

**SOUTH LAKE  
CHARTER SCHOOL  
(A division of Educational  
Charter Foundation of  
Florida, Inc.)**

**Basic Financial Statements and  
Supplemental Information**

**For the year ended  
June 30, 2009**

BERMAN HOPKINS  
WRIGHT & LAHAM  
CPAS AND ASSOCIATES, LLP

## TABLE OF CONTENTS

	Page
INDEPENDENT AUDITORS' REPORT	1
MANAGEMENT'S DISCUSSION AND ANALYSIS	3
BASIC FINANCIAL STATEMENTS	
Government-Wide Financial Statements:	
Statement of Net Assets	8
Statement of Activities	9
Fund Financial Statements:	
Balance Sheet - Governmental Funds	10
Reconciliation of the Balance Sheet - Governmental Funds to the Statement of Net Assets	11
Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds	12
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds to the Statement of Activities	13
Notes to Financial Statements	14
REQUIRED SUPPLEMENTAL INFORMATION	
Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual - General Fund	26
Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual - Capital Outlay Fund	27
Note to Required Supplemental Information	28
SUPPLEMENTAL INFORMATION	
Schedule of Functional Expenditures - General Fund	30
Schedule of Functional Expenditures - Capital Outlay Fund	31

## TABLE OF CONTENTS (continued)

	Page
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>	32
MANAGEMENT LETTER	34
MANAGEMENT'S RESPONSE	42

INDEPENDENT AUDITORS' REPORT



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To the Board of Directors  
South Lake Charter School  
Clermont, Florida

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of South Lake Charter School (the "School"), a component unit of the School Board of Lake County, Florida and a division of Educational Charter Foundation of Florida, Inc. (the "Charterholder"), as of and for the year ended June 30, 2009, which collectively comprise South Lake Charter School's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of South Lake Charter 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 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 opinion.

As described in Note A-1, the accompanying financial statements referred to above present only the financial position of South Lake Charter School at June 30, 2009, and the respective changes in financial position for the year then ended, and is not intended to be a complete presentation of the Charterholder.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of South Lake Charter School as of June 30, 2009, and the respective changes in financial position for the year then ended in conformity with accounting standards generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 28, 2009, on our consideration of the South Lake Charter School's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis and budgetary comparison information, as listed in the table of contents, are not a required part of the basic financial statements but are supplemental information required by the accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted primarily 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.

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

September 28, 2009  
Melbourne, Florida

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

## **Management's Discussion and Analysis**

As management of South Lake Charter School (the "School"), a component unit of the School Board of Lake County, Florida and a division of Educational Charter Foundation of Florida, 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, 2009 to (a) assist the reader in focusing on significant financial issues, (b) provide an overview and analysis of the School's financial activities, (c) identify changes in the School's financial position, (d) identify material deviations from the approved budget, and (e) highlight significant issues in individual funds.

Because the information contained in the Management's Discussion and Analysis (MD&A) is intended to highlight significant transactions, events, and conditions, it should be considered in conjunction with the basic financial statements found on pages 8 - 24.

### **Financial Highlights**

- The School's assets exceeded its liabilities at June 30, 2009 by \$331,314 (net assets).
- The School's total net assets increased by \$99,879.
- At June 30, the School's governmental fund balance sheet reported combined ending fund balance of \$210,320.
- Total long-term liabilities decreased by \$54,115 in fiscal year 2009.

### **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.

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 transportation 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 Board of Lake County, Florida. The School Board of Lake 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 grouping of related accounts that is used 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 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 two individual government funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures and changes in fund balances for the general fund which is considered to be a major fund.

The School adopts an annual appropriated operating budget for the school. Budgetary comparison statements have been provided to demonstrate compliance with these budgets and can be found on pages 26 and 27 of this report.

The basic governmental fund financial statements can be found on pages 10 - 13 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 earlier, net assets may serve over time as a useful indicator of the School's financial position. In the case of the School, assets exceeded liabilities by \$331,314 and \$231,435, respectively, for the years ended June 30, 2009 and 2008.

