

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

**Basic Financial Statements and
Supplemental Information**

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

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

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Educational Horizons Charter School
West Melbourne, Florida

We have audited the accompanying financial statements of the governmental activities and each major fund of Educational Horizons Charter School (the "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, 2010, which collectively comprise the School's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the School's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

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

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 the School, as of June 30, 2010, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 6, 2010 on our consideration of the School's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3 through 7 and 23 through 25 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the School's basic financial statements. The accompanying supplementary information, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. The supplementary information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

August 6, 2010
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, 2010 to (a) assist the reader in focusing on significant financial issues, (b) provide an overview and analysis of the School's financial activities, (c) identify changes in the School's financial position, (d) identify material deviations from the approved budget, and (e) highlight significant issues in individual funds.

Because the information contained in the Management's Discussion and Analysis (MD&A) is intended to highlight significant transactions, events and conditions, it should be considered in conjunction with the basic financial statements found on pages 8 - 21.

Financial Highlights

- The assets of the School exceeded its liabilities at the close of the most recent fiscal year by \$87,270.
- The government's total net assets decreased by \$14,323.
- As of the close of the current fiscal year, the School's governmental funds reported combined ending fund balance of \$87,202, a decrease of \$14,300 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 includes 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>2010</u>	<u>2009</u>	<u>Change</u>	<u>%</u>
Current assets	\$ 90,460	\$ 101,834	\$ (11,374)	-11%
Capital assets - net	<u>68</u>	<u>91</u>	<u>(23)</u>	<u>-25%</u>
Total assets	<u>90,528</u>	<u>101,925</u>	<u>(11,397)</u>	<u>-11%</u>
Current liabilities	<u>3,258</u>	<u>332</u>	<u>2,926</u>	<u>881%</u>
Net assets	<u>\$ 87,270</u>	<u>\$ 101,593</u>	<u>\$ (14,323)</u>	<u>-14%</u>
Net assets consist of:				
Invested in capital assets	\$ 68	\$ 91	\$ (23)	-25%
Unrestricted net assets	<u>87,202</u>	<u>101,502</u>	<u>(14,300)</u>	<u>-14%</u>
Net assets	<u>\$ 87,270</u>	<u>\$ 101,593</u>	<u>\$ (14,323)</u>	<u>-14%</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 timing. The decrease in unrestricted net assets is a result of the School spending more than it received in revenues. This resulted primarily as a result of decreased enrollment and also decreased base funding per student.

Changes in the School's revenues were as follows:

	<u>2010</u>	<u>2009</u>	<u>Change</u>	<u>%</u>
Revenues:				
Program revenues				
Operating grants	\$ 49,909	\$ 39,560	\$ 10,349	26%
General revenues	<u>424,298</u>	<u>443,696</u>	<u>(19,398)</u>	<u>-4%</u>
Total revenues	<u>\$ 474,207</u>	<u>\$ 483,256</u>	<u>\$ (9,049)</u>	<u>-2%</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 decreased by approximately five percent and base funding decreased by approximately eight percent. However, to offset the decrease in general revenues, there was an increase in donation revenue, thus creating only a slight decrease in total revenue.

Changes in the School's expenses were as follows:

	2010	2009	Change	%
Basic instruction	\$ 235,583	\$ 231,005	\$ 4,578	2%
Exceptional instruction	5,535	16,525	(10,990)	-67%
Staff development	385	11,209	(10,824)	-97%
School administration	136,291	140,264	(3,973)	-3%
Fiscal services	10,441	10,263	178	2%
Operation of plant	98,450	73,172	25,278	35%
Maintenance of plant	1,845	395	1,450	367%
Total expenses	<u>\$ 488,530</u>	<u>\$ 482,833</u>	<u>\$ 5,697</u>	<u>1%</u>

There was an increase in expenses for operation of plant due to additional rent expense for extra classroom space. However, to offset the increase in expenses, there was a decrease in staff development expenses due to limited training in the current year and there were decreases in exceptional instruction expenses as a result of less exceptional instruction students which decreased the allocated time of the teacher and also the services contracted through the School Board. Overall, there was a slight increase in total expenses.

