

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

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

JUNE 30, 2017



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MANAGEMENT'S DISCUSSION AND ANALYSIS

The discussion and analysis of Alee Academy, Inc.'s (the "School") financial performance provides an overall review of the School's financial activities for the fiscal year ended June 30, 2017. The intent of this discussion and analysis is to look at the School's financial performance as a whole. Readers should also review the basic financial statements and the notes to financial statements to enhance their understanding of the School's financial performance.

FINANCIAL HIGHLIGHTS

- The School's total net position increased compared to the prior year.
- For the fiscal year ended June 30, 2017, the School's revenues exceeded expenses by \$165,981. This is a decrease from the prior year, when revenues exceeded expenses by \$189,563.
- The School had an ending net position of \$1,489,372 as of June 30, 2017.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

The financial statements also include *notes* that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of *required supplementary information* that further explains and supports the information in the financial statements.

This document also includes the independent auditor's report on 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*, as well as the management letter required by the Rules of the Auditor General, Chapter 10.850.

**MANAGEMENT'S DISCUSSION AND ANALYSIS
(continued)**

The following table summarizes the major features of the School's financial statements, including the portion of the School they cover and the types of information they contain. The remainder of this overview section of management's discussion and analysis explains the structure and contents of each of the statements.

	Government-wide Statements	Fund Statements
		Governmental Funds
Scope	Entire School	The activities of the School that are not proprietary or fiduciary
Required financial statements	Statement of net position Statement of activities	Balance sheet – governmental funds, Statement of revenues, expenditures and changes in fund balances – governmental funds
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus
Type of asset/liability information	All assets, deferred outflows of resources, liabilities and deferred inflows of resources, both financial and capital, and short-term and long-term	Only assets/deferred outflows of resources expected to be used up and liabilities/deferred inflows of resources that come due during the year or soon thereafter; no capital assets included
Type of inflow/outflow information	All revenues and expenses during the year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and payment is due during the year or soon thereafter

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

Government-wide Financial Statements

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

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

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

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

Fund Financial Statements

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

The School has one type of fund:

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
(continued)

FINANCIAL ANALYSIS OF THE SCHOOL AS A WHOLE

Net Position

The School's combined net position as of June 30, 2017 and 2016 is summarized as follows – see table below.

	Governmental Activities		Increase (Decrease)
	2017	2016	
Current and other assets	\$ 658,058	\$ 612,573	7%
Capital assets, net	<u>1,221,917</u>	<u>1,292,861</u>	<u>-5%</u>
Total assets	<u>1,879,975</u>	<u>1,905,434</u>	<u>-1%</u>
Current and other liabilities	3,144	2,580	22%
Long-term liabilities	<u>387,459</u>	<u>579,463</u>	<u>-33%</u>
Total liabilities	<u>390,603</u>	<u>582,043</u>	<u>-33%</u>
Net position:			
Net investment in capital assets	834,458	713,398	17%
Restricted	225,479	223,855	1%
Unrestricted	<u>429,435</u>	<u>386,138</u>	<u>11%</u>
Total net position	<u>\$ 1,489,372</u>	<u>\$ 1,323,391</u>	<u>13%</u>

The increase in current and other assets is primarily due to the excess of revenues over expenses in the current year. The decrease in net capital assets is primarily due to current year depreciation expense in excess of additions. The decrease in long-term liabilities is primarily due to the current year payments on long-term liabilities. The increase in total net position from the prior fiscal year is due to the School's current year operating surplus.

MANAGEMENT'S DISCUSSION AND ANALYSIS
(continued)

Changes in Net Position

The School's total revenues decreased by 4% to \$1,933,830, and the total cost of all programs and services decreased by 3% to \$1,767,849 – see table below.

