

**EDUCATIONAL
HORIZONS CHARTER
SCHOOL
(A Division of Educational
Horizons, Inc.)**

**Basic Financial Statements and
Supplemental Information**

**For the year ended
June 30, 2008**

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

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Educational Horizons Charter School
Indian Harbour Beach, Florida

We have audited the accompanying financial statements of the governmental activities and each major fund of Educational Horizons Charter School (a Charter School), a division of Educational Horizons, Inc., (the "Charterholder") and a component unit of the School Board of Brevard County, Florida, as of and for the year ended June 30, 2008, which collectively comprise Educational Horizons Charter School's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of Educational Horizons Charter 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 basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As described in Note A-1, the accompanying financial statements referred to above present only the financial position of Educational Horizons Charter School at June 30, 2008, and the changes in financial position for the year then ended, and is not intended to be a complete presentation of the Charterholder.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of Educational Horizons Charter School as of June 30, 2008, and the respective changes in financial position for the year then ended in conformity with auditing standards generally accepted in the United States of America.

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In accordance with *Government Auditing Standards*, we have also issued our report dated August 27, 2008, on our consideration of Educational Horizons Charter School's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis and budgetary comparison information are not a required part of the financial statements but are supplemental information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise Educational Horizons Charter School's basic financial statements. The accompanying supplemental information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. The supplementary information has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

August 27, 2008
Melbourne, Florida

Berman Hopkins Wright & LaHam
CPAs and Associates, LLP

Management's Discussion and Analysis

As management of Educational Horizons Charter School, we offer readers of Educational Horizons Charter School's (the "School") financial statements this narrative overview and analysis of the financial activities of the School for the fiscal year ended June 30, 2008 to (a) assist the reader in focusing on significant financial issues, (b) provide an overview and analysis of the School's financial activities, (c) identify changes in the School's financial position, (d) identify material deviations from the approved budget, and (e) highlight significant issues in individual funds.

Because the information contained in the Management's Discussion and Analysis (MD&A) is intended to highlight significant transactions, events and conditions, it should be considered in conjunction with the basic financial statements found on pages 8 - 20.

Financial Highlights

- The assets of the School exceeded its liabilities at the close of the most recent fiscal year by \$101,170.
- The government's total net assets decreased by \$9,101.
- As of the close of the current fiscal year, the School's governmental funds reported combined ending fund balance of \$100,877, a decrease of \$8,308 in comparison with the prior year.

Overview of the Financial Statements

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

The School as a Whole

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

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

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

	<u>2008</u>	<u>2007</u>	<u>Change</u>	<u>%</u>
Current assets	\$ 106,993	\$ 121,523	\$ (14,530)	-12%
Capital assets - net	293	1,086	(793)	-73%
Total assets	<u>107,286</u>	<u>122,609</u>	<u>(15,323)</u>	<u>-12%</u>
Current liabilities	<u>6,116</u>	<u>12,338</u>	<u>6,222</u>	<u>50%</u>
Net assets	<u>\$ 101,170</u>	<u>\$ 110,271</u>	<u>\$ (9,101)</u>	<u>-8%</u>
Net assets consist of:				
Invested in capital assets	\$ 293	\$ 1,086	\$ (793)	-73%
Unrestricted net assets	<u>100,877</u>	<u>109,185</u>	<u>(8,308)</u>	<u>-8%</u>
Net assets	<u>\$ 101,170</u>	<u>\$ 110,271</u>	<u>\$ (9,101)</u>	<u>-8%</u>

Net assets invested in capital assets decreased due to depreciation expense in the current fiscal year. The majority of capital assets include furniture, fixtures, and equipment.

The decrease in current assets was due to a reduction in cash primarily related to the decrease of enrollment in the current year. In addition, the number of teachers who chose to be paid over a 12-month period was less than the prior year which resulted in a reduction of accrued payroll and payroll taxes.

Changes in the School's revenues were as follows:

	<u>2008</u>	<u>2007</u>	<u>Change</u>	<u>%</u>
Revenues:				
Program revenues				
Operating grants	\$ 36,490	\$ 48,791	\$ (12,301)	-25%
General revenues	<u>364,168</u>	<u>415,179</u>	<u>(51,011)</u>	<u>-12%</u>
Total revenues	<u>\$ 400,658</u>	<u>\$ 463,970</u>	<u>\$ (63,312)</u>	<u>-14%</u>

The significant portion of revenue is provided by the Department of Education for funding through the Florida Education Finance Program based on the number of enrolled full time equivalent students. In the current fiscal year the Schools enrollment of the decreased by approximately fifteen students; therefore, creating a decrease in revenue.