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 the School as a component unit in their operations.

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

Fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The School, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the operations of the 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 are 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 \$87,270 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 \$87,202.

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 \$87,202.

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 \$87,202.

During the current fiscal year, the fund balance of the School's general fund decreased by \$14,300.

General Fund Budgetary Highlights

Budgeted revenues exceeded actual revenues by \$0. Budget expenditures exceeded the actual expenditures by \$0. Significant changes between the original and final budget result from budget expectations of more students than actually enrolled during the year.

Capital asset and debt administration

Capital assets. The School's investment in capital assets for its governmental type activities as of June 30, 2010, amounts to \$68 (net of accumulated depreciation). This investment in capital assets includes improvements other than buildings and furniture, fixtures and equipment.

Debt. The School did not have long term debt at June 30, 2010.

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, 2010

	Governmental Activities
ASSETS	
CURRENT ASSETS	
Cash and cash equivalents	\$ 87,614
Due from other agencies	1,767
Prepaid expenses	1,079
Total current assets	90,460
CAPITAL ASSETS	
Capital assets, net of accumulated depreciation	
Improvements other than buildings	68
Total assets	90,528
LIABILITIES AND NET ASSETS	
LIABILITIES	
Accounts payable	3,258
Total liabilities	3,258
NET ASSETS	
Investment in capital assets	68
Unrestricted	87,202
Total net assets	\$ 87,270

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, 2010

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Governmental activities:					
Basic instruction	\$ 235,583	\$ -	\$ -	\$ -	\$ (235,583)
Exceptional instruction	5,535	-	-	-	(5,535)
Staff development	385	-	-	-	(385)
School administration	136,291	-	-	-	(136,291)
Fiscal services	10,441	-	-	-	(10,441)
Operation of plant	98,450	-	49,909	-	(48,541)
Maintenance of plant	1,845	-	-	-	(1,845)
Total governmental activities	\$ 488,530	\$ -	\$ 49,909	\$ -	(438,621)
			General revenues:		
			Brevard County District School Board		419,991
			Interest income		3,361
			Other revenues		946
			Total revenues		424,298
			Change in net assets		(14,323)
			Net assets at July 1, 2009		101,593
			Net assets at June 30, 2010		\$ 87,270

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, 2010

	General Fund	Capital Outlay	Total Governmental Funds
ASSETS			
Cash	\$ 87,614	\$ -	\$ 87,614
Due from other funds	1,762	-	1,762
Due from other agencies	5	1,762	1,767
Prepaid expenses	1,079	-	1,079
Total assets	\$ 90,460	\$ 1,762	\$ 92,222
 LIABILITIES AND FUND BALANCES			
LIABILITIES			
Accounts payable	\$ 3,258	\$ -	\$ 3,258
Due to other funds	-	1,762	1,762
Total liabilities	3,258	1,762	5,020
FUND BALANCES			
Unreserved	87,202	-	87,202
Total liabilities and fund balances	\$ 90,460	\$ 1,762	\$ 92,222

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, 2010

Fund balances - total governmental funds \$ 87,202

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 \$265 accumulated depreciation	\$ 68	
Total capital assets		68

Total net assets of governmental activities		\$ 87,270
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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, 2010

	General Fund	Capital Outlay Fund	Total Governmental Funds
Revenues			
State passed through local school district	\$ 419,991	\$ 33,619	\$ 453,610
Interest income	3,361	-	3,361
Other revenues	17,236	-	17,236
Total revenues	440,588	33,619	474,207
Expenditures			
Current:			
Basic instruction	235,583	-	235,583
Exceptional instruction	5,535	-	5,535
Staff development	385	-	385
School administration	136,268	-	136,268
Fiscal services	10,441	-	10,441
Operation of plant	64,831	33,619	98,450
Maintenance of plant	1,845	-	1,845
Total expenditures	454,888	33,619	488,507
Net change in fund balance	(14,300)	-	(14,300)
Fund balances at July 1, 2009	101,502	-	101,502
Fund balances at June 30, 2010	\$ 87,202	\$ -	\$ 87,202

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, 2010

Net change in fund balances - total government funds	\$ (14,300)
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>(23)</u>
Change in net assets of governmental activities	<u><u>\$ (14,323)</u></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, 2010

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1. Reporting entity

Educational Horizons Charter School (the "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, 2018. 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.

