



INDIAN RIVER CHARTER HIGH SCHOOL, INC.
(A Component Unit of the Indian River County District School Board)

Annual Financial Report

June 30, 2007

(With Independent Auditors' Report Thereon)

INDIAN RIVER CHARTER HIGH SCHOOL, INC.
(A Component Unit of the Indian River County District School Board)

Annual Financial Report

June 30, 2007

Table of Contents

	<u>Pages</u>
Independent Auditors' Report	1
Management's Discussion and Analysis	2-7
Basic Financial Statements:	
Statement of Net Assets	8
Statement of Activities	9
Balance Sheet – Governmental Funds	10
Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds	11 – 12
Statement of Fiduciary Net Assets – Agency Funds	13
Notes to Basic Financial Statements	14 – 22
Required Supplementary Information Other Than Management's Discussion and Analysis:	
Statement of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual – General Fund	23
Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters	24 – 25
Management Letter	26 – 27
Response to Management Letter	28



Morgan • Jacoby • Thurn • Boyle
& Associates, P.A.
Certified Public Accountants

Independent Auditors' Report

The Board of Directors
Indian River Charter High School, Inc.:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Indian River Charter High School, Inc., a component unit of the Indian River County District School Board, as of and for the year ended June 30, 2007, which collectively comprise the School's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the School's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Indian River Charter High School, Inc., as of June 30, 2007, and the respective changes in financial position, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated August 3, 2007 on our consideration of the Indian River Charter High School, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis and the required supplementary information other than management's discussion and analysis on pages 2 through 7 and page 23, respectively, are not a required part of the basic financial statements but are supplementary information required by the Governmental Auditing Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

MORGAN, JACOBY, THURN, BOYLE & ASSOCIATES, P.A.

August 3, 2007

INDIAN RIVER CHARTER HIGH SCHOOL, INC.
(A Component Unit of the Indian River County District School Board)

Management's Discussion and Analysis

This section of the Indian River Charter High School, Inc.'s (the School) annual financial report presents our discussion and analysis of the School's financial performance during the fiscal year that ended on June 30, 2007. Please read it in conjunction with the School's basic financial statements, which immediately follow this section.

Financial Highlights

The composition of the School's financial condition improved as a result of the School's continuing growth and resulting expansion:

- The School's net assets increased from the prior year by \$654,284 or 23.8%. Governmental general fund balances increased by \$386,318 or 64.4%.
- The School's revenues increased \$738,512 or 18.8%, due to increased enrollment and an increase in state capital outlay revenues of \$275,192. The increased operational revenues were generated by a 3.9% increase in student population from 585 for the 05/06 school year to 608 in the 06/07 school year. Due to the increased student volume more teachers were hired, resulting in higher educational expenses. Operational expenses also increased due to environmental factors such as higher utility and property insurance rates.
- Due to continued fundraising activities, two major grants in excess of \$230,000 contributed to the School's financial growth.

In addition to the above financial highlights, the School also achieved the following nonfinancial results:

- The School graduated more A.A. recipients in 2007 than any other high school in the four counties served by Indian River Community College.
- In 2006, the School was honored as one of the top 100 Florida schools for making progress in students' FCAT Writing results.
- Average SAT scores in 2007 for the School's students were above state averages in all categories, and the School's combined average scores were above national averages.
- In 2006, the School was accredited by the Southern Association of Colleges and Schools for the second time since opening in 1998.

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 School-Wide financial statements that provide both short-term and long-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 School-Wide statements.

(Continued)

- The governmental funds statements tell how basic services like regular and special education were financed in the short term as well as what remains for future spending.
- Proprietary funds statements offer short-term and long-term financial information about activities that are operated like businesses. The School currently has no proprietary funds.
- Fiduciary funds statements provide information about the financial relationships in which the School acts solely as agent for the benefit of others.

The financial statements also include notes that explain some of the information in the statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the financial statements with a comparison of the School's budget for the year.

School-Wide Statements

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

The two School-Wide statements report the School's net assets and how they have changed. Net assets – the difference between the School's assets and liabilities – are one way to measure the School's financial health or position.

- Over time, increases or decreases in the School's net assets are an indicator of whether its financial position is improving or deteriorating.
- To assess the overall health of the School, you need to consider additional nonfinancial factors such as the grade assessed under the State of Florida's school grading system and the number of full-time equivalents of students attending the School.

In the School-Wide financial statements, the School's activities are divided into two categories:

- Governmental activities – The School's basic services are included here, such as regular and special education, transportation, and administration. Intergovernmental revenues from the Indian River County School Board (initially funded by property taxes) finance most of these activities.
- Business-type activities – These activities charge fees to help cover the costs of services provided. The School currently has no activities that would be classified as business-type.

Fund Financial Statements

The fund financial statements provide more detailed information about the School's funds, focusing on its most significant or "major" funds – not the School as a whole. Funds are accounting devices the School uses to keep track of specific sources of funding and spending on particular programs:

- Some funds are required by State law.
- The School establishes other funds to control and manage money for particular purposes or to show that it is properly using certain revenues (like Federal grants).

