

**MILESTONES
COMMUNITY
SCHOOL OF LAKE
COUNTY**

**(A Division of Milestones
Community School of
Lake County, Inc.)**

**Basic Financial Statements and
Supplemental Information**

**For the year ended
June 30, 2010**

**BERMAN HOPKINS
WRIGHT & LAHAM**
CPAS AND ASSOCIATES, LLP

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Milestones Community School of Lake County, Inc.
Sorrento, Florida

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Milestones Community School of Lake County (the "School"), a component unit of the School Board of Lake County, Florida and a division of Milestones Community School of Lake County, Inc. (the "Charterholder"), 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 basic 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 basic 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.

As described in Note A-1, the accompanying financial statements referred to above present only the financial position of the School at June 30, 2010, and the changes in financial position for the year then ended, and is not intended to be a complete presentation of the Charterholder.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the School as of June 30, 2010, and the respective changes in financial position for the year then ended in conformity with auditing standards generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 27, 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, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information, as listed in the table of contents, 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 basic financial statements. The accompanying supplemental information, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. The supplementary information has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

September 27, 2010
Melbourne, Florida

Berman Hopkins Wright & LaHam
CPAs and Associates, LLP

Management's Discussion and Analysis

As management Milestones Community School of Lake County (the "School"), a division of Milestones Community School of Lake County, Inc., we offer readers of the School's financial statements this narrative overview and analysis of the financial activities of the School for the fiscal year ended June 30, 2010 to (a) assist the reader in focusing on significant financial issues, (b) provide an overview and analysis of the School's financial activities, (c) identify changes in the School's financial position, (d) identify material deviations from the approved budget, and (e) highlight significant issues in individual funds.

Because the information contained in the Management's Discussion and Analysis (MD&A) is intended to highlight significant transactions, events, and conditions, it should be considered in conjunction with the basic financial statements found on pages 8 - 13.

Financial Highlights

- The assets of the School exceeded its liabilities at the close of the most recent fiscal year by \$451,396.
- The government's total net assets decreased by \$24,265.
- As of the close of the current fiscal year, the School's governmental funds reported combined ending fund balance of \$48,868, a decrease of \$48,027 in comparison with the prior year.
- At the end of the current fiscal year, the School's total debt decreased by \$71,874 due to the principal payments made during the year.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the School's basic financial statements. The School's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements.

The School as a Whole

The information in the government-wide financial statements include all assets and liabilities using the accrual basis of accounting (and reports depreciation on capital assets), which is similar to the basis of accounting used by most private-sector companies.

The change in net assets (the difference between total assets and total liabilities) over time is one indicator of whether the School's financial health is improving or deteriorating. However, you need to consider other nonfinancial factors in making an assessment of the School's health, such as changes in enrollment, changes in the State's funding of educational costs, changes in the economy, etc, to assess the overall health of the School.

Changes in the School's net assets were as follows:

	2010	2009	Change
Current assets	\$ 107,016	\$ 163,704	\$ (56,688)
Capital assets—net	402,528	450,640	(48,112)
Total assets	509,544	614,344	(104,800)
Current liabilities	58,148	66,809	(8,661)
Long-term obligations	-	71,874	(71,874)
Total liabilities	58,148	138,683	(80,535)
Net assets consist of:			
Invested in capital assets	402,528	378,766	23,762
Restricted net assets	1,246	4,221	(2,975)
Unrestricted net assets	47,622	92,674	(45,052)
Net assets	\$ 451,396	\$ 475,661	\$ (24,265)

Capital assets decreased due to \$25,727 of depreciation expense and a loss of \$38,239 on the disposals, offset by \$15,854 in purchases. Capital assets consist of: buildings, improvements other than buildings, furniture, fixtures, and equipment, and information technology equipment.

The decrease in long-term obligations was a result of current year principal payments. The long-term obligations were paid off in the current year.

Changes in the School's expenses were as follows:

	2010	2009	Change
Basic instruction	\$ 537,681	\$ 658,340	\$ (120,659)
Exceptional instruction	12,195	17,655	(5,460)
Psychological services	6,587	5,665	922
Staff development	13,003	7,000	6,003
Board of directors	6,234	9,939	(3,705)
General administration	-	3,237	(3,237)
School administration	166,123	151,021	15,102
Facilities	128,675	135,127	(6,452)
Fiscal services	88,190	135,244	(47,054)
Food services	64,913	79,836	(14,923)
Staff services	8,249	8,438	(189)
Transportation	124,852	149,035	(24,183)
Operation of plant	84,695	82,045	2,650
Maintenance of plant	16,063	8,104	7,959
Interest on long-term debt	2,204	6,115	(3,911)
Total expenses	\$ 1,259,664	\$ 1,456,801	\$ (197,137)

The number of students attending the School in the current year decreased. As a result, the basic instruction function decreased due to a reduction in the number of teachers. The fiscal services decreased because the management contract changed in the current year. The fee is no longer determined by the FTE revenues but is determined by the School's budget. Transportation decreased mainly because there were less repairs needed in the current year.