Changes in the School's expenses were as follows:

	2008	2007	Change	%
Basic instruction	\$ 197,417	\$ 209,173	\$ (11,756)	-6%
Exceptional instruction	19,159	10,555	8,604	82%
Staff development	69	7,441	(7,372)	-99%
School administration	111,870	120,437	(8,567)	-7%
Fiscal services	7,681	10,250	(2,569)	-25%
Operation of plant	71,471	72,183	(712)	-1%
Maintenance of plant	2,092	2,101	(9)	0%
Total expenses	<u>\$ 409,759</u>	<u>\$ 432,140</u>	<u>\$ (22,381)</u>	<u>-5%</u>

The overall decrease in expenses is primarily based on a decrease in revenues and therefore less funding for certain purchased items or services. The staff development function decreased as a result of no teachers attending training and fiscal services for the timing of auditing fees in the current year. Other costs are variable depending on circumstances.

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

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

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

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

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

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

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

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

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

The School maintains two individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund and capital outlay fund which is the School's major funds.

The School adopts an annual appropriated budget for its governmental funds. A budgetary comparison schedule has been provided for the school to demonstrate compliance with this budget.

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

Notes to financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

The notes to the financial statements can be found starting on page 14 of this report.

Government-Wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the School, assets exceeded liabilities by \$101,170 at the close of the most recent fiscal year.

For the end of the current fiscal year, the School is reporting a positive balance in its unrestricted net assets totaling \$100,877.

Financial Analysis of the Government's Funds

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

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

As of the current fiscal year, the School's governmental funds reported combined ending fund balance of \$100,877.

The general fund is the main operating fund of the School. At the end of the current fiscal year, the unreserved fund balance of the general fund was \$100,877.

During the current fiscal year, the fund balance of the School's general fund decreased by \$8,308.

General Fund Budgetary Highlights

Budgeted revenues exceeded actual revenues by \$11,332. Budget expenditures exceeded the actual expenditures by \$2,646.

Capital asset and debt administration

Capital assets. The School's investment in capital assets for its governmental type activities as of June 30, 2008, amounts to \$293 (net of accumulated depreciation). This investment in capital assets includes improvements other than buildings and furniture, fixtures and equipment.

Debt. The School reports no long term debt at June 30, 2008.

Request for Information

This financial report is designed to provide a general overview of the School's finances for all those with an interest in the School's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Educational Horizons Charter School, 1240 Banana River Drive, Indian Harbour Beach, FL 32937.

**Educational Horizons Charter School
(A Division of Educational Horizons, Inc.)**

STATEMENT OF NET ASSETS

June 30, 2008

	<u>Governmental Activities</u>
ASSETS	
CURRENT ASSETS	
Cash	\$ 105,059
Due from other agencies	1,093
Prepaid expenses	841
Total current assets	<u>106,993</u>
CAPITAL ASSETS	
Capital assets, net of accumulated depreciation	
Improvements other than buildings	114
Furniture, fixtures and equipment	179
Total capital assets	<u>293</u>
Total assets	<u>107,286</u>
LIABILITIES AND NET ASSETS	
LIABILITIES	
Accrued payroll and payroll taxes	<u>6,116</u>
NET ASSETS	
Investment in capital assets	293
Unrestricted	100,877
Total net assets	<u>\$ 101,170</u>

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

**Educational Horizons Charter School
(A Division of Educational Horizons, Inc.)**

STATEMENT OF ACTIVITIES

For the year ended June 30, 2008

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Governmental activities:					
Basic instruction	\$ 197,417	\$ -	\$ -	\$ -	\$ (197,417)
Exceptional instruction	19,159	-	-	-	(19,159)
Staff development	69	-	-	-	(69)
School administration	111,870	-	-	-	(111,870)
Fiscal services	7,681	-	-	-	(7,681)
Operation of plant	71,471	-	36,490	-	(34,981)
Maintenance of plant	2,092	-	-	-	(2,092)
Total governmental activities	<u>\$ 409,759</u>	<u>\$ -</u>	<u>\$ 36,490</u>	<u>\$ -</u>	<u>(373,269)</u>
			General revenues:		
			Brevard County District School Board	361,002	
			Interest income	125	
			Other revenues	3,041	
			Total revenues	<u>364,168</u>	
			Change in net assets	(9,101)	
			Net assets at July 1, 2007	<u>110,271</u>	
			Net assets at June 30, 2008	<u>\$ 101,170</u>	

