

**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 Auditors' Reports Thereon**

**June 30, 2011**



**M<sup>C</sup>CRADY | HESS | RUTH**  
CERTIFIED PUBLIC ACCOUNTANTS

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**DISCOVERY ACADEMY OF LAKE ALFRED, INC.  
MANAGEMENT'S DISCUSSION AND ANALYSIS**

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Management of Discovery Academy of Lake Alfred, Inc. (the "School") offers the following narrative overview and analysis of the financial activities of the School for the fiscal year ended June 30, 2011. Readers are encouraged to use this information in conjunction with information furnished in the School's financial statements.

**FINANCIAL HIGHLIGHTS**

- ❖ The School's net assets increased from prior year by approximately \$538,000.
- ❖ For the fiscal year ended June 30, 2011, the School's revenues exceeded expenses by \$538,028, which is an increase over the prior year when revenues exceeded expenses by \$448,565.
- ❖ Federal revenues increased during fiscal year 2011 due to an increase in Title I funding by approximately \$104,000, as well as the new Education Jobs Funds ("EJF") grant, which was not received in the prior year, which approximated \$192,000. The increase in Federal funds also includes approximately \$331,000 received as a subrecipient under the National School Lunch Program. The School became its own sponsor in April 2011 and received approximately \$51,000 under this program directly.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

This discussion and analysis are intended to serve as an introduction to the School's basic financial statements. The School's basic financial statements consist of three components; 1) government-wide financial statements, 2) fund financial statements and 3) notes to the financial statements. The basic financial statements present two different views of the School through the use of government-wide statements and fund financial statements. In addition to the basic financial statements, this report contains other supplemental information that will enhance the understanding of the financial condition of School.

**Government-wide Financial Statements**

The government-wide financial statements are designed to provide a broad overview of the School's finances, similar in format to a financial statement of a private-sector business. The government-wide statements provide short and long-term information about the School's financial status as a whole.

The two government-wide statements report the School's net assets and the current year changes. Net assets are the difference between the School's total assets and total liabilities. Measuring net assets is one way to evaluate the School's financial condition.

The government-wide statements are divided into three categories: 1) governmental activities 2) business-type activities and 3) component units. The governmental activities include the School's basic services. The business-type activities are those services that the School charges for not directly related to the School's mission. For the year ended June 30, 2011, the School had no business-type activities or component units.

## **Fund Financial Statements**

The fund financial statements provide a more detailed look at the School's most significant activities. A fund is a grouping of related accounts used to maintain control over resources segregated for specific activities or objectives. For the year ended June 30, 2011, the School had two major funds: general and special revenue funds.

Governmental funds are used to account for those functions reported as governmental activities in the government-wide financial statements. The School's basic services are accounted for in governmental funds. These funds focus on how assets that can readily be converted into cash flow in and out, and what monies are left at year-end be available for spending in the next year. Governmental funds are reported using an accounting method called *modified accrual accounting*. This method also has a current financial resources focus. As a result, the governmental fund financial statements provide a detailed short-term view of the financial resources available to finance the School's programs. The relationship between government activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds is described in a reconciliation that is a part of the fund financial statements.

The School adopts an annual budget for its general fund, as required by the Florida Statutes. The budget is legally adopted by management of the School and its Board. Budgetary comparison schedules have been included as part of the required supplementary information. The budgetary comparison schedules show four columns: 1) the original budget as adopted by the board, 2) the final budget as amended by the board, 3) the actual resources, charges and ending balances in the general fund, and 4) the variance between the final budget and the actual resources and charges.

## **Notes to Financial Statements**

The notes to financial statements provide additional information that is essential to the full understanding of the information reported in the government-wide and fund financial statements. The notes to the financial statements start on page 15 of this report.

This report also includes the information required by the U.S. Office of Management and Budget ("OMB") Circular A-133: Schedule of Expenditures of Federal Awards, Independent Auditors' Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Controls over Compliance in Accordance with OMB A-133 and Schedule of Findings and Questioned Costs. In addition, it also includes the Independent Auditors' Report on Internal Controls 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*.

## GOVERNMENT-WIDE ANALYSIS OF THE SCHOOL

### Net Assets

The School's combined net assets as of June 30, 2011 and 2010 are summarized as follows:

	<u>Governmental Activities</u>		<u>Increase</u>
	<u>2011</u>	<u>2010</u>	<u>(Decrease)</u>
Current and other assets	\$ 3,915,504	\$ 3,325,518	\$ 589,986
Capital assets, net	<u>1,291,539</u>	<u>585,023</u>	<u>706,516</u>
Total assets	<u>5,207,043</u>	<u>3,910,541</u>	<u>1,296,502</u>
Current and other liabilities	576,900	531,314	45,586
Long-term liabilities	<u>712,888</u>	<u>-</u>	<u>712,888</u>
Total liabilities	<u>1,289,788</u>	<u>531,314</u>	<u>758,474</u>
Net assets:			
Invested in capital assets, net of related debt	578,651	585,023	(6,372)
Restricted for capital projects	46,105	53,525	(7,420)
Unrestricted	<u>3,292,499</u>	<u>2,740,679</u>	<u>551,820</u>
Total net assets	<u>\$ 3,917,255</u>	<u>\$ 3,379,227</u>	<u>\$ 538,028</u>

Current and other assets increased due to an increase in cash from the current year operating surplus. Capital assets increased due to the acquisition of new school buses. Current and other liabilities remained consistent with prior year. Long-term liabilities increased due to the financing of the new buses. The increase in total net assets is due to the current year operating surplus.

## Change in Net Assets

The School's total revenues exceeded total expenses by approximately \$538,000 in fiscal 2011—see table below.