	Governmental Activities		Increase (Decrease)
	2017	2016	
Revenues:			
State and local sources	\$ 1,903,837	\$ 1,965,053	-3%
Contributions and other revenue	29,993	41,759	-28%
Total revenues	1,933,830	2,006,812	-4%
Expenses:			
Instruction and instruction-related services	876,403	852,819	3%
Board	23,250	19,546	19%
General administration	77,318	77,514	0%
School administration	404,101	393,061	3%
Fiscal services	13,466	13,206	2%
Student transportation services	159,549	174,409	-9%
Operation and maintenance of plant	186,599	212,205	-12%
Interest	27,163	74,489	-64%
Total expenses	1,767,849	1,817,249	-3%
Change in net position	\$ 165,981	\$ 189,563	12%

Contributions and other revenue decreased due to less amounts received from sponsors during the fiscal year. Board expenses increased due to an increase in audit fees. Student transportation services decreased due to a decrease in transportation costs. Operation and maintenance of plant expenses decreased due to a decrease in non-capitalized equipment purchases in the current year. Interest decreased primarily due to a non-recurring period cost to expense loan costs in the prior year.

Certain reclassifications were made in the 2016 amounts to conform to their classifications in fiscal year 2017.

FINANCIAL ANALYSIS OF THE SCHOOL'S FUNDS

As the School completed the period, its governmental fund reported a fund balance of \$654,914. Overall, revenues and expenditures decreased due to the same factors discussed above.

MANAGEMENT'S DISCUSSION AND ANALYSIS
(continued)

General Fund Budgetary Highlights

Over the course of the year, the School did not revise its operating budget.

For the year ended June 30, 2017, actual revenues were approximately \$75,000 more than budgeted revenues, primarily due to higher than expected enrollment. Actual expenditures were approximately \$42,000 more than budgeted expenditures, primarily due to the administrative fee paid to the School Board not being budgeted.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

The School's investment in capital assets at the end of fiscal 2017 amounts to \$1,221,917 (net of accumulated depreciation). See table below:

	<u>Governmental Activities</u>		<u>Increase</u>
	<u>2017</u>	<u>2016</u>	<u>(Decrease)</u>
Land	\$ 305,395	\$ 305,395	0%
Buildings and improvements	1,655,971	1,650,971	0%
Land improvements	46,166	46,166	0%
Furniture, fixtures and equipment	429,581	424,948	1%
Motor vehicles	156,129	156,129	0%
Less accumulated depreciation	<u>(1,371,325)</u>	<u>(1,290,748)</u>	<u>-6%</u>
Total capital assets, net	<u>\$ 1,221,917</u>	<u>\$ 1,292,861</u>	<u>-5%</u>

This year's capital asset additions included the following:

- Fence and double gate - \$5,000
- Air conditioning unit - \$3,500
- Color camera - \$1,133

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

Long-term Liabilities

At June 30, 2017, the School had \$387,459 in a mortgage note payable outstanding, a decrease of \$167,067 from the prior year. This decrease is due to current year principal payments. More detailed information about the School's long-term liabilities is presented in Note 3 to the financial statements.

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The following economic indicators were taken into account when adopting the general fund budget for fiscal year 2018:

- Slight decrease in student population
- Consistent capital outlay funds
- Projected incremental salary increases based on years of service with the School
- Higher insurance and benefits costs

Estimated amounts available for appropriation in the general fund are approximately \$1,719,000, a 7% decrease from the 2017 actual of \$1,850,162. Budgeted expenditures are expected to decrease 3% to approximately \$1,757,000 from the 2017 actual of \$1,805,241. The School has added no major new programs to the fiscal 2018 budget.

If these estimates are realized, the School's general fund balance is expected to decrease by the close of fiscal 2018.

CONTACTING THE SCHOOL'S FINANCIAL MANAGEMENT

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

Independent Auditor's Report on Basic Financial Statements and Supplementary Information

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

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the governmental activities and each major fund of Alee Academy, Inc. (the "School"), a charter school and component unit of the District School Board of Lake County, Florida, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the School's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

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 Alee Academy, Inc. as of June 30, 2017, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 1 – 7 and the budgetary comparison information on page 26 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.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated October 27, 2017 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School's internal control over financial reporting and compliance.