Changes in the School's revenues were as follows:

	<u>2010</u>	<u>2009</u>	<u>Change</u>
Revenues:			
Program revenues			
Charges for service	\$ 11,644	\$ 17,244	\$ (5,600)
Operating grants and contributions	70,363	172,343	(101,980)
Capital grants and contributions	85,130	118,992	(33,862)
General revenues	<u>1,068,262</u>	<u>1,245,671</u>	<u>(177,409)</u>
	<u>\$ 1,235,399</u>	<u>\$ 1,554,250</u>	<u>\$ (318,851)</u>

The FTE revenue is based on the number of students attending the school during the fiscal year. Therefore, the overall revenue decrease was the result of the decrease in the number of students.

Government-wide financial statements. The government-wide financial statements are designed to provide readers with a broad overview of the School's finances, in a manner similar to a private-sector business.

The statement of net assets presents information on all of the School's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the School is improving or deteriorating.

The statement of activities presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected funding and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the School that are principally supported by district, state, and federal funding (governmental activities) and charges for services from other functions that are intended to recover all or a significant portion of their costs through user fees and charges. The governmental activities of the School include the overall operations of the School.

The government-wide financial statements include only the School itself, which is a component unit of the School Board of Lake County, Florida. The School Board of Lake County, Florida, includes the operations of the School as a component unit in their operations.

The government-wide financial statements can be found on pages 8 and 9 of this report.

Fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The School, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the operations of Milestone Community School of Lake County are presented in governmental funds only.

Governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the School's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The School maintains three individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund and capital outlay fund, both of which are considered to be major funds.

The School adopts an annual appropriated budget for its governmental funds. Budgetary comparison schedules have been provided for the School to demonstrate compliance with this budget.

The basic governmental fund financial statements can be found on pages 10 - 13 of this report.

Notes to financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found starting on page 14 of this report.

Government-Wide Financial Analysis

As previously noted, net assets may serve over time as a useful indicator of a government's financial position. In the case of the School, assets exceeded liabilities by \$451,396 at the close of the most recent fiscal year.

A majority of the School's net assets is reflected in its investment in capital assets (e.g., buildings, improvements other than buildings, furniture, fixtures, and equipment, and information technology equipment). The School uses these capital assets to provide services to students; consequently, these assets are not available for future spending.

Financial Analysis of the Government's Funds

As previously noted, the School uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of the School's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the School's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the current fiscal year, the School's governmental funds reported combined ending fund balance of \$48,868.

The general fund is the main operating fund of the School. At the end of the current fiscal year, the unreserved fund balance of the general fund was \$25,139.

The fund balance of the School's general fund decreased by \$48,027 during the current fiscal year.

General Fund Budgetary Highlights

Actual revenues exceeded budgeted revenues by \$158. Actual expenditures were less than budgeted expenditures by \$9,020.

Capital asset and debt administration

Capital assets. The School's investment in capital assets for its governmental type activities as of June 30, 2010, amounts to \$402,528 (net of accumulated depreciation). This investment in capital assets includes buildings, improvements other than buildings, furniture, fixtures and equipment, and information technology equipment.

Debt. At the end of the current fiscal year, the School had paid all of their debt related to the capital leases payable.

Request for Information

This financial report is designed to provide a general overview of Milestones Community School of Lake County's finances for all those with an interest in the School's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to The Rader Group, 101-A Business Centre Miramar Beach, FL 32550.

Milestones Community School of Lake County
(A Division of Milestones Community School of Lake County, Inc.)

STATEMENT OF NET ASSETS

June 30, 2010

	<u>Governmental Activities</u>
CURRENT ASSETS	
Cash	\$ 83,464
Accounts receivable	1,069
Prepaid expenses	2,483
Deposits	<u>20,000</u>
Total current assets	<u>107,016</u>
CAPITAL ASSETS	
Capital assets, net of accumulated depreciation	
Buildings	324,151
Improvements other than buildings	66,783
Furniture, fixtures, and equipment	10,743
Information technology equipment	<u>851</u>
Total capital assets	<u>402,528</u>
Total assets	<u>509,544</u>
LIABILITIES	
Accounts payable	4,385
Accrued payroll and payroll taxes	<u>53,763</u>
Total liabilities	<u>58,148</u>
NET ASSETS	
Investment in capital assets	402,528
Restricted for:	
Categorical projects	1,246
Unrestricted	<u>47,622</u>
Total net assets	<u><u>\$ 451,396</u></u>

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

Milestones Community School of Lake County
(A Division of Milestones Community School of Lake County, Inc.)

STATEMENT OF ACTIVITIES

For the year ended June 30, 2010

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Governmental activities:					
Basic instruction	\$ 537,681	\$ -	\$ -	\$ -	\$ (537,681)
Exceptional instruction	12,195	-	-	-	(12,195)
Psychological services	6,587	-	-	-	(6,587)
Staff development	13,003	-	-	-	(13,003)
Board of directors	6,234	-	-	-	(6,234)
School administration	166,123	-	-	-	(166,123)
Facilities	128,675	-	20,991	71,874	(35,810)
Fiscal services	88,190	-	-	-	(88,190)
Food services	64,913	11,644	49,372	11,052	7,155
Staff services	8,249	-	-	-	(8,249)
Transportation	124,852	-	-	-	(124,852)
Operation of plant	84,695	-	-	-	(84,695)
Maintenance of plant	16,063	-	-	-	(16,063)
Interest on long-term debt	2,204	-	-	2,204	-
Total governmental activities	<u>\$ 1,259,664</u>	<u>\$ 11,644</u>	<u>\$ 70,363</u>	<u>\$ 85,130</u>	<u>(1,092,527)</u>
General revenues:					
State passed through local school district					1,103,343
Other revenue					3,158
Loss on disposition of assets					<u>(38,239)</u>
Total general revenues					<u>1,068,262</u>
Change in net assets					(24,265)
Net assets at July 1, 2009					<u>475,661</u>
Net assets at June 30, 2010					<u>\$ 451,396</u>