At the end of the current fiscal year, the School reports positive balances in all three categories of net assets. A portion of the School's net assets reflects its investment in capital assets (e.g., furniture, fixtures, and equipment, computer software, information technology equipment, and vehicles). The School uses these capital assets to provide services to students; consequently, these assets are not available for future spending. Although the School's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. An additional portion of the School's net assets represents resources that are subject to external restrictions on how they may be used.

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

<b>Statement of Net Assets</b>			
<b>Governmental Activities</b>			
	<b>2009</b>	<b>2008</b>	<b>Variance</b>
<b>ASSETS</b>			
Current and other assets	\$ 523,460	\$ 414,711	\$ 108,749
Capital assets, net of accumulated depreciation	187,393	172,955	14,438
Total assets	710,853	587,666	123,187
<b>LIABILITIES</b>			
Current and other liabilities	313,140	235,717	77,423
Noncurrent liabilities	66,399	120,514	(54,115)
Total liabilities	379,539	356,231	23,308
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	120,994	52,441	68,553
Unrestricted	210,320	178,994	31,326
Total net assets	\$ 331,314	\$ 231,435	\$ 99,879

**Governmental activities.** Governmental activities increased the School's net assets by \$99,879 and \$41,267, respectively, for the years ended June 30, 2009 and 2008.



The following table indicates the changes in net assets for the School:

### Statement of Activities

	Governmental Activities		
	2009	2008	Variance
Revenues:			
Program revenues:			
Charges for services	\$ 133,993	\$ 93,851	\$ 40,142
Operating grants and contributions	460,655	40,457	420,198
Capital grants and contributions	52,949	43,949	9,000
General revenues			
State passed through local school district	4,518,320	3,547,560	970,760
Federal passed through local school district	-	12,985	(12,985)
Contributions	-	652,906	(652,906)
Other revenues	23,566	19,867	3,699
Total revenues	5,189,483	4,411,575	777,908
Expenses:			
Basic instruction	2,305,638	1,896,211	409,427
Exceptional instruction	126,117	66,968	59,149
Guidance services	-	30,810	(30,810)
Health services	362	4,800	(4,438)
Media services	34,191	2,426	31,765
Curriculum development	-	6,749	(6,749)
Board of directors	31,510	5,870	25,640
Staff development	7,639	6,640	999
School administration	1,288,715	942,491	346,224
Central services	22,379	33,052	(10,673)
Transportation	147,152	176,908	(29,756)
Operation of plant	1,050,600	1,013,462	37,138
Maintenance of plant	16,484	60,897	(44,413)
Community service	47,268	110,857	(63,589)
Interest on long-term liabilities	11,549	12,167	(618)
Total expenses	5,089,604	4,370,308	719,296
Change in net assets	99,879	41,267	58,612
Net assets - beginning	231,435	190,168	41,267
Net assets - ending	\$ 331,314	\$ 231,435	\$ 99,879

The increase in revenues was primarily related to the increase in enrollment over previous years. Due to increased enrollment, higher expenses were incurred.

### 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, 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.

The general fund is the chief operating fund of the School. At the end of the current fiscal year, unreserved fund balance of the general fund was \$210,320. The fund balance of the School's general fund increased by \$31,326 during the current fiscal year primarily due to the increase in enrollment.

### **General Fund Budgetary Highlights**

The final expenditure budget of the School is approximately 4% higher than the original budget. This change was primarily due to the expected increase in salaries and benefits, direct educational, general and administrative, and management fee expenditures.

General fund expenditures for the School were underspent during the year ended June 30, 2009 by a total of \$65,572. This was a direct result of decreased salaries and benefits, decreased direct educational expenditures, and general and administrative expenditures.

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

**Capital assets.** The School's investment in capital assets for its governmental activities as of June 30, 2009, amounts to \$187,393 (net of accumulated depreciation). This investment in capital assets includes furniture fixture and equipment, information technology equipment, computer software, and vehicles. Additional information on the School's capital assets can be found in Note C.