BKHM, P.A.

Winter Park, Florida
October 27, 2017

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

STATEMENT OF NET POSITION

JUNE 30, 2017

	Governmental Activities
ASSETS	
Cash and cash equivalents	\$ 658,058
Capital assets:	
Land	305,395
Buildings and improvements	1,655,971
Land improvements	46,166
Furniture, fixtures and equipment	429,581
Motor vehicles	156,129
Less accumulated depreciation	(1,371,325)
Total capital assets, net	1,221,917
Total assets	\$ 1,879,975
LIABILITIES	
Accrued expenses	\$ 3,144
Long-term liabilities:	
Portion due or payable within one year:	
Mortgage note payable	177,004
Portion due or payable after one year:	
Mortgage note payable	210,455
Total liabilities	390,603
NET POSITION	
Net investment in capital assets	834,458
Restricted for:	
Debt service - savings account	218,129
Scholarships	7,350
Unrestricted	429,435
Total net position	1,489,372
Total liabilities and net position	\$ 1,879,975

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

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

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2017

	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position	
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Total
Governmental activities:						
Instruction and instruction-related services	\$ 876,403	\$ -	\$ -	\$ -	\$ (876,403)	\$ (876,403)
Board	23,250	-	-	-	(23,250)	(23,250)
General administration	77,318	-	-	-	(77,318)	(77,318)
School administration	404,101	-	-	-	(404,101)	(404,101)
Fiscal services	13,466	-	-	-	(13,466)	(13,466)
Student transportation services	159,549	-	-	-	(159,549)	(159,549)
Operation and maintenance of plant	186,599	-	-	-	(186,599)	(186,599)
Interest	27,163	-	-	-	(27,163)	(27,163)
Total primary government	\$ 1,767,849	\$ -	\$ -	\$ -	(1,767,849)	(1,767,849)
General revenues:						
State and local sources					1,903,837	1,903,837
Contributions and other revenue					29,993	29,993
Total general revenues					1,933,830	1,933,830
Change in net position					165,981	165,981
Net position at beginning of year					1,323,391	1,323,391
Net position at end of year					\$ 1,489,372	\$ 1,489,372

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

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

BALANCE SHEET - GOVERNMENTAL FUND

JUNE 30, 2017

	General Fund
ASSETS	
Cash and cash equivalents	\$ 658,058
Total assets	\$ 658,058
 LIABILITIES AND FUND BALANCES	
Accrued expenditures	\$ 3,144
Total liabilities	3,144
Fund balances:	
Restricted for:	
Debt service - savings account	218,129
Scholarships	7,350
Unassigned	429,435
Total fund balances	654,914
Total liabilities and fund balances	\$ 658,058

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

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

RECONCILIATION OF THE GOVERNMENTAL FUND BALANCE SHEET
TO THE STATEMENT OF NET POSITION

JUNE 30, 2017

Total fund balances - total governmental fund	\$	654,914
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Amounts reported for governmental activities in the statement of net position are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental fund. The cost of the assets is \$2,593,242 and the accumulated depreciation is \$1,371,325.	1,221,917
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Long-term debt is not due and payable in the current period and, therefore, is not reported as a liability in the governmental fund. The long-term debt at year-end consisted of:

Mortgage note payable	<u>(387,459)</u>
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Total net position - governmental activities	\$	<u><u>1,489,372</u></u>
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The accompanying notes to financial statements are an integral part of this statement.

