls which rely upon an adequate segregation of duties. We recommend that management revise procedures to include more appropriate segregation of duties. Where this may not be possible, the Board of Directors should be aware that closer supervision and review is the most practical method to minimize this deficiency.

2009-03: Supporting Documentation for Credit and Debit Card Disbursements: During our audit procedures, we noted that adequate supporting documentation was not always maintained for credit and debit card purchases. While we understand that certain employees who did not adhere to established procedures were terminated, we recommend that policies and procedures for credit card purchases be further revised to include the maintenance of proper documentation to support the expenditures. In addition, we recommend that the School refrain from using debit cards for routine School purchases.

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 the 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 the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider items 2009-01 and 2009-03 to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the School's basic 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 instances of noncompliance that are required to be reported under *Government Auditing Standards*, which are described as follows:

2009-04: Deficit General Fund Balance: Our audit revealed that the School had a deficit in net assets and a deficit in the general fund of \$31,842 and \$71,119, respectively, as of June 30, 2009, for which sufficient resources are not available to cover the deficit. While the fiscal 2010 budget is expected to produce a surplus due to an increase in student enrollment, we recommend that the School develop and implement a plan to eliminate the deficit financial position as soon as possible.

2009-05: Posting of Sanitation Certificate and Inspection Report: Florida Statutes, Section 1013.12(2)(b), state that each school cafeteria must post in a visible location and on the school website the school's semiannual sanitation certificate and a copy of its most recent sanitation inspection report. During our audit procedures, we noted that, while the appropriate certificate and inspection report were posted in a visible location at the School site, these items were not posted on the School's website. We recommend that the School post the appropriate items on the website immediately.

2009-06: Notice for Reporting Alleged Misconduct: Florida Statutes, Section 1006.061(2), state that each school must post in a prominent place at each school site and on each school's internet website, if available, the policies and procedures for reporting alleged misconduct by instructional personnel or school administrators which affects the health, safety or welfare of a student; the contact person to whom the report is made; and the penalties imposed on instructional personnel or school administrators who fail to report such misconduct. During our audit procedures, we noted that the appropriate notice was not posted in a prominent place at the School site or on the School's website. We recommend that the School post the appropriate notice at the School site and on the School's website immediately, using the sample poster provided by the Florida Department of Education.

2009-07: Notice for Reporting Child Abuse: Florida Statutes, Section 1006.061(1), state that each school must post in a prominent place a notice that all employees have an affirmative duty to report all actual or suspected cases of child abuse or neglect, have immunity from liability if they report such cases in good faith and have a duty to comply with child protective investigations and all other provisions of law relating to child abuse and neglect. During our audit procedures, we noted that the appropriate notice was not posted in a prominent place at the School site. We recommend that the School post the appropriate notice at the School site immediately, using the sample poster provided by the Florida Department of Education.

2009-08: Capital Outlay Funding: During our audit procedures, we noted that the School attempted to use capital outlay funds for the lease of vehicles to transport students and to pay the cost of premiums for property and casualty insurance. However, Florida Statutes, Section 1013.62(2), state that capital outlay funds may only be used for the direct purchase of vehicles to transport students to and from the School for the 2009 fiscal year. The statutes also state that the cost of premiums for property and casualty insurance is not permissible until fiscal 2010. We recommend that the School revise its current policies to ensure that capital outlay funds are utilized for items allowed by the Florida Statutes.

2009-09: Required Reserve Fund and Budget Deficit: The charter school contract with the School Board requires that the School maintain a "Reserve Fund" equal to a minimum of 3% of the School's total annual operating fund. We noted that the School was unable to comply with this provision due to its financial condition. We also noted that the School's fiscal 2009 budget contained an operating deficit in the general fund. We recommend that the School analyze its financial situation and develop a plan to comply with its reserve fund requirement and balance its budget.

2009-10: Conflict of Interest Policy: While the School has a written conflict of interest policy governing employees, it does not appear that a similar policy exists with regard to Board members. We recommend that the School adopt a conflict of interest policy governing Board members and that Board members sign a written statement on an annual basis to confirm that they have adhered to the policy.