	<u>Governmental Activities</u>		<u>Increase</u>
	<u>2011</u>	<u>2010</u>	<u>(Decrease)</u>
Revenues:			
Federal sources passed through local school district	\$ 1,405,289	\$ 764,346	\$ 640,943
State and local sources	5,824,524	5,854,733	(30,209)
Contributions and other revenue	394,928	247,837	147,091
Total revenues	<u>7,624,741</u>	<u>6,866,916</u>	<u>757,825</u>
Expenses:			
Instruction	3,362,852	3,393,179	(30,327)
Pupil personnel services	668,606	663,789	4,817
Instructional media services	121,711	130,270	(8,559)
Instructional and curriculum development	84,057	90,232	(6,175)
Instructional staff training	59,617	35,014	24,603
Board	68,273	54,668	13,605
General administration	76,016	150,408	(74,392)
School administration	821,285	752,167	69,118
Fiscal services	50,373	35,571	14,802
Food services	561,165	-	561,165
Central services	13,795	11,926	1,869
Transportation services	766,903	694,097	72,806
Operation of plant	413,278	407,030	6,248
Interest	18,782	-	18,782
Total expenses	<u>7,086,713</u>	<u>6,418,351</u>	<u>668,362</u>
Change in net assets	<u>\$ 538,028</u>	<u>\$ 448,565</u>	<u>\$ 89,463</u>

Federal revenue increased primarily due to an increase in Title I funding and the new Education Jobs Funds and National School Lunch Program in fiscal year 2011. Total enrollment remained consistent for the fiscal year 2011.

The School's expenses in instruction and instructional support remained consistent. The decrease in general administration expense is due to the change in the calculation of the administrative fee paid to the District School Board of Polk County, Florida. The increase in food services is a result of the addition of the food service program, which did not exist in the prior year. Transportation expenses increased due to the addition of new buses in the current year.

## FINANCIAL ANALYSIS OF THE SCHOOL'S FUNDS

The focus of School's governmental funds is to provide information on near term inflows, outflows, and balances of usable resources. Such information is useful in assessing School's financing requirements. Specifically, unrestricted fund balance can be a useful measure of a government's net resources available for spending at the end of the fiscal year.

As the School completed the year, its governmental funds reported a combined fund balance of \$3,567,716. Both revenues and expenditures increased overall for the same reasons described above.

### General and Special Revenue Funds Budgetary Highlights

During the fiscal year, the School amended its budget twice. Generally, budget amendments fall into one of three categories: 1) amendments made to adjust the estimates that are used to prepare the original budget once exact information is available; 2) amendments made to recognize changes in funding amounts; 3) changes in appropriations that become necessary to maintain services.

In the general fund, actual revenues exceeded budget amounts by approximately \$3,000. Expenditures, net of financed capital assets, were approximately \$92,000 less than budgeted amounts.

In the special revenue fund, total revenues exceeded budget amounts by approximately \$21,000, due to additional IDEA grant revenues that were not anticipated. As a result, expenditures were approximately \$24,000 over budgeted amounts.

## CAPITAL ASSET AND DEBT ADMINISTRATION

### Capital Assets

At the end of fiscal 2011, the School had invested approximately \$2,090,000, in capital assets.

	<u>Governmental Activities</u>		<u>Increase</u>
	<u>2011</u>	<u>2010</u>	<u>(Decrease)</u>
Furniture, fixtures and equipment	420,467	447,840	(27,373)
Vehicles	1,669,331	804,635	864,696
Total capital assets	<u>\$2,089,798</u>	<u>\$1,252,475</u>	<u>837,323</u>

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

- School buses: \$864,696

More detailed information about the School's capital assets is presented in Note 4 to the financial statements.

## **Long-Term Debt**

As of June 30, 2011, the School has \$712,888 notes payable outstanding. The notes payable increased in the current year to finance the School's new buses. For more detailed information about the School's long-term liabilities, see Note 5 to the financial statements.

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

### **Budget Highlights for the Fiscal Year Ended June 30, 2012**

The budgets for the year ended June 30, 2012 were prepared anticipating that all Federal stimulus funding including EJF funds would not be recurring.

Amounts available for appropriation in the general fund are approximately \$5.4 million, a decrease of approximately \$650,000 from fiscal 2011 actual revenues. The decrease is primarily a result of the internal fund revenue is not included in the operating budget and that the School typically begins each year with a conservative estimate of enrollment for budgeting purposes.

Budgeted expenditures are expected to decrease 7% to approximately \$5.7 million from the fiscal 2011 actual amount. The change is due primarily to a decrease in overall operating expense as a direct result of the decrease in base student funding and due to the fact the internal fund expenditures are not budgeted.

If these estimates are realized, the School's general fund balance is expected to decrease by approximately \$300,000 in fiscal 2012.

## **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 1000 North Buena Vista Drive, Lake Alfred, Florida 33850.



**M<sup>c</sup>CRADY | HESS | RUTH**  
CERTIFIED PUBLIC ACCOUNTANTS

**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, 2011, 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 the 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, 2011, 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 20, 2011 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.

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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 6 and 28 & 29 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 pages 30-31 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 also not a required part of the financial statements. The Schedule of Expenditures of Federal Awards 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.

*MC CRADY, HESS + RUTH*

Maitland, Florida  
September 20, 2011

**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, 2011**

	<u><b>Governmental Activities</b></u>
<b>ASSETS</b>	
Cash and cash equivalents	\$ 2,439,392
Certificates of deposit	420,319
Investments	913,428
Accounts receivable	139,910
Other current assets	2,455
Capital assets:	
Furniture, fixtures and equipment	420,467
Vehicles	1,669,331
Less accumulated depreciation	<u>(798,259)</u>
Total capital assets, net	<u>1,291,539</u>
Total assets	<u><u>\$ 5,207,043</u></u>
<b>LIABILITIES</b>	
Accounts payable and accrued expenses	\$ 347,788
Compensated absences payable	229,112
Long-term liabilities:	
Portion due or payable within one year:	
Note payable	144,927
Portion due or payable after one year:	
Note payable	<u>567,961</u>
Total liabilities	<u>1,289,788</u>
<b>NET ASSETS</b>	
Invested in capital assets	578,651
Restricted for:	
Capital projects	46,105
Unrestricted	<u>3,292,499</u>
Total net assets	<u>3,917,255</u>
Total liabilities and net assets	<u><u>\$ 5,207,043</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, 2011**

