



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

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

JUNE 30, 2010



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MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the annual financial report of Alee Academy, Inc. (the "School") presents management's discussion and analysis of the School's financial performance during the fiscal year ended June 30, 2010. Please read it in conjunction with the School's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- The School's total net assets increased compared to the prior year.
- For the fiscal year ended June 30, 2010, the School's revenues exceeded expenses by \$107,390. This is an improvement from the prior year, when expenses exceeded revenues by \$87,024 (as restated).

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 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 – governmental fund Statement of revenues, expenditures and changes in fund balances – governmental funds
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, and short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets included
Type of inflow/outflow information	All revenues and expenses during the year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and payment is due during the year or soon thereafter

Government-wide Financial Statements

The government-wide financial statements report information about the School as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the School's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities, regardless of when cash is received or paid.

The two government-wide financial statements report the School's net assets and how they have changed. Net assets – the difference between the School's assets and liabilities – is one way to measure the School's financial health or position. Over time, increases or decreases in

the School's net assets are an indicator of whether its financial health is improving or deteriorating, respectively. To assess the overall health of the School, one needs to consider additional non-financial factors such as changes in the School's student base.

The government-wide financial statements of the School are generally divided into three categories:

- *Governmental activities* – most of the School's basic services are included here, such as instruction and school administration. Funds received through the Florida Education Finance Program ("FEFP") and state and federal grants finance most of these activities.
- *Business-type activities* – in certain instances, the School may charge fees to help it cover the costs of certain services it provides. The School currently has no business-type activities.
- *Component units* – there currently are no component units included within the reporting entity of the School.

Fund Financial Statements

The fund financial statements provide more detailed information about the School's most significant funds, not the School as a whole. A fund is a self-balancing set of accounts which the School uses to keep track of specific sources of funding and spending for particular purposes. Some funds are required by state law, and the School may establish other funds to control and manage money for particular purposes, such as for federal grants.

The School has one kind of fund:

- *Governmental funds* – most of the School's basic services are included in governmental funds, which focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps one determine whether there are more or fewer financial resources that can be spent in the near future to finance the School's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information on the subsequent page that explains the differences between them.

FINANCIAL ANALYSIS OF THE SCHOOL AS A WHOLE

Net Assets

The School's net assets increased from fiscal years 2010 to 2009 (see table below).

	<u>Governmental Activities</u>		<u>Increase (Decrease)</u>
	<u>2010</u>	<u>2009 (restated)</u>	
Current and other assets	\$ 544,226	\$ 521,273	4%
Capital assets, net	1,687,489	1,731,047	-3%
Total assets	<u>\$2,231,715</u>	<u>\$2,252,320</u>	<u>-1%</u>
Current and other liabilities	\$ 77,140	\$ 92,119	-16%
Long-term liability	1,389,115	1,502,131	-8%
Total liabilities	<u>\$1,466,255</u>	<u>\$1,594,250</u>	<u>-8%</u>
Net assets:			
Invested in capital assets, net of related debt	\$ 390,364	\$ 330,106	18%
Restricted	183,300	183,300	0%
Unrestricted	191,796	144,664	33%
Total net assets	<u>\$ 765,460</u>	<u>\$ 658,070</u>	<u>16%</u>

The increase in current and other assets is due to the timing of payments at year-end. The decrease in capital assets, net is due to current year depreciation expense, net of fixed asset additions. The decrease in current and other liabilities is due to a decrease in compensated absences, while the decrease in long-term liabilities is primarily due to the current year principal payments made on the mortgage note payable. The increase in total net assets from the prior fiscal year is due to the School's current year operating surplus.

Certain reclassifications were made in the 2009 amounts to conform to their classifications in 2010.

Change in Net Assets

The School's total revenues decreased by 1% to \$2,185,041, and the total cost of all programs and services decreased by 9% to \$2,077,651 (see table below).