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

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

FOR THE YEAR ENDED JUNE 30, 2017

	<u>General Fund</u>	<u>Capital Projects Fund</u>	<u>Total Governmental Funds</u>
REVENUES			
State and local sources	\$ 1,820,169	\$ 83,668	\$ 1,903,837
Contributions and other revenue	29,993	-	29,993
Total revenues	<u>1,850,162</u>	<u>83,668</u>	<u>1,933,830</u>
EXPENDITURES			
Current:			
Instruction and instruction-related services	828,909	-	828,909
Board	23,250	-	23,250
General administration	77,318	-	77,318
School administration	383,216	-	383,216
Fiscal services	13,466	-	13,466
Student transportation services	152,244	-	152,244
Operation and maintenance of plant	181,706	-	181,706
Debt service:			
Principal	117,969	74,035	192,004
Interest	27,163	-	27,163
Capital outlay	-	9,633	9,633
Total expenditures	<u>1,805,241</u>	<u>83,668</u>	<u>1,888,909</u>
Net changes in fund balances	44,921	-	44,921
Fund balances at beginning of year	<u>609,993</u>	<u>-</u>	<u>609,993</u>
Fund balances at end of year	<u>\$ 654,914</u>	<u>\$ -</u>	<u>\$ 654,914</u>

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

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

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

FOR THE YEAR ENDED JUNE 30, 2017

Net changes in fund balances - total governmental funds	\$	44,921
Amounts reported for governmental activities in the statement of activities are different because:		
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation expense (\$80,577) exceeds capital outlays (\$9,633) in the current period.		(70,944)
Principal payments on long-term debt are expenditures in the governmental funds, but the repayments reduce long-term liabilities in the statement of net position.		<u>192,004</u>
Change in net position of governmental activities	\$	<u><u>165,981</u></u>

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

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

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2017

1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

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

The general operating authority of the School is contained in Section 1002.33, Florida Statutes. The School operates under a charter of the sponsoring school district, the District School Board of Lake County, Florida (the "School Board"). The current charter is effective until June 30, 2022 and may be renewed thereafter by mutual written agreement between the School and the School Board. At the end of the term of the charter, the School Board may choose not to renew the charter under grounds specified in the charter. In this case, the School Board is required to notify the School in writing at least 90 days prior to the charter's expiration. During the term of the charter, the School Board may also terminate the charter if good cause is shown. In the event of termination of the charter, any property purchased by the School with public funds and any unencumbered public funds, except capital outlay funds, revert back to the School Board. Any unencumbered capital outlay funds revert back to the Florida Department of Education ("FDOE") to be redistributed among eligible charter schools. The School is considered a component unit of the School Board and meets the definition of a governmental entity under the Governmental Accounting Standards Board ("GASB") accounting guidance; therefore, for financial reporting purposes, the School is required to follow generally accepted accounting principles applicable to state and local governmental units.

Criteria for determining if other entities are potential component units of the School which should be reported with the School's basic financial statements are identified and described in the GASB Codification of Governmental Accounting and Financial Reporting Standards. The application of these criteria provides for identification of any entities for which the School is financially accountable and other organizations for which the nature and significance of their relationship with the School are such that exclusion would cause the School's basic financial statements to be misleading or incomplete. Based on these criteria, no component units are included within the reporting entity of the School.

Basis of Presentation

The basic financial statements of the School have been prepared in accordance with generally accepted accounting principles as prescribed by GASB. Accordingly, both government-wide and fund financial statements are presented.

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

**NOTES TO FINANCIAL STATEMENTS
(continued)**

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

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

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

The fund financial statements provide more detailed information about the School's most significant funds, not the School as a whole. A fund is an accounting entity having a self-balancing set of accounts for recording assets, deferred outflows of resources, liabilities, deferred inflows of resources, fund balance, revenues, expenditures, and other financing sources and uses. Resources are allocated to and accounted for in individual funds based on the purposes for which they are to be spent and the means by which spending activities are controlled. The funds in the financial statements of this report are as follows:

Governmental Funds:

- General Fund – to account for all financial resources not required to be accounted for in another fund.
- Capital Projects Fund – to account for all resources for the acquisition of capital items by the School purchased with capital outlay funds.

