

SEBASTIAN CHARTER JUNIOR HIGH, INC.

**Basic Financial Statements
with
Independent Auditors' Report**

Year ended June 30, 2010

Table of Contents

	Page
Independent Auditors' Report	2
Management's Discussion and Analysis	3 - 7
Basic Financial Statements:	
Government-wide Financial Statements:	
Statement of Net Assets	8
Statement of Activities	9
Fund Financial Statements:	
Balance Sheet – Governmental Funds.....	10
Statements of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds	11
Reconciliation of the Governmental Funds Statements of Revenues, Expenditures and Changes in Fund Balances to the Statement of Activities.....	12
Budgetary Comparison Schedule – General Fund	13
Notes to Basic Financial Statements	14 - 21
Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	22 - 23
Independent Auditors' Management Letter	24 – 25
Management's Corrective Action Plan	26



KMETZ • NUTTALL • ELWELL • GRAHAM, PLLC
Certified Public Accountants

Independent Auditors' Report

To the Board of Directors
Sebastian Charter Junior High, Inc.
Sebastian, Florida

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Sebastian Charter Junior High, Inc. (the School), a component unit of the Indian River County District School Board, 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 an opinion 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 Controller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Sebastian Charter Junior High, Inc. as of June 30, 2010, and the respective changes in financial position thereof and the respective budgetary comparison for the General Fund 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 September 20, 2010, on our consideration of Sebastian Charter Junior High, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grants 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 on pages 3 – 7 is not a required part of the basic financial statements, but is supplementary 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 supplementary information. However, we did not audit the information and express no opinion on it.

A handwritten signature in cursive script that reads "Kmetz, Nuttall, Elwell, Graham".

Kmetz, Nuttall, Elwell, Graham, PLLC
Certified Public Accountants

September 20, 2010

**SEBASTIAN CHARTER JUNIOR HIGH, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2010**

As management of Sebastian Charter Junior High, Inc. (the School), we offer readers of the School's financial statements this narrative overview and analysis of the financial activities of the School for the fiscal year ended June 30, 2010. This overview and analysis is required by generally accepted accounting principles (GAAP) in the United States of America in Governmental Accounting Standards Board Statement No. 34 *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* (GASB 34).

FINANCIAL HIGHLIGHTS

- The assets of the School as reported in the government-wide financial statements exceeded its liabilities at the close of the current fiscal year by \$487,632 (net assets). Of this amount, \$59,513 (unrestricted net assets) may be used to meet the ongoing obligations of the School. The School's total net assets increased by \$72,293 or 17% in comparison with prior year net assets.
- As of the close of the current fiscal year, the School's governmental funds reported combined ending fund balances of \$77,847, or 8% of total expenditures. The School's combined ending fund balance increased by \$33,341 or 75% in comparison with the prior year balances. \$59,513 of the \$77,847 is available for spending at the School's discretion (unreserved fund balance). The remaining \$18,334 has been designated for capital projects.
- Investment in capital assets increased over the prior year by \$38,952 or 11%.

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 five components: 1) government-wide financial statements, 2) fund financial statements, 3) notes to the financial statements, 4) required supplementary information, and 5) supplementary auditors' reports.

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 (both short-term spendable resources and capital assets) and liabilities, with the difference between the two reported as *net assets*. Over time, increases and 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.

Both of the government-wide financial statements present functions of the School that are principally supported by local revenues (FTE dollars through the Indian River County School District) (*governmental activities*) as opposed to business-type activities that are intended to recover all or a significant portion of their costs through user fees and charges. The School has no business-type activities and no component units for which they are financially accountable. The government-wide financial statements can be found on pages 8 and 9 of this report.

**SEBASTIAN CHARTER JUNIOR HIGH, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2010**

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 funds used by the School are considered governmental fund types.

Governmental fund – *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 government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The School maintains three individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances. The School adopts an annual appropriated budget for all funds. Government accounting standards require the School to report a budgetary comparison statement for the general fund and any major special revenue funds. A budgetary comparison statement has been provided for the general fund. The School has no major special revenue funds. The basic governmental fund financial statements can be found on pages 10 - 12 of this report.

Notes to the 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 on pages 14 - 21 of this report.

Required supplementary information – The information in this section is required by the Governmental Accounting Standards Board (GASB). It consists of the Management's Discussion and Analysis (MD&A).

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 \$487,632, at June 30, 2010.