	Governmental Activities		Increase (Decrease)
	2010	2009 (restated)	
Revenues:			
Federal sources passed through local school district	\$ 41,502	\$ -	100%
State and local sources	2,135,163	2,170,475	-2%
Contributions and other revenues	8,376	25,845	-68%
Total revenues	2,185,041	2,196,320	-1%
Expenses:			
Instruction and instruction-related services	1,089,646	1,239,443	-12%
General administration	95,420	97,682	-2%
School administration	415,309	448,799	-7%
Facilities acquisitions and construction	43,872	43,872	0%
Pupil transportation services	159,818	165,094	-3%
Operation and maintenance of plant	193,179	197,899	-2%
Interest	80,407	90,555	-11%
Total expenses	2,077,651	2,283,344	-9%
Change in net assets	\$ 107,390	\$ (87,024)	-223%

Revenues from federal sources increased in the current year primarily due to additional stimulus funding under federal grants to the School. Contributions and other revenues decreased due to a decrease in income from the Southside Eatery business and other activities.

Instruction and instruction-related services decreased due to a reduction of staff in the current year. The decrease in school administration is due to a decrease in salaries and related benefits, as well as decrease in insurance expense. The decrease in interest is due to a decrease in the variable interest rate and regular loan payments.

Certain reclassifications were made in the 2009 amounts to conform to their classifications in 2010.

FINANCIAL ANALYSIS OF THE SCHOOL'S FUNDS

As the School completed the fiscal year, its total governmental funds reported a combined fund balance of \$441,395, which is an increase from the prior year. Revenues and expenditures decreased overall due to the same factors discussed above.

General Fund Budgetary Highlights

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

- Changes made during the fiscal year to account for variations in student enrollment.
- Increases in appropriations to prevent budget overruns.

For the year ended June 30, 2010, actual revenues were approximately \$12,800 above budgeted revenues, primarily due to the School receiving miscellaneous and other revenue which were not budgeted. Actual expenditures were approximately \$81,900 more than budgeted expenditures, primarily due to the fact that actual transportation and operation of plant expenses were greater than projected.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

As of June 30, 2010, the School had invested \$2,563,589 in a broad range of capital assets, including land, buildings and improvements, furniture, fixtures and equipment and motor vehicles (see table below).

	Governmental Activities		Increase (Decrease)
	2010	2009	
Land	\$ 303,417	\$ 303,417	0%
Buildings and improvements	1,712,258	1,712,258	0%
Furniture, fixtures and equipment	394,699	349,592	-11%
Motor vehicles	153,215	151,365	-1%
Total capital assets	<u>\$ 2,563,589</u>	<u>\$ 2,516,632</u>	<u>-2%</u>

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

- 30 computers - \$24,132
- 3 trailers - \$7,500
- Security system - \$6,772
- Color camera - \$4,208

The School did not dispose of any capital assets during the year.

The School's fiscal year 2011 capital budget includes \$35,000 for spending for capital projects. More detailed information about the School's capital assets is presented in Note 3 to the financial statements.

Long-Term Liability

At June 30, 2010, the School had \$1,389,115 in a mortgage payable outstanding, a decrease of \$113,016 from the prior year. This decrease is due to the current year principal payments. More detailed information about the School's long-term liability is presented in Note 4 to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The following factors were taken into account when adopting the general fund budget for fiscal year 2011:

- Projected increase in student population.
- Projected decrease in per student FEFP base allocation.
- Projected decrease in capital outlay funds.
- Projected salary increases.

Estimated amounts available for appropriation in the general fund are \$2,132,037, an approximate 11% increase over the 2010 actual of \$1,921,149. Budgeted expenditures are expected to decrease approximately 1% to \$1,833,659 from the 2010 actual of \$1,855,247. The School has added no major new programs to the fiscal 2011 budget.

If these estimates are realized, the School's general fund balance is expected to increase by the close of fiscal 2011.