	<u>Expenses</u>	<u>Program Revenues</u>		<u>Net (Expenses) Revenues 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	\$ 3,362,852	\$ -	\$ 518,590	\$ -	\$ (2,844,262)	\$ (2,844,262)
Pupil personnel services	668,606	-	333,687	-	(334,919)	(334,919)
Instructional media services	121,711	-	33,268	-	(88,443)	(88,443)
Instructional and curriculum development	84,057	-	82,057	-	(2,000)	(2,000)
Instructional staff training	59,617	-	55,158	-	(4,459)	(4,459)
Board	68,273	-	-	-	(68,273)	(68,273)
General administration	76,016	-	3,787	-	(72,229)	(72,229)
School administration	821,285	-	31,529	-	(789,756)	(789,756)
Fiscal services	50,373	-	-	-	(50,373)	(50,373)
Food services	561,165	165,941	331,220	-	(64,004)	(64,004)
Central services	13,795	-	-	-	(13,795)	(13,795)
Transportation services	766,903	-	-	-	(766,903)	(766,903)
Operation of plant	413,278	-	-	-	(413,278)	(413,278)
Interest	18,782	-	-	-	(18,782)	(18,782)
<b>Total primary government</b>	<b>\$ 7,086,713</b>	<b>\$ 165,941</b>	<b>\$ 1,389,296</b>	<b>\$ -</b>	<b>(5,531,476)</b>	<b>(5,531,476)</b>
General revenues:						
Federal sources passed through local school district				15,993	15,993	
State and local sources				5,824,524	5,824,524	
Contributions and other revenue				228,987	228,987	
Total general revenue				6,069,504	6,069,504	
Changes in net assets				538,028	538,028	
Net assets at beginning of year				3,379,227	3,379,227	
Net assets at end of year				\$ 3,917,255	\$ 3,917,255	

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, 2011**

	<u>General Fund</u>	<u>Special Revenue Fund</u>	<u>Total Governmental Funds</u>
<b>ASSETS</b>			
Cash and cash equivalents	\$ 2,439,392	\$ -	\$ 2,439,392
Certificates of deposit	420,319	-	420,319
Investments	913,428	-	913,428
Accounts receivable	259	139,651	139,910
Other current assets	2,455	-	2,455
Due from special revenue fund	139,651	-	139,651
	<u>3,915,504</u>	<u>139,651</u>	<u>4,055,155</u>
Total assets	<u>\$ 3,915,504</u>	<u>\$ 139,651</u>	<u>\$ 4,055,155</u>
<b>LIABILITIES</b>			
Accounts payable and accrued expenses	\$ 347,788	\$ -	\$ 347,788
Due to general fund	-	139,651	139,651
	<u>347,788</u>	<u>139,651</u>	<u>487,439</u>
Total liabilities	<u>347,788</u>	<u>139,651</u>	<u>487,439</u>
<b>FUND BALANCES</b>			
Nonspendable:			
Other current assets	2,455	-	2,455
Restricted:			
Capital projects	46,105	-	46,105
Assigned:			
Designated for School-based student activity organizations	115,181	-	115,181
Spendable:			
Unassigned	3,403,975	-	3,403,975
	<u>3,567,716</u>	<u>-</u>	<u>3,567,716</u>
Total fund balances	<u>3,567,716</u>	<u>-</u>	<u>3,567,716</u>
Total liabilities and fund balances	<u>\$ 3,915,504</u>	<u>\$ 139,651</u>	<u>\$ 4,055,155</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, 2011**

**Total fund balances - governmental funds** \$ 3,567,716

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 \$2,089,798 and the accumulated depreciation is \$798,259. 1,291,539

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. (229,112)

Long-term liabilities, including notes payable, are not due and payable in the current year and, therefore, are not reported as liabilities in the governmental funds. Long-term liabilities at year-end consisted of:  
Note payable (712,888)

**Total net assets - governmental activities** \$ 3,917,255

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 of Governmental Funds**

**For the Year Ended June 30, 2011**

	<b>General Fund</b>	<b>Special Revenue Fund</b>	<b>Other Governmental Funds</b>	<b>Total Governmental Funds</b>
<b>REVENUES</b>				
Federal sources passed through local school district	\$ -	\$ 1,405,289	\$ -	\$ 1,405,289
State and local sources	5,824,524	-	-	5,824,524
Contributions and other revenue	228,987	165,941	-	394,928
<b>Total revenues</b>	<b>6,053,511</b>	<b>1,571,230</b>	<b>-</b>	<b>7,624,741</b>
<b>EXPENDITURES</b>				
Current:				
Instruction	2,801,134	518,590	-	3,319,724
Pupil personnel services	335,217	333,687	-	668,904
Instructional media services	79,244	33,268	-	112,512
Instructional and curriculum development	2,000	82,057	-	84,057
Instructional staff training	4,459	55,158	-	59,617
Board	68,273	-	-	68,273
General administration	72,229	3,787	-	76,016
School administration	763,868	31,529	-	795,397
Fiscal services	50,373	-	-	50,373
Food services	-	561,165	-	561,165
Central services	13,795	-	-	13,795
Transportation services	642,496	-	-	642,496
Operation of plant	413,420	-	-	413,420
Debt service:				
Principal	-	-	69,805	69,805
Interest	-	-	18,782	18,782
Capital outlay	868,899	15,993	-	884,892
<b>Total expenditures</b>	<b>6,115,407</b>	<b>1,635,234</b>	<b>88,587</b>	<b>7,839,228</b>
Excess (deficiency) of revenues over expenditures	(61,896)	(64,004)	(88,587)	(214,487)
<b>OTHER FINANCIAL SOURCES (USES)</b>				
Proceeds from issuance of debt	782,693	-	-	782,693
Operating transfer in	-	64,004	88,587	152,591
Operating transfer out	(152,591)	-	-	(152,591)
<b>Total other financial sources</b>	<b>630,102</b>	<b>64,004</b>	<b>88,587</b>	<b>782,693</b>
Net changes in fund balances	568,206	-	-	568,206
Fund balances at beginning of year	2,999,510	-	-	2,999,510
Fund balances at end of year	\$ 3,567,716	\$ -	\$ -	\$ 3,567,716

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, 2011**

<b>Net changes in fund balances - total governmental funds</b>	<b>\$ 568,206</b>
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays (\$884,892) exceed depreciation expense (\$177,812) in the current period.	707,080
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.	(564)
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.	(23,806)
Proceeds from the issuance of long-term debt are reported as an other financial source in the governmental funds. However, the amount of funds borrowed is reported as an increase in long-term debt in the statement of net assets.	(782,693)
Principal payments on long-term liabilities are expenditures in the governmental funds, but the repayments reduce long-term liabilities in the statement of net assets.	69,805
<b>Change in net assets of governmental activities</b>	<b>\$ 538,028</b>

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

**DISCOVERY ACADEMY OF LAKE ALFRED, INC.**

**A Charter School and Component Unit of the  
District School Board of Polk County, Florida**

**Notes to Financial Statements**

**For the Year Ended June 30, 2011**

**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 1002.22, 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 District"). 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").