A portion of the School's net assets (84%) reflects its investment in capital assets, net of related debt (e.g. land, buildings, equipment and furniture). The School has related debt outstanding as of June 30, 2010, of \$351,048 that was used to acquire these assets. The School uses these capital assets to provide educational services; consequently, these assets are *not* available for future spending.

**SEBASTIAN CHARTER JUNIOR HIGH, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2010**

SEBASTIAN CHARTER JUNIOR HIGH, INC.'S NET ASSETS

	2010	2009
Current assets	\$ 198,378	\$ 179,954
Capital assets, net	760,833	751,421
Total assets	959,211	931,375
Current liabilities	154,541	167,329
Long-term liabilities:	317,038	348,707
Total liabilities	471,579	516,036
Net assets:		
Invested in capital assets, net of related debt	409,785	370,833
Restricted for:		
Capital projects	18,334	17,892
Unrestricted	59,513	26,614
Total net assets	\$ 487,632	\$ 415,339

An additional portion of the School's net assets (12%) represents *unrestricted net assets* that are available to meet the financial obligations of the School. A final portion of the School's net assets (4%) is restricted for capital projects. At the end of the current fiscal year, the School is able to report positive balances in all three categories of net assets.

**SEBASTIAN CHARTER JUNIOR HIGH, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2010**

SEBASTIAN CHARTER JUNIOR HIGH, INC.'S CHANGE IN NET ASSETS

	2010	2009
Revenues:		
Program revenues:		
Operating grants and contributions	\$ 61,582	\$ 51,858
Capital grants and contributions	105,596	79,236
General revenues:		
FTE non-specific revenues	903,776	832,650
Unrestricted investment earnings	442	2,013
Gifts, grants and bequests not restricted to specific programs	53,115	2,554
Total revenues	1,124,511	968,311
Expenses:		
Instruction	512,938	503,469
Instructional staff training	8,808	3,854
Board	9,381	4,284
School administration	322,210	267,771
Facilities acquisition and construction	1,230	7,797
Fiscal services	11,297	9,930
Food services	61,461	50,256
Transportation	18,843	12,531
Operation of plant	60,352	55,736
Maintenance of plant	6,784	12,632
Interest on long-term debt	22,066	27,653
Depreciation - unallocated	16,848	16,848
Total expenses	1,052,218	972,761
Change in net assets	72,293	(4,450)
Net assets, beginning of year	415,339	419,789
Net assets, end of year	\$ 487,632	\$ 415,339

Governmental activities – The School relies heavily on general revenues (i.e. FTE dollars) to fund the expenses of the governmental activities. Program revenues consisting of capital and operating grants comprise 15% of total revenues. General revenues comprise 85% of total revenues.

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 and segregation for particular purposes.

**SEBASTIAN CHARTER JUNIOR HIGH, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2010**

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 School's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the School's governmental funds reported combined ending fund balance of \$77,847, an increase of \$33,341 over the previous fiscal year. The fund balance consists of *unreserved fund balance*, which is available for spending at the School's discretion, with a portion (\$18,344) primarily designated for capital projects.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital assets – The School's investment in capital assets for its governmental activities as of June 30, 2010, amounted to \$760,833 (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements other than buildings, equipment, furniture and computer software. Additional information on the School's capital assets can be found in Notes 1 and 2 on pages 16, 18 and 19 of this report.

Long-term debt – The School has related debt outstanding as of June 30, 2010, of \$351,048 that was used to acquire these assets. Additional information on the School's long-term debt can be found in Notes 1, 3 and 4 on pages 16, 19 and 20 of this report.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

- The School received the majority of its revenues from FTE dollars provided by the Indian River County School District.
- The Indian River County School District continues to retain 5% administrative costs on revenues.
- The Charter School's enrollment is expected to be 100% for the fiscal year ending 2010-2011.

All of these factors were considered in preparing the School's budget for the 2010-2011 fiscal year.

REQUESTS 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 Dr. Martha McAdams, Principal, Sebastian Charter Junior High, Inc., 782 Wave Street, Sebastian, Florida 32958.