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. The School does not have any restricted 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, 2010

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, 2010

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 and cash equivalents

Cash consists of a checking account and money market accounts held at financial institutions.

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, 2010

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, 2010

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 and those differences may be material.

NOTE B - CASH

Custodial Credit Risk - The School maintains its cash balances in a banking institution (the "Bank"). The Bank participates in the Federal Deposit Insurance Corporation (FDIC) Transaction Account Guarantee Program. Under this program, through December 31, 2010, all non-interest-bearing transaction accounts (demand deposit accounts) are fully guaranteed by the FDIC for the entire amount in the account. Coverage under this program is in addition to and separate from the coverage available under the FDIC's basic deposit insurance rules. Balances in other account types, including interest bearing accounts, are insured up to \$250,000. At June 30, 2010, all of the School's interest bearing accounts were fully insured.

NOTE C - CAPITAL ASSETS

Changes in capital assets are as follows:

	Balance at July 1, 2009	Additions	Deletions	Balance at June 30, 2010
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	242	\$ 23	\$ -	265
Furniture, fixtures and equipment	12,787	-	-	12,787
Total accumulated depreciation	<u>13,029</u>	<u>\$ 23</u>	<u>\$ -</u>	<u>13,052</u>
Total governmental activities capital assets, net	<u>\$ 91</u>			<u>\$ 68</u>

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

NOTES TO FINANCIAL STATEMENTS

June 30, 2010

NOTE C - CAPITAL ASSETS (continued)

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

School administration	<u><u>\$ 23</u></u>
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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	\$ 253,779
Declining enrollment allocation	596
Safe schools	1,550
ESE allocation	30,629
Supplemental academic instruction	18,100
Discretionary millage	32,076
Discretionary compression	6,722
Discretionary lottery	184
Instructional materials allocation	4,924
Library media materials	312
Florida teachers lead	859
Class size reduction	72,145
State stabilization	22,495
Proration	(2,275)
Administration fee withheld (5%)	(22,105)
Subtotal	419,991
Capital outlay	33,619
Total School Board of Brevard County, Florida	453,610
Other revenues:	
Donations	16,290
Interest income	3,361
Other revenues	153
Student activities	793
Total revenues	\$ 474,207

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

NOTES TO FINANCIAL STATEMENTS

June 30, 2010

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, developing, managing, and operating the School. Current year management fees charged to operations totaled \$54,679. 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 entered an operating lease agreement with a related party for the building where the School is located. The term of the lease is July 1, 2009 through July 31, 2014 for a total of \$58,680 per year payable in monthly installments. A one year extension is also available with written notice to the landlord. An addendum to the original lease began August 1, 2009 and ending on July 31, 2010 which increased rent by an additional \$19,910 also payable in monthly installments for additional classroom space. Current year lease expense charged to operations totaled \$78,590. The lease addendum was renewed for one year on July 1, 2010 (See Note I).

In addition, the School leases office equipment under an operating lease that expired December 31, 2008. However, since no notification has been provided to lessor, the lease automatically extends for 3 month successive periods. Current lease expense charged to operations totaled \$1,588.

NOTE F - RELATED PARTY TRANSACTION

As stated above the School has an operating lease for facilities with a related party. Lessor is a day-care facility that is also owned by 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 (3.25% at June 30, 2010) plus 2%. There is no collateral securing the line, and as of June 30, 2010, the loan balance was zero.

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

NOTES TO FINANCIAL STATEMENTS

June 30, 2010

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 deductible is \$1,000 per occurrence. There have been no significant reductions in insurance coverage during fiscal year 2010. Settled claims resulting from the risks described above have not exceeded the insurance coverage for the previous three years.