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

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

NOTES TO FINANCIAL STATEMENTS
(continued)

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

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

Budgetary Basis of Accounting

Budgets are presented on the modified accrual basis of accounting. During the fiscal year, expenditures were controlled at the fund level.

Cash and Cash Equivalents

Investments with an original maturity of three months or less at the time they are purchased are considered to be cash equivalents. Cash deposits are held by banks qualified as public depositories under Florida law. All deposits are insured by federal depository insurance and collateralized with securities held in Florida's multiple financial institution collateral pool under Chapter 280, Florida Statutes. The School's cash consists primarily of demand and savings deposits with financial institutions.

Capital Assets and Depreciation

Expenditures for capital assets acquired for general School purposes are reported in the governmental fund that financed the acquisition. Purchased capital assets are reported at cost, net of accumulated depreciation, in the government-wide financial statements. Donated assets are recorded at fair value at the date of donation. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, which range as follows:

	<u>Years</u>
Buildings and improvements	15 - 39
Land improvements	7 - 39
Furniture, fixtures and equipment	5 - 15
Motor vehicles	5

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

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

**NOTES TO FINANCIAL STATEMENTS
(continued)**

Long-term Liabilities

Long-term obligations that will be financed by resources to be received in the future by the governmental funds are reported in the government-wide financial statements, not in the governmental funds. Changes in long-term liabilities for the current year are reported in Note 3.

Restricted Net Position/Fund Balance

Restricted net position/fund balance of \$218,129 included in the accompanying financial statements as of June 30, 2017 represents a portion of net position and the general fund balance which is restricted for debt service payments, as required by the mortgage note payable.

Fund Balance Spending Policy

The School's adopted spending policy is to spend from the restricted fund balance first, followed by committed, assigned, then the unassigned fund balance. The governing board shall review the amounts in the fund balances in conjunction with the annual budget approval and make adjustments as necessary to meet expected cash flow needs. Most funds were designated for one purpose at the time of their creation. Therefore, expenditures made out of the fund will be allocated to the applicable fund balance classifications in the order of the aforementioned spending policy. If expenditures are incurred that meet the purpose of more than one fund, they will be allocated to the restricted fund balance first and then follow the order above. Funds can only be committed by formal action of the Board of Directors. The Board of Directors has delegated authority to assign funds to the Principal up to the amount of \$50,000. The minimum fund balance requirement for the School's funds is five percent of the annual revenue.

Revenue Sources

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

Under the provisions of Section 1011.62, Florida Statutes, the School Board reports the number of full-time equivalent students and related data to the FDOE for funding through the FEFP. Funding for the School is adjusted during the year to reflect the revised calculations by the FDOE under the FEFP and the actual weighted full-time equivalent students reported by the School during the designated full-time equivalent student survey periods. The School Board receives a 5% administrative fee from the School, which is reflected as a general administration expense/expenditure in the accompanying statement of activities and statement of revenues, expenditures and changes in fund balances – governmental funds.

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

**NOTES TO FINANCIAL STATEMENTS
(continued)**

The School receives state awards for the enhancement of various educational programs. This assistance is generally received based on applications submitted to and approved by various granting agencies.

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

Income Taxes

The School is an organization exempt from income taxation under Section 501(a) as an entity described in Section 501(c)(3) of the Internal Revenue Code of 1986, as amended. Accordingly, no provision for federal income taxes is included in the accompanying financial statements.

The School has adopted guidance related to accounting for uncertainty in income taxes, which prescribes a recognition threshold and measurement attribute for financial statement recognition and measurement of a tax position that an entity takes or expects to take in a tax return. This guidance is applicable to not-for-profit organizations that may be conducting unrelated business activities, which are potentially subject to income taxes, including state income taxes.