Sebastian Charter Junior High, Inc.
A Charter School and Component Unit of the
Indian River County District School Board
Statement of Net Assets

June 30, 2010

	Governmental Activities	Business-type Activities	Total
Assets			
Cash	\$ 73,660	\$ -	\$ 73,660
Due from local sources	106,384	-	106,384
Accrued interest receivable	18,334	-	18,334
Capital assets, net	760,833	-	760,833
Total Assets	959,211	-	959,211
Liabilities			
Accounts payable	11,655	-	11,655
Payroll tax payable	2,492	-	2,492
Deferred revenue	106,384	-	106,384
Long-term liabilities:			
Due within one year:			
Note payable	31,518	-	31,518
Obligation under capital leases	2,492	-	2,492
Due in more than one year:			
Note payable	310,084	-	310,084
Obligation under capital leases	6,954	-	6,954
Total Liabilities	471,579	-	471,579
Net Assets			
Invested in capital assets, net of related debt	409,785	-	409,785
Restricted for:			
Capital projects	18,334	-	18,334
Unrestricted	59,513	-	59,513
Total Net Assets	\$ 487,632	\$ -	\$ 487,632

See accompanying notes to the basic financial statements.

Sebastian Charter Junior High, Inc.

A Charter School and Component Unit of the
Indian River County District School Board
Statement of Activities

Year ended June 30, 2010

	Expenses	Charges for Services	Program Revenues		Net (Expense) Revenue and Changes in Net Assets		
			Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Functions/Programs							
Governmental activities:							
Instruction	\$ 512,938	\$ -	\$ 121	\$ 34,873	\$ (477,944)	\$ -	\$ (477,944)
Instructional staff training	8,808	-	-	-	(8,808)	-	(8,808)
Board	9,381	-	-	-	(9,381)	-	(9,381)
School administration	322,210	-	-	31,580	(290,630)	-	(290,630)
Facilities acquisition and construction	1,230	-	-	-	(1,230)	-	(1,230)
Fiscal services	11,297	-	-	-	(11,297)	-	(11,297)
Food services	61,461	-	61,461	-	-	-	-
Transportation	18,843	-	-	-	(18,843)	-	(18,843)
Operation of plant	60,352	-	-	10,492	(49,860)	-	(49,860)
Maintenance of plant	6,784	-	-	6,336	(448)	-	(448)
Interest on long-term debt	22,066	-	-	22,315	249	-	249
Depreciation - unallocated *	16,848	-	-	-	(16,848)	-	(16,848)
Total governmental activities	\$ 1,052,218	\$ -	\$ 61,582	\$ 105,596	(885,040)	-	(885,040)
General Revenues:							
Local revenue:							
Florida Education Finance Program					714,526	-	714,526
Discretionary lottery funds					367	-	367
Instructional materials					10,552	-	10,552
Class size					142,318	-	142,318
School recognition					9,900	-	9,900
Gifts, grants and bequests not restricted to specific programs					53,115	-	53,115
Other miscellaneous local sources					26,113	-	26,113
Interest earned					442	-	442
Total general revenues and special items					957,333	-	957,333
Change in net assets					72,293	-	72,293
Net Assets, beginning					415,339	-	415,339
Net Assets, ending					\$ 487,632	\$ -	\$ 487,632

* This amount excludes the depreciation that is included in the direct expenses of the various programs.

See accompanying notes to the basic financial statements.



Sebastian Charter Junior High, Inc.
A Charter School and Component Unit of the
Indian River County District School Board
Balance Sheet - Governmental Funds

June 30, 2010

	General Fund	Capital Project Fund	Other Governmental Funds	Total Governmental Funds
Assets				
Cash	\$ 73,660	\$ -	\$ -	\$ 73,660
Due from local sources	-	106,384	-	106,384
Accrued interest receivable	-	18,334	-	18,334
Total Assets	\$ 73,660	\$ 124,718	\$ -	\$ 198,378
Liabilities and Fund Balances				
Liabilities:				
Accounts payable	\$ 11,655	\$ -	\$ -	\$ 11,655
Payroll tax payable	2,492	-	-	2,492
Deferred revenue	-	106,384	-	106,384
Total Liabilities	14,147	106,384	-	120,531
Fund balances:				
Unreserved	59,513	18,334	-	77,847
Total Liabilities and Fund Balances	\$ 73,660	\$ 124,718	\$ -	

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

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	760,833
Long-term liabilities are not due and payable in the current period and therefore are not reported as liabilities in the funds.	(351,048)
Net assets of governmental activities	<u>\$ 487,632</u>

See accompanying notes to the basic financial statements.

Sebastian Charter Junior High, Inc.