**Charter Contract**

The current charter expires June 30, 2018 and may be renewed for a maximum of an additional fifteen years by mutual written agreement between the School and the School Board. Upon the expiration of the charter, the School Board may elect 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. However, the School Board may terminate the current charter at any time 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.

**Basis of Presentation**

Based on the guidance provided in the American Institute of Certified Public Accountants Audit and Accounting Guide – *Audits for States and Local Governments* and provisions in the Florida Statutes, the School is presented as a governmental organization for financial statement reporting purposes.

**Government-wide Financial Statements**

The government-wide financial statements provide both short-term and long-term information about the School in a manner similar to those of a private-sector business. The statement of net assets and statement of activities are designed to provide financial information as a whole about the School on an accrual basis of accounting. The statement of net assets provides information about the School's financial position, its assets and its liabilities, using an economic resources measurement focus.

**DISCOVERY ACADEMY OF LAKE ALFRED, INC.**

**A Charter School and Component Unit of the  
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**Notes to Financial Statements  
(continued)**

The statement of activities presents a comparison between direct expenses and program revenue for each function or program of the School's governmental activities. Direct expenses are those that are specifically associated with a program or function, therefore, are clearly identifiable to a particular function.

Program revenues include charges paid by the recipient of goods and services offered by the program and grants and contributions that are restricted for meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues.

**Fund Financial Statements**

The governmental fund financial statements report detailed information about the School's most significant funds, not the School as a whole. A fund is a group of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The School uses fund accounting to ensure and demonstrate compliance with finance related requirements. Certain funds received are established by law while others are created by grant agreements. The following are the major individual governmental funds that are reported in these fund financial statements:

- General Fund – the School's primary operating fund that accounts for all financial resources of the school, except those that are required to be accounted for in another fund.
- Special Revenue Fund – to account for the proceeds of specific revenue sources that are restricted or committed to expenditures for a specific purpose.
- Debt Service Fund – to account for the accumulation of resources for, and payment of, general long-term debt principal, interest and related costs.

For the purpose of these statements, the general and special revenue funds are considered major funds.

**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 reported using the accrual basis of accounting. Revenues are recognized when earned and expenses/expenditures are recognized when a liability is incurred, regardless of the timing the related cash flows take place.

**DISCOVERY ACADEMY OF LAKE ALFRED, INC.**

**A Charter School and Component Unit of the  
District School Board of Polk County, Florida**

**Notes to Financial Statements  
(continued)**

The governmental fund financial statements are reported using the modified accrual basis of accounting. Under this method, revenues, except for certain grant revenues, are recognized when they become measurable and available. Revenues are considered to be available when they are collectable within a current period. The School considers revenues to be available if they are collected within 60 days after the end of the current fiscal year. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on long-term debt, claims and judgments, and compensated absences, which are recognized when due. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisition of capital leases are reported as other financing sources.

**Budgetary Basis Accounting**

Budgets are prepared using the modified accrual basis of accounting and the governing board must approve all budgets and amendments. During the fiscal year, expenditures were controlled at the object level. Budgets may be amended by resolution of the Board prior to the date of the annual report.

**New Pronouncements**

The School has implemented GASB Codification Section 1800.142, *Fund Balance Reporting and Governmental Fund Type Definitions*. This statement establishes fund balance classifications, provides a hierarchy of spending constraints for spendable resources and requires disclosure of nonspendable and spendable resources.

**Cash and Cash Equivalents and Investments**

The School's cash and cash equivalents consist primarily of demand deposits and certificates of deposits 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 price.

Under the Dodd-Frank Act, non-interest bearing cash deposits at FDIC-insured institutions are fully insured through December 31, 2012. All cash and cash equivalent accounts held by the School are non-interest bearing and therefore, fully insured by the FDIC as of June 30, 2011.

**DISCOVERY ACADEMY OF LAKE ALFRED, INC.**

**A Charter School and Component Unit of the  
District School Board of Polk County, Florida**

**Notes to Financial Statements  
(continued)**

**Capital Assets and Depreciation**

The School's capital assets with useful lives of more than one year are stated at historical cost and reported in the statement of net assets in the government-wide financial statements. Donated capital assets are recorded at their estimated fair value on the date donated. The School capitalizes assets with a cost of \$750 or more. Expenditures of normal maintenance and repair that do not add to the assets value or extend the useful lives are not capitalized. Depreciation is computed using the straight-line method. Estimated useful lives of the assets are as follows:

	<u>Years</u>
Furniture, fixtures and equipment	3 – 5
Vehicles	10

**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 employee.

**Net Assets and Fund Balance Classifications**

*Government-wide financial statements*

Net assets are classified and reported in three components:

- Investment in capital assets, net of related debt – consists of capital assets net of accumulated depreciation and reduced by the outstanding balances of any borrowings that are attributed to the acquisition or improvement of those assets.
- Restricted net assets – consists of net assets with constraints placed on their use either by external groups such as creditors, grantors, contributors or laws or regulations of other governments.
- Unrestricted net assets – all other net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

# DISCOVERY ACADEMY OF LAKE ALFRED, INC.

## A Charter School and Component Unit of the District School Board of Polk County, Florida

### Notes to Financial Statements (continued)

#### *Fund financial statements*

GASB Codification Section 1800.142, *Fund Balance Reporting and Governmental Fund Type Definitions*, defines the different types of fund balances that a governmental entity must use for financial reporting purposes. GASB requires the fund balance amounts to be reported within one of the following fund balance categories:

- Nonspendable – fund balance associated with inventories, prepaid expenses, long-term loans and notes receivable, and property held for resale (unless the proceeds are restricted, committed or assigned). All nonspendable fund balances at year end relate to assets that are in nonspendable form.
- Restricted – fund balance that can be spent only for the specific purposes stipulated by the constitution, external resource providers, or through enabling legislation.
- Committed – fund balance that can be used only for the specific purposes determined by a formal action of the School’s Board of Governance.
- Assigned – fund balance that is intended to be used by the School’s management for specific purposes but does not meet the criteria to be classified as restricted or committed.
- Unassigned – fund balance that is the residual amount for the School’s general fund and includes all spendable amounts not contained in the other classifications.