**Debt Administration.** The School's long-term liabilities at June 30, 2009 totaled \$66,399. Current year activity represents payments towards the debt. Additional information on the School's long-term obligations can be found in Note D.

### **Request for Information**

This financial report is designed to provide a general overview of South Lake 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 Christine Watson at 15220 Hartwood Marsh Road, Clermont, FL 34711.

**South Lake Charter School**  
**(A division of Educational Charter Foundation of Florida, Inc.)**

**STATEMENT OF NET ASSETS**

**June 30, 2009**

	<u>Governmental Activities</u>
<b>ASSETS</b>	
<b>CURRENT ASSETS</b>	
Cash	\$ 42,411
Due from other agency	1,080
Due from local school district	216,429
Due from other schools	3,530
Due from management company	242,586
Prepaid insurance	<u>17,424</u>
Total current assets	<u>523,460</u>
<b>CAPITAL ASSETS</b>	
Capital assets, net of accumulated depreciation	
Buildings and fixed equipment	91,284
Furniture, fixtures and equipment	38,589
Vehicles	<u>57,520</u>
Total capital assets	<u>187,393</u>
Total assets	<u>710,853</u>
<b>LIABILITIES AND NET ASSETS</b>	
<b>LIABILITIES</b>	
Accounts payable	28,377
Accrued payroll and other expenses	284,763
Noncurrent liabilities	
Due within one year	60,980
Due in more than one year	<u>5,419</u>
Total liabilities	<u>379,539</u>
<b>NET ASSETS</b>	
Investment in capital assets, net of related debt	120,994
Unrestricted	<u>210,320</u>
Total net assets	<u>\$ 331,314</u>

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

**South Lake Charter School**  
**(A division of Educational Charter Foundation of Florida, Inc.)**

**STATEMENT OF ACTIVITIES**

**For the year ended June 30, 2009**

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	\$ 2,305,638	\$ 48,667	\$ 45,852	\$ 52,949	\$ (2,158,170)
Exceptional instruction	126,117	-	18,169	-	(107,948)
Health services	362	-	-	-	(362)
Media services	34,191	-	-	-	(34,191)
Staff development	7,639	-	5,394	-	(2,245)
Board of directors	31,510	-	-	-	(31,510)
School administration	1,288,715	-	-	-	(1,288,715)
Central services	22,379	-	-	-	(22,379)
Transportation	147,152	-	-	-	(147,152)
Operation of plant	1,050,600	8,789	391,240	-	(650,571)
Maintenance of plant	16,484	-	-	-	(16,484)
Community services	47,268	76,537	-	-	29,269
Interest on long-term liabilities	11,549	-	-	-	(11,549)
Total governmental activities	<u>\$ 5,089,604</u>	<u>\$ 133,993</u>	<u>\$ 460,655</u>	<u>\$ 52,949</u>	<u>(4,442,007)</u>
General revenues:					
State passed through local school district					4,518,320
Other revenues					<u>23,566</u>
Total general revenues					<u>4,541,886</u>
Change in net assets					99,879
Net assets at July 1, 2008					<u>231,435</u>
Net assets at June 30, 2009					<u>\$ 331,314</u>