NOTE I - SUBSEQUENT EVENT

As a result of increased enrollment for the 2010 - 2011 school year, an addendum was signed for additional classroom space. The term of this addendum begins July 1, 2010 and ends June 30, 2011 with increased rental payments of \$21,720 payable in installments of \$1,810 per month. Each installment shall be due in advance on the first day of each calendar month during the addendum term.

The following is a schedule of future minimum lease payments with the subsequent rent increase for both facilities and equipment for the fiscal years ending June 30,

2011	\$	80,787
2012		58,680
2013		58,680
2014		58,680
2015		4,890
		<u> </u>
	\$	<u>261,717</u>

The School has evaluated subsequent events through August 6, 2010, the date which the financial statements were available for issuance.

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, 2010

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
Revenues				
FTE revenue	\$ 424,572	\$ 419,991	\$ 419,991	\$ -
Other revenues				
Donations	21,600	16,290	16,290	-
Student activities	1,250	793	793	-
Interest income	3,145	3,361	3,361	-
Other revenues	-	153	153	-
Total revenues	<u>450,567</u>	<u>440,588</u>	<u>440,588</u>	<u>-</u>
Expenditures				
Current:				
Salaries - administrative	64,000	64,235	64,235	-
Salaries - educational	219,132	202,389	202,389	-
Benefits	33,085	30,866	30,866	-
Contracted services	85,284	71,054	71,054	-
Insurance - liability	5,631	10,240	3,923	6,317
Insurance - property	5,660	-	6,317	(6,317)
Postage	203	242	242	-
Printing	1,067	1,283	1,283	-
Supplies	4,623	2,979	2,979	-
Instructional supplies	2,310	844	844	-
Psychological services	1,000	-	-	-
Textbooks	2,319	2,869	2,869	-
Equipment under \$500	905	183	183	-
Computers under \$500	784	-	-	-
Software under \$500	1,500	342	342	-
Bank charges	300	491	491	-
Rental equipment	1,654	1,588	1,588	-
Instructional staff training	500	385	385	-
Miscellaneous	200	-	-	-
Student activities	46	230	230	-
Advertising	3,218	209	209	-
Telephone	1,200	1,145	1,145	-
Internet	900	729	729	-
Utilities	10,114	6,160	6,160	-
Administrative costs	2,473	662	662	-
Rent	41,677	44,971	44,971	-
Accounting and auditing	9,500	9,950	9,950	-
Repair other equipment	500	217	842	(625)
Site improvements	-	625	-	625
Total expenditures	<u>499,785</u>	<u>454,888</u>	<u>454,888</u>	<u>-</u>
Excess of revenues over expenditures	(49,218)	(14,300)	(14,300)	-
Fund balance at July 1, 2009	<u>101,502</u>	<u>101,502</u>	<u>101,502</u>	<u>-</u>
Fund balance at June 30, 2010	<u>\$ 52,284</u>	<u>\$ 87,202</u>	<u>\$ 87,202</u>	<u>\$ -</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, 2010

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
Revenues				
Capital outlay funds	\$ 37,000	\$ 33,619	\$ 33,619	\$ -
Expenditures				
Rent	37,000	33,619	33,619	-
Excess of revenues over expenditures	-	-	-	-
Fund balance at July 1, 2009	-	-	-	-
Fund balance at June 30, 2010	\$ -	\$ -	\$ -	\$ -

See accompanying notes to required supplemental information.

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

NOTE TO REQUIRED SUPPLEMENTAL INFORMATION

June 30, 2010

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, 2010 have been amended according to Board procedures.