This statement also clarifies the definition of the Special Revenue Fund to denote it may be used to account for the proceeds of specific revenue sources (other than trusts for individual, private organizations or other governmental agencies or for major capital projects) that are legally restricted to expenditures for specified purposes.

#### **Order of Fund Balance Spending Policy**

The School’s policy is to apply expenditures against non-spendable fund balance, restricted fund balance, committed fund balance, assigned fund balance, and unassigned fund balance at the end of the fiscal year. First, nonspendable fund balances are determined. Then restricted fund balances for specific purposes are determined (not including nonspendable amounts). Any remaining fund balances not included in the general funds are classified as restricted fund balance. It is possible for the amounts not included in the general fund to be classified as restricted fund balance. It is possible for the amounts not included in the general fund to have negative unassigned fund balance when nonspendable amounts plus the restricted fund balances for specific purposes amounts exceed the positive fund balance for the non-general fund.

#### **Revenue Sources**

Revenues for operations are provided primarily from the District School Board of Polk County, Florida pursuant to the funding provisions included in the School’s charter. In accordance with the funding provisions of the charter and Section 1002.33, Florida Statutes, the School reports the number of full-time equivalent (FTE) students and related data to the School District. The School Board receives a 5% administrative fee from the School, which is withheld from the

**DISCOVERY ACADEMY OF LAKE ALFRED, INC.**

**A Charter School and Component Unit of the  
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**Notes to Financial Statements  
(continued)**

respective FEFP payments. The administrative expense 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 administrative fee is calculated on the FEFP revenue up to 250 students. The difference between the actual expense and the expense calculated on total FEFP revenue is restricted for capital outlay expenditures. As of June 30, 2011, the School had restricted funds for this purpose of \$46,105.

Under provisions of Section 1011.62, Florida Statutes, the District reports the number of FTE students and related data to the Florida Department of Education (FDOE) for funding through the Florida Education Finance Program (FEFP). Funding for the School is adjusted during the year to reflect the revised calculations by the FDOE under FEFP and the actual weighted full-time equivalent students reported by the School during the designated full-time equivalent student survey period. The FDOE may also adjust subsequent fiscal period allocations based on an audit of the School's compliance in determining and reporting FTE and related data. Generally, such adjustments are treated as reductions or additions of revenues in the year when the adjustments are made.

The basic amount of funding through the FEFP under Section 1011.62 is calculated based on (1) unweighted FTE, multiplied by (2) the cost factor for each program multiplied by (3) the base student allocation established by the Florida legislature. Additional funds for exceptional students who do not have a matrix of services are provided through the guaranteed allocation designated in Section 1011.62(1)(e)2., Florida Statutes. For the year ended June 30, 2011, the School reported 992.50 unweighted FTE.

The School received additional funding under other federal and state grants. This assistance is generally received based on applications submitted to various granting agencies. For federal and state grants in which funding is awarded based on incurring eligible expenditures, revenue is recognized as the amount of eligible expenditures have been incurred.

**Use of Estimates**

In preparing the financial statements in conformity with accounting principles generally accepted in the United States, 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 revenues and expenses/expenditures for the period presented. Actual results could differ significantly from those estimates.

**DISCOVERY ACADEMY OF LAKE ALFRED, INC.**

**A Charter School and Component Unit of the  
District School Board of Polk County, Florida**

**Notes to Financial Statements  
(continued)**

**2 INVESTMENTS**

The School had the following investments and maturities as of June 30, 2011:

<b>Investment</b>	<b>Fair Value</b>	<b>Investment Maturities (in Years)</b>	
		<b>Less than 1</b>	<b>1 - 5</b>
Cash and cash equivalents	\$ 111,364	\$ -	\$ -
Bonds issued by: U.S. Agencies	802,064	370,281	431,783
Total investments	<u>\$ 913,428</u>	<u>\$ 370,281</u>	<u>\$ 431,783</u>

Interest Rate Risk. As a means of limiting its exposure to fair value losses, the School's investment policy strictly adheres to Section 218.415 of the Florida Statutes.

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. All of the School's investments were in U.S. Agencies as of June 30, 2011.

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>Percentage of Total Investments</b>
Financing Corporation	\$ 419,822	46%
Federal Home Loan Mortgage Corporation	347,040	38%

**3 ACCOUNTS RECEIVABLE**

Accounts receivable included in the accompanying financial statements includes \$139,428 in reimbursements from the School Board. Based on the sources of funds, management has evaluated the collectability and an allowance for doubtful accounts is not considered necessary.