A Charter School and Component Unit of the
 Indian River County District School Board
 Statement of Revenues, Expenditures and Changes in
 Fund Balances - Governmental Funds

Year ended June 30, 2010

	General Fund	Capital Project Fund	Other Governmental Funds	Total Governmental Funds
Revenues				
Intergovernmental:				
Federal through local	\$ -	\$ 105,596	\$ 121	\$ 105,717
Interest	-	442	-	442
Local	956,891	-	61,461	1,018,352
Total Revenues	956,891	106,038	61,582	1,124,511
Expenditures				
Current - Education:				
Instruction	501,383	-	121	501,504
Instructional staff training	8,808	-	-	8,808
Board	9,381	-	-	9,381
School administration	319,381	-	-	319,381
Facilities acquisition and construction	1,230	-	-	1,230
Fiscal services	11,297	-	-	11,297
Food services	-	-	61,461	61,461
Transportation	18,842	-	-	18,842
Operation of plant	46,989	13,365	-	60,354
Maintenance of plant	6,784	-	-	6,784
Debt service	41,896	39,709	-	81,605
Fixed Capital Outlay:				
Facilities acquisition and construction	10,523	30,000	-	40,523
Total Expenditures	976,514	83,074	61,582	1,121,170
Excess (Deficit) of Revenues over Expenditures	(19,623)	22,964	-	3,341
Other Financing Sources (Uses)				
Transfers in	22,522	-	-	22,522
Transfers out	-	(22,522)	-	(22,522)
Loan proceeds	30,000	-	-	30,000
Net Other Financing Sources (Uses)	52,522	(22,522)	-	30,000
Net Change in Fund Balances	32,899	442	-	33,341
Fund Balance, beginning of year	26,614	17,892	-	44,506
Fund Balance, end of year	\$ 59,513	\$ 18,334	\$ -	\$ 77,847

See accompanying notes to the basic financial statements.

Sebastian Charter Junior High, Inc.

A Charter School and Component Unit of the
Indian River County District School Board

Reconciliation of the Governmental Funds Statement of Revenues,
Expenditures and Changes in Fund Balances to the Statement of Activities

Year ended June 30, 2010

Net change in fund balances - governmental funds	\$ 33,341
Amounts reported for governmental activities in the statement of activities are different because:	
Capital outlays are reported in governmental funds as expenditures. However in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays (\$40,523) exceeds depreciation expense (\$31,111) in the period.	9,412
Repayment of note payable and capital leases is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.	29,540
Change in net assets of governmental activities	\$ 72,293

See accompanying notes to the basic financial statements.

Sebastian Charter Junior High, Inc.

A Charter School and Component Unit of the
 Indian River County District School Board
 Budgetary Comparison Schedule - General Fund

Year ended June 30, 2010

	Budgeted Amounts		Actual	Variance with Final Budget Favorable (Unfavorable)
	Original	Final		
Revenues				
Local	\$ 787,843	\$ 854,379	\$ 956,891	\$ 102,512
Total Revenues	787,843	854,379	956,891	102,512
Expenditures				
Current - Education:				
Instruction	508,117	561,934	501,383	60,551
Instructional staff training	1,850	900	8,808	(7,908)
Board	4,102	9,501	9,381	120
School administration	235,867	240,620	319,381	(78,761)
Facilities acquisition and construction	-	-	1,230	(1,230)
Fiscal services	10,950	11,650	11,297	353
Transportation	12,432	19,000	18,842	158
Operation of plant	60,652	63,150	46,989	16,161
Maintenance of plant	5,100	9,000	6,784	2,216
Debt service	57,400	55,300	41,896	13,404
Fixed Capital Outlay:				
Facilities acquisition and construction	4,000	1,910	10,523	(8,613)
Total Expenditures	900,470	972,965	976,514	(3,549)
Other Financing Sources				
Transfers in	-	-	22,522	22,522
Capital Lease	-	-	30,000	30,000
Total Other Finances Sources	-	-	52,522	52,522
Net Change in Fund Balance	\$ (112,627)	\$ (118,586)	32,899	\$ 151,485
Fund Balance, beginning of year			26,614	
Fund Balance, end of year			\$ 59,513	

See accompanying notes to the basic financial statements.

Sebastian Charter Junior High, Inc.

A Charter School and Component Unit of the
Indian River County District School Board
Notes to Basic Financial Statements
June 30, 2010

Note 1 – Summary of Significant Accounting Policies**Reporting Entity**

The Sebastian Charter Junior High, Inc., (the School) is a not-for-profit corporation organized pursuant to Chapter 617, Florida Statutes, the Florida Not For Profit Corporation Act, and Section 1002.33, Florida Statutes. The governing body of the School is the Board of Directors which is composed of not less than five members. The School is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. In addition, the School has been determined not to be a private foundation within the meaning of Section 509(a) of the Code.