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

SUPPLEMENTAL INFORMATION

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

SCHEDULE OF FUNCTIONAL EXPENDITURES - GENERAL FUND

For the year ended June 30, 2010

	Basic Instruction	Exceptional Instruction	Staff Development
Bank service fees	\$ -	\$ -	\$ -
Group insurance	4,521	-	-
Insurance	-	-	-
Miscellaneous	-	-	-
Postage	-	-	-
Printing	1,283	-	-
Professional services	6,019	2,368	385
Rental	-	-	-
Repairs and maintenance	-	-	-
Salaries	199,522	2,867	-
Social security	15,208	219	-
Student activities	230	-	-
Supplies	844	-	-
Telephone	-	-	-
Textbooks	2,869	-	-
Unemployment compensation	3,030	59	-
Utilities	-	-	-
Workers' compensation	1,532	22	-
Equipment	183	-	-
Computer software	342	-	-
	<u>\$ 235,583</u>	<u>\$ 5,535</u>	<u>\$ 385</u>

School Administration	Fiscal Services	Operation of Plant	Maintenance of Plant	Total
\$ -	\$ 491	\$ -	\$ -	\$ 491
-	-	-	-	4,521
3,923	-	6,317	-	10,240
662	-	729	-	1,391
242	-	-	-	242
-	-	-	-	1,283
56,364	9,950	-	-	75,086
1,588	-	44,971	-	46,559
-	-	5,509	1,845	7,354
64,235	-	-	-	266,624
4,914	-	-	-	20,341
-	-	-	-	230
2,979	-	-	-	3,823
-	-	1,145	-	1,145
-	-	-	-	2,869
866	-	-	-	3,955
-	-	6,160	-	6,160
495	-	-	-	2,049
-	-	-	-	183
-	-	-	-	342
<u>\$ 136,268</u>	<u>\$ 10,441</u>	<u>\$ 64,831</u>	<u>\$ 1,845</u>	<u>\$ 454,888</u>

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

SCHEDULE OF FUNCTIONAL EXPENDITURES - CAPITAL OUTLAY FUND

For the year ended June 30, 2010

	<u>Operation of Plant</u>
Rentals	<u>\$ 33,619</u>

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

SCHEDULE OF REVENUES AND EXPENDITURES - CATEGORICAL FUNDS

For the year ended June 30, 2010

Categorical	Prior Year	FY 2009 -2010		
	Carryforward	Revenue	Expenditures	Carryforward
Instructional materials	\$ -	\$ 4,924	\$ 4,924	\$ -
Florida teacher lead	-	859	859	-
Class size reduction	-	72,145	72,145	-
Total	\$ -	\$ 77,928	\$ 77,928	\$ -

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT
OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH GOVERNMENT AUDITING STANDARDS**

To the Board of Directors
Educational Horizons Charter School
West Melbourne, Florida

We have audited the financial statements of the governmental activities and each major fund of Educational Horizons Charter School (the "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, 2010, which collectively comprise Educational Horizons Charter School's basic financial statements and have issued our report thereon dated August 6, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and other matters

As part of obtaining reasonable assurance about whether the School's financial statements are free 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*.

We noted certain matters that we reported to management of the School, in the accompanying management letter dated August 6, 2010.

The School's response to matters identified in our audit is described in the accompanying letter of management response. We did not audit the School's response, and accordingly, we express no opinion on it.

This report is intended solely for the information and use of the School's management, Board of Directors, others within the entity, the School Board of Brevard County, the State of Florida Office of the Auditor General and other regulatory agencies and is not intended to be and should not be used by anyone other than these specified parties.

August 6, 2010
Melbourne, Florida

Berman Hopkins Wright & LaHam
CPAs and Associates, LLP

MANAGEMENT LETTER

Honorable Board of Directors
Educational Horizons Charter School
West Melbourne, Florida

We have audited the financial statements of Educational Horizons 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, 2010, and have issued our report thereon dated August 6, 2010.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. We have issued our Independent Auditor's Report on Internal Control over Financial Reporting and Compliance and Other Matters. Disclosures in that report, which is dated August 6, 2010, should be considered in conjunction with this management letter.