The School assesses its income tax positions, including its continuing tax status as a not-for-profit entity, and recognizes tax benefits only to the extent that the School believes it is "more likely than not" that its tax positions will be sustained upon an examination by the Internal Revenue Service ("IRS") or the applicable state taxing authority. Accordingly, there is no provision for federal income taxes in the School's financial statements, as the School believes all tax positions, including its continuing status as a not-for-profit entity, have a greater than 50% chance of realization in the event of an IRS audit. State income taxes, which may be due in certain jurisdictions, have been assessed following the same "more likely than not" measurement threshold. With few exceptions, the School is no longer subject to U.S. federal, state and local income tax examinations by tax authorities for years before 2013.

Use of Estimates

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

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

**NOTES TO FINANCIAL STATEMENTS
(continued)**

Subsequent Events

The School has evaluated subsequent events through October 27, 2017, the date these financial statements were available to be issued.

2 CHANGES IN CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2017 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 305,395	\$ -	\$ -	\$ 305,395
Total capital assets not being depreciated	<u>305,395</u>	<u>-</u>	<u>-</u>	<u>305,395</u>
Depreciable capital assets:				
Buildings and improvements	1,650,971	5,000	-	1,655,971
Land improvements	46,166	-	-	46,166
Furniture, fixtures and equipment	424,948	4,633	-	429,581
Motor vehicles	156,129	-	-	156,129
Total depreciable capital assets	<u>2,278,214</u>	<u>9,633</u>	<u>-</u>	<u>2,287,847</u>
Less accumulated depreciation for:				
Buildings and improvements	(777,521)	(42,233)	-	(819,754)
Land improvements	(34,455)	(4,855)	-	(39,310)
Furniture, fixtures and equipment	(320,899)	(32,183)	-	(353,082)
Motor vehicles	(157,873)	(1,306)	-	(159,179)
Total accumulated depreciation	<u>(1,290,748)</u>	<u>(80,577)</u>	<u>-</u>	<u>(1,371,325)</u>
Total depreciable capital assets, net	<u>987,466</u>	<u>(70,944)</u>	<u>-</u>	<u>916,522</u>
Governmental activities capital assets, net	<u>\$ 1,292,861</u>	<u>\$ (70,944)</u>	<u>\$ -</u>	<u>\$ 1,221,917</u>

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

Depreciation expense was charged to functions as follows:

Governmental activities:	
Instruction and instruction-related services	\$ 47,494
School administration	20,885
Student transportation services	7,305
Operation and maintenance of plant	<u>4,893</u>
Total governmental activities depreciation expense	<u><u>\$ 80,577</u></u>

3 LONG-TERM LIABILITIES

Long-term liabilities activity for the year ended June 30, 2017 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance	Due Within One Year
Governmental activities:					
Mortgage note payable	\$ 554,526	\$ -	\$(167,067)	\$ 387,459	\$ 177,004
Note payable	<u>24,937</u>	<u>-</u>	<u>(24,937)</u>	<u>-</u>	<u>-</u>
Governmental activities, long-term liabilities	<u><u>\$ 579,463</u></u>	<u><u>\$ -</u></u>	<u><u>\$(192,004)</u></u>	<u><u>\$ 387,459</u></u>	<u><u>\$ 177,004</u></u>

Mortgage Note Payable

Long-term liabilities as of June 30, 2017 includes a mortgage note payable to a financial institution that is secured by the School's Eustis, Florida facility. Terms of the mortgage note include monthly principal and interest payments, with interest being calculated at the Wall Street Journal prime rate plus 1% (5.5% as of June 30, 2017). The maturity date of the mortgage note is August 2019. The loan agreement also contains certain financial covenants with which the School must comply. As of June 30, 2017, the School was in compliance with these restrictive covenants.

Note Payable

The School entered into a five year note payable in fiscal 2013 to purchase furniture and equipment. Terms of the note payable included monthly principal and interest payments of \$2,905 with a fixed interest rate of 6.0%. The maturity date of the note payable was February 2018. The School paid off this note in the current year.