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

**South Lake Charter School**  
**(A division of Educational Charter Foundation of Florida, Inc.)**

**BALANCE SHEET - GOVERNMENTAL FUNDS**

**June 30, 2009**

	General Fund	Capital Outlay Fund	Other Governmental Funds	Total Governmental Funds
<b>ASSETS</b>				
Cash	\$ 42,411	\$ -	\$ -	\$ 42,411
Due from local school district	216,429	-	-	216,429
Due from other agency	1,080	-	-	1,080
Due from management company	242,586	-	-	242,586
Due from other schools	3,530	-	-	3,530
Prepaid insurance	17,424	-	-	17,424
Total assets	<u>\$ 523,460</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 523,460</u>
<b>LIABILITIES AND FUND BALANCES</b>				
<b>LIABILITIES</b>				
Accounts payable	\$ 28,377	\$ -	\$ -	\$ 28,377
Accrued payroll	284,763	-	-	284,763
Total liabilities	<u>313,140</u>	<u>-</u>	<u>-</u>	<u>313,140</u>
<b>FUND BALANCES</b>				
Unreserved	<u>210,320</u>	<u>-</u>	<u>-</u>	<u>210,320</u>
Total fund balances	<u>210,320</u>	<u>-</u>	<u>-</u>	<u>210,320</u>
Total liabilities and fund balances	<u>\$ 523,460</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 523,460</u>

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

**South Lake Charter School**  
**(A division of Educational Charter Foundation of Florida, Inc.)**

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

**June 30, 2009**

Fund balances - total governmental funds	\$ 210,320
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The net assets reported for governmental activities in the statement of net assets is 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:

Buildings and fixed equipment, net of \$2,141 accumulated depreciation	\$ 91,284	
Furniture, fixtures and equipment, net of \$30,672 accumulated depreciation	38,589	
Vehicles, net of \$188,992 accumulated depreciation	<u>57,520</u>	
Total capital assets		187,393

Noncurrent liabilities (e.g. note payable) are not due and payable in the current period and therefore are not reported in the funds.	<u>(66,399)</u>
Total net assets of governmental activities	<u><u>\$ 331,314</u></u>

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

**South Lake Charter School**  
**(A division of Educational Charter Foundation of Florida, Inc.)**

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

**For the year ended June 30, 2009**

	General Fund	Capital Outlay Fund	Other Governmental Funds	Total Governmental Funds
<b>Revenues</b>				
Federal passed through local school district	\$ -	\$ -	\$ 122,364	\$ 122,364
State passed through local school district	4,518,320	391,240	-	4,909,560
Other revenues	157,559	-	-	157,559
<b>Total revenues</b>	<b>4,675,879</b>	<b>391,240</b>	<b>122,364</b>	<b>5,189,483</b>
<b>Expenditures</b>				
<b>Current</b>				
Basic instruction	2,248,604	-	45,852	2,294,456
Exceptional instruction	107,948	-	18,169	126,117
Health services	362	-	-	362
Media services	34,191	-	-	34,191
Staff development	2,245	-	5,394	7,639
Board of directors	31,510	-	-	31,510
School administration	1,288,715	-	-	1,288,715
Central services	22,379	-	-	22,379
Transportation	97,850	-	-	97,850
Operation of plant	654,546	391,240	-	1,045,786
Maintenance of plant	16,484	-	-	16,484
Community services	47,268	-	-	47,268
Fixed capital outlay	26,787	-	52,949	79,736
<b>Debt service</b>				
Principal	54,115	-	-	54,115
Interest	11,549	-	-	11,549
<b>Total expenditures</b>	<b>4,644,553</b>	<b>391,240</b>	<b>122,364</b>	<b>5,158,157</b>
<b>Net change in fund balances</b>	<b>31,326</b>	<b>-</b>	<b>-</b>	<b>31,326</b>
<b>Fund balances at July 1, 2008</b>	<b>178,994</b>	<b>-</b>	<b>-</b>	<b>178,994</b>
<b>Fund balances at June 30, 2009</b>	<b>\$ 210,320</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 210,320</b>

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

**South Lake Charter School**  
**(A division of Educational Charter Foundation of Florida, 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, 2009**

Net change in fund balances - total government funds	\$	31,326
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The change in net assets reported for governmental activities  
in the statement of activities is different because:

Governmental funds report fixed 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.

Total fixed capital outlay	\$	79,736	
Depreciation		<u>(65,298)</u>	14,438

The issuance of long-term debt provides current financial  
resources to governmental funds, while the repayment of  
the principal of long-term debt consumes current financial  
resources of governmental funds. Neither transaction,  
however, has any effect on net assets.