(Continued)

There are three kinds of funds:

- Governmental funds – The School’s basic services are included in governmental funds, which generally focus on how cash and other financial assets that can readily be converted to cash flow in and out, and, the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps you 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 School-Wide statements, we provide additional information with the governmental funds statements that explains the relationship or differences between them.
- Proprietary funds – Services for which a fee is charged are generally reported in proprietary funds. Proprietary funds are reported in the same way as the School-Wide financial statements. The School currently has no funds that would be considered proprietary funds.
- Fiduciary funds – The School is the trustee, or fiduciary, for assets that belong to others, such as the student activities funds and scholarship funds. The School is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. We exclude these activities from the School-Wide financial statements because the School cannot use these assets to finance its operations.

Financial Analysis of the School as a Whole

Net assets of the School’s governmental assets consisted of the following as of June 30, 2007 and 2006:

	Net Assets – Governmental Activities	
	<u>2007</u>	<u>2006</u>
Current and other assets	\$ 1,685,093	1,089,269
Capital assets, net	<u>5,190,602</u>	<u>5,397,934</u>
Total assets	<u>6,875,695</u>	<u>6,487,203</u>
Current liabilities	172,448	200,572
Long-term debt	<u>3,300,025</u>	<u>3,537,693</u>
Total liabilities	<u>3,472,473</u>	<u>3,738,265</u>
Net assets:		
Invested in capital assets	1,962,139	1,938,470
Restricted	455,036	210,739
Unrestricted	<u>986,047</u>	<u>599,729</u>
Total net assets	\$ <u>3,403,222</u>	<u>2,748,938</u>

The School’s net assets grew by \$654,284, or 23.8% over the prior year. The increase was due to the School’s increasing operational revenues driven by increased enrollment, increased fundraising efforts, and increased capital outlay revenues. The School’s instructional and administrative staff was increased to accommodate the increased enrollment resulting in a similar increase in related expenses.

The School had no business-type assets as of June 30, 2007 and 2006.

(Continued)

The following schedule compares revenues and expenses during the years ended June 30, 2007 and 2006:

	<u>Change in Net Assets – Governmental Activities</u>	
	<u>2007</u>	<u>2006</u>
Revenues:		
General revenues:		
Intergovernmental	\$ 4,401,359	3,689,565
Other	288,094	245,964
Special item – loss on disposal of capital assets	<u>(15,412)</u>	<u>–</u>
Total revenues	<u>4,674,041</u>	<u>3,935,529</u>
Expenses:		
Instruction related	2,247,348	1,949,962
Administration	741,265	752,133
Transportation	5,479	4,426
Maintenance and operations	450,425	480,830
Other	<u>575,240</u>	<u>518,487</u>
Total expenses	<u>4,019,757</u>	<u>3,705,838</u>
Increase in net assets	\$ <u>654,284</u>	<u>229,691</u>

Total revenues for the year rose by \$738,512, or 18.8%, due to increased operational revenues allocated on a per-student basis (FTE revenues) in the amount of \$711,794 and current year fundraising revenue of \$234,089.

Total expenses increased \$313,919, or 8.5%, primarily in the areas of educational expense associated with hiring more teachers and in maintenance, utilities, insurance, and depreciation expense associated with the expanded operation of the new Visual and Performing Arts facility.

Financial Analysis of the School's Funds

The School's general fund assets increased \$360,689 during the year to \$1,147,945 as the School decreased its outstanding liabilities by \$25,629 and increased its reserves by \$386,318.

The School had no special revenue fund activities during the year ended June 30, 2007.

The net increase of \$244,297 in the School's capital projects fund reflects a \$261,675 increase in revenues and a \$79,456 increase in expenditures as the School continued to add and upgrade educational equipment in support of the School's growth in the student population, the curriculum changes, and the better management of teacher programs.

(Continued)

Capital Asset and Debt Administration

Capital Assets

As of June 30, 2007, the School had invested \$5,190,602 in a variety of capital assets, as reflected in the following schedule, which represents a net decrease (additions less disposals and depreciation) of \$207,332 or 3.8% from the end of last year.

	<u>2007</u>	<u>2006</u>
Improvements other than buildings	\$ 377,755	406,435
Buildings and improvements	4,489,921	4,701,932
Furniture, fixtures, and equipment	305,170	286,259
Audio/visual equipment	4,238	-
Computer software	<u>13,518</u>	<u>3,308</u>
Governmental capital assets, net	\$ <u>5,190,602</u>	<u>5,397,934</u>

The decreases indicated above reflect the stabilizing of the School's growth and the decrease in the necessity for adding physical property to serve that growth. Depreciation expense amounted to \$333,718 for the year ended June 30, 2007.

Long-term Debt

During the year ended June 30, 2005, the School completed construction on the buildings to house its new visual and performing arts program. The construction was being financed with long-term debt of \$3,800,000. The principal balance on the loan at June 30, 2007 is \$3,300,025. The repayment provision calls for monthly installments of \$32,878, including interest at 5%, until May 7, 2009 when interest becomes adjustable every five years thereafter, until the debt is repaid on April 7, 2018.

During the year ended June 30, 2003, the School acquired a modular building for the expansion of the School facilities, which was financed with long-term debt of \$68,616. The debt was to be repaid in monthly installments of \$1,445, including interest at 9.05%, through June 1, 2007. This obligation was paid in full during the year ended June 30, 2007.