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

**Educational Horizons Charter School
(A Division of Educational Horizons, Inc.)**

BALANCE SHEET - GOVERNMENTAL FUNDS

June 30, 2008

	General Fund	Capital Outlay	Total Governmental Funds
ASSETS			
Cash	\$ 105,059	\$ -	\$ 105,059
Due from other funds	1,025	-	1,025
Due from other agencies	68	1,025	1,093
Prepaid expenses	841	-	841
Total assets	\$ 106,993	\$ 1,025	\$ 108,018
 LIABILITIES AND FUND BALANCES			
LIABILITIES			
Accrued payroll and payroll taxes	\$ 6,116	\$ -	\$ 6,116
Due to general fund	-	1,025	1,025
Total liabilities	6,116	1,025	7,141
FUND BALANCES			
Unreserved	100,877	-	100,877
Total liabilities and fund balances	\$ 106,993	\$ 1,025	\$ 108,018

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

**Educational Horizons Charter School
(A Division of Educational Horizons, Inc.)**

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

June 30, 2008

Fund balances - total governmental funds \$ 100,877

The net assets 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 in the governmental funds. Those assets consist of:

Improvements other than buildings, net of \$219 accumulated depreciation	\$ 114	
Furniture, fixtures and equipment, net of \$12,608 accumulated depreciation	<u>179</u>	
Total capital assets		<u>293</u>

Total net assets of governmental activities \$ 101,170

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

**Educational Horizons Charter School
(A Division of Educational Horizons, Inc.)**

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

For the year ended June 30, 2008

	General Fund	Capital Outlay Fund	Total Governmental Funds
Revenues			
State passed through local school district	\$ 361,002	\$ 36,490	\$ 397,492
Interest income	125	-	125
Other revenues	3,041	-	3,041
Total revenues	364,168	36,490	400,658
Expenditures			
Current:			
Basic instruction	197,151	-	197,151
Exceptional instruction	19,159	-	19,159
Staff development	69	-	69
School administration	111,343	-	111,343
Fiscal services	7,681	-	7,681
Operation of plant	34,981	36,490	71,471
Maintenance of plant	2,092	-	2,092
Total expenditures	372,476	36,490	408,966
Deficiency of revenue under expenditures	(8,308)	-	(8,308)
Fund balances at July 1, 2007	109,185	-	109,185
Fund balances at June 30, 2008	\$ 100,877	\$ -	\$ 100,877

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

**Educational Horizons Charter School
(A Division of Educational Horizons, Inc.)**

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

For the year ended June 30, 2008

Net change in fund balances - total government funds	\$ (8,308)
The change in net assets reported for governmental activities in the statement of activities is 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.	
Depreciation expense	<u>(793)</u>
Change in net assets of governmental activities	<u>\$ (9,101)</u>

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

**Educational Horizons Charter School
(A Division of Educational Horizons, Inc.)**

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1. Reporting entity

Educational Horizons Charter School (a Charter School) is a division of Educational Horizons, Inc. (the "Charterholder"), a not-for-profit corporation organized pursuant to Chapter 617, Florida Statutes, the Florida Not-For-Profit Corporation Act, and Section 1002.33, Florida Statutes. The governing body of the School is the Board of Directors, which is composed of four voting members and one non-voting member. The financial information presented is that of Educational Horizons Charter School only.

The general operating authority of the School is contained in Section 1002.33, Florida Statutes. The School operates under a charter of the sponsoring school district, the School Board of Brevard County, Florida (the "District"). The current charter is effective until June 30, 2008. 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. Educational Horizons Charter School is considered a component unit of the School Board of Brevard County, Florida.

The School is currently in the process of renewing the Charter agreement with the School District. An extension of the current Charter has been granted until such time as a renewed agreement can be established.

2. Government-wide and fund financial statements

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

Net assets, the difference between assets and liabilities, as presented in the statement of net assets, are subdivided into three categories: amounts invested in capital assets, restricted net assets, and unrestricted net assets.

Net assets are reported as restricted when constraints are imposed on the use of the amounts either externally by creditors, grantors, contributors, or by laws or regulations of other governments, or enabling legislation.