CONTACTING THE SCHOOL'S FINANCIAL MANAGEMENT

This financial report is designed to provide interested parties with a general overview of the School's finances and to demonstrate the School's accountability for the money it receives. Should additional information be required, please contact the School's administrative offices at 1705 East County Road 44A, Eustis, Florida 32726.



Report of Independent Auditors on Basic Financial Statements and Supplementary Information

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

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Alee Academy, Inc. (the "School"), a charter school and component unit of the District School Board of Lake County, Florida, as of and for the year ended June 30, 2010, which collectively comprise the School's basic financial statements as listed in the table of contents. These basic financial statements are the responsibility of the School's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of Alee Academy, Inc. as of June 30, 2010, 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 30, 2010 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.



Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 1 through 7 and 27, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

BKHM, P.A.

Winter Park, Florida
September 30, 2010

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

STATEMENT OF NET ASSETS

JUNE 30, 2010

	Governmental Activities
ASSETS	
Cash and cash equivalents	\$ 448,280
Other assets	95,946
Capital assets:	
Land	303,417
Buildings and improvements	1,712,258
Furniture, fixtures and equipment	394,699
Motor vehicles	153,215
Less accumulated depreciation	(876,100)
Total capital assets, net	1,687,489
Total assets	\$ 2,231,715
LIABILITIES	
Accrued expenses	\$ 10,841
Compensated absences payable	66,299
Long-term liability:	
Portion due or payable within one year:	
Mortgage note payable	120,549
Portion due or payable after one year:	
Mortgage note payable	1,268,566
Total liabilities	1,466,255
NET ASSETS	
Invested in capital assets, net of related debt and deferred loan costs	390,364
Restricted for:	
Debt service	183,300
Unrestricted	191,796
Total net assets	765,460
Total liabilities and net assets	\$ 2,231,715

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

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

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2010

	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expense) Revenue and Changes in Net Assets</u>	
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Governmental Activities</u>	<u>Total</u>
Governmental activities:						
Instruction and instruction-related services	\$ 1,089,646	\$ -	\$ 14,875	\$ -	\$ (1,074,771)	\$ (1,074,771)
General administration	95,420	-	-	-	(95,420)	(95,420)
School administration	415,309	-	-	-	(415,309)	(415,309)
Facilities acquisitions and construction	43,872	-	-	-	(43,872)	(43,872)
Pupil transportation services	159,818	-	-	-	(159,818)	(159,818)
Operation and maintenance of plant	193,179	-	-	-	(193,179)	(193,179)
Interest	80,407	-	-	-	(80,407)	(80,407)
Total primary government	<u>\$ 2,077,651</u>	<u>\$ -</u>	<u>\$ 14,875</u>	<u>\$ -</u>	<u>(2,062,776)</u>	<u>(2,062,776)</u>
General revenues:						
Federal sources passed through local school district					26,627	26,627
State and local sources					2,135,163	2,135,163
Contributions and other revenue					8,376	8,376
Total general revenues					<u>2,170,166</u>	<u>2,170,166</u>
Change in net assets					<u>107,390</u>	<u>107,390</u>
Net assets at beginning of year, as previously reported					678,328	678,328
Prior period adjustment (see Note 2)					(20,258)	(20,258)
Net assets at beginning of year, as restated					<u>658,070</u>	<u>658,070</u>
Net assets at end of year					<u>\$ 765,460</u>	<u>\$ 765,460</u>

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

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

BALANCE SHEET - GOVERNMENTAL FUND

JUNE 30, 2010

	General Fund
ASSETS	
Cash and cash equivalents	\$ 448,280
Other current assets	3,956
Total assets	\$ 452,236
 LIABILITIES AND FUND BALANCE	
Accrued expenditures	\$ 10,841
Total liabilities	10,841
Fund balance:	
Reserved for:	
Debt service	183,300
Unreserved:	
Undesignated	258,095
Total fund balance	441,395
Total liabilities and fund balance	\$ 452,236