Additionally, our audit was conducted in accordance with Chapter 10.850, Rules of the Auditor General, which governs the conduct of charter school and similar entity audits performed in the State of Florida. This letter includes the following information, which is not included in the aforementioned auditor's reports or schedule:

- Section 10.854(1)(e)1., Rules of the Auditor General, requires that we determine whether or not corrective actions have been taken to address findings and recommendations made in the preceding annual financial audit report. Corrective actions have been taken to address findings and recommendations made in the preceding annual financial audit report.
- Section 10.854(1)(e)3, Rules of the Auditor General, requires that we address in the management letter any recommendations to improve financial management. In connection with our audit, we did not have any such findings.
- Section 10.854(1)(e)4., Rules of the Auditor General, requires that we address violations of provisions of contracts or grant agreements, or abuse, that have an effect on the financial statements that is less than material but more than inconsequential. In connection with our audit, we did not have any such findings.
- Section 10.854(1)(e)5., Rules of the Auditor General, provides that the auditor may, based on professional judgment, report the following matters that have an inconsequential effect on the financial statement considering both quantitative and qualitative factors: (1) violations of provisions of contracts or grant agreements, fraud, illegal acts, or abuse, and (2) control deficiencies that are not significant deficiencies. In connection with our audit, we have identified two recommendations as listed under current year recommendations and findings at 10-01 and 10-02.

- Section 10.854(1)(e)6, Rules of the Auditor General, requires the name or official title of the school. The official title of the school is Educational Horizons Charter School, a division of Educational Horizons, Inc.
- Section 10.854(1)(e)2, Rules of the Auditor General, requires a statement be included as to whether or not the school has met one or more of the conditions described in Section 218.503(1), Florida Statutes, and identification of the specific condition(s) met. In connection with our audit, we determined that Educational Horizons Charter School did not meet any of the conditions described in Section 218.503(1), Florida Statutes.
- Pursuant to Sections 10.854(1)(e)7.a. and 10.855(10), Rules of the Auditor General, we applied financial condition assessment procedures. It is management's responsibility to monitor Educational Horizons Charter School's financial condition, and our financial condition assessment was based in part on representations made by management and the review of financial information provided by same.

Pursuant to Chapter 119, Florida Statutes, this management letter is a public record and its distribution is not limited. Auditing standards generally accepted in the United States of America require us to indicate that this letter is intended solely for the information and use of management, and the Florida 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 6, 2010
Melbourne, Florida

Berman Hopkins Wright & LaHam
CPAs and Associates, LLP

Current Year Recommendations and Findings

10-01 Salary Expenditures by Function

Control Deficiency

Criteria: The School's charter agreement with the School Board of Brevard County, Florida Article 5.13 requires that the School utilize the state codification of accounts as contained in the Financial and Program Cost Accounting and Reporting for Florida School ("Redbook").

Condition: During our audit we identified salaries and related benefit expenditures recorded incorrectly to the exceptional instruction function.

Cause: An employee of the school allocates their time between both exceptional instruction functions and basic instruction functions. During the current fiscal year, that employee's salary and related benefit expenditures for the basic instruction function was recorded to the exceptional instruction function.

Effect: The expenditures were not properly recorded in accordance with Redbook and the school required and adjusting journal entry totaling \$11,915 to correct the allocation between functions.

Auditors' recommendation: We recommend the school implement a procedure to ensure that employees who allocate time between functions are properly recorded in the general ledger. A retrospective review during the year end process may also be helpful in this allocation.

10-02 Payroll Controls

Control Deficiency

Criteria: Each employee of the school has an employment contract that is approved by the Head of Schools and stipulates the rate of pay among other agreements. The school also has a policy and procedure for payroll disbursement which includes the upload of time card information to the on-line payroll company website.

Condition: Our review of payroll disbursements discovered an employee who was not correctly paid according to their contract. After auditor inquiry further investigation identified additional inconsistencies between contract rates and amounts actually paid to employees.

Cause: The school properly uploaded the hours worked to the payroll company but the payroll company experienced a computer error which affected the amounts paid to multiple employees. The School's procedures for payroll disbursements do not include a control to ensure that each employee is paid consistent with their contracted rate.

