

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

**Basic Financial Statements and  
Supplemental Information**

**For the year ended  
June 30, 2011**

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

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## INDEPENDENT AUDITORS' REPORT

To the Board of Directors  
Educational Horizons, Inc.  
Indian Harbour Beach, Florida

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information 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, 2011, 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, 2011, 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, each major fund, and the aggregate remaining fund information of the School, as of June 30, 2011, 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.

As described in Note A-12 to the financial statements, the School adopted the provisions of Government Auditing Standard ("GASB") No. 54 - *Fund Balance Reporting and Governmental Fund Type Definitions*.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 29, 2011, 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, 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 24 through 26 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

August 29, 2011  
Melbourne, Florida

*Berman Hopkins Wright & LaHam*  
*CPAs and Associates, LLP*

## Management's Discussion and Analysis

As management of Educational Horizons Charter School (the "School" which is a component unit of the School District of Brevard County, Florida), a division of Educational Horizons, Inc. (the "Charterholder"), 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, 2011 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.

Since 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 starting on page 8.

### Financial Highlights

- The assets of the School exceeded its liabilities at the close of the most recent fiscal year by \$170,510 (net assets).
- The School's total net assets increased by \$83,240.
- As of the close of the current fiscal year, the School's governmental funds reported combined ending fund balances of \$170,465.
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$170,113.

### 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 themselves.

**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). Basic instruction, exceptional instruction, and school administration are examples of the School's governmental activities.

The government-wide financial statements include only the School itself, which is a component unit of the School District of Brevard County, Florida. The School District of Brevard County, Florida includes the operations of the School in their operational results.

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

**Fund financial statements.** A fund is a collection of related accounts grouped together to maintain control over resources that have been segregated for specific activities or objectives. The School, like 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 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 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 statement of revenues, expenditures, and changes in fund balances. The general fund and capital outlay fund are considered to be major funds.

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

The School adopts an annual appropriated budget for its entire operations. Budgetary comparison schedules and notes to these schedules have been provided to demonstrate compliance with this budget and can be found on pages 24 through 26 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 starting on page 14 of this report.

## Government-Wide Financial Analysis

As noted previously, net assets may serve over time as a useful indicator of a School's financial position. In the case of the School, for the years ended June 30, 2011 and 2010, assets exceeded liabilities by \$170,510 (net assets) and \$87,270 (net assets), respectively.

The largest portion of the School's net assets is the unrestricted portion. Another portion of the net assets reflects its investment in capital assets (e.g., improvements other than buildings). The School uses these capital assets to provide services to students; consequently, these assets are not available for future spending. The investment in capital assets totaled \$45 at June 30, 2011.

Comparison of the condensed statement of net assets and the statement of activities are provided below.

### Educational Horizons Charter School Statement of Net Assets

	Governmental Activities		
	2011	2010	Variance
<b>ASSETS</b>			
Current assets	\$ 170,465	\$ 90,460	\$ 80,005
Capital assets, net of accumulated depreciation	45	68	(23)
Total assets	<u>170,510</u>	<u>90,528</u>	<u>79,982</u>
<b>LIABILITIES</b>			
Current liabilities	-	3,258	3,258
Total liabilities	<u>-</u>	<u>3,258</u>	<u>3,258</u>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	45	68	(23)
Unrestricted	<u>170,465</u>	<u>87,202</u>	<u>83,263</u>
Total net assets	<u>\$ 170,510</u>	<u>\$ 87,270</u>	<u>\$ 83,240</u>

Total assets increased as a result of an increase in cash, but capital assets decreased as a result of depreciation. There were no liabilities in the current year. Overall, net assets increased \$83,240 since prior year.

**Educational Horizons Charter School  
Statement of Activities**

	<b>Governmental Activities</b>		
	<b>2011</b>	<b>2010</b>	<b>Variance</b>
Revenues:			
Program revenues:			
Operating grants and contributions	\$ 55,977	\$ 49,909	\$ 6,068
General revenues:			
State passed through local school district	585,114	419,991	165,123
Other revenues	4,236	4,307	(71)
Total revenues	<u>645,327</u>	<u>474,207</u>	<u>171,120</u>
Expenses:			
Basic instruction	260,281	235,583	(24,698)
Exceptional instruction	8,898	5,535	(3,363)
Staff development	12,571	385	(12,186)
School administration	173,230	136,291	(36,939)
Fiscal services	9,505	10,441	936
Operation of plant	96,161	98,450	2,289
Maintenance of plant	1,441	1,845	404
Total expenses	<u>562,087</u>	<u>488,530</u>	<u>(73,557)</u>
Change in net assets	<u>83,240</u>	<u>(14,323)</u>	<u>97,563</u>
Net assets - beginning	<u>87,270</u>	<u>101,593</u>	<u>(14,323)</u>
Net assets - ending	<u>\$ 170,510</u>	<u>\$ 87,270</u>	<u>\$ 83,240</u>

The increase in the state passed through local school district revenue resulted from an increase of enrollment by almost 35%. Due to the enrollment increase, expenses increased as well especially in basic instruction and school administration. Overall, revenues and expenses increased from the prior year and the change in net assets increased in current year by \$83,240 while in prior year it decreased \$14,323.