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 Indian River County District School Board. The current charter is effective until June 30, 2012. At the end of the term of the charter, the District may choose not to renew the charter under grounds specified in the charter, in which case the District is required to notify the School in writing at least 90 days prior to the charter's expiration. During the term of the charter, the District may also terminate the charter if good cause is shown. The Sebastian Charter Junior High, Inc. is considered a component unit of the Indian River County District School Board.

Criteria for determining if other entities are potential component units of the School which should be reported with the School's basic financial statements are identified and described in the Governmental Accounting Standards Board's (GASB) *Codification of Governmental Accounting and Financial Reporting Standards*, Sections 2100 and 2600. The application of these criteria provide for identification of any entities for which the School is financially accountable and other organizations for which the nature and significance of their relationship with the School are such that exclusion would cause the School's basic financial statements to be misleading or incomplete. Based on these criteria, no component units are included within the reporting entity of the School.

Basis of Presentation

The School's financial statements have been prepared in accordance with generally accepted accounting principles (GAAP). The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989 (when applicable) that do not conflict with or contradict GASB pronouncements.

The basic financial statements include both government-wide (reporting the School as a whole) and fund financial statements (reporting the School's major funds). Both the government-wide and fund financial statements categorize primary activities as either governmental or business-type. The School has no business-type activities. Governmental fund financial statements include a reconciliation, with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds. Reconciling items arise from differences in the measurement focuses and bases of accounting between the statements, and certain required eliminations.

Note 1 – Summary of Significant Accounting Policies (continued)

Basic Financial Statements - Government-wide Statements

In the government-wide Statement of Net Assets, both the governmental and business-type activities columns (a) are presented on a consolidated basis by column, (b) and are reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt obligations. The School's net assets are reported in three parts – invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets. The School first utilizes restricted resources to finance qualifying activities.

The government-wide Statement of Activities reports both the gross and net cost of each of the School's functions and business-type activities. The functions are also supported by general revenues (funding received from the Indian River County School District, etc.). The Statement of Activities reduces gross expenses (including depreciation) by related program revenues, operating and capital grants. Program revenues must be directly associated with the function (administration, food services, facilities acquisition and construction, etc.) or a business-type activity. Operating grants include operating-specific and discretionary (either operating or capital) grants while the capital grants column reflects capital-specific grants. The net costs (by function or business-type activity) are normally covered by general revenue. The School does not allocate indirect costs. This government-wide focus is more on the sustainability of the School as an entity and the change in the School's net assets resulting from the current year's activities.

Basic Financial Statements – Fund Financial Statements

The financial transactions of the School are reported in individual funds in the fund financial statements. Each fund is accounted for by providing a separate set of self-balancing accounts that comprises its 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 purposes for which they are to be spent and the means by which spending activities are controlled. The School's major governmental funds are as follows:

General Fund - Used to account for all financial resources not required to be accounted for in another fund.

Capital Projects Fund - Used to account for all acquisitions or construction of capital facilities.

Basis of Accounting

Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

Both governmental and business-type activities in the government-wide financial statements are presented on the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred.

Sebastian Charter Junior High, Inc.

A Charter School and Component Unit of the
Indian River County District School Board
Notes to Basic Financial Statements (continued)

Note 1 – Summary of Significant Accounting Policies (continued)

The governmental funds financial statements are prepared using the modified accrual basis of accounting. Under the modified accrual basis, revenues, except for certain grant revenues, are recognized when they become measurable and available. 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 recognized when the related fund liability is incurred, except unmatured interest on long-term debt, which should be recognized when due. The principal exception to this general rule is that prepaid items are generally not accrued.

Budgetary Basis Accounting

Budgets are presented on the modified accrual basis of accounting. During the fiscal year, expenditures were controlled at the object level (e.g., salaries, purchased services and capital outlay). The budget is adopted and approved by the Board of Directors. The budget amounts presented in the accompanying financial statements are adopted on a basis consistent with generally accepted accounting principles.

Cash

The School's cash consists of demand deposits with financial institutions, which are insured by Federal depository insurance.

Capital Assets and Depreciation

Expenditures for capital assets acquired for general school purposes are reported in the governmental activities column of the government-wide statement of net assets, but are not reported in the fund financial statements. All capital assets are capitalized at cost and updated for additions and retirements during the year. Donated assets are recorded at fair market value at the date of donation. The School maintains a capitalization threshold of \$750. The School does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not.

