



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

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

**JUNE 30, 2010**



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## MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the annual financial report of Discovery Academy of Lake Alfred, Inc. (the "School") presents management's discussion and analysis of the School's financial performance during the fiscal year ended June 30, 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 from the prior year.
- For the fiscal year ended June 30, 2010, the School's revenues exceeded expenses by \$448,565, which is consistent with the prior year when revenues exceeded expenses by \$472,053.
- Revenues increased during fiscal 2010 by \$319,557, primarily due to the new Federal Title I grant, Recovery Act and Stabilization funding that was not received in the prior year.
- Overall, expenses increased during fiscal 2010 by \$343,045, primarily due to expenditures related to the new Federal Title I grant, Recovery Act and Stabilization funding that were not incurred in the prior year.

### OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts – management's discussion and analysis (this section), the basic financial statements and required supplementary information. The basic financial statements include two kinds of statements that present different views of the School:

- The first two statements are government-wide financial statements that provide information about the School's overall financial status.
- The remaining statements are fund financial statements that focus on individual parts of the School, reporting the School's operations in more detail than the government-wide statements.
  - The *governmental funds* financial statements tell how general school services were financed in the short term, as well as what remains for future spending.

The notes to the financial statements explain some of the information in the financial statements and provide more detail. The statements are followed by a section of required supplementary information that further explains and supports the information in the financial statements.

This document also includes the following information required by the U.S. Office of Management and Budget ("OMB") Circular A-133: schedule of expenditures of federal awards, independent auditor's report on compliance with requirements applicable to each major program and on internal control over compliance in accordance with OMB Circular A-133 and the schedule of findings and questioned costs. In addition, it includes the independent auditor's report on internal control over financial reporting and on compliance and other matters 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 funds 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 the private sector. The statement of net assets includes all of the School's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities, regardless of when cash is received or paid.

The two government-wide financial statements report the School's net assets and how they have changed. Net assets – the difference between the School's assets and liabilities – is one way to measure the School's financial position. Over time, increases or decreases in the School's net assets are an indicator of whether its financial position is improving or deteriorating. To assess the overall health of the School, one needs to consider additional non-financial factors such as changes in the School's student base, the quality of the education provided and the safety of the School.

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 currently has one type of fund:

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

## FINANCIAL ANALYSIS OF THE SCHOOL AS A WHOLE

### Net Assets

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

	<b>Governmental Activities</b>		<b>Increase (Decrease)</b>
	<b>2010</b>	<b>2009</b>	
Current and other assets	\$ 3,325,518	\$ 2,915,926	\$ 409,592
Capital assets, net	585,023	511,751	73,272
Total assets	<u>\$ 3,910,541</u>	<u>\$ 3,427,677</u>	<u>\$ 482,864</u>
Current and other liabilities	<u>\$ 531,314</u>	<u>\$ 497,015</u>	<u>\$ 34,299</u>
Total liabilities	<u>\$ 531,314</u>	<u>\$ 497,015</u>	<u>\$ 34,299</u>
Net assets:			
Invested in capital assets	\$ 585,023	\$ 511,751	\$ 73,272
Restricted for capital projects	53,525	91,184	(37,659)
Unrestricted	<u>2,740,679</u>	<u>2,327,727</u>	<u>412,952</u>
Total net assets	<u>\$ 3,379,227</u>	<u>\$ 2,930,662</u>	<u>\$ 448,565</u>

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

## Change in Net Assets

The table below shows the comparative summary of changes in net assets and revenues and expenses for fiscal years 2010 and 2009.

	<b>Governmental Activities</b>		<b>Increase</b>
	<b>2010</b>	<b>2009</b>	<b>(Decrease)</b>
<b>Revenues:</b>			
Federal sources passed through local school district	\$ 764,346	\$ 120,324	\$ 644,022
State and local sources	5,854,733	6,154,803	(300,070)
Contributions and other revenue	247,837	272,232	(24,395)
<b>Total revenues</b>	<b>6,866,916</b>	<b>6,547,359</b>	<b>319,557</b>
<b>Expenses:</b>			
Instruction	3,393,179	3,357,295	35,884
Pupil personnel services	663,789	581,544	82,245
Instructional media services	130,270	110,546	19,724
Instructional and curriculum development	90,232	6,774	83,458
Instructional staff training	35,014	8,368	26,646
Board	54,668	75,102	(20,434)
General administration	150,408	152,644	(2,236)
School administration	752,167	716,773	35,394
Fiscal services	35,571	34,780	791
Central services	11,926	8,435	3,491
Pupil transportation	694,097	610,626	83,471
Operation of plant	407,030	409,936	(2,906)
Interest	-	2,483	(2,483)
<b>Total expenses</b>	<b>6,418,351</b>	<b>6,075,306</b>	<b>343,045</b>
<b>Change in net assets</b>	<b>\$ 448,565</b>	<b>\$ 472,053</b>	<b>\$ (23,488)</b>