**Financial Analysis of the Government's Funds**

As noted previously, 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, *unassigned 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 current fiscal year, the School's governmental funds reported combined ending fund balance of \$170,465.

The general fund is the main operating fund of the School. At the end of the current fiscal year, the unassigned fund balance of the general fund was \$170,113.

The fund balance of the School's general fund increased by \$83,240 during the current fiscal year.

### **General Fund Budgetary Highlights**

Budgeted general fund revenues were the same as actual revenues. The budgeted increase in fund balance was the same as the actual increase in fund balance.

There were no fluctuations between budget and actual expenditures.

The budgetary information can be found on pages 24 through 26 of this report.

### **Capital Asset and Debt Administration**

**Capital Assets.** The School's investment in capital assets for its governmental type activities as of June 30, 2011, amounts to \$45. This investment in capital assets includes improvements other than buildings. Additional information on the School's capital assets can be found in Note C.

**Debt Administration.** The School did not have long term debt at June 30, 2011.

### **Request for Information**

This financial report is designed to provide a general overview of the Educational Horizons Charter 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, Florida, 32937.

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

**STATEMENT OF NET ASSETS**

**June 30, 2011**

	Governmental Activities
<b>ASSETS</b>	
<b>CURRENT ASSETS</b>	
Cash	\$ 167,012
Due from other agencies	3,101
Prepaid expenses	352
Total current assets	170,465
<b>CAPITAL ASSETS</b>	
Capital assets, net of accumulated depreciation	
Improvements other than buildings	45
Total capital assets	45
Total assets	170,510
<b>NET ASSETS</b>	
Investment in capital assets	45
Unrestricted	170,465
Total net assets	\$ 170,510

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, 2011**

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	\$ 260,281	\$ -	\$ 19,282	\$ -	\$ (240,999)
Exceptional instruction	8,898	-	-	-	(8,898)
Staff development	12,571	-	61	-	(12,510)
School administration	173,230	-	-	-	(173,230)
Fiscal services	9,505	-	-	-	(9,505)
Operation of plant	96,161	-	36,634	-	(59,527)
Maintenance of plant	1,441	-	-	-	(1,441)
Total governmental activities	\$ 562,087	\$ -	\$ 55,977	\$ -	(506,110)
General revenues:					
State passed through local school district					585,114
Other revenues					4,236
Total general revenues					589,350
Change in net assets					83,240
Net assets at July 1, 2010					87,270
Net assets at June 30, 2011					\$ 170,510

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, 2011**

	General Fund	Capital Outlay Fund	Other Governmental Funds	Total Governmental Funds
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
<b>ASSETS</b>				
Cash	\$ 167,012	\$ -	\$ -	\$ 167,012
Due from other agencies	-	3,101	-	3,101
Due from other funds	3,101	-	-	3,101
Prepaid expenses	<u>352</u>	<u>-</u>	<u>-</u>	<u>352</u>
Total assets	<u>\$ 170,465</u>	<u>\$ 3,101</u>	<u>\$ -</u>	<u>\$ 173,566</u>
 <b>LIABILITIES AND FUND BALANCES</b>				
<b>LIABILITIES</b>				
Due to other funds	<u>\$ -</u>	<u>\$ 3,101</u>	<u>\$ -</u>	<u>\$ 3,101</u>
Total liabilities	<u>-</u>	<u>3,101</u>	<u>-</u>	<u>3,101</u>
<b>FUND BALANCES</b>				
Nonspendable - prepaid expense:	352	-	-	352
Unassigned	<u>170,113</u>	<u>-</u>	<u>-</u>	<u>170,113</u>
Total fund balances	<u>170,465</u>	<u>-</u>	<u>-</u>	<u>170,465</u>
Total liabilities and fund balances	<u>\$ 170,465</u>	<u>\$ 3,101</u>	<u>\$ -</u>	<u>\$ 173,566</u>