**DISCOVERY ACADEMY OF LAKE ALFRED, INC.**

**A Charter School and Component Unit of the  
District School Board of Polk County, Florida**

**Notes to Financial Statements  
(continued)**

**4 CAPITAL ASSETS**

Capital assets as of June 30, 2011 were as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances</u>
Governmental activities:				
Furniture, fixtures and equipment	\$ 447,840	\$ 20,196	\$ (47,569)	\$ 420,467
Vehicles	804,635	864,696	-	1,669,331
Total capital assets	<u>1,252,475</u>	<u>884,892</u>	<u>(47,569)</u>	<u>2,089,798</u>
Less accumulated depreciation for:				
Furniture, fixtures and equipment	(333,274)	(54,717)	47,005	(340,986)
Vehicles	<u>(334,178)</u>	<u>(123,095)</u>	-	<u>(457,273)</u>
Total accumulated depreciation	<u>(667,452)</u>	<u>(177,812)</u>	<u>47,005</u>	<u>(798,259)</u>
Governmental activities capital assets, net	<u>\$ 585,023</u>	<u>\$ 707,080</u>	<u>\$ (564)</u>	<u>\$ 1,291,539</u>

Depreciation expense was charged to the following functions:

Governmental activities:	
Instruction	\$ 37,264
Pupil personnel services	3,245
Instructional media services	249
School administration	7,162
Transportation services	123,095
Operation of plant	<u>6,797</u>
Total governmental activities depreciation expense	<u>\$ 177,812</u>

**DISCOVERY ACADEMY OF LAKE ALFRED, INC.**

**A Charter School and Component Unit of the  
District School Board of Polk County, Florida**

**Notes to Financial Statements  
(continued)**

**5 LONG-TERM LIABILITIES**

The long-term liability consists of a note payable to a financial institution, secured by the School's vehicles financed under the note. Terms of the note include monthly principal and interest payments of \$14,762 through December 2015. The interest rate charged on the note is a fixed rate of 4.98%. Activity during fiscal year 2011 was as follows:

Balance outstanding at the beginning of year	\$	-
Additions		782,693
Reductions		<u>(69,805)</u>
Balance outstanding at the end of year	\$	<u><u>712,888</u></u>

Future debt service requirements related to the long-term liability are as follows:

Year ended June 30,	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 144,927	\$ 32,248	\$ 177,175
2013	152,317	24,858	177,175
2014	160,084	17,091	177,175
2015	168,247	8,928	177,175
2016	87,313	1,274	88,587
	<u>\$ 712,888</u>	<u>\$ 84,399</u>	<u>\$ 797,287</u>

Interest paid during the year ended June 30, 2011 totaled \$18,782.

**DISCOVERY ACADEMY OF LAKE ALFRED, INC.**

**A Charter School and Component Unit of the  
District School Board of Polk County, Florida**

**Notes to Financial Statements  
(continued)**

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

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

District School Board of Polk County, Florida:

Florida Education Finance Program	\$ 3,559,780
Class size reduction	888,130
Transportation	403,935
Supplemental academic instruction	240,228
Discretionary local efforts	237,568
Discretionary millage funds	203,984
ESE guaranteed allocation	110,739
Safe schools	88,498
Instructional materials	78,439
Lead teacher	11,175
Discretionary lottery funds	3,465
Prior year adjustments	<u>(1,417)</u>
Total	<u>\$ 5,824,524</u>

The administrative fee paid to the School Board during the year ended June 30, 2011 totaled approximately \$76,000, 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.

**7 RISK MANAGEMENT PROGRAM**

Workers' compensation coverage, health and hospitalization, general liability, professional liability and property coverage are being provided through purchased commercial insurance with minimum deductibles for each line of coverage. Settled claims resulting from these risks have not historically exceeded commercial coverage.

**DISCOVERY ACADEMY OF LAKE ALFRED, INC.**

**A Charter School and Component Unit of the  
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**Notes to Financial Statements  
(continued)**

**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 collectability of any related receivable as year end may be impaired.

**Legal matters**

In the normal course of conducting its operations, the School occasionally becomes party to various legal actions and proceedings. Management believes the ultimate resolution of such legal matters will not have a significant adverse effect on the accompanying financial statements.

Management also believes there are no significant contingent liabilities related 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.

**9 RETIREMENT PROGRAM**

The Florida Retirement System (FRS) covers all regular employees of the School. The FRS offers employees a defined benefit retirement plan and a defined contribution program. The School is required to make contributions in accordance with rates established by the Florida Legislature. Essentially, all regular employees of participating employers are eligible and must enroll as members of FRS.

Most employees working for the School are covered by a State-administered cost-sharing multiple-employer defined benefit retirement plan (Plan) under FRS. Plan provisions are established by Chapters 121 and 112, Florida Statutes; Chapter 112, Part IV, Florida Statutes; Chapter 238, Florida Statutes; and Florida Retirement System Rules, Chapter 60S, Florida Administrative Code, wherein Plan eligibility, contributions, and benefits are defined and described in detail. Benefits in the defined benefit plan vest at specific ages or number of years of service depending upon the employee's classification. 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 health-care insurance and, for certain employees, a supplement 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, is offered to employees of the School. DROP permits employees eligible for normal retirement under the Plan to defer receipt of monthly benefit payments while continuing

**DISCOVERY ACADEMY OF LAKE ALFRED, INC.**

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**Notes to Financial Statements  
(continued)**

employment with a FRS employer. An employee may participate in DROP for a period not to exceed 60 months after electing to participate. During the period of DROP participation, deferred monthly benefits are held in the FRS Trust Fund and accrue interest. The School had three participants in DROP during fiscal year 2011.

**Defined Contribution Plan**

The Public Employee Optional Retirement Program (PEORP) is administered by FRS as an option to the defined benefit plan. It is self-directed by the employee. The Employees have the responsibility of selecting how their funds are invested within the approved set of investment choices and may take their funds when they leave FRS. Employer contributions are defined by law, but the ultimate benefit depends in part on the performance of the investment funds. The PEORP is funded by employer contributions that are based on salary and membership class (Regular Class, Special Risk Class, Etc.). The School had no PEORP participants during fiscal year 2011.

**Funding Policy**

The contribution rates for Plan members are established and may be amended, by the State of Florida. During fiscal year 2011, contribution rates were as follows:

<u>Class or Plan</u>	<u>Percentage 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 rate includes 1.11% for the post-employment health insurance supplement and 0.05% for administrative cost of the Public Employee Optional Retirement Program.

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

The School's liability to the defined benefit plan and the defined contribution 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 contributions to the defined benefit plan for the fiscal year ended June 30, 2011 totaled approximately \$397,000.

**Pension Reporting**

The financial statements and required 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 Office of the Florida Chief Financial Officer in Tallahassee, Florida. Also, an annual report of FRS that 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.