Principal payment on note payable		<u>54,115</u>	
Change in net assets of governmental activities	\$	<u><u>99,879</u></u>	

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



**South Lake Charter School**  
**(A division of Educational Charter Foundation of Florida, Inc.)**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2009**

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

1. Reporting entity

South Lake Charter School, (the "School") is a division of Educational Charter Foundation of Florida, Inc. (the "Charterholder") which is a not-for-profit corporation organized pursuant to Chapter 617, Florida Statutes, the Florida Not-For-Profit Corporation Act, and Section 1002.33, Florida Statutes. The governing body of the School is the Board of Directors, which is comprised of five members. Financial information presented is that of the School only. The School's entire workforce is provided by the management company; therefore, all employee benefits are provided by the management company.

The general operating authority of South Lake Charter School is contained in Section 1002.33, Florida Statutes. The School operates under a charter of the sponsoring school district, which is the School Board of Lake County, Florida (the "District"). The current charter is effective through June 30, 2009 (see Note I). 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. South Lake Charter School is considered a component unit of the School Board of Lake 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 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, net of related debt, restricted net assets, and unrestricted net assets. Net assets are reported as restricted when constraints are imposed on the use of the amounts either externally by creditors, grantors, contributors, laws or regulations of other governments, or enabling legislation.

**South Lake Charter School**  
**(A division of Educational Charter Foundation of Florida, Inc.)**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2009**

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

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

The statement of activities presents a comparison between the direct and indirect expenses of a given function and its program revenues, and displays the extent to which each function contributes to the change in net assets for the fiscal year. Direct expenses are those that are clearly identifiable to a specific function. Indirect expenses are costs the School has allocated to various functions.

Program revenues consist of charges for services, operating grants and contributions, and capital grants and contributions. Charges for services refer to amounts received from those who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment. Grants and contributions consist of revenues that are restricted to meeting the operational or capital requirements of a particular function. Revenues not classified as program revenues are reported as general revenues.

Separate fund financial statements report detailed information about the School's governmental funds. The focus of the governmental fund financial statements is on major funds. Therefore, major funds are reported in separate columns on the fund financial statements. Two of the School's funds were deemed a major fund. A reconciliation is provided that converts the results of governmental fund accounting to the government wide presentation.

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

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

All governmental fund financial statements are reported using a current financial resources measurement focus on a modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues, except for certain grant revenues, are recognized in the accounting period in which they become both measurable and available to finance expenditures of the current period. Available means collectible within the current period, or soon enough thereafter to be used to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within sixty days 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 are recorded as expenditures only when payment is due.

**South Lake Charter School**  
**(A division of Educational Charter Foundation of Florida, Inc.)**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2009**

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

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

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

Resources are allocated to and accounted for in individual funds based on the purpose for which they are to be spent and the means by which spending activities are controlled. When both restricted and unrestricted resources are available for use, it is the School's policy to use restricted resources first, then unrestricted resources as they are needed.

The School reports the following major governmental fund:

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

Capital Outlay Fund - this is a special revenue fund used in accordance with guidelines established by the School Board of Lake 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 grants.

4. Cash

Cash consists of cash on hand at the School and a checking account held at a financial institution. The School has no cash equivalents.

5. Receivables

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

6. Interfund receivables and payables

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

**South Lake Charter School**  
**(A division of Educational Charter Foundation of Florida, Inc.)**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2009**

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

7. Capital assets

Capital assets, which include property, plant and equipment, are reported in the applicable governmental columns on the government-wide financial statements. The School defines capital assets as assets with an initial individual cost of more than \$500 and an estimated useful life of more than two years. Such assets are recorded at historical cost. Donated capital assets are recorded at their estimated fair market values at the date of donation. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

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

<u>Asset Class</u>	<u>Estimated Useful Lives (years)</u>
Buildings and fixed equipment	10 - 50
Furniture, fixtures and equipment	5
Computer software	3
Vehicles	5

8. Prepaid expenses

Payment made to vendors for services that will benefit periods beyond June 30, 2009, are recorded as prepaid expenses in both government-wide and fund financial statement.