Federal sources increased primarily due to the introduction of Federal stimulus funds and a Title I grant in the current year. State and local sources decreased due to the replacement of certain state funding with Federal stimulus funding in the current year. Pupil personnel services increased in the current year due to the addition of a dean of students. Curriculum development expenses increased primarily due to the creation of a personnel position in the current year to facilitate the School's school improvement program funded by the new Title I Federal grant. Pupil transportation increased primarily due to an increase in the number of students utilizing transportation services as compared to the prior year, as well as an increase in the per student charge for contractual transportation services received from the District School Board of Polk County.

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

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

As the School completed the year, its governmental funds reported a combined fund balance of \$2,999,510. Both revenues and expenditures increased 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 twice. These amendments are characterized as follows:

- Amendments and supplemental appropriations approved shortly after the beginning of the year to reflect the actual beginning account balances.
- Changes made to account for changes in the per-student allocation.
- Changes made to account for fluctuations in personnel and benefits.
- Changes made to allocate expenses to the new Federal stimulus grants received during the year.

In the general fund, actual revenues were \$12,812 more than budgeted amounts. Expenditures were \$105,341 less than budgeted amounts due primarily to certain payroll expenditures that were over budgeted due to changes in personnel, as well as an overestimation of certain operational expenditures.

In the special revenue fund, total revenues and expenditures were \$9,455 less than budgeted amounts primarily due to the School not expending all of the grant revenue that was budgeted.

## **CAPITAL ASSET ADMINISTRATION**

At the end of fiscal 2010, the School had invested \$1,252,475 in a broad range of capital assets, including buses, computers, furniture, fixtures and equipment.

The School's major capital addition during the year was as follows:

- Thomas School Bus: \$123,121

The School's fiscal year 2011 capital budget includes approximately \$34,000 in projected spending for capital outlay expenditures.

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

Amounts estimated to be available for appropriation in the general fund are \$5,797,536, a decrease of approximately \$61,000 from fiscal 2010 actual revenues, exclusive of revenues from internal accounts. This decrease is primarily due to the fact that the school recognition grant is not budgeted until received and the fact that the School typically begins each year with a conservative estimate of enrollment to balance the budget.

Budgeted expenditures are \$5,753,588, an increase of approximately \$216,000 from fiscal 2010 actual expenditures, exclusive of expenditures related to internal accounts. The increase is primarily due to additional salary and related benefits. The School has added no major new programs to the fiscal 2011 budget.

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

The financial report is designed to provide interested parties with a general overview of the School's finances and to demonstrate the School's accountability for the money it receives. Should additional information be required, please contact the School's administrative offices at 1000 North Buena Vista Drive, Lake Alfred, Florida 33850.



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

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

We have audited the accompanying financial statements of the governmental activities and each major fund of Discovery Academy of Lake Alfred, Inc. (the "School"), a charter school and component unit of the District School Board of Polk County, Florida, as of and for the year ended June 30, 2010, 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 Discovery Academy of Lake Alfred, 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 24, 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 on pages 1 – 7 and the budgetary comparison information on pages 26 – 27 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the School's financial statements as a whole. The accompanying Schedule of Expenditures of Federal Awards on page 27 is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