**DISCOVERY ACADEMY OF LAKE ALFRED, INC.**

**A Charter School and Component Unit of the  
District School Board of Polk County, Florida**

**Notes to Financial Statements  
(continued)**

**10 RELATED PARTY TRANSACTIONS**

Pursuant to the School's charter, the District withholds an administrative fee of 5% of the qualifying revenues of the School. For the year ended June 30, 2011, administrative fees withheld by the School District totaled approximately \$76,000.

**11 CAMPUS FACILITIES**

The title of the school building and facilities and other capital assets acquired prior to July 1, 2001 remain 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 are significant; therefore, any substantial changes in Florida Statutes related to facilities used by conversion schools could have a material effect on the School's operations.

**12 INCOME TAXES**

The School qualifies as a tax-exempt organization under Internal Revenue Code Section 501(c)(3), and is therefore, exempt from income taxes. Accordingly, no tax provision has been made in the accompanying financial statements. Additionally, no uncertain tax positions have been made requiring disclosure in the related notes to the financial statements.

**13 SUBSEQUENT EVENTS**

In accordance with GASB Codification Section 2250.106, the School has evaluated subsequent events and transactions for potential recognition or disclosure through September 20, 2011, 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 the  
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**Required Supplementary Information**

**Budget Comparison Schedule - General Fund**

**For the Year Ended June 30, 2011**

	Budgeted Amounts		Actual	Variance
	Original	Final		
<b>REVENUES</b>				
Federal sources passed through local school district				
State and local sources	\$ 5,772,536	\$ 5,823,943	\$ 5,824,524	\$ 581
Contributions and other revenue	215,536	226,422	228,987	2,565
<b>Total revenues</b>	<b>5,988,072</b>	<b>6,050,365</b>	<b>6,053,511</b>	<b>3,146</b>
<b>EXPENDITURES</b>				
Current:				
Instruction	3,242,090	2,833,085	2,801,134	(31,951)
Pupil personnel services	459,309	338,996	335,217	(3,779)
Instructional media services	120,156	88,350	79,244	(9,106)
Instructional and curriculum development	5,500	2,000	2,000	-
Instructional staff training	10,500	10,500	4,459	(6,041)
Board	63,950	72,950	68,273	(4,677)
General administration	142,478	72,229	72,229	-
School administration	739,094	744,210	763,868	19,658
Fiscal services	35,500	47,000	50,373	3,373
Central services	14,000	14,100	13,795	(305)
Transportation services	657,665	670,608	642,496	(28,112)
Operation of plant	435,722	432,346	413,420	(18,926)
Capital outlay	34,760	99,053	868,899	769,846
<b>Total expenditures</b>	<b>5,960,724</b>	<b>5,425,427</b>	<b>6,115,407</b>	<b>689,980</b>
Excess (deficiency) of revenues over expenditures	27,348	624,938	(61,896)	(686,834)
<b>OTHER FINANCIAL SOURCES (USES)</b>				
Proceeds from issuance of debt	-	-	782,693	782,693
Operating transfer out	-	-	(152,591)	(152,591)
<b>Total other financial sources</b>	<b>-</b>	<b>-</b>	<b>630,102</b>	<b>630,102</b>
<b>Net changes in fund balances</b>	<b>27,348</b>	<b>624,938</b>	<b>568,206</b>	<b>(56,732)</b>
Fund balances at beginning of year	2,999,510	2,999,510	2,999,510	-
Fund balances at end of year	\$ 3,026,858	\$ 3,624,448	\$ 3,567,716	\$ (56,732)

See report of independent auditors.

**DISCOVERY ACADEMY OF LAKE ALFRED, INC.**

**A Charter School and Component Unit of the  
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**Budget Comparison Schedule - Special Revenue Fund**

**For the Year Ended June 30, 2011**

	<b>Budgeted Amounts</b>		<b>Actual</b>	<b>Variance</b>
	<b>Original</b>	<b>Final</b>		
<b>REVENUES</b>				
Federal sources passed through local school district	\$ 1,153,934	\$ 1,369,744	\$ 1,405,289	\$ 35,545
Contributions and other revenue	180,346	180,346	165,941	(14,405)
<b>Total revenues</b>	<b>1,334,280</b>	<b>1,550,090</b>	<b>1,571,230</b>	<b>21,140</b>
<b>EXPENDITURES</b>				
Current:				
Instruction	313,449	517,779	518,590	811
Pupil personnel services	324,706	314,662	333,687	19,025
Instructional media services	20,000	16,306	33,268	16,962
Instructional and curriculum development	69,485	79,789	82,057	2,268
Instructional staff training	27,500	61,461	55,158	(6,303)
General administration	7,930	3,787	3,787	-
School administration	32,281	31,648	31,529	(119)
Food services	569,329	569,329	561,165	(8,164)
Capital outlay	30,163	15,993	15,993	-
<b>Total expenditures</b>	<b>1,394,843</b>	<b>1,610,754</b>	<b>1,635,234</b>	<b>24,480</b>
Excess (deficiency) of revenues over expenditures	(60,563)	(60,664)	(64,004)	(3,340)
<b>OTHER FINANCIAL SOURCES (USES)</b>				
Operating transfer in	-	-	64,004	64,004
<b>Total other financial sources</b>	<b>-</b>	<b>-</b>	<b>64,004</b>	<b>64,004</b>
Net changes in fund balances	(60,563)	(60,664)	-	60,664
Fund balances at beginning of year	-	-	-	-
<b>Fund balances at end of year</b>	<b>\$ (60,563)</b>	<b>\$ (60,664)</b>	<b>\$ -</b>	<b>\$ 60,664</b>

See report of independent auditors.