9. Long-term obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net assets. In the fund financial statements, governmental funds report the face amount of debt issued as other financing sources and payments of debt principal as other financing uses.

10. Revenue sources

Revenues for current operations are received primarily from the District pursuant to the funding provisions included in the School's charter. In accordance with the funding provisions of the charter and Section 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.

**South Lake Charter School**  
**(A division of Educational Charter Foundation of Florida, Inc.)**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2009**

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

10. Revenue sources (continued)

Funding for the School is adjusted during the year to reflect revised calculations by the FDOE under the Florida Education Finance Program and actual weighted FTE students reported by the School during designated FTE student survey periods.

The School receives federal and state start-up awards for the enhancement of various educational programs. This assistance is generally based on applications submitted to and approved by various granting agencies. These awards may have eligibility requirements whereby the issuance of grant funds is withheld until such eligible expenditures are incurred. Revenues for these awards are recognized only to the extent that eligible expenditures have been incurred.

Additionally, other revenues may be derived from various fundraising activities and certain other programs.

11. Use of estimates

The process of preparing financial statements in conformity with accounting principles requires generally accepted in the United States of America 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. Insufficient funds

In the event that the School does not maintain sufficient funds to pay operating expenses, the management company will deposit funds into the School. On the first date of any month that funds are available to reimburse the management company, the School shall do so however, if at the end of the fiscal year there are outstanding advances the management company shall forgive the remaining outstanding balance. The management company reserves the right to include the unreimbursed operating advances in the calculation of the additional management fee (see Note F-1). Section 4.9.3 of the School's charter agreement requires the School to maintain a total fund balance at a level equal to a minimum of four percent of the total annual expenditures and transfers. This fund balance shall be controlled solely by the School but proof of compliance with this section shall be provided to the District upon request. For the year ended June 30, 2009, the School's management company did not have to contribute funds to the School.

**South Lake Charter School**  
**(A division of Educational Charter Foundation of Florida, Inc.)**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2009**

**NOTE B - CASH**

Custodial Credit Risk - The School maintains its cash balances at Bank of America (the "Bank"). The Bank participates in the Federal Deposit Insurance Corporation (FDIC) Transaction Account Guarantee Program. Under this program, through December 31, 2009, all non-interest-bearing transaction accounts (demand deposit accounts) are fully guaranteed by the FDIC for the entire amount in the account. Coverage under this program is in addition to and separate from the coverage available under the FDIC's basic deposit insurance rules. Balances in other account types, including interest bearing accounts, are insured up to \$250,000. After December 31, 2013, balances for interest bearing accounts up to \$100,000 will be insured

At June 30, 2009, the School's cash balance of \$247,426 was in a non-interest bearing account and, thus, was fully insured by the FDIC.

**NOTE C - CAPITAL ASSETS**

Capital assets activity for the year ended June 30, 2009 was as follows:

	Balance at July 1, 2008	Additions	Deletions	Balance at June 30, 2009
Capital assets not being depreciated:				
Construction in progress	\$ 43,949	\$ -	\$ 43,949	\$ -
Capital assets depreciated:				
Building and fixed Equipment	-	\$ 93,425	\$ -	93,425
Furniture, fixtures and equipment	39,001	30,260	-	69,261
Computer software	18,200	-	-	18,200
Vehicles	246,512	-	-	246,512
Total assets depreciated	303,713	\$ 123,685	\$ -	427,398
Less accumulated depreciation:				
Building and Fixed Equipment	-	\$ 2,141	\$ -	2,141
Furniture, fixtures and equipment	17,828	12,844	-	30,672
Computer software	17,189	1,011	-	18,200
Vehicles	139,690	49,302	-	188,992
Total accumulated depreciation	174,707	\$ 65,298	\$ -	240,005
Total governmental activities capital assets, net	\$ 172,955			\$ 187,393