*BKHM, P.A.*

Winter Park, Florida  
September 24, 2010

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

**STATEMENT OF NET ASSETS**

**JUNE 30, 2010**

	<u>Governmental Activities</u>
<b>ASSETS</b>	
Cash and cash equivalents	\$ 1,919,537
Certificates of deposit	361,589
Investments	963,787
Accounts receivable	74,471
Other assets	6,134
Capital assets:	
Furniture, fixtures and equipment	447,840
Vehicles	804,635
Less accumulated depreciation	<u>(667,452)</u>
Total capital assets, net	<u>585,023</u>
Total assets	<u><u>\$ 3,910,541</u></u>
<b>LIABILITIES</b>	
Accounts payable and accrued expenses	\$ 326,008
Compensated absences payable	<u>205,306</u>
Total liabilities	<u>531,314</u>
<b>NET ASSETS</b>	
Invested in capital assets	585,023
Restricted for:	
Capital projects	53,525
Unrestricted	<u>2,740,679</u>
Total net assets	<u>3,379,227</u>
Total liabilities and net assets	<u><u>\$ 3,910,541</u></u>

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

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

**STATEMENT OF ACTIVITIES**

**FOR THE YEAR ENDED JUNE 30, 2010**

	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets	
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Total
Governmental activities:						
Instruction	\$ 3,393,179	\$ -	\$ 288,472	\$ -	\$ (3,104,707)	\$ (3,104,707)
Pupil personnel services	663,789	-	259,031	-	(404,758)	(404,758)
Instructional media services	130,270	-	19,994	-	(110,276)	(110,276)
Instructional and curriculum development	90,232	-	85,759	-	(4,473)	(4,473)
Instructional staff training	35,014	-	34,485	-	(529)	(529)
Board	54,668	-	-	-	(54,668)	(54,668)
General administration	150,408	-	-	-	(150,408)	(150,408)
School administration	752,167	-	39,129	-	(713,038)	(713,038)
Fiscal services	35,571	-	-	-	(35,571)	(35,571)
Central services	11,926	-	-	-	(11,926)	(11,926)
Pupil transportation	694,097	-	-	-	(694,097)	(694,097)
Operation of plant	407,030	-	-	-	(407,030)	(407,030)
Total primary government	<u>\$ 6,418,351</u>	<u>\$ -</u>	<u>\$ 726,870</u>	<u>\$ -</u>	<u>(5,691,481)</u>	<u>(5,691,481)</u>
General revenues:						
Federal sources passed through local school district					37,476	37,476
State and local sources					5,854,733	5,854,733
Contributions and other revenue					247,837	247,837
Total general revenues					6,140,046	6,140,046
Change in net assets					448,565	448,565
Net assets at beginning of year					2,930,662	2,930,662
Net assets at end of year					<u>\$ 3,379,227</u>	<u>\$ 3,379,227</u>

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

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

**JUNE 30, 2010**

	<u>General Fund</u>	<u>Special Revenue Fund</u>	<u>Total Governmental Funds</u>
<b>ASSETS</b>			
Cash and cash equivalents	\$ 1,905,212	\$ 14,325	\$ 1,919,537
Certificates of deposit	361,589	-	361,589
Investments	963,787	-	963,787
Accounts receivable	11,287	63,184	74,471
Other assets	6,134	-	6,134
Due from other governmental funds	16,880	-	16,880
	<u>16,880</u>	<u>-</u>	<u>16,880</u>
Total assets	<u>\$ 3,264,889</u>	<u>\$ 77,509</u>	<u>\$ 3,342,398</u>
 <b>LIABILITIES AND FUND BALANCES</b>			
Accounts payable and accrued expenditures	\$ 265,379	\$ 60,629	\$ 326,008
Due to general fund	-	16,880	16,880
	<u>-</u>	<u>16,880</u>	<u>16,880</u>
Total liabilities	<u>265,379</u>	<u>77,509</u>	<u>342,888</u>
 Fund balances:			
Reserved for:			
Capital projects	53,525	-	53,525
Unreserved:			
Designated for School-based student activity organizations	126,502	-	126,502
Undesignated	2,819,483	-	2,819,483
	<u>2,819,483</u>	<u>-</u>	<u>2,819,483</u>
Total fund balances	<u>2,999,510</u>	<u>-</u>	<u>2,999,510</u>
Total liabilities and fund balances	<u>\$ 3,264,889</u>	<u>\$ 77,509</u>	<u>\$ 3,342,398</u>

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

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

**JUNE 30, 2010**

**Total fund balances - governmental funds** \$ 2,999,510

Amounts reported for governmental activities in the statement of net assets  
are different because:

Capital assets used in governmental activities are not financial  
resources and, therefore, are not reported as assets in the  
governmental funds. The cost of the capital assets is \$1,252,475  
and the accumulated depreciation is \$667,452. 585,023

Amounts accrued for compensated absences are not due and  
payable in the current period and, therefore, are not reported  
as liabilities in the governmental funds. (205,306)

**Total net assets - governmental activities** \$ 3,379,227

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

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

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

**FOR THE YEAR ENDED JUNE 30, 2010**

	General Fund	Special Revenue Fund	Total Governmental Funds
<b>REVENUES</b>			
Federal sources passed through local school district	\$ -	\$ 764,346	\$ 764,346
State and local sources	5,854,733	-	5,854,733
Contributions and other revenue	247,837	-	247,837
Total revenues	6,102,570	764,346	6,866,916
<b>EXPENDITURES</b>			
Current:			
Instruction	3,076,150	288,472	3,364,622
Pupil personnel services	400,134	259,031	659,165
Instructional media services	109,292	19,994	129,286
Instructional and curriculum development	4,473	85,759	90,232
Instructional staff training	529	34,485	35,014
Board	54,668	-	54,668
General administration	150,408	-	150,408
School administration	690,075	39,129	729,204
Fiscal services	35,571	-	35,571
Central services	11,926	-	11,926
Pupil transportation	619,841	-	619,841
Operation of plant	400,435	-	400,435
Capital outlay	163,745	37,476	201,221
Total expenditures	5,717,247	764,346	6,481,593
Net changes in fund balances	385,323	-	385,323
Fund balances at beginning of year	2,614,187	-	2,614,187
Fund balances at end of year	\$ 2,999,510	\$ -	\$ 2,999,510

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

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

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

**FOR THE YEAR ENDED JUNE 30, 2010**

**Net changes in fund balances - total governmental funds** \$ 385,323

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those capital assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays (\$201,221) exceed depreciation expense (\$127,442) in the current period. 73,779

The loss on the disposal of capital assets is reported in the statement of activities, whereas nothing is reported in the governmental funds as there were no proceeds. (507)

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. (10,030)

**Change in net assets of governmental activities** \$ 448,565

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

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

**NOTES TO FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED JUNE 30, 2010**

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

**Organization**

Discovery Academy of Lake Alfred, Inc. (the "School") is a not-for-profit corporation organized pursuant to Chapter 617, Florida Statutes, the Florida Not For Profit Corporation Act and Section 1002.33, Florida Statutes. The governing body of the School is the not-for-profit corporation Board of Directors, which is composed of five members. Effective July 1, 2001, the School converted from a public school to a charter school.

The general operating authority of the School is contained in Section 1002.33, Florida Statutes. The School operates under a charter of the sponsoring school district, the District School Board of Polk County, Florida (the "School Board"). The current charter is effective until June 30, 2018 and may be renewed in increments of five or fifteen years by mutual written agreement between the School and the School Board. At the end of the term of the charter, the School Board may choose not to renew the charter under grounds specified in the charter. In this case, the School Board is required to notify the School in writing at least 90 days prior to the charter's expiration. During the term of the charter, the School Board may also terminate the charter if good cause is shown. In the event of termination of the charter, any property purchased by the School with public funds and any unencumbered public funds revert back to the School Board. The School is considered a component unit of the School Board and meets the definition of a governmental entity under the Governmental Accounting Standards Board's ("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's *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 issued or were available to be issued). The School has evaluated subsequent events through September 24, 2010, which is the date the financial statements were available to be issued.

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

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:

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.

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

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**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 are recognized when earned and expenses are recognized when incurred.

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

**Budgetary basis accounting**

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

**Deposits and investments**

Cash deposits are held by banks qualified as public depositories under Florida law. All deposits are insured by federal depository insurance and collateralized with securities held in Florida's multiple financial institution collateral pool under Chapter 280, Florida Statutes. The School's cash consists primarily of demand deposits and certificates of deposit with financial institutions. All of the School's investments consist of U.S. government bonds which carry the explicit guarantee of the United States government. Investments are reported at their fair value based on quoted market prices.