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

Milestones Community School of Lake County
(A Division of Milestones Community School of Lake County, Inc.)

BALANCE SHEET - GOVERNMENTAL FUNDS

June 30, 2010

	General Fund	Capital Outlay Fund	Other Governmental Funds	Total Governmental Funds
ASSETS				
Cash	\$ 83,464	\$ -	\$ -	\$ 83,464
Accounts receivable	1,069	-	-	1,069
Prepaid expenses	2,483	-	-	2,483
Deposits	20,000	-	-	20,000
Total assets	<u>\$ 107,016</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 107,016</u>
LIABILITIES AND FUND BALANCES				
LIABILITIES				
Accounts payable	\$ 4,385	\$ -	\$ -	\$ 4,385
Accrued payroll and payroll taxes	53,763	-	-	53,763
Total liabilities	<u>58,148</u>	<u>-</u>	<u>-</u>	<u>58,148</u>
FUND BALANCES				
Reserved for:				
Deposits	20,000	-	-	20,000
Prepaid expenses	2,483	-	-	2,483
Categorical projects	1,246	-	-	1,246
Unreserved	25,139	-	-	25,139
Total fund balances	<u>48,868</u>	<u>-</u>	<u>-</u>	<u>48,868</u>
Total liabilities and fund balances	<u>\$ 107,016</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 107,016</u>

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

**Milestones Community School of Lake County
(A Division of Milestones Community School of Lake County, Inc.)**

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

June 30, 2010

Fund balances - total governmental funds	\$ 48,868
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Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds. Those assets consist of:

Buildings, net of \$68,873 accumulated depreciation	\$ 324,151	
Improvements other than buildings, net of \$16,254 accumulated depreciation	66,783	
Furniture, fixtures, and equipment, net of \$24,015 accumulated depreciation	10,743	
Information technology equipment, net of \$851 accumulated depreciation	851	
Total capital assets		402,528

Total net assets of governmental activities	<u>\$ 451,396</u>
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The accompanying notes are an integral part of this financial statement.

Milestones Community School of Lake County
(A Division of Milestones Community School of Lake County, Inc.)

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

For the year ended June 30, 2010

	General Fund	Capital Outlay Fund	Other Governmental Funds	Total Governmental Funds
Revenues				
Federal passed through state	\$ -	\$ -	\$ 60,424	\$ 60,424
State passed through local school district	1,103,343	95,069	-	1,198,412
Other revenues	3,158	-	11,644	14,802
Total revenues	1,106,501	95,069	72,068	1,273,638
Expenditures				
Current:				
Basic instruction	537,681	-	-	537,681
Exceptional instruction	12,195	-	-	12,195
Psychological services	6,587	-	-	6,587
Staff development	13,003	-	-	13,003
Board of directors	6,234	-	-	6,234
School administration	165,985	-	-	165,985
Facilities	84,224	20,991	-	105,215
Fiscal services	88,190	-	-	88,190
Food services	-	-	62,784	62,784
Staff services	8,249	-	-	8,249
Transportation	124,852	-	-	124,852
Operation of plant	84,695	-	-	84,695
Maintenance of plant	16,063	-	-	16,063
Debt service:				
Principal	-	71,874	-	71,874
Interest	-	2,204	-	2,204
Fixed capital outlay	4,802	-	11,052	15,854
Total expenditures	1,152,760	95,069	73,836	1,321,665
Deficiency of revenues under expenditures	(46,259)	-	(1,768)	(48,027)
Other financing sources and (uses)				
Transfer in	-	-	1,768	1,768
Transfer out	(1,768)	-	-	(1,768)
Total other financing sources and (uses)	(1,768)	-	1,768	-
Net change in fund balances	(48,027)	-	-	(48,027)
Fund balances at July 1, 2009	96,895	-	-	96,895
Fund balances at June 30, 2010	\$ 48,868	\$ -	\$ -	\$ 48,868

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

Milestones Community School of Lake County
(A Division of Milestones Community School of Lake County, Inc.)

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

For the year ended June 30, 2010

Net change in fund balances - total government fund	\$ (48,027)
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The change in net assets 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 costs of those assets
are allocated over their estimated useful lives and reported as
depreciation expense. This and the net effect of various other
transactions involving capital assets increased net asset

Capital outlay additions:	\$ 15,854	
Depreciation	<u>(25,727)</u>	
		(9,873)

In the statement of activities, only the net loss on the sale and trade
of capital assets is reported. However, in the governmental funds,
the proceeds from the sale increase financial resources.