**South Lake Charter School**  
**(A division of Educational Charter Foundation of Florida, Inc.)**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2009**

**NOTE C - CAPITAL ASSETS (continued)**

Depreciation expense was charged to the functions of the School as follows:

Basic instruction	\$ 11,182
Operation of plant	4,814
Transportation	<u>49,302</u>
	<u><u>\$ 65,298</u></u>

**NOTE D - LONG-TERM LIABILITIES**

A summary of changes in the long-term liabilities are as follows:

	Balance at July 1, 2008	Additions	Deductions	Balance at June 30, 2009	Due within one year
Note payable	<u>\$ 120,514</u>	<u>\$ -</u>	<u>\$ 54,115</u>	<u>\$ 66,399</u>	<u>\$ 60,980</u>

On September 6, 2006, the School entered into an unsecured note payable with the management company, retroactive to August 1, 2005, which bears interest at 12% per annum. The note is paid in monthly installments of \$5,472 from August 2005 through July 2010. During the year, \$54,115 of principal and \$11,549 of interest was paid towards this note. This note was entered into to purchase four buses for the School.

The annual principal and interest payment amounts on the note payable outstanding at June 30, 2009 are as follows:

Fiscal Year Ending June 30,	Principal	Interest	Total
2010	\$ 60,980	\$ 4,686	\$ 65,666
2011	<u>5,419</u>	<u>54</u>	<u>5,473</u>
	<u><u>\$ 66,399</u></u>	<u><u>\$ 4,740</u></u>	<u><u>\$ 71,139</u></u>

**South Lake Charter School**  
**(A division of Educational Charter Foundation of Florida, Inc.)**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2009**

**NOTE E - CONCENTRATIONS**

Revenue sources

As stated in Note A-10, 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 Lake County, Florida	
Base funding	\$ 3,275,691
Supplemental academic instruction	174,389
Class size reduction	742,698
Discretionary lottery	16,612
Instructional materials allocation	63,958
Library materials allocation	3,886
Student transportation	146,317
Safe schools	15,373
Subtotal	4,438,924
Second year implementation grant	104,195
Merit pay allocation	30,268
School recognition funds	49,128
Charter school capital outlay	391,240
Other passed through revenues	18,169
Total from School Board of Lake County, Florida	5,031,924
Other revenues	157,559
	<u>\$ 5,189,483</u>



**South Lake Charter School**  
**(A division of Educational Charter Foundation of Florida, Inc.)**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2009**

**NOTE F - COMMITMENTS AND CONTINGENCIES**

1. Management service contract

The School entered into a service agreement which commenced in February 2005 and was amended in December 2005, with a management company. The contract is for management services through the duration of the School's charter, and may be cancelled or terminated pursuant to the terms and conditions as set forth in the agreement.

Under the agreement, the management company will manage and operate the School for an annual fee to cover the indirect costs, as defined in the operating agreement, of the management company. This cost is allocated on an equitable per student basis among all of the management company's schools and is payable monthly.

Additionally, the School's management agreement allows for additional management fees made solely from any revenues less operating expenses greater than zero remaining at the end of the fiscal year. This fee is based on various unreimbursed advances and a percentage of surplus revenues.

Current year management fees under this agreement charged to operations totaled \$694,104.

2. Facilities

The School has committed to pay a facility allocation to an affiliated company of the management company for the building where the School is located. Current year facilities expense charged to operations totaled \$794,903. Terms of the lease require an annual payment of \$699,990 per year subject to an annual increase equal to the lesser of 1.5% over the overall CPI increase for the immediately preceding calendar year as reported by the Bureau of Labor Statistics or the maximum amount permitted by law and extends through the length of the School's charter.

The School has also committed to pay various equipment use fees to their management company for certain equipment use at the School's location. Current year equipment expense charged to operations totaled \$56,389. These leases expired during the year ended June 30, 2009.