**DISCOVERY ACADEMY OF LAKE ALFRED, INC.**

**A Charter School and Component Unit of the  
District School Board of Polk County Florida**

**Schedule of Expenditures of Federal Awards**

**For the Year Ended June 30, 2011**

<b>Federal Grantor / Pass-through Grantor / Program Title</b>	<b>Federal CFDA Number</b>	<b>Grant Period</b>	<b>Expenditures</b>
United States Department of Education / Florida Department of Education / Polk County School District / ARRA - State Fiscal Stabilization Fund - Education State Grant	84.394	7/1/10 - 6/30/11	\$ 294,808
United States Department of Education / Florida Department of Education / Polk County School District / ARRA - State Fiscal Stabilization Fund - Government Services Total State Fiscal Stabilization Fund Program Cluster	84.397	7/1/10 - 6/30/11	<u>5,886</u> <u>300,694</u>
United States Department of Education / Florida Department of Education / Polk County School District / Title I Grants to Local Education Agencies	84.010	7/1/10 - 6/30/11	346,715
United States Department of Education / Florida Department of Education / Polk County School District / ARRA - Title I Grants to Local Education Agencies Total Title I, Part A Program Cluster	84.389	7/1/10 - 6/30/11	<u>71,452</u> <u>418,167</u>
United States Department of Education / Florida Department of Education / Polk County School District / Special Education Grants to States (IDEA, Part B)	84.027	7/1/10 - 6/30/11	76,794
United States Department of Education / Florida Department of Education / Polk County School District / Special Education Grants to States (IDEA, Part B) Total IDEA, Part B Program Cluster	84.391	7/1/10 - 6/30/11	<u>78,193</u> <u>154,987</u>

See accompanying notes to schedule of expenditures of federal awards.

**DISCOVERY ACADEMY OF LAKE ALFRED, INC.**

**A Charter School and Component Unit of the  
District School Board of Polk County Florida**

**Schedule of Expenditures of Federal Awards  
(continued)**

<b>Federal Grantor / Pass-through Grantor / Program Title</b>	<b>Federal CFDA Number</b>	<b>Grant Period</b>	<b>Expenditures</b>
United States Department of Agriculture / Florida Department of Agriculture / Polk County School District / School Lunch Program	10.555	7/1/10 - 6/30/11	281,647
United States Department of Agriculture / Florida Department of Agriculture / Polk County School District / School Breakfast Program	10.553	7/1/10 - 6/30/11	49,573
Total Food Program Cluster			<u>331,220</u>
United States Department of Education / Florida Department of Education / Polk County School District / Education Jobs Funds	84.410A	7/1/10 - 9/30/12	192,387
United States Department of Education / Florida Department of Education / Polk County School District / Improving Teacher Quality Grant (Title II)	84.367	7/1/10 - 6/30/11	2,027
United States Department of Education / Florida Department of Education / Polk County School District / DICA Tutoring Grant	Unknown	7/1/10 - 6/30/11	5,807
Total Federal Award Expenditures			<u>\$ 1,405,289</u>

See accompanying notes to schedule of expenditures of federal awards.

**DISCOVERY ACADEMY OF LAKE ALFRED, INC.**

**Notes to Schedule of Expenditures of Federal Awards**

**For the Year Ended June 30, 2011**

**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 accrued basis of accounting. The information in the 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, 2011, which collectively comprise the School's basic financial statements and have issued our report thereon dated September 20, 2011. 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 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.

*MC CRADY, HESS + RUTH*

Maitland, Florida  
September 20, 2011



**Independent Auditors' Report on Compliance With Requirements  
That Could Have a Direct and Material Effect on 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 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 *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the School's major federal programs for the year ended June 30, 2011. 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 compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011.

## 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 to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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 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.

*MC CRADY, HESS + RUTH*

Maitland, Florida  
September 20, 2011

**DISCOVERY ACADEMY OF LAKE ALFRED, INC.**

**Schedule of Findings and Questioned Costs**

**For the Year Ended June 30, 2011**

**Section I – Summary of Auditors’ Results**

*Financial Statements*

Type of auditor’s report issued:	Unqualified
Internal Control over financial reporting:	
➤ Material weakness identified?	No
➤ Significant deficiencies identified that are not considered to be material weaknesses?	None noted
Noncompliance material to financial statements noted?	No

*Federal Awards*

Internal control over major programs:	
➤ Material weakness identified?	No
➤ Significant deficiencies identified that are not considered to be material weaknesses?	None noted
Type of auditor’s report issued on compliance for major programs?	Unqualified
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:

<b>CFDA Number</b>	<b>Grant Period</b>	<b>Name of Federal Program</b>
84.394	7/1/10 – 6/30/11	ARRA – State Fiscal Stabilization Fund – Education State Grants
84.397	7/1/10 – 6/30/11	ARRA – State Fiscal Stabilization Fund – Government Services
84.410A	7/1/10 – 9/30/12	Education Jobs Funds
10.553	7/1/10 – 6/30/11	School Breakfast Program
10.555	7/1/10 – 6/30/11	National School Lunch Program

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

There were no prior year audit findings reported.

**Additional Information Required by  
Rules of the Auditor General,  
Chapter 10.850, *Audits of Charter Schools  
and Similar Entities***



**Management Letter as Required by Rules of the Florida Auditor General, Chapter 10.850,  
Florida Statutes, *Charter School Audits***

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") as of and for the year ended June 30, 2011, and have issued our report thereon dated September 20, 2011.

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 Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters, Independent Auditors' Report on Compliance with Requirements Applicable to each Major Federal Program and on Internal Control over Compliance, and Schedule of Findings and Questioned Costs. Disclosure in those reports and schedules, which are dated September 20, 2011, 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 auditors' reports:

- Section 10.854(1)(e)1., Rules of the Auditor General, requires that we determine whether or not corrective actions have been taken to address findings and recommendations made in the preceding annual financial audit report. There were no findings in the preceding annual financial audit report.
- 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 contract or grant agreements, or abuse 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 auditors 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) control deficiencies 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 official title 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 conditions met. In connection with our audit, we determined that the School did not meet any of the conditions described in Section 218.503(1), Florida Statutes.
- Pursuant to Sections 10.854(1)(3)7.a. and 10.855(10), Rules of the Auditor General, we applied financial condition assessment procedures. 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.

Pursuant to Chapter 119, Florida Statutes, this management letter is 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, the Sponsor and the Florida Auditor General, and is not intended to be and should not be used by anyone other than these specified parties.

*MC CRADY, HESS + RUTH*

Maitland, Florida  
September 20, 2011