Thus, the change in net assets differs from the change in
fund balance. (38,239)

The issuance of long-term liabilities (e.g., capital leases, notes
payable) provides current financial resources to governmental
funds, while the repayment of the principal of long-term debt
consumes the current financial resources of governmental funds.
Neither transaction, however, has any effect on net assets. The
net effect of these differences in the treatment of noncurrent
liabilities debt and related items increased net asset:

Principal payments on capital lease	71,874
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Change in net assets of governmental activities	<u>\$ (24,265)</u>
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The accompanying notes are an integral part of this financial statement.

Milestones Community School of Lake County
(A Division of Milestones Community School of Lake County, Inc.)

NOTES TO FINANCIAL STATEMENTS

June 30, 2010

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1. Reporting entity

Milestones Community School of Lake County (the "School") is a division of Milestones Community School of Lake County, Inc. (the "Charterholder"), which 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 Board of Directors, which is composed of five members. The financial information presented is that of the School only.

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, which is the School Board of Lake County, Florida (the "District"). The current charter is effective through June 30, 2014. At the end of the term of the charter, the District may choose not to renew the charter under grounds specified in the charter in which case the District 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 District may also terminate the charter if good cause is shown. Milestones Community School of Lake County is considered a component unit of the School Board of Lake County, Florida.

2. Government-wide and fund financial statements

The government-wide financial statements consist of a statement of net assets and a statement of activities. These statements report information on all of the nonfiduciary activities of the School. As part of the consolidation process, all interfund activities are eliminated from these statements. Both statements report only governmental activities as the School does not engage in any business type activities.

Net assets, the difference between assets and liabilities, as presented in the statement of net assets, are subdivided into three categories: amounts invested in capital assets, restricted net assets, and unrestricted net assets. Net assets are reported as restricted when constraints are imposed on the use of the amounts either externally by creditors, grantors, contributors, laws or regulations of other governments, or enabling legislation.

The statement of activities presents a comparison between the direct and indirect expenses of a given function and its program revenues, and displays the extent to which each function contributes to the change in net assets for the fiscal year. Direct expenses are those that are clearly identifiable to a specific function. Indirect expenses are costs the School has allocated to various functions. Program revenues consist of charges for services, operating grants and contributions, and capital grants and contributions. Charges for services refer to amounts received from those who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment. Grants and contributions consist of revenues that are restricted to meeting the operational or capital requirements of a particular function. Revenues not classified as program revenues are reported as general revenues.

Milestones Community School of Lake County
(A Division of Milestones Community School of Lake County, Inc.)

NOTES TO FINANCIAL STATEMENTS

June 30, 2010

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2. Government-wide and fund financial statements (continued)

Separate fund financial statements report detailed information about the School's governmental funds. The focus of the governmental fund financial statements is on major funds. Therefore, major funds are reported in separate columns on the fund financial statements. Two of the School's funds were deemed major funds. A reconciliation is provided that converts the results of governmental fund accounting to the government wide presentation.

3. Measurement focus, basis of accounting, and financial statement presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recognized in the period earned and expenses are recognized when a liability is incurred.

All governmental fund financial statements are reported using a current financial resources measurement focus on a modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues, except for certain grant revenues, are recognized in the accounting period in which they become both measurable and available to finance expenditures of the current period. Available means collectible within the current period, or soon enough thereafter to be used to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within sixty days of the current fiscal period. When grant terms provide that the expenditure of resources is the prime factor for determining eligibility for federal, state, and other grant resources, revenue is recognized at the time the expenditure is made. Under the modified accrual basis of accounting, expenditures are generally recorded when the related fund liability is incurred. However, principal and interest on general long-term debt are recorded as expenditures only when payment is due.

The School's financial statements have been prepared in accordance with accounting principles generally accepted in the United States as prescribed by the Governmental Accounting Standards Board. Accordingly, the financial statements are organized on the basis of funds. A fund is an accounting entity having a self-balancing set of accounts for recording assets, liabilities, fund equity, revenues, expenditures, and other financing sources and uses.

Resources are allocated to and accounted for in individual funds based on the purpose for which they are to be spent and the means by which spending activities are controlled. The School reports the following major governmental funds:

Milestones Community School of Lake County
(A Division of Milestones Community School of Lake County, Inc.)

NOTES TO FINANCIAL STATEMENTS

June 30, 2010

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3. Measurement focus, basis of accounting, and financial statement presentation (continued)

General Fund - the general operating fund of the School. It is used to account for all financial resources not required to be accounted for in another fund.

Capital Outlay Fund - this is a special revenue fund used in accordance with guidelines established by the School Board of Lake County, Florida, this fund accounts for all resources for the leasing or acquisition of capital facilities by the School to the extent funded by capital grants.

When both restricted and unrestricted resources are available for use, it is the School's policy to use restricted resources first, then unrestricted resources as they are needed.

4. Cash

Cash is made up of checking accounts held at a financial institution. The School has no cash equivalents.

5. Receivables

The School's receivables consist of program receivables and deposits receivable. After reviewing the individual account balances, the School's management has determined that 100% of receivables are fully collectible. Therefore, no allowance for doubtful accounts has been provided.