Depreciation on all assets is provided on the straight-line basis over the following estimated useful lives:

Buildings and fixed equipment	50 years
Improvements other than buildings	40 years
Computers and software	5 years
Property under capital leases	4-5 years

Accrued Liabilities and Long-term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements. In general, payables and accrued liabilities that will be paid from governmental funds are reported on the governmental fund financial statements regardless of whether they will be liquidated with current resources. Payments made within sixty days after year end are considered to have been made with current available financial resources. Other long-term obligations that will be paid from governmental funds are not recognized as a liability in the fund financial statements until due.

Sebastian Charter Junior High, Inc.

A Charter School and Component Unit of the
Indian River County District School Board
Notes to Basic Financial Statements (continued)

Note 1 – Summary of Significant Accounting Policies (continued)

Revenue Sources

Revenues for current operations are received primarily from the Indian River 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 (FDOE) for funding through the Florida Education Finance Program. Funding for the School is adjusted during the year to reflect the revised calculations by the FDOE 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 received 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. For Federal awards in which a claim to these grant proceeds is based on incurring eligible expenditures, revenue is recognized to the extent that eligible expenditures have been incurred.

Deferred Revenue

Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Grants and entitlements awarded before the eligibility requirements are met are recorded as deferred revenue.

Compensated Absences

Sick and personal leave expenditures are recognized when payments are made to the employees. Up to two sick days and one personal day may be rolled over each year.

Expenditures

On the accrual basis of accounting, expenses are recognized at the time they are incurred. The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of costs, such as depreciation and amortization, are not recognized in governmental funds.

Restricted Assets

Restricted assets is interest earned on amounts set aside for capital projects, whose use is limited by legal requirements.

Interfund Activity

Loans between governmental funds are reported as interfund receivables or payables as appropriate and are subject to elimination upon consolidation. Flows of cash from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds.

Sebastian Charter Junior High, Inc.

A Charter School and Component Unit of the
 Indian River County District School Board
 Notes to Basic Financial Statements (continued)

Note 1 – Summary of Significant Accounting Policies (continued)**Use of Estimates**

The preparation of the financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

Note 2 – Capital Assets

Capital asset activity for governmental activities for the year ended June 30, 2010, was as follows:

	Balance June 30, 2009	Additions	Deletions	Balance June 30, 2010
Capital assets not being depreciated:				
Land	\$ 186,218	\$ -	\$ -	\$ 186,218
Total capital assets not being depreciated	186,218	-	-	186,218
Other capital assets:				
Improvements other than buildings	37,187	-	-	37,187
Buildings and fixed equipment	598,871	-	-	598,871
Furniture, fixtures and equipment	59,846	10,173	-	70,019
Property under capital leases	12,904	-	-	12,904
Computer software	15,490	-	-	15,490
Construction in Progress	-	30,350	-	30,350
Total other capital assets at historical cost	724,298	40,523	-	764,821
Less accumulated depreciation for:				
Improvements other than buildings	(6,952)	(2,187)	-	(9,139)
Buildings and fixed equipment	(96,581)	(14,661)	-	(111,242)
Furniture, fixtures and equipment	(41,156)	(10,869)	-	(52,025)
Property under capital leases	(1,506)	(2,581)	-	(4,087)
Computer software	(12,900)	(813)	-	(13,713)
Total accumulated depreciation	(159,095)	(31,111) *	-	(190,206)
Other capital assets, net	565,203	9,412	-	574,615
Governmental activities capital assets, net	\$ 751,421	\$ 9,412	\$ -	\$ 760,833

Sebastian Charter Junior High, Inc.

A Charter School and Component Unit of the
Indian River County District School Board
Notes to Basic Financial Statements (continued)

Note 2 – Capital Assets (continued)

* Depreciation expense was charged to governmental functions as follows:

Instruction	\$	11,434
School administration		2,829
Unallocated		16,848
	\$	31,111

Note 3 – Obligation under Capital Leases

Future minimum capital lease payments and the present value of the minimum lease payments are as follows:

Fiscal year ending June 30, 2010	Amount
2012	\$ 3,012
2013	3,012
2014	3,012
2015	1,506
Total minimum lease payments	10,542
Less amount representing interest	(1,096)
	\$ 9,446

The imputed interest rate is 6.79 percent.