**Educational Horizons Charter School
(A Division of Educational Horizons, Inc.)**

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

The statement of activities presents a comparison between the direct and indirect expenses of a given function and its program revenues, and displays the extent to which each function contributes to the change in net assets for the fiscal year. Direct expenses are those that are clearly identifiable to a specific function. Indirect expenses are costs the School has allocated to various functions. Program revenues consist of charges for services, operating grants and contributions, and capital grants and contributions. Charges for services refer to amounts received from those who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment.

Grants and contributions consist of revenues that are restricted to meeting the operational or capital requirements of a particular function. Revenues not classified as program revenues are reported as general revenues. Separate fund financial statements report detailed information about the School's governmental funds. The focus of the governmental fund financial statements is on major funds. Therefore, major funds are reported in separate columns on the fund financial statements. The School reports both of its funds as its major funds. A reconciliation is provided that converts the results of governmental fund accounting to the government-wide presentation.

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

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

All governmental fund financial statements are reported using a current financial resources measurement focus on a modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues, except for certain grant revenues, are recognized in the accounting period in which they become both measurable and available to finance expenditures of the current period. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. For this purpose, the School considers revenues to be available if they are collected within sixty days of the end of the current fiscal period. When grant terms provide that the expenditure of resources is the prime factor for determining eligibility for federal, state, and other grant resources, revenue is recognized at the time the expenditure is made.

Under the modified accrual basis of accounting, expenditures are generally recorded when the related fund liability is incurred. However, principal and interest on general long-term debt is recorded as expenditures only when payment is due.

**Educational Horizons Charter School
(A Division of Educational Horizons, Inc.)**

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

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

Capital Outlay Fund - in accordance with guidelines established by the School Board of Brevard County, Florida, this fund accounts for all resources for the leasing or acquisition of capital facilities by the School to the extent funded by capital outlay funds.

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

4. Cash

Cash is made up of cash on hand at the school, a checking account, and a money market account held at a financial institution. The School has no cash equivalents.

5. Receivables

The School's receivables consist of amounts due from other agencies. After reviewing the individual account balances, the School's management has determined that 100% of receivables are fully collectible. Therefore, no allowance for doubtful accounts has been provided.

6. Interfund receivables and payables

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

**Educational Horizons Charter School
(A Division of Educational Horizons, Inc.)**

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

7. Capital assets

Capital assets are reported in the applicable governmental columns on the government-wide financial statements. Capital assets are defined by the School as assets with an initial individual cost of more than \$500 and an estimated useful life of more than two years. Such assets are recorded at historical cost. Donated capital assets are recorded at their estimated fair market values at the date of donation.

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

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

<u>Asset Class</u>	<u>Estimated Useful Lives</u>
Improvements other than buildings	10 - 15
Furniture, fixtures and equipment	5 - 10

8. Revenue sources

Revenues for current operations are received primarily from the Brevard County District School Board pursuant to the funding provisions included in the School's charter. In accordance with the funding provisions of the charter and Section 1002.33(17), Florida Statutes, the School reports the number of full-time equivalent (FTE) students and related data to the District. Under the provisions of Section 1011.62, Florida Statutes, the District reports the number of FTE students and related data to the Florida Department of Education (DOE) for funding through the Florida Education Finance Program. Funding for the School is adjusted during the year to reflect the revised calculations by the DOE under the Florida Education Finance Program and the actual weighted FTE students reported by the School during the designated FTE student survey periods.

The School receives federal awards for the enhancement of various educational programs. This assistance is generally received based on applications submitted to and approved by various granting agencies. These federal awards may have eligibility requirements whereby the issuance of grant funds is withheld until such eligible expenditures are incurred. Revenues for these awards are recognized only to the extent that eligible expenditures have been incurred. Additionally, other revenues may be derived from various fundraising activities and certain other programs.

**Educational Horizons Charter School
(A Division of Educational Horizons, Inc.)**

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

9. Use of estimates

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

NOTE B - CASH

Custodial Credit Risk - Custodial credit risk is the risk that in the event of bank failure, the School's deposits may not be returned. The School does not have a policy regarding custodial credit risk for deposits. At June 30, 2008, the School's deposits had a carrying amount of \$105,059 and bank balance of \$114,182. Of the bank balance, \$14,182 was not insured by federal deposit insurance corporation (FDIC).