**Capital assets and depreciation**

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

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**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>
Furniture, fixtures and equipment	3 – 5
Vehicles	10

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

**Compensated absences**

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

**Revenue sources**

Revenues for current operations are received primarily from the District School Board of Polk County, Florida pursuant to the funding provisions included in the School's charter. As such, the School's revenue stream is largely dependent upon the general state of the economy and the amounts allotted to the Florida Department of Education ("FDOE") by the state legislature. In accordance with the funding provisions of the charter and Section 1002.33(18), Florida Statutes, the School reports the number of full-time equivalent students and related data to the School Board.

Under the provisions of Section 1011.62, Florida Statutes, the School Board reports the number of full-time equivalent students and related data to the FDOE for funding through the 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 expenditure in the accompanying statement of activities and statement of revenues, expenditures and changes in fund balances - governmental funds. This administrative fee is calculated on the FEFP revenue up to 500 students. The difference between the actual fee and the fee as calculated on total FEFP revenue is restricted for capital outlay expenditures. As of June 30, 2010, the School had restricted funds for this purpose in the amount of \$53,525.

The School receives 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.

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

**2 INVESTMENTS**

As of June 30, 2010, the School had the following investments and maturities:

<b>Investment Type</b>	<b>Investment Maturities (in Years)</b>		
	<b>Fair Value</b>	<b>Less than 1</b>	<b>1 - 5</b>
Bonds issued by:			
U.S. Agencies	<u>\$ 963,787</u>	<u>\$ 311,021</u>	<u>\$ 652,766</u>
Total Investments	<u>\$ 963,787</u>	<u>\$ 311,021</u>	<u>\$ 652,766</u>

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

*Credit Risk.* State law limits investments of surplus public funds to investments in U.S. Agencies. The School's investment policy is to follow the strict guidelines of the Florida Statutes. As of June 30, 2010, all of the School's investments were in U.S. Agencies.

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

<b>Issuer:</b>	<b>Amount</b>	<b>Percent of total investments</b>
Financing Corporation	\$ 433,999	45%
Federal Home Loan Mortgage Corporation	112,324	12%
Tennessee Valley Authority	125,455	13%
Federal National Mortgage Association	114,213	12%

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**NOTES TO FINANCIAL STATEMENTS  
(continued)**

**3 ACCOUNTS RECEIVABLE**

Accounts receivable included in the accompanying statement of net assets and balance sheet – governmental funds includes \$66,874 in reimbursements from the School Board and \$7,597 in other receivables. Based on collectibility of funds from these sources, an allowance for doubtful accounts is not considered necessary.

**4 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:				
Furniture, fixtures and equipment	\$ 384,860	\$ 78,100	\$ (15,120)	\$ 447,840
Vehicles	681,514	123,121	-	804,635
Total governmental activities	<u>1,066,374</u>	<u>201,221</u>	<u>(15,120)</u>	<u>1,252,475</u>
Less accumulated depreciation for:				
Furniture, fixtures and equipment	(294,149)	(53,738)	14,613	(333,274)
Vehicles	(260,474)	(73,704)	-	(334,178)
Total accumulated depreciation	<u>(554,623)</u>	<u>(127,442)</u>	<u>14,613</u>	<u>(667,452)</u>
Governmental activities capital assets, net	<u>\$ 511,751</u>	<u>\$ 73,779</u>	<u>\$ (507)</u>	<u>\$ 585,023</u>

Depreciation expense was charged to functions as follows:

Governmental activities:	
Instruction	\$ 36,343
Pupil personnel services	5,278
School administration	6,284
Pupil transportation	73,704
Operation of plant	5,833
Total governmental activities depreciation expense	<u>\$ 127,442</u>

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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 Polk County, Florida:

Florida Education Finance Program	\$	3,859,888
Class size reduction		869,589
Transportation		399,592
Discretionary tax equalization		252,287
Discretionary millage funds		234,739
Safe schools		99,055
Instructional materials		77,299
School recognition funds		45,254
Florida lead teacher		10,367
Excellent teaching programs		4,111
Discretionary lottery funds		2,552
Total	\$	5,854,733

The administration fee paid to the School Board during the year ended June 30, 2010 totaled \$150,408, 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 coverage 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.

**7 COMMITMENTS AND CONTINGENT LIABILITIES**

**Grants**

The School participates in state and federal grant programs, which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the School has not complied with the rules and regulations governing the grants, refunds of any money received may be required and the collectibility of any related receivable as of June 30, 2010 may be impaired.