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

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

**RECONCILIATION OF THE GOVERNMENTAL FUND BALANCE SHEET
TO THE STATEMENT OF NET ASSETS**

JUNE 30, 2010

Total fund balances - total governmental fund	\$	441,395
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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 fund. The cost of the assets is \$2,563,589 and the accumulated depreciation is \$876,100.		1,687,489
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Non-current assets, including deferred loan costs, are not financial resources and, therefore, are not reported as assets in the governmental fund.		91,990
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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 governmental funds.		(66,299)
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Long-term liability, including the mortgage note payable, is not due and payable in the current period and, therefore, is not reported as a liability in the governmental fund. The long-term liability at year-end consisted of:

Mortgage note payable		(1,389,115)
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Total net assets - governmental activities	\$	<u><u>765,460</u></u>
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The accompanying notes to financial statements are an integral part of this statement.

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

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

FOR THE YEAR ENDED JUNE 30, 2010

	<u>General Fund</u>	<u>Capital Projects Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
REVENUES				
Federal sources passed through local school district	\$ -	\$ -	\$ 41,502	\$ 41,502
State and local sources	1,912,773	222,390	-	2,135,163
Contributions and other revenue	8,376	-	-	8,376
Total revenues	<u>1,921,149</u>	<u>222,390</u>	<u>41,502</u>	<u>2,185,041</u>
EXPENDITURES				
Current:				
Instruction and instruction-related services	1,018,028	-	14,875	1,032,903
General administration	95,420	-	-	95,420
School administration	398,823	-	-	398,823
Facilities acquisitions and construction	-	43,872	-	43,872
Pupil transportation services	154,111	-	-	154,111
Operation and maintenance of plant	188,864	-	-	188,864
Debt service:				
Principal	-	-	113,016	113,016
Interest	-	-	80,407	80,407
Capital outlay	-	20,330	26,627	46,957
Total expenditures	<u>1,855,246</u>	<u>64,202</u>	<u>234,925</u>	<u>2,154,373</u>
Excess (deficiency) of revenues over expenditures	<u>65,903</u>	<u>158,188</u>	<u>(193,423)</u>	<u>30,668</u>
OTHER FINANCING SOURCES (USES)				
Operating transfers in	-	35,235	193,423	228,658
Operating transfers out	(35,235)	(193,423)	-	(228,658)
Total other financing sources (uses)	<u>(35,235)</u>	<u>(158,188)</u>	<u>193,423</u>	<u>-</u>
Net changes in fund balances	<u>30,668</u>	<u>-</u>	<u>-</u>	<u>30,668</u>
Fund balances at beginning of year, as previously reported	348,222	-	-	348,222
Prior period adjustment (see Note 2)	62,505	-	-	62,505
Fund balances at beginning of year, as restated	<u>410,727</u>	<u>-</u>	<u>-</u>	<u>410,727</u>
Fund balances at end of year	<u>\$ 441,395</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 441,395</u>

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

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

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

FOR THE YEAR ENDED JUNE 30, 2010

Net changes in fund balances - total governmental funds	\$	30,668
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Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation expense \$90,515 exceeds capital outlays \$46,957 in the current period.		(43,558)
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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 until they are paid out. This is the amount by which payouts exceed accruals in the current period.		16,464
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Governmental funds report deferred loan costs paid as expenditures. However, in the statement of activities, the cost of those assets is allocated over the term of the loan and reported as amortization expense. This is the amount of amortization expense in the current period.		(9,200)
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Repayments of long-term liabilities are reported as expenditures in the governmental funds because they require the use of current financial resources. They are reported as a decrease in long-term liabilities in the statement of net assets. This amount represents the current year repayment of principal on long term debt.		113,016
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Change in net assets of governmental activities	\$	107,390
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The accompanying notes to financial statements are an integral part of this statement.

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

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2010

1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

Alee Academy, Inc. (the "School") is a not-for-profit corporation organized pursuant to Chapter 617, Florida Statutes, the Florida Not-For-Profit Corporation Act and Section 1002.33, Florida Statutes. The governing body of the School is the not-for-profit corporation Board of Directors, which is composed of seven members.