Note 4 – Long-Term Liabilities

In July 2003, the School refinanced the mortgage note payable on their land and building with a local financial institution. The School borrowed \$505,000 against the existing real property and the addition of a modular complex which was installed in August 2003. The agreement requires monthly payments of \$4,399 including interest at 6.5%, and matures in November 2019.

Sebastian Charter Junior High, Inc.

A Charter School and Component Unit of the
 Indian River County District School Board
 Notes to Basic Financial Statements (continued)

Note 4 – Long-Term Liabilities (continued)

Amounts needed for the repayment of the mortgage at June 30, 2010, are as follows:

Fiscal year ending June 30	Principal	Interest	Total
2011	\$ 31,518	\$ 21,271	\$ 52,789
2012	33,629	19,160	52,789
2013	35,881	19,159	52,789
2014	38,285	14,504	52,789
2015-2019	202,289	242,010	444,299
	\$ 341,602	\$ 316,104	\$ 655,455

The changes in the School's long-term obligations for governmental activities during the year consist of the following:

	Principal Outstanding June 30, 2009	Additions	Reductions	Principal Outstanding June 30, 2010	Amount Due in One Year
Note payable	\$ 368,801	\$ -	\$27,199	\$341,602	\$ 31,518
Obligation under capital leases	11,787	-	2,341	9,446	2,492
	\$ 380,588	\$ -	\$29,540	\$351,048	\$ 34,010

Note 5 – Deferred Revenue

During prior fiscal years the School received Capital Outlay awards which are to be used toward capital purchases or improvements. At June 30, 2010, the School had Capital Outlay deferred revenue of \$106,384.

Note 6 – 401(k) Plan

The School initiated a 401(k) plan on August 22, 2006, that covers all employees who have attained twenty one years of age and satisfied a one-year service requirement. Employees may make elective contributions up to 25% of their compensation and the limit established by federal law. The School may make elective contributions equal to the employee's contribution up to a limit of 3% of the employee's compensation for the fiscal year.

Sebastian Charter Junior High, Inc.

A Charter School and Component Unit of the
Indian River County District School Board
Notes to Basic Financial Statements (continued)

Note 7– Risk Management Programs

During the year ended June 30, 2010, employees of the School were covered by purchased health insurance. The School contributes monthly for each employee to the plan and employees, at their option, authorize payroll withholdings to pay contributions for dependents.

General liability, professional liability, property, and workers' compensation coverage are being provided through purchased commercial insurance with minimum deductibles for each line of coverage. Commercial coverage has not been exceeded.

Note 8 – Architect Contract

During the year, the School entered into an agreement with Banov Architecture and Construction, Inc. to be the design architect for a new school building. The fees for these services will be 3% of the total construction costs. The School paid \$30,000 in fees during the year ended June 30, 2010.

Note 9 – Subsequent Event

During fiscal year ending June 30, 2010, the School was approved for a one-time distribution of \$480,000 of Florida Statute 1011.71 district school tax pass-through funds. Distribution of these funds will be through reimbursement requests and must be approved by the Indian River County District School Board. As of the date of these financial statements no funds had been requested or received by the School, as a result no amounts have been recorded in these financial statements.



KMETZ NUTTALL • ELWELL • GRAHAM, PLLC
Certified Public Accountants

**Independent Auditors' 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
Sebastian Charter Junior High, Inc.
Sebastian, Florida

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Sebastian Charter Junior High, Inc. (the School), a component unit of the Indian River County District School Board, as of and for the year ended June 30, 2010, which collectively comprise the School's basic financial statements and have issued our report thereon dated September 20, 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 necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies and material weaknesses.

Procedures and Practices

Established accounting procedures and practices provide guidance for employees in carrying out their duties and responsibilities and in conducting the day-to-day operations of the School. The School has procedures and practices manuals in place. We recognize that the School has limited staff and that the areas to be covered by established practices are much more limited than in a larger organization. Accordingly, we have discussed with school personnel specific areas in which developing and documenting accounting procedures and practices may enhance the effectiveness and efficiency of the School's internal control over operations. Such accounting procedures and practices may be beneficial to address such matters as accounting and record keeping, budget preparation and amendment, accountability and control of fixed assets, and the acquisition of goods and services.

2800 Ocean Drive • Vero Beach, Florida 32963 • T: 772.231.6902 • F: 772.231.4099

www.knegcpa.com

Michael L. Kmetz, CPA, PFS • Scott A. Nuttall, CPA, CFP • Brian J. Elwell, CPA • Patrick K. Graham, CPA, MA
Teresa M. LaSota, CPA • David P. Reisinger, CPA • Melissa M. Medlock, CPA • Sonu (Sonny) Patel, CPA

To the Board of Directors
Sebastian Charter Junior High, Inc.