NOTE C - CAPITAL ASSETS

Changes in capital assets are as follows:

	Balance at July 1, 2007	Additions	Deletions	Balance at June 30, 2008
Capital assets depreciated:				
Improvements other than buildings	\$ 333	\$ -	\$ -	\$ 333
Furniture, fixtures and equipment	12,787	-	-	12,787
Total assets depreciated	<u>13,120</u>	<u>\$ -</u>	<u>\$ -</u>	<u>13,120</u>
Less accumulated depreciation:				
Improvements other than buildings	197	\$ 22	\$ -	219
Furniture, fixtures and equipment	11,837	771	-	12,608
Total accumulated depreciation	<u>12,034</u>	<u>\$ 793</u>	<u>\$ -</u>	<u>12,827</u>
Total governmental activities capital assets, net	<u>\$ 1,086</u>			<u>\$ 293</u>

Depreciation expense for the year ended June 30, 2008 was charged to functions of the School as follows:

**Educational Horizons Charter School
(A Division of Educational Horizons, Inc.)**

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

NOTE C - CAPITAL ASSETS (continued)

Basic instruction	\$	266
School administration		527
	\$	793

NOTE D - CONCENTRATIONS

Revenue sources

As stated in Note A-8, the School receives revenues for current operations primarily from the State of Florida through the District. The following is a schedule of revenue sources and amounts:

Sources	Amounts
School Board of Brevard County, Florida:	
Base funding	\$ 234,853
Declining enrollment allocation	609
Safe schools	1,368
ESE allocation	33,927
Supplemental academic instruction	17,188
Discretionary millage	19,908
Discretionary compression	3,622
Discretionary lottery	2,543
Instructional materials allocation	5,387
Class size reduction	55,893
Administration fee withheld (5%)	(18,767)
Subtotal	356,531
Capital outlay	36,490
School board allocation	4,471
Total School Board of Brevard County, Florida	397,492
Other revenues:	
Student activities	784
Interest income	125
Other revenues	2,257
Total revenues	\$ 400,658

**Educational Horizons Charter School
(A Division of Educational Horizons, Inc.)**

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

NOTE E - COMMITMENTS AND CONTINGENCIES

1. Management service contract

The School has entered into a service agreement, commencing on June 24, 2004, with The Montessori Group, Inc (the "management company"). The contract is for management services through the duration of the School's charter. The management company is responsible for organizing, development, managing, and operating the School. Current year management fees charged to operations totaled \$47,699. The fee is based on 12% of state passed through local school district revenue as defined in the agreement and is payable in an amount equal to one-twelfth of the annual budgeted administrative allocation.

2. Operating leases

The School is obligated to pay a facility allocation to a related party for the building where the School is located. The lease expired June 30, 2008. Current year lease expense charged to operations totaled \$58,677. The School signed a lease extension for fiscal year end June 30, 2009 with the same terms as the current agreement.

In addition, the School leases office equipment under an operating lease that expires December 31, 2008. Current lease expense charged to operations totaled \$1,611.

The future minimum lease payments for the year ended June 30, 2009 are \$59,450.

NOTE F - RELATED PARTY TRANSACTION

As stated above the School has an operating lease for facilities with the management company. Details of the lease agreement can be seen at Note E-2.

NOTE G - LINE OF CREDIT

On August 2, 2001, the School obtained a \$25,000 line of credit with a bank to provide additional working capital. Interest on the note is the *Wall Street Journal* prime rate (5% at June 30, 2008) plus 2%. There is no collateral securing the line, and as of June 30, 2008, the loan balance was zero.

NOTE H - RISK MANAGEMENT

The School is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters for which the School carries commercial insurance. Under the property insurance policy, the School's liability is \$1,000 per occurrence. Settled claims resulting from the risks described above have not exceeded the insurance coverage for the previous three years.