Factors Bearing on the School's Future

At the time these financial statements were prepared and audited, the School was aware of the following circumstances that could significantly affect its financial health in the future:

- During the year ending June 30, 2004, the School began expanding its campus by constructing a building to accommodate the new visual and performing arts program, which was completed during the year ending June 30, 2005. The building's construction costs totaled \$4,335,230. This was funded by a combination of capital contributions (\$913,316 received as of June 30, 2007), capital outlay funds, and \$3,800,000 of long-term debt financing, of which \$3,300,025 is outstanding as of June 30, 2007.
- The School has implemented a capital campaign in response to continuing concerns over uncertain capital outlay funding available from the Florida Department of Education. The School anticipates that it will need such funding to respond to future capital expansion projects and to repay mortgage note obligations as they become due over the next 12 years.

(Continued)

- The School's Board of Directors, along with the other Indian River County charter schools' boards, communicated with the School District of Indian River County regarding the need to share equitably county tax dollars collected for capital projects as specified in the F.S. 1002.33 (18) (c) (g) for charter schools. At present no action or positive response has been received.
- With the increased student population and facilities, additional funding with regard to property insurance deductibles and insurance liabilities will be needed.
- The original School building (designed as a motel) and four modular buildings are aging rapidly and will be in need of major renovation or replacement in the near future.

Contacting the School's Financial Management

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the School's finances and to demonstrate the School's accountability for the money it receives. If you have any questions about this report or need additional information, contact the Indian River Charter High School, Inc., 6055 College Lane, Vero Beach, FL 32966.

INDIAN RIVER CHARTER HIGH SCHOOL, INC.
(A Component Unit of the Indian River County District School Board)

Statement of Net Assets

June 30, 2007

	Total Governmental <u>Activities</u>
Assets:	
Cash	\$ 1,265,235
Due from primary government (note 2)	270,213
Prepaid expenses	78,083
Capital assets, net of accumulated depreciation of \$1,122,753 (note 3)	5,190,602
Unamortized debt issue cost, net of accumulated amortization of \$21,113	<u>71,562</u>
Total assets	<u>6,875,695</u>
Liabilities:	
Accounts payable	7,363
Accrued expenses	165,085
Long-term debt (note 4):	
Due within one year	232,137
Due after one year	<u>3,067,888</u>
Total liabilities	<u>3,472,473</u>
Net Assets:	
Invested in capital assets, net of related debt	1,962,139
Restricted for capital projects	455,036
Unrestricted	<u>986,047</u>
Total net assets	\$ <u><u>3,403,222</u></u>

See accompanying notes to basic financial statements.

INDIAN RIVER CHARTER HIGH SCHOOL, INC.
(A Component Unit of the Indian River County District School Board)

Statement of Activities

Year Ended June 30, 2007

	<u>Expenses</u>	<u>Program Revenues – Operating Grants and Contributions</u>	<u>Net (Expense) Revenue and Changes in Net Assets – Governmental Activities</u>
Governmental activities:			
Instruction	\$ 2,088,647	–	(2,088,647)
Pupil personnel services	99,715	–	(99,715)
Instructional media services	58,986	–	(58,986)
School administration	741,265	–	(741,265)
Facilities acquisition and construction	61,340	–	(61,340)
Pupil transportation services	5,479	–	(5,479)
Operation of plant	437,878	–	(437,878)
Maintenance of plant	12,547	–	(12,547)
Interest on long-term debt	173,515	–	(173,515)
Unallocated depreciation expense	333,718	–	(333,718)
Amortization expense	<u>6,667</u>	<u>–</u>	<u>(6,667)</u>
Total governmental activities	\$ <u>4,019,757</u>	<u>–</u>	<u>(4,019,757)</u>
General revenues:			
Intergovernmental:			
Local for operational purposes			3,793,581
State through local for capital projects			607,778
Grants and contributions not restricted to specific programs			234,089
Investment earnings			43,508
Miscellaneous			10,497
Special item – loss on disposal of capital assets			<u>(15,412)</u>
Total general revenues and special item			<u>4,674,041</u>
Change in net assets			654,284
Net assets, beginning of year			<u>2,748,938</u>
Net assets, end of year			\$ <u>3,403,222</u>

See accompanying notes to basic financial statements.

INDIAN RIVER CHARTER HIGH SCHOOL, INC.
(A Component Unit of the Indian River County District School Board)

Balance Sheet
Governmental Funds

June 30, 2007

<u>Assets</u>	<u>General Fund</u>	<u>Capital Projects Fund</u>	<u>Total Governmental Funds</u>
Cash	\$ 951,314	313,921	1,265,235
Due from primary government (note 2)	-	270,213	270,213
Due from other fund (note 2)	118,548	-	118,548
Prepaid expenses	<u>78,083</u>	<u>-</u>	<u>78,083</u>
	<u>\$ 1,147,945</u>	<u>584,134</u>	<u>1,732,079</u>

Liabilities and Fund Balances

Liabilities:

Accounts payable	7,363	-	7,363
Accrued expenses	154,535	10,550	165,085
Due to other fund (note 2)	<u>-</u>	<u>118,548</u>	<u>118,548</u>
Total liabilities	<u>161,898</u>	<u>129,098</u>	<u>290,996</u>

Fund Balances:

Unreserved	<u>986,047</u>	<u>455,036</u>	<u>1,441,083</u>
Total fund balances	<u>986,047</u>	<u>455,036</u>	<u>1,441,083</u>

\$ 1,147,945 584,134

Reconciliation of governmental fund balances to entity-wide government activities net assets

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

Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds. The cost of the assets is \$6,313,355 and the accumulated depreciation is \$1,122,753.	5,190,602
Long-term debt is not due and payable in the current period and therefore is not reported as a liability in the funds.	(3,300,025)
Unamortized debt issue costs are not financial resources and therefore are not reported as assets in governmental funds. The cost of these assets is \$92,675 and the accumulated amortization is \$21,113.	<u>71,562</u>

Total net assets – governmental activities \$ 3,403,222

See accompanying notes to basic financial statements.

INDIAN RIVER CHARTER HIGH SCHOOL, INC.
(A Component Unit of the Indian River County District School Board)

Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds

Year Ended June 30, 2007

	<u>General Fund</u>	<u>Capital Projects Fund</u>	<u>Total Governmental Funds</u>
Revenues:			
State through local	\$ —	607,778	607,778
Local (note 5)	3,747,570	46,011	3,793,581
Contributions	57,555	176,534	234,089
Other	33,005	21,000	54,005
Total revenues	<u>3,838,130</u>	<u>851,323</u>	<u>4,689,453</u>
Expenditures:			
Current - education:			
Instruction	2,088,647	—	2,088,647
Pupil personnel services	99,715	—	99,715
Instructional media services	58,986	—	58,986
School administration	741,220	45	741,265
Facilities acquisition and construction	7,340	54,000	61,340
Pupil transportation services	5,479	—	5,479
Operation of plant	437,878	—	437,878
Maintenance of plant	12,547	—	12,547
Debt service:			
Principal	—	237,668	237,668
Interest	—	173,515	173,515
Capital outlay:			
Facilities acquisition and construction	—	141,798	141,798
Total expenditures	<u>3,451,812</u>	<u>607,026</u>	<u>4,058,838</u>
Net change in fund balances	386,318	244,297	630,615
Fund balances, beginning of year	<u>599,729</u>	<u>210,739</u>	<u>810,468</u>
Fund balances, end of year	<u>\$ 986,047</u>	<u>455,036</u>	<u>1,441,083</u>

See accompanying notes to basic financial statements.

(Continued)

INDIAN RIVER CHARTER HIGH SCHOOL, INC.
(A Component Unit of the Indian River County District School Board)

Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds (Continued)

Year Ended June 30, 2007

	Total Governmental Funds
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances to the Statement of Activities:	
Net change in fund balances – total governmental funds	\$ 630,615
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 as depreciation expense. This is the amount by which capital outlays (\$141,798) exceed depreciation expense (\$333,718).	(191,920)
Repayment of long-term debt principal is an expenditure in the governmental funds, but it reduces long-term debt in the statement of net assets and does not affect the statement of activities.	237,668
The payment of debt issue costs is an expenditure in the governmental funds, however, the costs are allocated over their useful lives as amortization expense. This is the amount by which debt issue costs (\$-0-) exceed amortization expense (\$6,667).	(6,667)
Loss on disposal of capital assets is an expense on the statement of net assets, but not an expenditure in the governmental funds.	(15,412)
Change in net assets of governmental activities	\$ <u>654,284</u>

See accompanying notes to basic financial statements.

INDIAN RIVER CHARTER HIGH SCHOOL, INC.
(A Component Unit of the Indian River County District School Board)

Statement of Fiduciary Net Assets
Agency Funds

June 30, 2007

	<u>Total Agency Funds</u>
Assets:	
Cash	\$ <u>89,481</u>
Total assets	\$ <u>89,481</u>
Liabilities:	
Amounts held for others	<u>89,481</u>
Total liabilities	\$ <u>89,481</u>

See accompanying notes to basic financial statements.

INDIAN RIVER CHARTER HIGH SCHOOL, INC.
(A Component Unit of the Indian River County District School Board)

Notes to Basic Financial Statements

June 30, 2007

(1) Organization and Summary of Significant Accounting Policies

Indian River Charter High School, 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 228.056, Florida Statutes. The School was incorporated on March 27, 1998 and is governed by a Board of Directors.

The general operating authority of the School is contained in Section 228.056, Florida Statutes. The School operates under a charter of the sponsoring school district, the Indian River County District School Board (the District). The current charter was renewed on January 14, 2003 and is effective until June 30, 2018. The charter may be renewed by mutual written agreement between the School and the District. 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. The School is considered a component unit of the District.

The accounting policies of the School conform to accounting principles generally accepted in the United States of America applicable to governmental units. The Governmental Accounting Standards Board (GASB) is the standard-setting body for governmental accounting and financial reporting. Pronouncements of the Financial Accounting Standards Board (FASB) issued after November 30, 1989 are not applied in the preparation of the financial statements of the proprietary fund types in accordance with GASB Statement No. 20. The following is a summary of the more significant policies.

The School has adopted GASB Statement No. 34, "Basic Financial Statements – Management's Discussion and Analysis – for State and Local Governments" (Statement 34), which has established a new reporting model, as more fully discussed below.