6. Interfund receivables and payables

Activity between the funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as due to/from other funds.

Transfers are used to move unrestricted general fund revenues to finance programs (i.e. national school lunch program) that the School must account for in other funds.

7. Prepaid expenses

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid expenses in both government-wide and fund financial statements.

Milestones Community School of Lake County
(A Division of Milestones Community School of Lake County, Inc.)

NOTES TO FINANCIAL STATEMENTS

June 30, 2010

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

8. Capital assets

Capital assets, which include property, plant, and equipment, are reported in the applicable governmental columns on the government-wide financial statements. Capital assets are defined by the School as assets with an initial individual cost of more than \$750 and an estimated useful life of more than one year. Such assets are recorded at historical cost. Donated capital assets are recorded at their estimated fair market values at the date of donation.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Capital assets of the School are depreciated using the straight-line method over the following estimated useful lives:

<u>Asset Class</u>	<u>Estimated Useful Lives</u>
Buildings	5 - 39
Improvements other than buildings	15 - 39
Furniture, fixtures, and equipment	5 - 7
Information technology equipment	3

9. Long-term obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net assets. In the fund financial statements, governmental fund types recognize the face amount of the debt issued as other financing sources and the repayment of debt as debt service expenditures.

10. Revenue sources

Revenues for current operations are received primarily from the District pursuant to the funding provisions included in the School's charter. In accordance with the funding provisions of the charter and Section 1002.33(17), Florida Statutes, the School reports the number of full-time equivalent (FTE) students and related data to the District. Under the 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. Funding for the School is adjusted during the year to reflect revised calculations by the FDOE under the Florida Education Finance Program and actual weighted FTE students reported by the School during designated FTE student survey periods.

Milestones Community School of Lake County
(A Division of Milestones Community School of Lake County, Inc.)

NOTES TO FINANCIAL STATEMENTS

June 30, 2010

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

10. Revenue sources (continued)

The School may receive federal awards for the enhancement of various educational programs. This assistance is generally based on applications submitted to and approved by various granting agencies. These federal awards may have eligibility requirements whereby the issuance of grant funds is withheld until such eligible expenditures are incurred. Revenues for these awards are recognized only to the extent that eligible expenditures have been incurred.

Additionally, other revenues may be derived from various fundraising activities and certain other programs.

11. Use of estimates

The process of preparing financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenses. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

12. Reserves of fund balances

The School has a portion of their general fund balance reserved for local categorical, prepaid expense, and deposits. Categoricals are funds the legislature may appropriate for specified programs, activities, or purposes.

13. Income taxes

The School is a charter school under Milestones Community School of Lake County, Inc., which qualifies as a tax-exempt entity and is, therefore, exempt from income tax. Accordingly, no tax provision has been made in the accompanying financial statements.

NOTE B - INTERFUND ACTIVITY

Interfund transfers balances for the year ended June 30, 2010 are as follows:

	<u>Transfers In</u>	<u>Transfers Out</u>
General fund	\$ -	\$ (1,768)
Other governmental fund	1,768	-
	<u>\$ 1,768</u>	<u>\$ (1,768)</u>

Milestones Community School of Lake County
(A Division of Milestones Community School of Lake County, Inc.)

NOTES TO FINANCIAL STATEMENTS

June 30, 2010

NOTE C - CASH

Custodial credit risk - The bank balance of the School's deposits were \$95,253 at June 30, 2010. The School's policy states that the School funds must be deposited into a bank, savings and loan association, or credit union that is authorized to conduct business under Chapter 280, Florida Statutes. The deposits are insured by the FDIC up to \$250,000 per entity. Monies invested in amounts greater than the insurance coverage are secured by the qualified public depositories pledging securities with the State Treasurer in such amounts required by the Florida Security for Public Deposits Act. In the event of a default or insolvency of a qualified public depositor, the State Treasurer will implement procedures for payment of losses according to the validated claims of the School pursuant to Section 280.08, Florida Statutes.

NOTE D - CAPITAL ASSETS

Changes in capital assets activity was as follow:

	Balance at July 1, 2009	Additions	Deletions	Balance at June 30, 2010
Capital assets depreciated:				
Buildings	\$ 393,024	\$ -	\$ -	\$ 393,024
Improvements other than buildings	154,779	3,973	75,715	83,037
Furniture, fixtures, and equipment	78,555	11,881	55,678	34,758
Information technology equipment	1,818	-	116	1,702
Total assets depreciated	<u>628,176</u>	<u>\$ 15,854</u>	<u>\$ 131,509</u>	<u>512,521</u>
Less accumulated depreciation:				
Buildings	54,481	\$ 14,392	\$ -	68,873
Improvements other than buildings	49,237	4,493	37,476	16,254
Furniture, fixtures, and equipment	73,418	6,275	55,678	24,015
Information technology equipment	400	567	116	851
Total accumulated depreciation	<u>177,536</u>	<u>\$ 25,727</u>	<u>\$ 93,270</u>	<u>109,993</u>
Total governmental activities capital assets, net	<u>\$ 450,640</u>			<u>\$ 402,528</u>

Depreciation expense for the year ended June 30, 2010 was charged to functions of the School as follows:

School administration	\$ 138
Facilities	23,460
Food services	<u>2,129</u>
	<u>\$ 25,727</u>

Milestones Community School of Lake County
(A Division of Milestones Community School of Lake County, Inc.)