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

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

<u>Year Ended June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 177,004	\$ 16,937	\$ 193,941
2019	186,989	6,952	193,941
2020	23,466	149	23,615
Total	<u>\$ 387,459</u>	<u>\$ 24,038</u>	<u>\$ 411,497</u>

4 SCHEDULE OF STATE AND LOCAL REVENUE SOURCES

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

District School Board of Lake County, Florida:	
Florida Education Finance Program	\$ 1,190,277
Class size reduction	258,865
Student transportation	91,332
Discretionary local effort	90,100
Capital outlay	83,668
Supplemental academic instruction	67,940
Discretionary millage compression	37,366
ESE guaranteed allocation	29,005
Instructional materials	21,897
Reading allocation	12,181
Digital classroom allocation	8,112
Safe schools	5,857
Discretionary lottery funds	4,487
Teacher lead	<u>2,750</u>
Total	<u>\$ 1,903,837</u>

The administrative fee paid to the School Board during the year ended June 30, 2017 totaled approximately \$77,000, which is reflected as a general administration expense/expenditure in the accompanying financial statements.

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

**NOTES TO FINANCIAL STATEMENTS
(continued)**

5 RISK MANAGEMENT PROGRAM

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

6 SALARY SAVINGS PLAN

The School has adopted a SIMPLE IRA retirement program (the "Plan"), which covers all full time employees upon employment. Eligible employees may elect to contribute a portion of their earnings to the Plan. The School makes contributions to the Plan by matching 100% of employee contributions up to 3% of compensation. Employer contributions during fiscal 2017 totaled approximately \$11,000.

7 COMMITMENTS AND CONTINGENT LIABILITIES

Grants

The School participates in state and federal grant programs, which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the School has not complied with the rules and regulations governing the grants, refunds of any money received may be required and the collectibility of any related receivable as of June 30, 2017 may be impaired. In the opinion of the School, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying financial statements for such contingencies.

Legal Matters

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

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

NOTES TO FINANCIAL STATEMENTS
(continued)

Lease Commitments

The School leases an office copier under a non-cancelable operating lease expiring in July 2021. The lease is payable in monthly installments of \$341. The aggregate remaining minimum rental payments as of June 30, 2017 under the lease are as follows:

<u>Year Ending June 30,</u>	<u>Amounts</u>
2018	\$ 4,087
2019	4,087
2020	4,087
2021	<u>341</u>
Total minimum lease payments	<u><u>\$ 12,602</u></u>

Lease expense totaled approximately \$4,000 for the year ended June 30, 2017, which is included in school administration in the accompanying financial statements.

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

REQUIRED SUPPLEMENTARY INFORMATION

BUDGETARY COMPARISON SCHEDULE – GENERAL FUND

FOR THE YEAR ENDED JUNE 30, 2017

	<u>Budgeted Amounts</u>		<u>Actual (Budgetary Basis)</u>	<u>Variance with Final Budget- Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
State and local sources	\$ 1,775,300	\$ 1,775,300	\$ 1,820,169	\$ 44,869
Contributions and other revenue	-	-	29,993	29,993
Total revenues	<u>1,775,300</u>	<u>1,775,300</u>	<u>1,850,162</u>	<u>74,862</u>
EXPENDITURES				
Current:				
Instruction and instruction-related services	772,511	772,511	828,909	(56,398)
Board	6,000	6,000	23,250	(17,250)
General administration	1,200	1,200	77,318	(76,118)
School administration	411,715	411,715	383,216	28,499
Facilities acquisition and construction	10,767	10,767	-	10,767
Fiscal services	28,400	28,400	13,466	14,934
Pupil transportation services	160,127	160,127	152,244	7,883
Operation and maintenance of plant	175,713	175,713	181,706	(5,993)
Debt service:				
Principal	160,933	160,933	117,969	42,964
Interest	36,254	36,254	27,163	9,091
Total expenditures	<u>1,763,620</u>	<u>1,763,620</u>	<u>1,805,241</u>	<u>(41,621)</u>
Net change in fund balance	11,680	11,680	44,921	33,241
Fund balance at beginning of year	<u>609,993</u>	<u>609,993</u>	<u>609,993</u>	<u>-</u>
Fund balance at end of year	<u>\$ 621,673</u>	<u>\$ 621,673</u>	<u>\$ 654,914</u>	<u>\$ 33,241</u>

See independent auditor's report.