The general operating authority of the School is contained in Section 1002.33, Florida Statutes. The School operates under a charter of the sponsoring school district, the District School Board of Lake County, Florida (the "School Board"). The current charter is effective until June 30, 2012 and may be renewed thereafter by mutual written agreement between the School and the School Board. At the end of the term of the charter, the School Board may choose not to renew the charter under grounds specified in the charter. In this case, the School Board is required to notify the School in writing at least 90 days prior to the charter's expiration. During the term of the charter, the School Board may also terminate the charter if good cause is shown. In the event of termination of the charter, any property purchased by the School with public funds and any unencumbered public funds, except capital outlay funds, revert back to the School Board. Any unencumbered capital outlay funds revert back to the Florida Department of Education ("FDOE") 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 Governmental Accounting Standards Board ("GASB") accounting guidance; 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 *GASB Codification of Governmental Accounting and Financial Reporting Standards*. 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.

Recently adopted accounting pronouncements

During fiscal year 2010, the School adopted changes issued by the Financial Accounting Standards Board ("FASB") related to disclosure of subsequent events. These changes require the disclosure of the date through which an entity has evaluated subsequent events and the basis for that date (that is, whether that date represents the date the financial statements were

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

**NOTES TO FINANCIAL STATEMENTS
(continued)**

issued or were available to be issued). The School has evaluated subsequent events through September 30, 2010, which is the date the financial statements were available to be issued.

During fiscal year 2010, the School adopted guidance issued by the GASB that incorporates accounting and financial reporting guidance previously contained in the American Institute of Certified Public Accountants ("AICPA") auditing literature into the GASB's accounting and financial reporting literature for state and local governments. This guidance did not have a material impact on the financial statements 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 GASB. 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:

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

**NOTES TO FINANCIAL STATEMENTS
(continued)**

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 resources for the acquisition of capital items by the School purchased with capital outlay funds.
- Debt Service Fund – to account for the accumulation of resources for, and payment of, general long-term debt principal, interest and related costs.

For purposes of these statements, the general and capital projects funds constitute major funds. All other governmental funds are non-major and are presented in the aggregate.

Basis of accounting

Basis of accounting refers to when revenues and expenses/expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

The government-wide financial statements are presented using the accrual basis of accounting and an economic resources focus. Under the accrual basis of accounting, revenues and expenses are recognized when they occur.

The modified accrual basis of accounting and current financial resources focus is followed by the governmental funds. Under the modified accrual basis, revenues are recognized when they become measurable and available. Available means collectible within the current period or soon enough thereafter to pay current liabilities. The School considers revenues to be available if they are collected within 60 days of the end of the fiscal year. Under the modified accrual basis of accounting, expenditures are generally recognized when the related fund liability is incurred. The principal exceptions to this general rule are: (1) interest on general long-term debt is recognized when due and (2) expenditures related to liabilities reported as general long-term debt are recognized when due.

Budgetary basis accounting

Budgets are presented on the modified accrual basis of accounting. During the fiscal year, expenditures were controlled at the object level (e.g., salaries, purchased services and capital outlay).

**ALEE ACADEMY, INC.
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**NOTES TO FINANCIAL STATEMENTS
(continued)**

Cash and cash equivalents

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 under Chapter 280, Florida Statutes. The School's cash consists primarily of demand and savings deposits with financial institutions.

Other assets

Other assets consist of deferred loan costs which are being amortized over the life of the outstanding mortgage note payable. As of June 30, 2010, deferred loan costs, net of related amortization, totaled \$91,990.

Capital assets and depreciation

Expenditures for capital assets acquired for general School purposes are reported in the governmental fund that financed the acquisition. Purchased capital assets are reported at cost, net of accumulated depreciation, in the government-wide financial statements. Donated assets are recorded at fair value at the date of donation.

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

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

Information relative to changes in capital assets is described in Note 3.