The School's response to the findings identified in our audit is included in the Written Statement of Explanation or Rebuttal on pages 36 – 37. 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 Flagler 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, 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 Summit Academy, Inc., a Charter School
and Component Unit of the District School Board of Flagler County, Florida

We have audited the financial statements of the governmental activities and each major fund of Summit Academy, Inc. (the "School") as of and for the year ended June 30, 2009, and have issued our report thereon dated September 28, 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 28, 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. Corrective actions have been taken to address findings and recommendations made in the preceding annual financial audit report, except as noted below under the heading "Status of Prior Year Findings and Recommendations."
- 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 name of the School is Summit Academy, 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, it came to our attention that the School had met one of the conditions described in Section 218.503(1), Florida Statutes (the “conditions”). Our audit revealed that the School had a deficit in net assets and a deficit in the general fund of \$31,842 and \$71,119, respectively, as of June 30, 2009, for which sufficient resources are not available to cover the deficit. This condition resulted from a deteriorating financial condition. 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.

Status of Prior Year Findings and Recommendations

Prior year material weakness: Lack of controls over preparation of the financial statements which would prevent or detect a misstatement in the financial statements. See current year material weakness 2009-01 on page 29.

Prior year finding 1A: Revise procedures to timely submit quarterly financial reports to the sponsor. During our current year audit procedures, we noted that periodic financial reports were submitted to the sponsor in a timely manner.

Prior year finding 1B: Analyze financial situation and develop plans to comply with the reserve funding requirement. See current year compliance finding 2009-09 on page 31.

Prior year finding 2: Develop a financial recovery plan that will cause the charter school to no longer be subject to Florida Statutes, Section 218.503. During our current year audit procedures, we noted that, while the School had developed a financial recovery plan during fiscal 2009, the School is still subject to one of the conditions in Florida Statutes, Section 218.503, due to the deficit in net assets and in its general fund. See current year compliance finding 2009-04 on page 30.

Prior year finding 3: Consider both anticipated revenue along with prior year fund balance (deficit) before preparing or amending budgets. See current year compliance finding 2009-09 on page 31.

Prior year finding 4: School should develop a plan to eliminate the deficit fund balance. See current year compliance finding 2009-04 on page 30.

Prior year finding 5: School should amend its budget within 60 days of year-end in order to prevent an excess of expenditures over appropriations. See current year compliance finding 2009-09 on page 31.

Prior year finding 6: School should talk to authorities at the Department of Education to determine if they must return some of the capital outlay funds that were expended on unallowable expenses. See current year compliance finding 2009-08 on page 31.

Prior year finding 7: Revise procedures to maintain appropriate documentation for disbursements. During our current year audit procedures, a similar finding was noted regarding credit card disbursement documentation. See current year significant deficiency 2009-03 on page 29.

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 28, 2009

Summit Academy

303 W. Moody Blvd., Bunnell, FL 32110
Phone: 386-586-7500

Management Response to Notes

September 25, 2009

2009-01 Preparation of Financial Statements

The school has addressed this issue prior to the completion of the audit. A new Chief Financial Office has been hired, Carol Bush, who has extensive experience and knowledge in all aspects of governmental accounting and specifically in Red Book Accounting. As she has worked with the auditors during the final week, she has clearly demonstrated her expertise and accuracy.

2009-02 Segregation of Duties:

The new CFO, Carol Bush, has already begun reviewing the financial policies and procedures with an emphasis on segregation of duties in order to strengthen the controls. These changes will be presented and reviewed by the Governing Board at the next board meeting.

2009-03 Supporting Documentation for Credit Card Disbursements:

See note for 2009-02

2009-04 Deficit Fund Balance:

The deficit fund balance was due to a prior year adjustment that was made in this audit that the School was not aware of. The Board will factor this into the 2010 year budget in order to ensure a positive fund balance.

2009-05 Posting of Sanitation Certificate and Inspection Report

The school has incorporated this into the web site.

2009-06 Notice for Reporting Alleged Misconduct:

The school has incorporated this into the web site and the Human Resources Director has posted it in the staff lounge.

2009-07 Notice for Reporting Child Abuse:

The school has instructed the web site developer to incorporate this into the web site and the Human Resources Director will post in the staff lounge.

2009-08 Capital Outlay Funding:

Although the statute to allow capital outlay expenditures for maintenance vehicles was passed, it was not allowed until 2010 school year and this has been corrected. The buses were purchased prior to year end.

2009-09 Required Reserve Fund and Deficit:

This was not accomplished due to retroactive State reductions in funding as well as audit adjustments from the previous year. The Board will address this and make all necessary revisions to the 2010 budget to build a 3% reserve.

2009-10: Conflicts of Interest:

The Board members have agreed and follow the conflict of interest policy set forth in the new state statutes. The Board has agreed to sign a conflict of interest policy. In the past if there was any possibility of a conflict of interest the Board member would recues themselves for relevant votes. Currently there are no Board members that have any conflict of interest who sit on the Board.

Respectfully,



Doug Jackson
Summit Academy
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