**Independent Auditor’s 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 of Alee Academy, Inc., a Charter School
and Component Unit of the District School Board of Lake County, Florida

We have audited, in accordance with the 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, the financial statements of the governmental activities and each major fund of Alee Academy, Inc. (the “School”), a charter school and component unit of the District School Board of Lake County, Florida, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the School’s basic financial statements, and have issued our report thereon dated October 27, 2017.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit of the financial statements, we considered the School’s internal control over financial reporting (“internal control”) to determine the audit procedures that are appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of the School’s internal control.

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. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.



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*.

PURPOSE OF THIS REPORT

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

BKHM, P.A.

Winter Park, Florida
October 27, 2017

**ADDITIONAL INFORMATION REQUIRED BY
RULES OF THE AUDITOR GENERAL,
CHAPTER 10.850**

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

REPORT ON THE FINANCIAL STATEMENTS

We have audited the financial statements of the governmental activities and each major fund of Alee Academy, Inc. (the "School"), a charter school and component unit of the District School Board of Lake County, Florida, as of and for the fiscal year ended June 30, 2017, and have issued our report thereon dated October 27, 2017.

AUDITOR'S RESPONSIBILITY

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Chapter 10.850, Rules of the Auditor General.

OTHER REPORTS

We have issued our Independent Auditor's 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*. Disclosures in that report, which is dated October 27, 2017, should be considered in conjunction with this management letter.

PRIOR AUDIT FINDINGS

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 or recommendations in the preceding annual financial audit report.

OFFICIAL TITLE

Section 10.854(1)(e)5., Rules of the Auditor General, requires the name or official title of the school. The name of the School is Alee Academy, Inc.

FINANCIAL CONDITION

Section 10.854(1)(e)2., Rules of the Auditor General, requires that we report the results of our determination 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)(e)6.a. and 10.855(12), Rules of the Auditor General, we applied financial condition assessment procedures for the School. 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 same.

TRANSPARENCY

Sections 10.854(1)(e)7. and 10.855(13), Rules of the Auditor General, require that we apply appropriate procedures to determine whether the School maintains on its website the information specified in Section 1002.33(9)(p), Florida Statutes. In connection with our audit, we determined that the School maintained on its website the information specified in Section 1002.33(9)(p), Florida Statutes.

OTHER MATTERS

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. Our recommendation is as follows:

The School's transactions should be recorded and reported in accordance with the Florida Red Book ("Red Book") to enable effective monitoring of the School's financial condition. During our audit procedures, we identified several instances where transactions were not coded to the proper Red Book function. Multiple adjustments were required to present transactions in accordance with the Red Book. After we identified these errors, management recorded all necessary adjustments to correct the School's records. We recommend that the School improve its controls to ensure that transactions are recorded in accordance with the Red Book.

Section 10.854(1)(e)4., Rules of the Auditor General, requires that we address noncompliance with provisions of contracts or grant agreements, or abuse, that have occurred, or are likely to have occurred, that have an effect on the financial statements that is less than material but which warrants the attention of those charged with governance. In connection with our audit, we did not have any such findings.

PURPOSE OF THIS LETTER

Our management letter is intended solely for the information and use of the Legislative Auditing Committee, members of the Florida Senate and the Florida House of Representatives, the Florida Auditor General, Federal and other granting agencies, the Board of Directors, applicable management, and the District School Board of Lake County, Florida and is not intended to be, and should not be, used by anyone other than these specified parties.

BKHM, P.A.

Winter Park, Florida
October 27, 2017