The effective implementation of these enhanced procedures and practices could specifically provide for additional financial and record keeping controls, including the following:

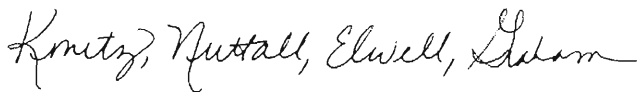
- Employee duties were not always adequately separated between the authorization, custody and record keeping processes for assets such as cash in bank accounts and purchased goods and services. We recognize that the size of the School limits the extent of separation of employee duties and we recommend the Board continue its high degree of involvement in the financial process.
- The School lacks the skills and competencies to either prepare or adequately review the financial statements, including footnote disclosures. We recommend the Board recruit a member capable of preparing the financial statements, including footnote disclosures.

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 and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe the significant deficiencies described above to be material weaknesses.

Compliance and Other Matters

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

This report is intended solely for the information and use of the board of directors, management, and pass-through entities and it not intended to be and should not be used by anyone other than these specified parties.



Kmetz, Nuttall, Elwell, Graham, PLLC
Certified Public Accountants

September 20, 2010



KMETZ NUTTALL ELWELL GRAHAM, PLLC
Certified Public Accountants

Independent Auditors' Management Letter

To the Board of Directors
Sebastian Charter Junior High, Inc.
Sebastian, Florida

We have audited the basic financial statements of Sebastian Charter Junior High, Inc., (the School) as of and for the year ended June 30, 2010, and have issued our report thereon dated September 20, 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 on compliance and Other Matters. Disclosures in that report, if any, which are dated September 20, 2010, should be considered in conjunction with this management letter.

Additionally, our audit was conducted in accordance with the provisions of 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 report.

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..

Section 10.854(1)(e)3., Rules of the Auditor General, requires that we address in the management letter any recommendations to improve financial management. In connection with our audit, we did not have any such recommendations.

Section 10.854(1)(e)4., Rules of the Auditor General, requires that we address violations of laws, regulations, contracts or grant agreements, or abuse that have occurred, or are likely to have occurred, that have an effect on the financial statement amounts 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 are inconsequential to the determination of financial statement amounts, considering both quantitative and qualitative factors: (1) violations of laws, regulations, contracts or grant agreements, or abuse that have occurred, or are likely to have occurred, and (2) control deficiencies that are not significant deficiencies, including, but not limited to; a) improper or inadequate accounting procedures (e.g., the omission of required disclosures from the annual financial statements), b) failures to properly record financial transactions, c) inaccuracies, shortages, defalcations, and instances of fraud discovered by, or that come to the attention of the auditor. In connection with our audit, we did not have any such findings.

To the Board of Directors
Sebastian Charter Junior High, Inc.

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 Sebastian Charter Junior High, 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 Sebastian Charter Junior High, Inc. 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 Sebastian Charter Junior High, Inc.'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 the board of directors, management, the Florida Auditor General, Indian River County School District, and the Office of School Choice, and is not intended to be and should not be used by anyone other than these specified parties.



Kmetz, Nuttall, Elwell, Graham, PLLC
Certified Public Accountants

September 20, 2010

782 Wave Street
Sebastian, FL 32958
(772) 388-8838
(Fax) 772-388-8815
www.sebastiancharterjuniorhigh.com

Sebastian Charter Junior High

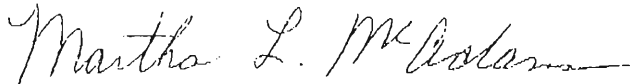
September 20, 2010

To Whom It May Concern:

This letter is in response to the Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards. Sebastian Charter Junior High staff continues to follow the outlined procedures and policies for fiscal management. The Board of Directors is given information regarding the finances and reports will continue to be shared with members so that they can have a high degree of involvement in the financial process.

The noted recommendation of the Board recruiting a member with a financial background who would be capable of reviewing the financial statements, including footnote disclosures such that any omissions or errors would be identified is currently being addressed. The Board had a member with extensive training in financial accounting that served in the office of treasurer, however that member has resigned. The Board is in the process of recruiting a new member that will be able to review the financial statements, including footnote disclosures on a monthly basis.

Sincerely,



Martha L. McAdams, Ph.D.
Principal/Executive Director