NOTES TO FINANCIAL STATEMENTS

June 30, 2010

NOTE E - LONG-TERM LIABILITIES

1. Changes in long-term liabilities

Changes in long-term liabilities are as follows:

	Balance at July 1, 2009	Additions	Reductions	Balance at June 30, 2010	Due within one year
Capital leases	\$ 71,874	\$ -	\$ 71,874	\$ -	\$ -

2. Capital leases

The School entered into a lease agreement in April 2005 for financing the acquisition of modular buildings. The lease agreement qualify as a capital lease for accounting purposes and, therefore, is recorded at the present value of the future minimum lease payments at the inception date. During the current year, the School paid \$71,874 and \$2,204 in principal and interest, respectively. As of June 30, 2010, the capital lease for the modular buildings was paid in full.

The assets acquired through the capital leases are recorded in the government-wide statements as follows:

	Governmental Activities:
Asset:	
Buildings	\$ 310,455
Furniture, fixtures and equipment	7,072
Less: accumulated depreciation	46,542
	<u>\$ 270,985</u>

Milestones Community School of Lake County
(A Division of Milestones Community School of Lake County, Inc.)

NOTES TO FINANCIAL STATEMENTS

June 30, 2010

NOTE F - COMMITMENTS AND CONTINGENCIES

1. Operating leases

The School entered into a lease agreement for facilities with a third party effective July 1, 2007 and expiring on June 30, 2010. The lease was extended through June 30, 2011. The monthly payments are \$8,240 for the current year. For the year ended June 30, 2010, \$98,880 of operating leases was charged to operations.

The payments for the upcoming year will be \$9,421, per month, including taxes and insurance. The future minimum lease payments for the year ended June 30, 2011 are \$113,052.

2. Management service contract

The School has entered into a cancelable service agreement with a third party management service, commencing on January 28, 2002. The contract is for management services through June 2004. An extension of this agreement has been approved and will expire June 2014. The management fee is calculated at the Board of Directors discretion and will be approved in the budget process. The approved management fee will be payable in twelve monthly installments. For the year ending June 30, 2010, the management fee was \$75,852.

NOTE G - RELATED PARTY TRANSACTION

1. Management service contract

The management company provides oversight and management services based on a contractual arrangement with the School. The management company manages the finances and operations and makes recommendations to the School's independent Board of Directors, which makes the final determinations regarding policies and contracts. For the year ending June 30, 2010, the management fee was \$75,852 (see Note F-2).

2. School administration

The School's executive director also serves as a board member for another charter school managed by the same management company.

Milestones Community School of Lake County
(A Division of Milestones Community School of Lake County, Inc.)

NOTES TO FINANCIAL STATEMENTS

June 30, 2010

NOTE H - CONCENTRATIONS

Revenue sources

As stated in Note A-10, the School receives revenues for current operations primarily from the State of Florida through the District. The following is a schedule of revenue sources and amounts:

<u>Sources</u>	<u>Amounts</u>
The School Board of Lake County, Florida:	
Base funding	\$ 682,178
ESE guaranteed allocation	25,402
Supplemental academic instruction	42,908
Class size reduction	203,498
Safe schools	3,840
Discretionary local effort	66,359
Discretionary lottery	495
Discretionary millage compression	14,069
Instructional materials allocation	13,929
Library media	860
Student transportation	47,233
Lead teacher program	2,688
State stabilization	60,473
Administration fee withheld (5%)	(60,589)
Subtotal	1,103,343
Capital outlay funds	95,069
Total from the School Board of Lake County, Florida	1,198,412
Federal lunch reimbursement	48,919
Federal food service equipment grant	11,052
Federal thru state lunch supplement	453
Student lunches	11,644
Other	3,158
	<u>\$ 1,273,638</u>

**Milestones Community School of Lake County
(A Division of Milestones Community School of Lake County, Inc.)**

NOTES TO FINANCIAL STATEMENTS

June 30, 2010

NOTE I - RISK MANAGEMENT

The School is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters for which the School carries commercial insurance. Under the plan for property insurance, the School's liability is \$1,000 per occurrence. There have been no significant reductions in insurance coverage during the fiscal year 2010. Settled claims resulting from the risks described above have not exceeded the insurance coverage in the previous three years.

NOTE J - SUBSEQUENT EVENT

Subsequent evaluation

The School has evaluated subsequent events through September 27, 2010, the date which the financial statements were issued.

REQUIRED SUPPLEMENTAL INFORMATION

Milestones Community School of Lake County
(A Division of Milestones Community School of Lake County, Inc.)