(a) Reporting Entity

The reporting entity is based primarily on the notion of financial accountability. A primary government is financially accountable for the organizations that make up its legal entity. It is also financially accountable for legally separate organizations if its officials appoint a voting majority of an organization's governing body and either it is able to impose its will on that organization or there is a potential for the organization to provide specific financial benefits to, or to impose specific financial burdens on, the primary government.

A primary government has the ability to impose its will on an organization if it can significantly influence the programs, projects, or activities of, or the level of services performed or provided by the organization. A financial benefit or burden relationship exists if the primary government (a) is entitled to the organization's resources; (b) is legally obligated or has otherwise assumed the obligation to finance the deficits of, or provide financial support to the organization; or (c) is obligated in some manner for the debt of the organization. There are no component units of the School.

(Continued)

INDIAN RIVER CHARTER HIGH SCHOOL, INC.
(A Component Unit of the Indian River County District School Board)

Notes to Basic Financial Statements

(b) Basic Financial Statements -- GASB Statement 34

The basic financial statements include both School-Wide (based on the School as a whole) and fund financial statements. While the previous reporting model emphasized fund types, in the current financial reporting model the focus is on either the School as a whole, or major individual funds within the fund financial statements. Both the School-Wide and fund financial statements categorize primary activities as either governmental or business type. In the School-Wide statement of net assets, governmental and business-type activities are presented separately and are reflected on a full accrual, economic resource basis, which incorporates long-term assets as well as long-term debt. As of and for the year ended June 30, 2007, the School had no activities that would be considered business-type.

The School-Wide statement of activities reflects both the gross and net costs per functional category (instruction, administration, maintenance, etc.), which are otherwise being supported by general government revenues, such as property taxes and intergovernmental revenues. The statement of activities reduces gross expenses, including depreciation, by related program revenues such as discretionary grants that can be used for either operating or capital purposes. The net cost by function is normally covered by general revenues while the previous financial reporting model did not summarize or present net cost by function or activity.

This School-Wide focus is more on the sustainability of the School as an entity and the change in aggregate financial position resulting from the activities of the fiscal period.

The fund financial statements are, in substance, very similar to the financial statements presented in the previous financial reporting model. Emphasis here is on the major funds. As of and for the year ended June 30, 2007, the School considered all of its funds to be major funds.

The governmental funds in the fund statements are presented on a current financial resource and modified accrual basis of accounting. This is the manner in which these funds are normally budgeted. This presentation is deemed most appropriate to demonstrate legal compliance and the source and use of liquid resources. Since the governmental fund statements are presented on a different measurement focus and basis of accounting than the School-Wide statements, a reconciliation is presented on each of the fund financial statements, which briefly explains the adjustment necessary to transform the fund based financial statements into the total governmental column of the School-Wide presentation.

The School's fiduciary funds are presented in the fund financial statements and since, by definition, these assets are being held for the benefit of others and cannot be used to address activities or obligations of the School, these funds are not incorporated into the School-Wide financial statements.

INDIAN RIVER CHARTER HIGH SCHOOL, INC.
(A Component Unit of the Indian River County District School Board)

Notes to Basic Financial Statements

The focus of the Statement 34 model is on the School as a whole and the fund financial statements. The focus of the fund financial statements is on the major individual funds of the governmental and business-type categories, as well as the fiduciary funds.

(c) Basis of Presentation

The financial transactions of the School are recorded in individual funds. Each fund is accounted for by providing a separate set of self-balancing accounts that records cash and other financial resources, liabilities, reserves, fund equity, revenues, and expenditures.

Statement 34 establishes minimum criteria based on percentage relationships of the funds for the determination of major funds. In addition, the School can identify additional funds to be major funds. The School has determined all of its funds to be major funds, as described below.

Governmental Funds

General Fund

The General Fund is the general operating fund of the School. It is used to account for all financial resources except those required to be accounted for in another fund.

Capital Projects Fund

Capital projects funds are used to account for the financial resources to be used for educational capital outlay needs, including new construction and renovation and remodeling projects. During the year ended June 30, 2007, the School used the capital projects fund to account for capital outlays funded by capital outlay revenues and long-term debt.

Proprietary Funds

The focus of proprietary fund measurement is upon determination of operating income, changes in fund net assets, financial position, and cash flows, which is similar to businesses. As of and for the year ended June 30, 2007, the School had no activities which would be accounted for in a proprietary fund.

Fiduciary Funds – Agency Funds

The School accounts for the scholarship fund and the student activities funds in the agency fund.

INDIAN RIVER CHARTER HIGH SCHOOL, INC.
(A Component Unit of the Indian River County District School Board)

Notes to Basic Financial Statements

Non-Current Governmental Assets and Liabilities

GASB Statement 34 eliminates the presentation of Account Groups, but provides for these amounts to be maintained and incorporates the information into the governmental column in the School-Wide statement of net assets. Previously, the General Fixed Asset Account Group was used to account for all fixed assets of the School.

(d) Basis of Accounting

Basis of accounting refers to the point at which revenues or expenditures/expenses are recognized in the accounts and reported in the financial statements. It relates to the timing of the measurements made, regardless of the measurement focus applied. The School-Wide financial statements are presented on an accrual basis of accounting, while the governmental funds in the fund financial statements are presented on a modified accrual basis.