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, 2011**

Fund balances - total governmental funds \$ 170,465

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

\$ 45

Total capital assets

45

Total net assets of governmental activities

\$ 170,510

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, 2011**

	General Fund	Capital Outlay Fund	Other Governmental Funds	Total Governmental Funds
<b>Revenues</b>				
Federal passed through local school district	\$ -	\$ -	\$ 19,343	\$ 19,343
State passed through local school district	585,114	36,634	-	621,748
Other revenues	4,236	-	-	4,236
Total revenues	<u>589,350</u>	<u>36,634</u>	<u>19,343</u>	<u>645,327</u>
<b>Expenditures</b>				
Current:				
Basic instruction	240,999	-	19,282	260,281
Exceptional instruction	8,898	-	-	8,898
Staff development	12,510	-	61	12,571
School administration	173,207	-	-	173,207
Fiscal services	9,505	-	-	9,505
Operation of plant	59,527	36,634	-	96,161
Maintenance of plant	1,441	-	-	1,441
Total expenditures	<u>506,087</u>	<u>36,634</u>	<u>19,343</u>	<u>562,064</u>
Net change in fund balances	83,263	-	-	83,263
Fund balances at July 1, 2010	87,202	-	-	87,202
Fund balances at June 30, 2011	<u>\$ 170,465</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 170,465</u>

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, 2011**

Net change in fund balances - total government funds	\$ 83,263
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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>\$ 83,240</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, 2011**

**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 Charterholder is designated as an educational organization under Section 501(c)(3) of the Internal Revenue Code. The governing body of the School is the Board of Directors, which is composed of three members. The financial information presented is that of Educational Horizons Charter School only and is not intended to be a complete presentation of the Charterholder. The School's entire workforce is provided by the operating company; therefore, all benefits are provided by the operating company.

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, which is the School District 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 the grounds specified in the charter agreement 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. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when constraints are imposed on the use of the amounts either externally by creditors, grantors, contributors, or laws or regulations of other governments, or enabling legislation.

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.

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

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2011**

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

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

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 the general fund and capital outlay 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 government 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 an expenditure only when payment is due.

The School's financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board. Accordingly, the financial statements are organized on the basis of funds.

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

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2011**

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

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

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 - is the general operating fund of the School and 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 District 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.

4. Cash

Cash is made up of checking accounts and a money market account held at financial institutions. The School does not have any cash equivalents.

5. Receivables

The School's receivables consist of due from other agencies. The School's management determined that 100% of receivables are deemed to be fully collectible. Therefore, no allowance for doubtful accounts has been provided.

6. Interfund receivables and payables

Activity between 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. The general fund has recorded a total receivable of \$3,101 which relates to the capital outlay fund for amounts paid by the general fund on behalf of the capital outlay fund.

7. Prepaid expense

Payments made to vendors for services that will benefit periods beyond June 30, 2011, are recorded as prepaid expenses in both government-wide and fund financial statements.

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

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2011**

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

8. Capital assets

Capital assets are reported in the 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 repairs and maintenance that do not add to the value of the asset or materially extend asset 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	15
Furniture, fixtures and equipment	5 - 7

9. Revenue sources

Revenues for current operations are received primarily from the State of Florida passed through the District 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 receives federal awards for the enhancement of various educational programs. This assistance is generally based on applications submitted to and approved by various granting agencies. These federal awards may have requirements whereby the issuance of grant funds is withheld until qualifying eligible expenditures are incurred. Revenues for these awards are recognized only to the extent that eligible expenditures have been incurred.

Additionally, other revenues are derived from various donations, interest on bank accounts, student activities, and other miscellaneous items.

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

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2011**

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

10. Income taxes

The School is a charter school under a division of Educational Horizons, Inc., which qualifies as a tax-exempt organization, and is, therefore, exempt from income tax. Accordingly, no tax provisions have been made in the accompanying financial statements.

11. 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.

12. Fund balance classification

For the year ending June 30, 2011, the School implemented Government Auditing Standard ("GASB") No. 54 - *Fund Balance Reporting and Governmental Fund Type Definitions*. The governmental fund financial statements present fund balances based on classifications that comprise a hierarchy that is based primarily on the extent to which the School is bound to honor constraints on the specific purposes for which amounts in the respective governmental funds can be spent. The classifications used in the governmental fund financial statements are as follows:

Nonspendable fund balance - amounts that are not spendable (such as inventory and prepaid expense) or are required to be maintained intact.

Restricted fund balance - amounts constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government), through constitutional provisions, or by enabling legislation.

Committed fund balance - amounts constrained to specific purposes by the School itself, using its highest level of decision-making authority (i.e., Board of Directors). To be reported as committed, amounts cannot be used for any other purpose unless the School takes the same highest level of action to remove or change the constraint.