REQUIRED SUPPLEMENTAL INFORMATION

**Educational Horizons Charter School
(A Division of Educational Horizons, Inc.)**

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

For the year ended June 30, 2008

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
Revenues				
FTE revenue	\$ 349,000	\$ 362,000	\$ 361,002	\$ (998)
Other revenues				
Donations	-	10,000	-	(10,000)
Student activities	1,000	1,000	784	(216)
Interest income	300	300	125	(175)
Other revenues	35,000	2,200	2,257	57
Total revenues	<u>385,300</u>	<u>375,500</u>	<u>364,168</u>	<u>(11,332)</u>
Expenditures				
Current:				
Salaries - administrative	69,000	50,400	47,699	2,701
Salaries - educational	194,000	185,750	180,134	5,616
Benefits	-	23,698	23,126	572
Contracted services	56,000	63,757	63,492	265
Insurance - liability	5,000	5,000	4,963	37
Postage	300	100	88	12
Printing	600	850	1,089	(239)
Supplies	2,000	2,000	2,702	(702)
Instructional supplies	3,000	3,060	3,100	(40)
Textbooks	3,350	3,250	3,210	40
Equipment under \$500	280	280	267	13
Computers under \$500	-	-	80	(80)
Bank charges	-	-	51	(51)
Rental equipment	1,700	1,700	1,611	89
Instructional staff training	100	100	69	31
Miscellaneous	1,763	1,100	982	118
Student activities	1,000	1,000	342	658
Telephone	1,100	1,100	1,030	70
Utilities	7,000	6,700	6,532	168
Rent	26,177	13,677	22,187	(8,510)
Accounting and auditing	9,500	9,500	7,630	1,870
Repair other equipment	300	350	342	8
Site improvements	500	1,750	1,750	-
Total expenditures	<u>382,670</u>	<u>375,122</u>	<u>372,476</u>	<u>2,646</u>
Excess (deficiency) of revenues over (under) expenditures	2,630	378	(8,308)	(8,686)
Fund balance at July 1, 2007	109,185	109,185	109,185	-
Fund balance at June 30, 2008	<u>\$ 111,815</u>	<u>\$ 109,563</u>	<u>\$ 100,877</u>	<u>\$ (8,686)</u>

See accompanying notes to required supplemental information.

**Educational Horizons Charter School
(A Division of Educational Horizons, Inc.)**

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

For the year ended June 30, 2008

	<u>Budgeted Amounts</u>			<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues				
Capital outlay funds	<u>\$ 32,500</u>	<u>\$ 45,000</u>	<u>\$ 36,490</u>	<u>\$ (8,510)</u>
Expenditures				
Rent	<u>32,000</u>	<u>45,000</u>	<u>36,490</u>	<u>8,510</u>
Excess of revenues over expenditures	<u>500</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund balance at July 1, 2007	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund balance at June 30, 2008	<u><u>\$ 500</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>

See accompanying notes to required supplemental information.

**Educational Horizons Charter School
(A Division of Educational Horizons, Inc.)**

NOTES TO REQUIRED SUPPLEMENTAL INFORMATION

June 30, 2008

NOTE A - BUDGETARY INFORMATION

1. Budgetary basis of accounting

Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. Annual budgets are adopted for the governmental funds and may be amended by the Board of Directors (the "Board"). The budgets presented for the fiscal year ended June 30, 2008 have been amended according to Board procedures.

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

SUPPLEMENTAL INFORMATION

**Educational Horizons Charter School
(A Division of Educational Horizons, Inc.)**

SCHEDULE OF FUNCTIONAL EXPENDITURES - GENERAL FUND

For the year ended June 30, 2008

	Basic Instruction	Exceptional Instruction	Staff Development
Bank service fees	\$ -	\$ -	\$ -
Group insurance	2,924	-	-
Insurance	-	-	-
Miscellaneous	178	-	-
Postage	-	-	-
Printing	1,089	-	-
Professional services	4,048	4,838	69
Rental	-	-	-
Repairs and maintenance	-	-	-
Salaries	167,341	12,793	-
Social security	13,044	957	-
Student activities	342	-	-
Supplies	2,844	256	-
Telephone	-	-	-
Textbooks	3,080	130	-
Unemployment compensation	1,208	86	-
Utilities	-	-	-
Workers' compensation	706	99	-
Equipment	267	-	-
Computer hardware	80	-	-
	<u>\$ 197,151</u>	<u>\$ 19,159</u>	<u>\$ 69</u>

School Administration	Fiscal Services	Operation of Plant	Maintenance of Plant	Total
\$ -	\$ 51	\$ -	\$ -	\$ 51
-	-	-	-	2,924
4,963	-	-	-	4,963
804	-	-	-	982
88	-	-	-	88
-	-	-	-	1,089
49,374	7,630	5,232	1,750	72,941
1,611	-	22,187	-	23,798
-	-	-	342	342
47,699	-	-	-	227,833
3,567	-	-	-	17,568
-	-	-	-	342
2,702	-	-	-	5,802
-	-	1,030	-	1,030
-	-	-	-	3,210
166	-	-	-	1,460
-	-	6,532	-	6,532
369	-	-	-	1,174
-	-	-	-	267
-	-	-	-	80
<u>\$ 111,343</u>	<u>\$ 7,681</u>	<u>\$ 34,981</u>	<u>\$ 2,092</u>	<u>\$ 372,476</u>