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL - GENERAL FUND**

For the year ended June 30, 2010

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
Revenues				
FTE revenue	\$ 1,263,130	\$ 1,100,655	\$ 1,100,655	\$ -
Lead teacher funds	2,000	2,688	2,688	-
Miscellaneous	500	3,000	3,158	158
Total revenues	1,265,630	1,106,343	1,106,501	158
Expenditures				
Salaries	706,979	637,000	636,324	676
Social security	55,000	47,750	47,431	319
Group insurance	54,533	50,556	49,923	633
Worker's compensation	8,500	8,249	8,249	-
Unemployment compensation	13,000	9,500	9,275	225
Management services	123,582	75,852	75,852	-
ESE services	21,000	19,500	18,782	718
Computer services	1,200	1,200	1,050	150
Staff development	10,000	7,439	7,439	-
Auditing services	10,500	10,500	10,500	-
Other professional services	-	4,800	4,727	73
Insurance	28,000	24,000	23,851	149
Travel	3,000	1,500	1,497	3
Repairs and maintenance	14,000	16,500	15,976	524
Vehicle maintenance	10,000	16,000	14,785	1,215
Fire alarm inspections	500	200	117	83
Copier lease	2,000	3,250	2,979	271
Facility lease	68,000	79,932	79,932	-
Postage	4,000	3,800	3,629	171
Telephone	10,500	12,000	11,820	180
Water and sewer	3,000	3,200	3,128	72
Garbage	4,100	4,400	4,313	87
Printing/advertising	2,000	2,800	2,533	267
Non-professional services	-	4,100	4,080	20
Security/fire alarm	2,000	1,535	1,535	-
Custodial service	18,000	15,200	15,200	-
Electricity	24,000	24,600	24,590	10
Vehicle gasoline	18,000	16,000	15,012	988
Supplies	18,000	21,000	20,641	359
Textbooks	17,000	19,300	19,274	26
AV Equipment	-	149	149	-
Furniture, equipment under \$750	3,000	4,695	3,147	1,548
Remodeling & renovation	-	3,973	3,973	-
Computer software under \$750	500	-	-	-
Dues and fees	3,000	1,500	1,262	238
Other personal services	8,000	9,800	9,785	15
Total expenditures	1,264,894	1,161,780	1,152,760	9,020
Excess (deficiency) of revenues over/(under) expenditures	736	(55,437)	(46,259)	9,178
Other financing uses				
Transfer out	-	-	(1,768)	(1,768)
Net changes in fund balances	736	(55,437)	(48,027)	7,410
Fund balance at July 1, 2009	96,895	96,895	96,895	-
Fund balance at June 30, 2010	\$ 97,631	\$ 41,458	\$ 48,868	\$ 7,410

See accompanying note to required supplemental information.

Milestones Community School of Lake County
(A Division of Milestones Community School of Lake County, Inc.)

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL - CAPITAL OUTLAY FUND**

For the year ended June 30, 2010

	<u>Budgeted Amounts</u>			Variance with Final Budget
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues				
Charter school capital outlay	<u>\$ 110,000</u>	<u>\$ 95,069</u>	<u>\$ 95,069</u>	<u>\$ -</u>
Expenditures				
Facility lease	35,922	20,991	20,991	-
Principal	71,874	71,874	71,874	-
Interest	<u>2,204</u>	<u>2,204</u>	<u>2,204</u>	<u>-</u>
Total expenditures	<u>110,000</u>	<u>95,069</u>	<u>95,069</u>	<u>-</u>
Excess of revenues over expenditures	-	-	-	-
Fund balance at July 1, 2009	-	-	-	-
Fund balance at June 30, 2010	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>

See accompanying note to required supplemental information.

Milestones Community School of Lake County
(A Division of Milestones Community School of Lake County, Inc.)

NOTE TO REQUIRED SUPPLEMENTAL INFORMATION

June 30, 2010

NOTE A - BUDGETARY INFORMATION

Budgetary basis of accounting

Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. Annual budgets are adopted for all governmental fund activities and may be amended by the Board of Directors (the "Board"). Actual amounts in the accompanying required supplemental information is presented on the budgetary basis. A reconciliation to excess of revenues over expenditures presented in conformity with GAAP is set forth in the adjustments to the required supplemental information. The budgets presented for fiscal year ended June 30, 2010, have been amended according to Board procedures.

Budgets are presented on the modified accrual basis of accounting. The legal level of budgetary control is the fund level.

SUPPLEMENTAL INFORMATION

Milestones Community School of Lake County
(A Division of Milestones Community School of Lake County, Inc.)

SCHEDULE OF FUNCTIONAL EXPENDITURES - GENERAL FUND

For the year ended June 30, 2010

	Basic Instruction	Exceptional Instruction	Psychological Services	Staff Development	Board of Directors	School Administration
Advertising	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,762
Dues and fees	-	-	-	-	-	451
Electricity	-	-	-	-	-	-
Garbage	-	-	-	-	-	-
Gasoline	-	-	-	-	-	10
Group insurance	34,431	-	-	-	-	9,489
Insurance	-	-	-	-	5,834	-
Non-professional services	-	-	-	7,240	-	-
Other personal services	9,785	-	-	-	-	-
Out-of-county travel	-	-	-	-	-	539
Postage	-	-	-	-	-	3,629
Printing	-	-	-	-	-	771
Professional services	435	12,195	6,587	-	400	514
Rental	-	-	-	-	-	2,979
Repairs and maintenance	-	-	-	-	-	147
Salaries	429,802	-	-	5,300	-	124,964
Social security	32,669	-	-	405	-	8,569
Supplies	3,947	-	-	-	-	9,868
Telephone	-	-	-	-	-	-
Textbooks	19,274	-	-	-	-	-
Unemployment compensation	5,957	-	-	58	-	1,207
Water and sewer	-	-	-	-	-	-
Worker's compensation	-	-	-	-	-	-
Improvements	-	-	-	-	-	-
Furniture and fixtures	1,381	-	-	-	-	1,086
	<u>\$ 537,681</u>	<u>\$ 12,195</u>	<u>\$ 6,587</u>	<u>\$ 13,003</u>	<u>\$ 6,234</u>	<u>\$ 165,985</u>