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**NOTES TO FINANCIAL STATEMENTS  
(continued)**

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.

**8 CAMPUS FACILITY**

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

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

**9 RETIREMENT PROGRAM**

**Defined benefit plan**

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

A Deferred Retirement Option Program ("DROP") subject to provisions of Section 121.091, Florida Statutes, permits employees eligible for normal retirement under the Plan to defer receipt of monthly benefit payments while continuing employment with a FRS employer. An employee may participate in the DROP for a period not to exceed 60 months after electing to participate. During

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**NOTES TO FINANCIAL STATEMENTS  
(continued)**

the period of DROP participation, deferred monthly benefits are held in the FRS Trust and accrue interest. The School had two DROP participants during fiscal 2010.

**Funding policy**

The contribution rates for members are established, and may be amended, by the State of Florida. During the 2010 fiscal year, contribution rates were as follows:

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

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

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

The School's liability for participation in the Plan is limited to the payment of the required contribution at the rates and frequencies established by law on future payrolls of the School. The School's contribution to the Plan for the year ended June 30, 2010 totaled approximately \$339,000, which was equal to the required contributions for the fiscal year.

**Defined contribution plan**

Effective July 1, 2002, the Public Employee Optional Retirement Program ("PEORP") was implemented as a defined contribution plan alternative available to all FRS members in lieu of the defined benefit plan. Employer contributions are defined by law, but the ultimate benefit depends in part on the performance of investment funds. The PEORP is funded by employer contributions that are based on salary and membership class (i.e.: regular class, reemployed retiree, etc.). Contributions are directed to individual member accounts, and the individual members allocate contributions and account balances among various approved investment choices. The School had no PEORP participants during fiscal 2010.

**Pension reporting**

The financial statements and other supplemental information of the FRS are included in the comprehensive annual financial report of the State of Florida, which may be obtained by contacting the Florida Department of Financial Services in Tallahassee, Florida. Also, an annual report on the FRS, which includes its financial statements, required supplemental information, actuarial report and other relevant information, may be obtained from the State of Florida, Division of Retirement in Tallahassee, Florida.

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**NOTES TO FINANCIAL STATEMENTS  
(continued)**

**10      SUBSEQUENT EVENTS**

Subsequent to year end, the School entered into a contract/agreement to purchase eight buses totaling approximately \$867,000. The School has placed a deposit with the vendor totaling approximately \$87,000, and that as of the date of the report, the buses have not yet been delivered. The School anticipates utilizing debt to finance the remaining purchase price.

**DISCOVERY ACADEMY OF LAKE ALFRED, INC.  
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**REQUIRED SUPPLEMENTARY INFORMATION**

**BUDGETARY COMPARISON SCHEDULE - GENERAL FUND**

**FOR THE YEAR ENDED JUNE 30, 2010**

	Budgeted Amounts		Actual (Budgetary Basis)	Variance with Final Budget- Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
State and local sources	\$ 5,983,920	\$ 5,854,733	\$ 5,854,733	\$ -
Contributions and other revenue	95,000	235,025	247,837	12,812
<b>Total revenues</b>	<b>6,078,920</b>	<b>6,089,758</b>	<b>6,102,570</b>	<b>12,812</b>
<b>EXPENDITURES</b>				
Current:				
Instruction	3,439,655	3,132,712	3,076,150	56,562
Pupil personnel services	334,198	414,059	400,134	13,925
Instructional media services	126,263	113,963	109,292	4,671
Instructional and curriculum development	7,500	4,500	4,473	27
Instructional staff training	10,500	7,000	529	6,471
Board	77,652	58,152	54,668	3,484
General administration	152,644	142,478	150,408	(7,930)
School administration	728,357	709,553	690,075	19,478
Fiscal services	35,000	35,200	35,571	(371)
Central services	10,500	13,200	11,926	1,274
Pupil transportation	613,384	617,312	619,841	(2,529)
Operation of plant	434,907	413,338	400,435	12,903
Capital outlay	30,000	161,121	163,745	(2,624)
<b>Total expenditures</b>	<b>6,000,560</b>	<b>5,822,588</b>	<b>5,717,247</b>	<b>105,341</b>
Net change in fund balance	78,360	267,170	385,323	118,153
Fund balance at beginning of year	2,614,187	2,614,187	2,614,187	-
Fund balance at end of year	<b>\$ 2,692,547</b>	<b>\$ 2,881,357</b>	<b>\$ 2,999,510</b>	<b>\$ 118,153</b>

See report of independent auditors.