**Educational Horizons Charter School
(A Division of Educational Horizons, Inc.)**

SCHEDULE OF FUNCTIONAL EXPENDITURES - CAPITAL OUTLAY FUND

For the year ended June 30, 2008

	<u>Operation of Plant</u>
Rentals	<u>\$ 36,490</u>

**Educational Horizons Charter School
(A Division of Educational Horizons, Inc.)**

SCHEDULE OF REVENUES AND EXPENDITURES - CATEGORICAL FUNDS

For the year ended June 30, 2008

Categorical	Prior Year	FY 2007 -2008		
	Carryforward	Revenue	Expenditures	Carryforward
Summer reading	\$ -	\$ 3,457	\$ 3,457	\$ -
Instructional materials	-	5,387	5,387	-
Supplemental academic	-	17,188	17,188	-
Florida teacher lead	-	963	963	-
Safe schools	-	1,368	1,368	-
ESE allocation	-	33,927	33,927	-
Declining enrollment	-	609	609	-
Discretionary millage	-	19,908	19,908	-
Discretionary compres	-	3,622	3,622	-
Discretionary lottery	-	2,594	2,594	-
Class size reduction	-	55,893	55,893	-
Total	\$ -	\$ 144,916	\$ 144,916	\$ -

**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**

Partners:

John R. Hopkins
James A. Wright, Jr.
James S. LaHam
Ross A. Whitley
W. Ed Moss
Philip J. Hayes
Brian L. Nemeroff

To the Board of Directors
Educational Horizons Charter School
Indian Harbour Beach, Florida



We have audited the accompanying financial statements of the governmental activities and each major fund of Educational Horizons Charter School (a Charter School), a division of Educational Horizons, Inc., (the "Charterholder") and a component unit of the School Board of Brevard County, Florida, as of and for the year ended June 30, 2008, which collectively comprise Educational Horizons Charter School's basic financial statements and have issued our report thereon dated August 27, 2008. 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

8035 Spyglass Hill
Road
Melbourne, FL 32940
321.757.2020
FAX 321.242.4844

In planning and performing our audit, we considered Educational Horizons Charter School's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements but not for the purpose of expressing an opinion on the effectiveness of Educational Horizons Charter School's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Educational Horizons Charter School's internal control over financial reporting.

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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 entity'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 Educational Horizons Charter School's financial statements that is more than inconsequential will not be prevented or detected by the Educational Horizons Charter School's internal control.

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A material weakness is a significant deficiency, or combination of significant deficiencies, that result in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Educational Horizons Charter School'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 the internal control that might be significant deficiencies or material weaknesses. We did not identify and deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and other matters

As part of obtaining reasonable assurance about whether Educational Horizons Charter 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 did not disclose any instances of noncompliance or other matters that is required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of Educational Horizons Charter School's management, the School Board of Brevard County, Florida, the State of Florida Office of the Auditor General and other regulatory agencies federal and state governments, and is not intended to be and should not be used by anyone other than these specified parties.

August 27, 2008
Melbourne, Florida

Berman Hopkins Wright & LaHam
CPAs and Associates, LLP

MANAGEMENT LETTER

Partners:

John R. Hopkins
James A. Wright, Jr.
James S. LaHam
Ross A. Whitley
W. Ed Moss
Philip J. Hayes
Brian L. Nemeroff

To the Board of Directors
Educational Horizons Charter School
Indian Harbour Beach, Florida

We have audited the accompanying financial statements of the governmental activities and each major fund of Educational Horizons Charter School (a Charter School), a division of Educational Horizons, Inc., (the "Charterholder") and a component unit of the School Board of Brevard County, Florida, as of and for the fiscal year ended June 30, 2008, and have issued our report thereon dated August 27, 2008.

We issued our report on internal control over financial reporting and on compliance and other matters dated August 27, 2008. Disclosures in that report, if any, should be considered in conjunction with this management letter.