Effect: Four employees were underpaid across multiple pay periods totaling \$439 and one employee was overpaid \$597. The school is at risk of distribution of incorrect funds to employees without their knowledge.

Current Year Recommendations and Findings (continued)

10-02 Payroll Controls

Auditors' recommendation: We recommend that the School implement an additional control to alleviate the distribution of incorrect funds to employees. A more detailed review could be performed that includes reviewing the payroll report returned by the vendor against the time cards and contracted rate of pay.

Prior Year Recommendations and Findings - Corrected

09-01 Fixed Asset Capitalization and Revenue Recognition Policies

Control Deficiency

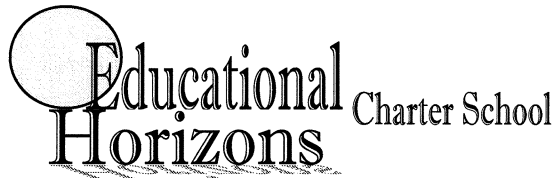
Criteria: The School's policy is to capitalize all fixed assets purchased that have a purchase price of greater than \$500 and an estimated useful life of more than two years. In addition, generally accepted accounting principles require revenue to be recognized under the accrual basis for governmental funds in the period earned.

Condition: Upon review of the capital asset accounts, it was noted that an annual software license expense totaling \$2,500 was improperly recorded as capital. This transaction also included a donation of \$5,000 which was not recorded as revenue; adjustments were proposed and posted.

Effect: The School did not adhere to its capitalization policy, thus capital asset accounts were overstated and current year expenses were understated. Also, the School did not adhere to its revenue recognition policy, resulting in current year revenue accounts being understated.

Auditors' recommendation: We recommend that management review policies and procedures over fixed asset capitalization and revenue recognition to ensure these items are being properly recorded.

As of June 30, 2010, the above issue has been resolved.



1281 South Wickham Road
West Melbourne, Florida 32904
(321) 729-0786

1240 Banana River Drive
Indian Harbour Beach, Florida 32937
(321) 779-0031

August 6, 2010

Berman, Hopkins, Wright, & LaHam, CPAs and Associates, LLP
8035 Spyglass Hill Road
Melbourne, Florida 32940

We are providing this letter in connection with your audit of the financial statements of Educational Horizons Charter School (the "School") as of June 30, 2010 and for the year then ended for the purpose of responding to the Current Year Recommendations and Findings included in pages 34 and 35 of the audit.

Finding 10-01 Salary Expenditures by Function

Condition: The audit identified salaries and related benefit expenditures recorded incorrectly to the exceptional instruction function:

Auditors' recommendation: That the school implements a procedure to ensure that employees who allocate time between functions are properly recorded in the general ledger. A retrospective review during the year end process may also be helpful in this allocation.

School Response: The school agrees with the auditor's recommendation and will implement the following controls:

- Each teacher whose time is allocated between the basic and exceptional instruction will be paid via two separate checks and accounting entries for each function.
- Prior to year end, the school will review the allocation process to verify proper functional recording.

Finding 10-02 Payroll Controls

Condition: The audit identified inconsistencies between contract rates and amounts actually paid to employees

Cause: The school properly uploaded the hours worked to the payroll company, but the payroll company experienced a computer error which affected the amounts paid to multiple employees. The school's procedures for payroll disbursement did not include a control to ensure that each employee is paid consistent with their contracted rate.

Auditors' recommendation: That the school implements an additional control to alleviate the distribution of incorrect funds to employees. A more detailed review could be performed that includes reviewing the payroll report returned by the vendor against the time cards and contracted rate of pay.

Schools response: The school agrees with the auditors recommendations. The school:

- Has contacted the payroll company and ensured that the computer error is corrected.
- The school will add an additional control to verify the distribution of funds to employees. The procedure will include a periodic review of the payroll report returned by the vendor against the time cards and contracted rate of pay.

This management response is to be used in conjunction with referenced audit and for the use of school management and directors and is not a stand alone document.

Sincerely,



Cynthia D. Thomas
Head of School