Facilities	Fiscal Services	Staff Services	Transportation	Operation of Plant	Maintenance of Plant	Fixed Capital Outlay	Total
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,762
-	411	-	400	-	-	-	1,262
-	-	-	-	24,590	-	-	24,590
-	-	-	-	4,313	-	-	4,313
-	-	-	14,820	157	25	-	15,012
-	-	-	6,003	-	-	-	49,923
-	-	-	9,207	8,810	-	-	23,851
-	-	-	-	20,815	-	-	28,055
-	-	-	-	-	-	-	9,785
-	958	-	-	-	-	-	1,497
-	-	-	-	-	-	-	3,629
-	-	-	-	-	-	-	771
4,292	86,352	-	-	335	-	-	111,110
79,932	-	-	-	-	-	-	82,911
-	-	-	14,465	1,240	15,026	-	30,878
-	-	-	68,098	8,160	-	-	636,324
-	-	-	5,164	624	-	-	47,431
-	469	-	-	5,345	1,012	-	20,641
-	-	-	5,136	6,684	-	-	11,820
-	-	-	-	-	-	-	19,274
-	-	-	1,559	494	-	-	9,275
-	-	-	-	3,128	-	-	3,128
-	-	8,249	-	-	-	-	8,249
-	-	-	-	-	-	3,973	3,973
-	-	-	-	-	-	829	3,296
<u>\$ 84,224</u>	<u>\$ 88,190</u>	<u>\$ 8,249</u>	<u>\$ 124,852</u>	<u>\$ 84,695</u>	<u>\$ 16,063</u>	<u>\$ 4,802</u>	<u>\$ 1,152,760</u>

Milestones Community School of Lake County
(A Division of Milestones Community School of Lake County, Inc.)

SCHEDULE OF FUNCTIONAL EXPENDITURES - CAPITAL OUTLAY FUND

For the year ended June 30, 2010

	Facilities	Debt Service	Total
Rental	\$ 20,991	\$ -	\$ 20,991
Payment of principal	-	71,874	71,874
Interest	-	2,204	2,204
	<u>\$ 20,991</u>	<u>\$ 74,078</u>	<u>\$ 95,069</u>

Milestones Community School of Lake County
(A Division of Milestones Community School of Lake County, Inc.)

SCHEDULE OF CATEGORICAL EXPENDITURES

For the year ended June 30, 2010

Categorical	Prior Year	FY 2009-2010		
	Carryforward	Revenue	Expenditures	Carryforward
Instructional materials	\$ 26	\$ 14,789	\$ 14,815	\$ -
Public school technology	4,195	-	2,949	1,246
Transportation	-	47,233	47,233	-
Safe schools	-	3,840	3,840	-
Total	<u>\$ 4,221</u>	<u>\$ 65,862</u>	<u>\$ 68,837</u>	<u>\$ 1,246</u>

**REPORT 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
Milestones Community School of Lake County, Inc.
Sorrento, Florida

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Milestones Community School of Lake County (the "School"), a component unit of the School Board of Lake County, Florida and a division of Milestones Community School of Lake County, Inc. (the "Charterholder") 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 27, 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 from 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, Board of Directors, others within the entity, the School Board of Lake County, FL, the State of Florida Auditor General, and other regulatory agencies and is not intended to be and should not be used by anyone other than these specified parties.

September 27, 2010
Melbourne, Florida

Berman Hopkins Wright & LaHam
CPAs and Associates, LLP

MANAGEMENT LETTER

To the Board of Directors
Milestones Community School of Lake County, Inc.
Sorrento, Florida

We have audited the financial statements of Milestones Community School of Lake County (the "School"), a component unit of the School Board of Lake County, Florida and a division of Milestones Community School of Lake County, Inc. as of and for the fiscal year ended June 30, 2010, and have issued our report thereon dated September 27, 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. We have issued our Independent Auditors' Report on Internal Control over Financial Reporting and Compliance and Other Matters. Disclosures in that report, which is dated September 27, 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 the 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 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. There were no recommendations in the preceding 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 contracts 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 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) 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 *Milestones Community School of Lake County*, a division of Milestones Community School of Lake County, Inc. which 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.
- 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(s) 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)(e)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 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 the School's management, Board of Directors, others within the entity, the School Board of Lake County, FL, the State of Florida Auditor General, and other regulatory agencies and is not intended to be and should not be used by anyone other than these specified parties.

September 27, 2010
Melbourne, Florida

Berman Hopkins Wright & LaHam
CPAs and Associates, LLP

CURRENT YEAR MANAGEMENT RECOMMENDATIONS

For the year ended June 30, 2010, there are no management recommendations.