**DISCOVERY ACADEMY OF LAKE ALFRED, INC.  
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THE DISTRICT SCHOOL BOARD OF POLK COUNTY, FLORIDA**

**REQUIRED SUPPLEMENTARY INFORMATION**

**BUDGETARY COMPARISON SCHEDULE – SPECIAL REVENUE FUND**

**FOR THE YEAR ENDED JUNE 30, 2010**

	Budgeted Amounts		Actual (Budgetary Basis)	Variance with Final Budget- Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
Federal sources passed through local school district	\$ 855,204	\$ 773,801	\$ 764,346	\$ (9,455)
Total revenues	<u>855,204</u>	<u>773,801</u>	<u>764,346</u>	<u>(9,455)</u>
<b>EXPENDITURES</b>				
Current:				
Instruction	459,104	289,350	288,472	878
Pupil personnel services	203,389	263,342	259,031	4,311
Instructional media services	20,000	20,000	19,994	6
Instructional and curriculum development	64,389	99,372	85,759	13,613
Instructional staff training	60,105	35,172	34,485	687
School administration	39,217	39,250	39,129	121
Pupil transportation	4,300	-	-	-
Operation of plant	2,700	-	-	-
Capital outlay	2,000	27,315	37,476	(10,161)
Total expenditures	<u>855,204</u>	<u>773,801</u>	<u>764,346</u>	<u>9,455</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.

**DISCOVERY ACADEMY OF LAKE ALFRED, INC.  
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**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

**FOR THE YEAR ENDED JUNE 30, 2010**

<u>Federal Grantor / Pass-Through Grantor / Program Title</u>	<u>Federal CFDA Number</u>	<u>Grant Period</u>	<u>Expenditures</u>
United States Department of Education / Florida Department of Education / Polk County School District / ARRA - State Fiscal Stabilization Fund - Education State Grants	84.394	7/1/2009 - 6/30/2010	\$ 301,442
United States Department of Education / Florida Department of Education / Polk County School District / ARRA - State Fiscal Stabilization Fund - Government Services	84.397	7/1/2009 - 6/30/2010	<u>11,332</u>
Total State Fiscal Stabilization Fund Program Cluster			<u>312,774</u>
United States Department of Education / Florida Department of Education / Polk County School District / Title I Grants to Local Educational Agencies	84.010	7/1/2009 - 6/30/2010	241,434
United States Department of Education / Florida Department of Education / Polk County School District / ARRA - Title I Grants to Local Educational Agencies	84.389	7/1/2009 - 6/30/2010	<u>72,857</u>
Total Title I, Part A Program Cluster			<u>314,291</u>
United States Department of Education / Florida Department of Education / Polk County School District / Special Education Grants to States (IDEA, Part B)	84.027	7/1/2009 - 6/30/2010	98,285
United States Department of Education / Florida Department of Education / Polk County School District / ARRA - Special Education Grants to States (IDEA, Part B)	84.391	7/1/2009 - 9/30/2011	<u>34,121</u>
Total IDEA, Part B Program Cluster			<u>132,406</u>
United States Department of Education / Florida Department of Education / Polk County School District / Improving Teacher Quality State Grants (Title II)	84.367	7/1/2009 - 6/30/2010	<u>4,875</u>
Total Expenditures of Federal Awards			<u>\$ 764,346</u>

See accompanying note to schedule of expenditures of federal awards.

**DISCOVERY ACADEMY OF LAKE ALFRED, INC.**  
**NOTE TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**FOR THE YEAR ENDED JUNE 30, 2010**

**1 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the School and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of the U.S. Office of Management and Budget ("OMB") Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.