Compensated absences

Compensated absences (i.e. paid absences for employee vacation leave and sick leave) are recorded as expenditures in the general fund 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 employee. The liability for compensated absences is classified as current in the government-wide financial statements because the amount of vacation and personal time to be used after the following year cannot be reasonably estimated.

**ALEE ACADEMY, INC.
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THE DISTRICT SCHOOL BOARD OF LAKE COUNTY, FLORIDA**

**NOTES TO FINANCIAL STATEMENTS
(continued)**

Long-term liability

Long-term obligations that will be financed by resources to be received in the future by the governmental funds are reported in the government-wide financial statements, not in the governmental funds. Changes in the long-term liability for the current year are reported in Note 4.

Restricted net assets/ reserved fund balance

Restricted net assets/reserved fund balance in the accompanying financial statements as of June 30, 2010 represents a portion of net assets and the general fund balance which is restricted/ reserved for debt service payments, in the amount of \$183,300 as required by the mortgage note payable.

Revenue sources

Revenues for current operations are received primarily from the District School Board of Lake County, Florida pursuant to the funding provisions included in the School's charter. As such, the School's revenue stream is largely dependent upon the general state of the economy and the amounts allotted to the 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 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 general administration expense/expenditure in the accompanying statement of activities and statement of revenues, expenditures and changes in fund balances – governmental funds.

The School has received federal awards for the enhancement of various educational programs. This assistance is generally received based on applications submitted to and approved by various granting agencies. For federal awards in which a claim to these grant proceeds is based on incurring eligible expenditures, revenue is recognized to the extent that eligible expenditures have been incurred.

The School is also eligible for charter school capital outlay funding. The amounts received under this program are based on the School's actual and projected student enrollment during the fiscal year. Funds received under this program may only be used for lawful capital outlay expenditures and, as such, are reflected as restricted net assets and reserved fund balance in the accompanying statement of net assets and balance sheet – governmental fund, respectively, to the extent that they remain unexpended.

**ALEE ACADEMY, INC.
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**NOTES TO FINANCIAL STATEMENTS
(continued)**

Use of estimates

In preparing the financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the balance sheet and affect revenues and expenses/expenditures for the period presented. Actual results could differ significantly from those estimates.

2 PRIOR PERIOD ADJUSTMENT

The balance of unrestricted net assets and undesignated fund balance at June 30, 2009 has been restated from the amount previously reported to reflect a retroactive removal of \$62,505 for accrued payroll expenses/expenditures. Of this amount, \$7,576 is applicable to fiscal 2009. There also was a retroactive charge to unrestricted net assets of \$82,763 for compensated absences payable, of which \$1,268 is applicable to fiscal 2009. The net effect was a decrease in net assets of \$20,258.

ALEE ACADEMY, INC.
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NOTES TO FINANCIAL STATEMENTS
(continued)

3 CHANGES IN CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2010 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 303,417	\$ -	\$ -	\$ 303,417
Total capital assets not being depreciated	<u>303,417</u>	<u>-</u>	<u>-</u>	<u>303,417</u>
Other capital assets:				
Buildings and improvements	1,712,258	-	-	1,712,258
Furniture, fixtures and equipment	349,592	45,107	-	394,699
Motor vehicles	151,365	1,850	-	153,215
Total other capital assets at historical cost	<u>2,213,215</u>	<u>46,957</u>	<u>-</u>	<u>2,260,172</u>
Less accumulated depreciation for:				
Buildings and improvements	(269,245)	(59,994)	-	(329,239)
Furniture, fixtures and equipment	(364,773)	(29,985)	-	(394,758)
Motor vehicles	(151,567)	(536)	-	(152,103)
Total accumulated depreciation	<u>(785,585)</u>	<u>(90,515)</u>	<u>-</u>	<u>(876,100)</u>
Other capital assets, net	<u>1,427,630</u>	<u>(43,558)</u>	<u>-</u>	<u>1,384,072</u>
Governmental activities capital assets, net	<u>\$ 1,731,047</u>	<u>\$ (43,558)</u>	<u>\$ -</u>	<u>\$ 1,687,489</u>