The discussion required by the rules of the Auditor General follows:

1. See the attached list for corrective actions, if any, that have been taken to address any significant findings and recommendations made in the preceding annual financial audit report, not otherwise addressed in the auditors report pursuant to Rule 10.856(2)(b)(2).
2. In connection with our audit, we determined that the School has not met the condition described in Section 218.503(1), Florida Statutes.
3. We have applied financial assessment procedures pursuant to the rules of the Auditor General 10.855(10). There are no deteriorating financial conditions disclosed pursuant to Section 218.39(5), Florida Statutes.
4. See attached list for any recommendations to improve the school's financial management.
5. See the attached list for any violations of laws, regulations, contracts or grant agreements, or abuse that have occurred, or are likely to have occurred, that have an effect on the determination of financial statement amount that is less than material but more than inconsequential.



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6. See attached recommendations for matters, based on our professional judgment, that were inconsequential to the determination of the financial statement amounts considering both quantitative and qualitative factors, including, but not limited to, the following:
 - a. Violations of laws, rules, regulations, contracts, and grant agreements or abuse that have occurred, or are likely to have occurred.
 - b. Improper expenditures discovered within the scope of the financial audit.
 - c. Control deficiencies that are not significant deficiencies, including, but not limited to :
 - Improper or inadequate accounting procedures (e.g., the omission of required disclosures from the annual financial statements).
 - Failures to properly record financial transactions.
 - In accuracies, shortages, defalcations, and instances of fraud discovered by, or that come to the attention of, the auditor.

7. The official title of the School is *Educational Horizons Charter School*, a division of Educational Horizons, Inc., (the "Charterholder"), which is a not-for-profit corporation organized pursuant to Chapter 617, Florida Statutes, the Florida Not-For-Profit Corporation Act, and Section 1002.33, Florida Statutes.

This management letter is intended solely for the information and use of Educational Horizons Charter School's management, the School Board of Brevard County, the State of Florida Office of the Auditor General and other regulatory agencies federal and state governments, and is not intended to be and should not be used by anyone other than these specified parties.

August 27, 2008
Melbourne, Florida

Berman Hopkins Wright & LaHam
CPAs and Associates, LLP

Prior Year Recommendations and Findings Corrected

06-1 Student attendance

During our testing, we selected a sample of students who arrived late or left early to verify if their attendance was recorded correctly.

Our testing determined that one student was reported present; however, the student did not complete the required four hours to be reported as such.

We recommend management institute a policy to reconcile attendance to the sign in/out log to ensure students meet this attendance requirement.

Status as of June 30, 2007:

Criteria: In accordance with the *Brevard County (Florida) Bylaws & Policies*, 5200 - Attendance, "All students must be in attendance a minimum of four (4) hours of instructional time to be considered present each day".

Condition: Out of a population of approximately 71 students, five were tested and two students were not reported correctly. The following were noted:

- Per the sign in/out sheet one student did not meet the four hour minimum requirement by five minutes
- One student arrived fifteen minutes late and was not reported as tardy

Questioned costs: Not applicable

Cause: Proper reconciliations from the sign in/out sheets to the District report were not correctly performed.

Effect: Attendance reported incorrectly.

Auditors' recommendation: We recommend that the four hour requirement become the School's threshold when sign in/out reconciliations are performed on the reported attendance.

Status as of June 30, 2008:

Management instituted a policy and is effectively following that policy to ensure students meet the attendance requirement.

Prior Year Recommendations and Findings Corrected (continued)

06-2 Segregation of duties

Internal controls are designed to safeguard assets and help or detect losses from employee dishonesty or error. A fundamental concept in a good system of internal control is the segregation of duties.

Although the School has a small number of people performing a variety of duties, some are incompatible. Personnel responsible for the general ledger function also have check signing authority and have custody of cash receipts.

We recommend the School separate the custody control over cash and the general ledger/accounting/journal entry function.

Status as of June 30, 2007:

Criteria: Internal controls are designed to safeguard assets and help or detect losses from employee dishonesty or error. A fundamental concept in a good system of internal control is the segregation of duties.

Condition: A sample of 25 was selected from a population of approximately 240 disbursements. Out of the 25 approximately 50% of the checks were signed by the individual that is in charge of recording disbursements in the general ledger.

Questioned costs: Not applicable

Cause: For emergency purposes the individual is included on the School's check signer card.

Effect: The School is at risk for misstatement due to lack of controls over cash disbursements.

Auditors' recommendation: We recommend that the individual in charge of recording disbursements in the general ledger be removed from the School's check signer card.

Status as of June 30, 2008:

Management instituted a policy to segregate the duties between the general ledger function and check signing authority.

MANAGEMENT'S RESPONSE

There is no management response letter as Educational Horizons Charter School does not have repeated prior year or current year recommendations.