Under the accrual method, revenues are recognized when earned and expenses are recognized when incurred.

Under the modified accrual basis of accounting, revenues, except for certain grant revenues, are recognized when they are susceptible to accrual; when they become measurable and available to finance the School's operations. "Available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Expenditures are generally recorded when the liabilities are incurred.

In applying the "susceptible to accrual" concept to intergovernmental revenues, the School may recognize receivables and revenue when the applicable eligibility requirements including time requirements have been met. Revenues for certain grants are recognized when the expenditures are made when grant terms provide that the expenditure of resources is the prime factor for determining eligibility for federal, state, and other grant resources. Resources provided before eligibility requirements are met are reported as deferred revenues. The School had no deferred revenues as of June 30, 2007.

(e) Budgets and Budgetary Accounting

The School annually adopts a budget for all governmental funds. Budgets are presented on the modified accrual basis of accounting. All budget amounts presented in the accompanying supplementary information reflect the original budget and the amended budget, which has been adjusted for authorized revisions during the year.

(f) Cash

The School's cash consists of demand deposits with financial institutions, which are insured by Federal depository insurance. As of June 30, 2007, uncollateralized and uninsured deposits in the School's cash accounts that exceeded Federal deposit insurance amounted to \$1,227,205.

(Continued)

INDIAN RIVER CHARTER HIGH SCHOOL, INC.
(A Component Unit of the Indian River County District School Board)

Notes to Basic Financial Statements

(g) Capital Assets

Property and equipment purchased are recorded at historical cost. Contributed property and equipment are recorded at the fair market value at the time received. The School's capitalization level is \$750. Other costs incurred for repair and maintenance are expensed as incurred. Depreciation on all assets is recorded in the School-Wide financial statements only and is provided on a straight-line basis over the following estimated useful lives:

	<u>Years</u>
Improvements other than buildings	10 – 20
Buildings and improvements	10 – 25
Furniture, fixtures, and equipment	5 – 10
Audio/visual equipment	7
Computer software	3

(h) Compensated Absences

Compensated absences for vacation, sick, and other personal leave are provided for all regular, full-time employees. An employee may accrue leave based on School policy which differs between full time instructional staff and full time year-round administrative staff. However, employees are not entitled to cash payment in lieu of taking leave or upon termination. Compensated absences are recorded as expenditures when leave is used and no liability for compensated absences is reflected in the financial statements.

(i) 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 228.056(13), Florida Statutes, the School reports the number of full-time equivalent (FTE) students and related data to the District. Under provisions of Section 236.081, 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 the revised calculations by the FDOE and the actual weighted FTE students reported by the School during the designated FTE student survey periods.

(Continued)

INDIAN RIVER CHARTER HIGH SCHOOL, INC.
(A Component Unit of the Indian River County District School Board)

Notes to Basic Financial Statements

(2) Receivables

As of June 30, 2007, due from primary government includes \$270,213 of funding under the Capital Outlay allocation, which is accounted for in the capital projects fund. Such funds are held in an investment account by the Indian River County School District on behalf of the School. Unexpended amounts available under the Capital Outlay program as of June 30, 2007 amounted to \$270,213.

The School's general fund made advances to the capital projects fund to provide for expenditures in anticipation of reimbursement from the District, as noted above. As of June 30, 2007, the School's general fund was due \$118,548 from the capital projects fund.

(3) General Capital Assets

The following is a summary of the changes in the School's governmental capital assets for the year ended June 30, 2007:

	Balance 2006	Additions	Retirements	Balance 2007
Improvements other than buildings	\$ 500,085	—	—	500,085
Buildings and improvements	5,190,271	16,043	16,747	5,189,567
Furniture, fixtures, and equipment	671,994	105,677	174,046	603,625
Audio/visual equipment	—	4,770	—	4,770
Computer software	<u>62,120</u>	<u>15,308</u>	<u>62,120</u>	<u>15,308</u>
Total capital assets	6,424,470	141,798	252,913	6,313,355
Less accumulated depreciation for:				
Improvements other than buildings	93,650	28,680	—	122,330
Buildings and improvements	488,339	221,971	10,664	699,646
Furniture, fixtures, and equipment	385,735	80,348	167,628	298,455
Audio/Visual equipment	—	532	—	532
Computer software	<u>58,812</u>	<u>2,187</u>	<u>59,209</u>	<u>1,790</u>
Total accumulated depreciation	1,026,536	333,718	237,501	1,122,753
Governmental capital assets, net	\$ <u>5,397,934</u>	<u>(191,920)</u>	<u>15,412</u>	<u>5,190,602</u>

In an effort to further extend the benefits of the Indian River Charter High School to a larger school population, the School completed construction of a physical addition to the school facilities during the year ended June 30, 2005. The total cost of the construction was \$4,335,230, a portion of which was funded by a \$3,800,000 mortgage note payable (see note 4). The addition was placed into service in June 2005.