Depreciation expense was charged to functions as follows:

Governmental activities:	
Instruction and instruction-related services	\$ 59,972
School administration	20,851
Pupil transportation services	5,519
Operation and maintenance of plant	<u>4,173</u>
Total governmental activities depreciation expense	<u>\$ 90,515</u>

**ALEE ACADEMY, INC.
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**NOTES TO FINANCIAL STATEMENTS
(continued)**

4 LONG-TERM LIABILITY

Long-term liability as of June 30, 2010 consists of a mortgage note payable to a financial institution that is secured by the School's Eustis, Florida facility. Terms of the note include monthly principal and interest payments, with interest being calculated at the Wall Street Journal prime rate plus 1% (4.25% as of June 30, 2010). The maturity date of the note is August 2019. The loan agreement also contains certain financial covenants with which the School must comply. As of June 30, 2010, the School was in compliance with these restrictive covenants.

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

Balance outstanding at beginning of year	\$ 1,502,131
Additions	-
Reductions	<u>(113,016)</u>
Balance outstanding at end of year	<u>\$ 1,389,115</u>
Amount due within one year	<u>\$ 120,549</u>

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

Year ending June 30,	Principal	Interest	Total
2011	\$ 120,549	\$ 73,393	\$ 193,942
2012	127,349	66,593	193,942
2013	134,532	59,409	193,941
2014	142,121	51,821	193,942
2015	150,137	43,804	193,941
2016-2019	<u>714,427</u>	<u>85,612</u>	<u>800,039</u>
Total	<u>\$ 1,389,115</u>	<u>\$ 380,632</u>	<u>\$ 1,769,747</u>

Interest paid during the year ended June 30, 2010 totaled \$80,407.

**ALEE ACADEMY, INC.
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**NOTES TO FINANCIAL STATEMENTS
(continued)**

5 SCHEDULE OF STATE AND LOCAL REVENUE SOURCES

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

District School Board of Lake County, Florida:	
Florida Education Finance Program	\$ 1,094,725
Class size reduction	271,494
Capital outlay	222,390
ESE guaranteed allocation	120,658
Discretionary local effort	106,903
State fiscal stabilization funds	97,421
Transportation	94,466
Supplemental academic instruction	68,971
Instructional materials	24,154
Discretionary millage funds	22,618
Safe schools	6,185
Teacher lead	3,881
Discretionary lottery funds	797
Reading coach	<u>500</u>
Total	<u><u>\$ 2,135,163</u></u>

The administration fee paid to the School Board during the year ended June 30, 2010 totaled approximately \$95,000, which is reflected as a general administration expense/expenditure in the accompanying statement of activities and statement of revenues, expenditures and changes in fund balances – governmental funds.

6 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 historically exceeded commercial coverage.

**ALEE ACADEMY, INC.
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THE DISTRICT SCHOOL BOARD OF LAKE COUNTY, FLORIDA**

**NOTES TO FINANCIAL STATEMENTS
(continued)**

7 SALARY SAVINGS PLAN

The School has adopted a SIMPLE IRA retirement program, which covers all full time employees upon employment. Eligible employees may elect to contribute a portion of their earnings to the plan. The School makes contributions to the Plan by matching 100% of employee contributions up to 3% of compensation. Employer contributions during fiscal 2010 totaled approximately \$13,000.

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, 2010 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.

Lease commitments

The School leases a building and a Sub Shop under non-cancelable operating leases expiring during January 2013. The leases are payable in monthly installments of \$2,800 and \$856, respectively, and contain varying renewal options and require the School to pay insurance and other costs. The School also leases two copiers under non-cancelable operating leases expiring during February 2011 and August 2011, respectively. The leases are payable in monthly installments of \$416 and \$255, respectively, and contain varying renewal options and require the School to pay insurance and other costs.