**Report of Independent Auditors on Internal Control Over Financial Reporting  
and on Compliance and Other Matters Based on an Audit of Financial Statements  
Performed in Accordance with *Government Auditing Standards***

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

We have audited the financial statements of the governmental activities and each major fund of Discovery Academy of Lake Alfred, Inc. (the "School"), a charter school and component unit of the District School Board of Polk County, Florida, as of and for the year ended June 30, 2010, which collectively comprise the School's basic financial statements and have issued our report thereon dated September 24, 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 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 Polk 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 24, 2010



**Report of Independent Auditors on Compliance With Requirements Applicable to  
Each Major Program and on Internal Control Over Compliance in  
Accordance with OMB Circular A-133**

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

Compliance

We have audited the compliance of Discovery Academy of Lake Alfred, Inc. (the "School"), a charter school and component unit of the District School Board of Polk County, Florida, with the types of compliance requirements described in the *U.S. Office of Management and Budget ("OMB") Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2010. The School's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the School's management. Our responsibility is to express an opinion on the School's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the School's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the School's compliance with those requirements.

In our opinion, the School complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2010.



### Internal Control Over Compliance

Management of the School is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the School's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the School's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance 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 compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of management of the School, the Board of Directors, the District School Board of Polk 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 24, 2010

**DISCOVERY ACADEMY OF LAKE ALFRED, INC.**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**FOR THE YEAR ENDED JUNE 30, 2010**

**Section I - Summary of Auditor's Results**

*Financial Statements*

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

- Material weaknesses identified? No
- Significant deficiencies identified that are not considered to be material weaknesses? None reported

Noncompliance material to financial statements noted? No

*Federal Awards*

Internal control over major programs:

- Material weaknesses identified? No
- Significant deficiencies identified that are not considered to be material weaknesses? None reported

Type of auditor's report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133? No

Identification of major programs:

<u>CFDA Number</u>	<u>Grant Period</u>	<u>Name of Federal Program</u>
84.394	7/1/2009 – 6/30/2010	ARRA – State Fiscal Stabilization Fund – Education State Grants
84.397	7/1/2009 – 6/30/2010	ARRA – State Fiscal Stabilization Fund – Government Services
84.010	7/1/2009 – 6/30/2010	Title I Grants to Local Educational Agencies
84.389	7/1/2009 – 6/30/2010	ARRA – Title I Grants to Local Educational Agencies

Dollar threshold used to distinguish between type A and type B programs: \$300,000

Auditee qualified as a low-risk auditee? No

**DISCOVERY ACADEMY OF LAKE ALFRED, INC.**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**(continued)**

**Section II - Financial Statement Findings**

None

**Section III - Federal Award Findings and Questioned Costs**

None

**Section IV - Status of Prior Year Audit Findings**

Finding No. 2009-01: Investment Policy

Statement of Condition:

Florida Statutes, Chapter 218.415 and the School's investment policy describe the types of investments that the School is allowed to make with surplus public funds. During our prior year audit procedures, we noted that the School's investment portfolio contained a disallowed investment. We recommended that the School review the Florida Statutes and the School's investment policy on a regular basis to ensure that the investment portfolio is in compliance.

Status:

During our current year audit procedures, we noted the School had sold the disallowed investment and was in compliance with Florida Statutes and the School's investment policy.

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

We have audited the financial statements of the governmental activities and each major fund of Discovery Academy of Lake Alfred, Inc. (the "School"), a charter school and component unit of the District School Board of Polk County, Florida, as of and for the year ended June 30, 2010, and have issued our report thereon dated September 24, 2010.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. We have issued our Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters, Independent Auditor's Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control over Compliance and Schedule of Findings and Questioned Costs. Disclosures in those reports and schedule, which are dated September 24, 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 or schedule:

- 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, as noted in the accompanying Schedule of Findings and Questioned Costs under the heading "Section IV – Status of Prior Year Audit Findings."
- 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 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 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 Discovery Academy of Lake Alfred, Inc.
- Section 10.854(1)(e)2., Rules of the Auditor General, requires a statement be included as to whether or not the School has met one or more of the conditions described in Section 218.503(1), Florida Statutes, and identification of the specific condition met. During the course of our audit, nothing came to our attention to indicate that the School had met any of the conditions described in Section 218.503(1), Florida Statutes ("the conditions"). However, in planning and performing our audit, we considered whether the School had met any of the conditions as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion as to whether the School had met any of the conditions. Accordingly, we do not express an opinion as to whether the School had met any of the conditions.
- Pursuant to Sections 10.854(1)(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.

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 24, 2010