INDIAN RIVER CHARTER HIGH SCHOOL, INC.
(A Component Unit of the Indian River County District School Board)

Notes to Basic Financial Statements

(4) Long-Term Debt

The following is a summary of the changes in the School's long-term debt for the year ended June 30, 2007:

	<u>Balance</u> <u>2006</u>	<u>Additions</u>	<u>Repayments</u>	<u>Balance</u> <u>2007</u>
Installment note payable, due in monthly installments of \$1,445, including interest at 9.05%, beginning August 1, 2002 through June 1, 2007	\$ 16,521	—	16,521	—
\$3,800,000 Mortgage note payable, monthly installments of \$32,878, including interest at 5%, through May 7, 2009; then interest is adjustable at the 5 year Treasury Rate plus 3% and every 5 years thereafter, monthly principal and interest payments due through April 7, 2018	<u>3,521,172</u>	<u>—</u>	<u>221,147</u>	<u>3,300,025</u>
	<u>\$ 3,537,693</u>	<u>—</u>	<u>237,668</u>	<u>3,300,025</u>

The mortgage note payable is secured by all buildings, improvements, other real property, and all personal property of the School, and is 90% guaranteed by the United States Department of Agriculture.

The future maturities of long-term debt for each of the years ending June 30 are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008	\$ 232,137	162,399	394,536
2009	244,625	149,911	394,536
2010	257,319	137,217	394,536
2011	270,671	123,865	394,536
2012	284,419	110,117	394,536
2013-2017	1,660,915	311,767	1,972,682
2018	<u>349,939</u>	<u>8,891</u>	<u>358,830</u>
	<u>\$ 3,300,025</u>	<u>1,004,167</u>	<u>4,304,192</u>

(Continued)

INDIAN RIVER CHARTER HIGH SCHOOL, INC.
(A Component Unit of the Indian River County District School Board)

Notes to Basic Financial Statements

(5) *Schedule of Local Revenue Sources*

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

<u>Sources</u>	<u>Amount</u>
Indian River County District School Board:	
Florida Education Finance Program	\$ 3,071,446
Discretionary lottery funds	24,664
Class size	484,434
School academic improvement	130,275
Instructional materials and teacher training	66,159
Safe schools	16,501
Title II funds	<u>102</u>
Total	\$ <u>3,793,581</u>

The School's charter contract provides for a discretionary District administrative fee of up to 5% of the revenues received on a per-student basis. In accordance with this provision, the District withheld 5% of such revenues, or \$189,379, from the School's revenues for the year ended June 30, 2007, which was included in school administration expenses in the accompanying statement of activities and statement of revenues, expenditures, and changes in fund balances.

(6) *Leases*

The School leases land and certain buildings under a lease agreement with Indian River Community College through March 31, 2018. The lease provides for payments of \$4,500 per month for the five years ended March 31, 2008; \$4,750 per month for the five years ended March 31, 2013; and \$5,000 per month for the five years ended March 31, 2018. Total rent expense incurred during the year ended June 30, 2007 amounted to \$54,000. The lease has an option to be renewed for ten additional years.

During the year ended June 30, 2007, the School entered into a 63 month lease for their copying equipment. The lease provides for payments of \$1,446 per month through June 30, 2012.

The future lease commitments as of June 30, 2007 follow:

2008	\$ 72,100
2009	74,350
2010	74,350
2011	74,350
2012	74,350
2013-2017	297,750
2018	<u>45,000</u>
	\$ <u>712,250</u>

INDIAN RIVER CHARTER HIGH SCHOOL, INC.
(A Component Unit of the Indian River County District School Board)

Notes to Basic Financial Statements

(7) Risk Management

The School maintains general liability, professional liability, automobile liability, and workers' compensation coverages through purchased commercial insurance with minimal or no deductibles for each line of coverage. The School also maintains property coverage with a deductible of \$100,000.

(8) Pension Plan

The School's employees participate in a salary deferral plan under Internal Revenue Code 403(b). The School currently contributes on a discretionary basis 15% of all full-time employees' salaries and matches the first \$500 in employee contributions on a dollar-for-dollar basis. The employees vest in all employer contributions evenly over a three-year period of service. During the year ended June 30, 2007, the School provided for contributions approximating \$250,000.

INDIAN RIVER CHARTER HIGH SCHOOL, INC.
(A Component Unit of the Indian River County District School Board)

Statement of Revenues, Expenditures and
Changes in Fund Balances – Budget and Actual

General Fund

Year Ended June 30, 2007

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Favorable (Unfavorable) Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
State	\$ —	—	—	—
Local	3,300,000	3,300,000	3,747,570	447,570
Other	<u>—</u>	<u>34,009</u>	<u>90,560</u>	<u>56,551</u>
Total revenues	<u>3,300,000</u>	<u>3,334,009</u>	<u>3,838,130</u>	<u>504,121</u>
Expenditures:				
Current – education:				
Instruction	2,089,051	2,178,606	2,088,647	89,959
Pupil personnel services	90,325	90,325	99,715	(9,390)
Instructional media services	63,614	62,614	58,986	3,628
School administration	587,634	587,634	741,220	(153,586)
Facilities acquisition and construction	—	—	7,340	(7,340)
Pupil transportation services	4,500	4,500	5,479	(979)
Operation of plant	410,552	407,827	437,878	(30,051)
Maintenance of plant	18,500	18,500	12,547	5,953
Capital outlay:				
Facilities acquisition and construction	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
Total expenditures	<u>3,264,176</u>	<u>3,350,006</u>	<u>3,451,812</u>	<u>(101,806)</u>
Excess of revenues over expenditures	35,824	(15,997)	386,318	402,315
Fund balances, beginning of year	<u>599,729</u>	<u>599,729</u>	<u>599,729</u>	<u>—</u>
Fund balances, end of year	\$ <u>635,553</u>	<u>583,732</u>	<u>986,047</u>	<u>402,315</u>