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NOTES TO FINANCIAL STATEMENTS
(continued)

Aggregate remaining minimum rental commitments as of June 30, 2010 under these leases are summarized as follows:

<u>Year ended June 30,</u>	<u>Amount</u>
2011	\$ 47,764
2012	45,764
2013	<u>21,936</u>
	<u>\$ 115,464</u>

Rental expense for the year ended June 30, 2010 approximated \$44,000.

**ALEE ACADEMY, INC.
A CHARTER SCHOOL AND COMPONENT UNIT OF
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REQUIRED SUPPLEMENTARY INFORMATION

BUDGETARY COMPARISON SCHEDULE – GENERAL FUND

FOR THE YEAR ENDED JUNE 30, 2010

	<u>Budgeted Amounts</u>		<u>Actual (Budgetary Basis)</u>	<u>Variance with Final Budget- Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
State and local sources	\$ 1,815,897	\$ 1,908,392	\$ 1,912,773	\$ 4,381
Contributions and other revenue	-	-	8,376	8,376
Total revenues	<u>1,815,897</u>	<u>1,908,392</u>	<u>1,921,149</u>	<u>12,757</u>
EXPENDITURES				
Current:				
Instruction and instruction-related services	1,006,438	1,036,710	1,018,029	18,681
General administration	91,995	96,620	95,420	1,200
School administration	344,349	422,483	398,823	23,660
Pupil transportation services	116,152	117,865	154,111	(36,246)
Operation and maintenance of plant	99,666	99,665	188,864	(89,199)
Total expenditures	<u>1,658,600</u>	<u>1,773,343</u>	<u>1,855,247</u>	<u>(81,904)</u>
Excess (deficiency) of revenues over expenditures	<u>157,297</u>	<u>135,049</u>	<u>65,902</u>	<u>(69,147)</u>
OTHER FINANCING USES				
Operating transfers out	-	-	(35,235)	(35,235)
Total other financing uses	<u>-</u>	<u>-</u>	<u>(35,235)</u>	<u>(35,235)</u>
Net changes in fund balances	<u>157,297</u>	<u>135,049</u>	<u>30,667</u>	<u>(104,382)</u>
Fund balance at beginning of year, as restated	<u>410,727</u>	<u>410,727</u>	<u>410,727</u>	<u>-</u>
Fund balance at end of year	<u><u>\$ 568,024</u></u>	<u><u>\$ 545,776</u></u>	<u><u>\$ 441,394</u></u>	<u><u>\$ (104,382)</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 Alee Academy, Inc., a Charter School
and Component Unit of the District School Board of Lake County, Florida

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Alee Academy, Inc. (the "School"), a charter school and component unit of the District School Board of Lake County, Florida, as of and for the year ended June 30, 2010, which collectively comprise the School's basic financial statements and have issued our report thereon dated September 30, 2010. 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 deficiency in internal control 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 and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, 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 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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

BKHM, P.A.

Winter Park, Florida
September 30, 2010

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



To the Board of Directors of
Alee Academy, Inc.

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Alee Academy, Inc. (the "School"), as of and for the year ended June 30, 2010, and have issued our report thereon dated September 30, 2010.

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 Compliance and Other Matters. Disclosures in that report, which are dated September 30, 2010, 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 compliance issues made in the preceding annual financial audit report, 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 provisions of contracts or grant agreements, or abuse that have 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 have an inconsequential effect on the financial statements considering both quantitative and qualitative factors: (1) violations of provisions of contracts or grant



agreements, fraud, illegal acts, or abuse and (2) deficiencies in internal control that are not significant deficiencies. 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 Alee 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, 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)(e)7.a. and 10.855(10), Rules of the Auditor General, we applied financial condition assessment procedures as of June 30, 2010, 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 compliance finding 2009-01: Board Member Governance Training: During our current year audit procedures, we noted the Board members completed the required governance training.

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 30, 2010