Assigned fund balance - amounts the School intends to use for a specific purpose. Intent can be expressed by the Board of Directors or by an official or body to which the Board of Directors delegates the authority.

Unassigned fund balance - amounts that are available for any purpose. Positive amounts are reported only in the general fund.

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

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2011**

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

12. Fund balance classification (continued)

The School would typically use restricted fund balances first, followed by committed resources, and then assigned resources, as appropriate opportunities arise, but reserves the right to selectively spend unassigned resources first to defer the use of these other classified funds.

**NOTE B - CASH**

*Custodial Credit Risk* - Custodial credit risk is the risk that in the event of bank failure, the School's deposits may not be returned to it. The School does not have a formal policy regarding custodial credit risk. The School maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. The Federal Deposit Insurance Corporation ("FDIC") insures up to \$250,000 per depositor for all insurable accounts. At June 30, 2011, the School's deposits were fully insured.

**NOTE C - CAPITAL ASSETS**

Changes in capital assets activity were as follows:

	Balance at July 1, 2010	Additions	Deletions	Balance at June 30, 2011
Capital assets depreciated:				
Improvements other than buildings	\$ 333	\$ -	\$ -	\$ 333
Furniture, fixtures and equipment	12,787	-	-	12,787
Total assets depreciated	13,120	\$ -	\$ -	13,120
Less accumulated depreciation:				
Improvements other than buildings	265	\$ 23	\$ -	288
Furniture, fixtures and equipment	12,787	-	-	12,787
Total accumulated depreciation	13,052	\$ 23	\$ -	13,075
Total governmental activities capital assets, net	\$ 68			\$ 45

Depreciation expense for the year ended June 30, 2011 was charged to functions of the School as follows:

School administration	\$ 23
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**Educational Horizons Charter School  
(A division of Educational Horizons, Inc.)**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2011**

**NOTE D - CONCENTRATIONS**

Revenue sources

As stated in Note A-9, 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	\$ 353,273
Declining enrollment allocation	498
Safe schools	2,190
ESE guaranteed allocation	43,339
Supplemental academic instruction	24,759
Florida teachers lead	1,175
Instructional materials allocation	6,758
Library media allocation	424
State stabilization allocation	29,846
Discretionary millage	39,650
Discretionary compression	8,412
Discretionary lottery	344
Class size reduction	101,719
Administration fee withheld	(30,619)
Subtotal	581,768
Merit award program	3,285
Other federal funding	61
Capital outlay	36,634
Education jobs fund	19,343
Total School Board of Brevard County, Florida	641,091
Other revenues	4,236
Total revenues	\$ 645,327

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

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2011**

**NOTE E - COMMITMENTS AND CONTINGENCIES**

1. Management service contract

The School entered into a service agreement, commencing on June 24, 2004, with a management company. Current year management fees charged to operations totaled \$78,019. The fee is based on 12% of general fund state passed through local school district revenue and does not contain a clause for specific benchmarks. The term of the agreement is for the duration of the charter agreement.

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. On July 1, 2010, the School entered into an addendum for additional classroom space. The addendum increased the base rent by \$21,720 with monthly installments of \$1,810 and expired on June 30, 2011. On July 1, 2011, the lease addendum was renewed for an additional year (see Note I). Current year totaled lease expense charged to operations was \$80,400.

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

2012	\$	81,052
2013		58,680
2014		58,680
2015		4,890
		<hr/>
	\$	203,302

**NOTE F - RELATED PARTY TRANSACTION**

As stated above, the School has an operating lease for facilities with a related party. The lessor is a day-care facility that is also owned by the management company. Details of the lease agreement are included in 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, 2011) plus 2%. There is no collateral securing the line, and as of June 30, 2011, the loan balance was zero.

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

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2011**

**NOTE H - RISK MANAGEMENT**

The School is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters for which the School carries commercial insurance. Under the property insurance policy, the School's liability is \$1,000 per deductible. There have been no significant reductions in insurance coverage during fiscal year 2011. Settled claims resulting from the risks described above have not exceeded the insurance coverage for the previous three years.

**NOTE I - SUBSEQUENT EVENTS**

1. Operating lease addendum

On July 1, 2011, the school renewed the lease addendum for additional classroom space (see Note E-2). The terms of the addendum are \$22,371; payable in installments of \$1,864 per month, and expires June 30, 2012.