**Morgan • Jacoby • Thurn • Boyle
& Associates, P.A.**
Certified Public Accountants

Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters

The Board of Directors
Indian River Charter High School, Inc.:

We have audited the basic financial statements of Indian River Charter High School, Inc. (the School) as of and for the year ended June 30, 2007 and have issued our report thereon dated August 3, 2007. 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 opinion on the basic financial statements, but not for the purpose of expressing an opinion on the effectiveness of the School's internal control over financial reporting.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the organization's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles, such that there is more than a remote likelihood that a misstatement of the organization's financial statements that is more than inconsequential will not be prevented or detected by the organization's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the organization's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be 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. However, we noted other matters involving the internal control over financial reporting, which we have reported to management of the School in a separate letter dated August 3, 2007.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the School's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.



This report is intended for the information of the Board of Directors, management, the Indian River County District School Board, and the Auditor General of the State of Florida. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

MORGAN, JACOBY, TAKIEN, BOYLE & ASSOCIATES, P.A.

August 3, 2007



Management Letter

The Board of Directors
Indian River Charter High School, Inc.:

We have audited the financial statements of Indian River Charter High School, Inc., as of and for the year ended June 30, 2007, and have issued our report thereon dated August 3, 2007.

We have issued our Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters dated August 3, 2007. Disclosures in that report, if any, should be considered in conjunction with this management letter.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States. Additionally, our audit was conducted in accordance with the provisions of Chapter 10.850, Rules of the Auditor General, which govern the conduct of local governmental entity audits performed in the State of Florida and require that certain items be addressed in this letter.

The Rules of the Auditor General (Section 10.854 (1) (d) 1.), require disclosure as to whether or not prior recommendations made in the preceding annual financial report have been followed. In connection with our audit, we determined that the School has resolved all comments made in the annual financial report for the year ended June 30, 2006, except for comment 1) below.

The Rules of the Auditor General (Section 10.854 (1) (d) 2.), require a statement as to whether or not the School has met one or more of the conditions described in Section 218.503(1), Florida Statutes. 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.

The Rules of the Auditor General (Sections 10.854 (1) (d) 3.) and 4.) require disclosure in the management letter of the following matters if not already addressed in the auditors' report on internal control over financial reporting and compliance: recommendations to address deteriorating financial conditions disclosed pursuant to Section 218.39(5), Florida Statutes; violations of laws, rules, regulations, contracts, and grant agreements or abuse discovered within the scope of the financial audit; improper expenditures discovered within the scope of the financial audit; deficiencies in internal control of inconsequential effect in relation to the financial statements; and, other recommendations to improve present financial management, accounting procedures, and internal controls. Our audit disclosed the following matters:

1) Record Capital Assets

As the School acquires capital assets qualifying for capitalization in the School's investment in capital assets, not all of the additions are reflected in the appropriate capital asset accounts. We recommend that the School record all such additions in the various capital asset accounts in addition to the capital outlay expenditure accounts in the general ledger on a monthly basis.



This report is intended for the information of the Board of Directors, management, the Indian River County District School Board, and the Auditor General of the State of Florida. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

MORGAN, JACOBY, THURN, BOYLE & ASSOCIATES, P.A.

August 3, 2007

INDIAN RIVER CHARTER HIGH SCHOOL

6055 College Lane • Vero Beach, Florida 32966 • Telephone (772) 567-6600 • Fax (772) 567-2288

Cynthia A. Aversa, Director • Sean Raymond, Assistant Director

Dr. Ray Adams, Assistant Director for Artistic Development • Shenoeck Berrios, Business Manager • Jonathan Sternberg, Assistant Director for VAPA (Visual and Performing Arts)

August 9, 2007

Mr. Kip Jacoby
Morgan, Jacoby, Thurn, Boyle & Associates, P. A.
700 20th Street
Vero Beach, FL 32960

Dear Mr. Jacoby:

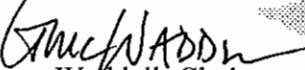
In response to your letter accompanying our audited financial report, I would like to respond on behalf of the Board of Directors. In reference to:

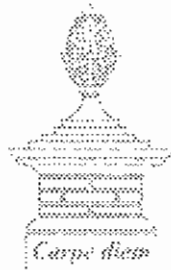
1) Record Capital Assets

We will strive to appropriately record such additions in the various capital asset accounts on a monthly basis.

We thank you for the time, effort, expertise and concern you have contributed and expressed to us during this audit process. Your assistance is greatly appreciated.

Very Truly Yours,


Gene Waddell, Chairman
Indian River Charter High School



BOARD OF DIRECTORS

Gene Waddell
Chairman

Judge David Morgan
Vice-Chairman

Robert A. Brackett
Secretary

Karl Zimmermann
Treasurer

Barbara Armour-Strimel

Pamela Bjorkman

Steve Blum

Joan L. Johnson

Rich Nalbandian

Dr. David Sullivan