2. Subsequent evaluation

The School has evaluated subsequent events through August 29, 2011, 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, 2011**

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
Revenues				
FTE revenue	\$ 523,376	\$ 585,114	\$ 585,114	\$ -
Other revenues				
Donations	1,600	982	982	-
Student activities	1,256	2,058	2,058	-
Interest income	35	150	150	-
Other revenues	-	1,046	1,046	-
Total revenues	<u>526,267</u>	<u>589,350</u>	<u>589,350</u>	<u>-</u>
Expenditures				
Current:				
Salaries - administrative	69,490	73,598	73,598	-
Salaries - educational	254,987	226,189	226,189	-
Benefits	6,428	5,807	5,807	-
Contracted services	85,284	97,347	97,347	-
Insurance - liability	5,630	10,051	10,051	-
Insurance - property	5,660	3,707	3,707	-
Travel - in county	-	52	52	-
Postage	203	88	88	-
Printing	1,067	1,037	1,037	-
Supplies	4,623	3,582	3,582	-
Instructional supplies	2,310	996	996	-
Textbooks	2,319	3,358	3,358	-
Equipment under \$500	905	-	-	-
Computers under \$500	3,785	2,061	2,061	-
Software, \$500 and over	2,500	-	-	-
Software under \$500	-	317	317	-
Bank charges	300	255	255	-
Rental equipment	1,654	1,675	1,675	-
Instructional staff training	500	12,510	12,510	-
Miscellaneous	200	99	99	-
Student activities	1,046	968	968	-
Advertising	3,218	39	39	-
Telephone	1,200	1,247	1,247	-
Internet	900	795	795	-
Utilities	10,114	6,365	6,365	-
Administrative costs	2,473	856	856	-
Rent	41,677	43,766	43,766	-
Accounting and auditing	9,500	9,250	9,250	-
Repair other equipment	500	72	72	-
Total expenditures	<u>518,473</u>	<u>506,087</u>	<u>506,087</u>	<u>-</u>
Net change in fund balances	7,794	83,263	83,263	-
Fund balance at July 1, 2010	<u>87,202</u>	<u>87,202</u>	<u>87,202</u>	<u>-</u>
Fund balance at June 30, 2011	<u>\$ 94,996</u>	<u>\$ 170,465</u>	<u>\$ 170,465</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, 2011**

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
Revenues				
Capital outlay revenues	\$ 37,000	\$ 36,634	\$ 36,634	\$ -
Expenditures				
Rent	37,000	36,634	36,634	-
Net change in fund balances	-	-	-	-
Fund balance at July 1, 2010	-	-	-	-
Fund balance at June 30, 2011	\$ -	\$ -	\$ -	\$ -

See accompanying notes to required supplemental information.

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

**NOTE TO REQUIRED SUPPLEMENTAL INFORMATION**

**June 30, 2011**

**NOTE A - BUDGETARY INFORMATION**

Budgetary basis of accounting

The School's annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. Annual budgets are adopted for the general and capital outlay funds and may be amended by the Board of Directors (the "Board"). The budgets presented for the fiscal year ended June 30, 2011, 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.

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

To the Board of Directors  
Educational Horizons, Inc.  
Indian Harbour Beach, Florida

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information 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, 2011, which collectively comprise Educational Horizons Charter School's basic financial statements and have issued our report thereon dated August 29, 2011. 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*.

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 29, 2011  
Melbourne, Florida

*Berman Hopkins Wright & LaHam*  
*CPAs and Associates, LLP*

## MANAGEMENT LETTER

Honorable Board of Directors  
Educational Horizons, Inc.  
Indian Harbour Beach, Florida

We have audited the financial statements 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 fiscal year ended June 30, 2011, and have issued our report thereon dated August 29, 2011.

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 Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters. Disclosures in that report, which is dated August 29, 2011, 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 auditors' 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 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 recommendations.
- 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 occurred, or are likely to have occurred, 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) deficiencies in internal control that are not significant deficiencies. In connection with our audit, we did not have any such findings.

- 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., which is a not-for-profit organized pursuant to Chapter 617, Florida Statutes, the Florida Not-For-Profit Corporation Act, and Section 1002.33, Florida Statutes.
- 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 used to determine if a school is in a financial emergency, 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 the School's management, Board of Directors, others within the entity, the School Board of Brevard County, Florida, 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 29, 2011  
Melbourne, Florida

*Berman Hopkins Wright & LaHam*  
*CPAs and Associates, LLP*

## **Preceding Findings, Recommendations and Other Matters - Corrected**

### **10-01 Salary Expenditures by Function**

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.

As of June 30, 2011, the above issue has been resolved.

### **10-02 Payroll Controls**

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.

**Preceding Findings, Recommendations and Other Matters - Corrected (continued)**

**10-02 Payroll Controls (continued)**

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.

As of June 30, 2011, the above issue has been resolved.

**Current Year Findings, Recommendations and Other Matters - None noted**