**South Lake Charter School**  
**(A division of Educational Charter Foundation of Florida, Inc.)**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2009**

**NOTE F - COMMITMENTS AND CONTINGENCIES (continued)**

The following is a schedule of future minimum lease payments for the following years ending June 30:

	<u>Facilities</u>
2010	\$ 846,572
2011	901,599
2012	960,203
2013	1,022,616
2014	1,089,086
	<u>\$ 4,820,076</u>

**NOTE G - RELATED PARTIES**

1. Due to/(from) management company

The School has entered into multiple agreements with the management company. The management company is responsible for organizing, developing, managing, staffing, and operating the School. During the current year, the management company charged fees to the School for management services and certain equipment as described in Note F. The due to/(from) management company also reflects activity for operating advances and certain expenses paid on behalf of the School.

The due to/(from) management company activity consists of the following for the year ended June 30, 2009:

	<u>Operating expenses</u>	<u>Management fees</u>	<u>Operating advances</u>	<u>Due to/(from) management company</u>
Balance at July 1, 2008	\$ 49,218	\$ -	\$ (209,713)	\$ (160,495)
Invoiced	304,721	694,104	-	998,825
Payments	(286,957)	(793,959)	-	(1,080,916)
Balance at June 30, 2009	<u>\$ 66,982</u>	<u>\$ (99,855)</u>	<u>\$ (209,713)</u>	<u>\$ (242,586)</u>

2. Note payable

On September 6, 2006, the School entered into an unsecured note payable with the management company. During the year, \$54,115 of principal and \$11,549 of interest was paid towards this note (see Note D).

**South Lake Charter School**  
**(A division of Educational Charter Foundation of Florida, Inc.)**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2009**

**NOTE G - RELATED PARTIES (continued)**

3. Operating lease

Schoolhouse Finance, LLC. owns property which is leased to the School (see Note F-2). Presently, this company is wholly owned by the School's management company. Total rent payments charged to the School for the year ended June 30, 2009 under these leases amounts to \$851,292.

4. Due from other schools

The School shares employees with other schools operated by the same management company. A portion of their salaries are allocated to each School on a cost reimbursement basis.

The due from other schools activity consists of the following at June 30, 2009:

Imagine Schools at Town Center	\$ 883
P.M. Wells Charter Academy	882
Imagine Schools at West Melbourne	1,765
	<hr/>
	\$ 3,530
	<hr/>

**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; general liabilities; and natural disasters for which the School carries commercial insurance. Under the plan for property insurance, the School's liability is \$25,000 per occurrence. There have been no significant reductions in insurance coverage during fiscal year 2009. Settled claims resulting from the risks described above have not exceeded the insurance coverage during the previous three years.

**NOTE I - SUBSEQUENT EVENT**

Subsequent to June 30, 2009, the School's charter contract was renewed for five years and will expire June 30, 2014 (see Note A-1).

## **REQUIRED SUPPLEMENTAL INFORMATION**

**South Lake Charter School**  
**(A division of Educational Charter Foundation of Florida, Inc.)**

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

**For the year ended June 30, 2009**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenue				
State & local revenue	\$ 4,500,641	\$ 4,658,841	\$ 4,518,320	\$ (140,521)
Supplemental fee revenue	171,000	134,069	157,559	23,490
Gross school revenue	4,671,641	4,792,910	4,675,879	(117,031)
Less: Non-profit expenditures	494,689	416,174	416,173	1
Net school operating revenue	4,176,952	4,376,736	4,259,706	(117,030)
Expenditures				
Salaries and benefits	2,644,563	2,659,404	2,620,097	39,307
Transportation	65,000	35,310	35,313	(3)
Direct educational expenditures	247,897	298,298	262,065	36,233
General and administrative	395,289	522,805	475,372	47,433
Facility operating expenditures	167,900	109,176	141,429	(32,253)
School operating expenditures	3,520,649	3,624,993	3,534,276	90,717
Management fees	607,025	668,959	694,104	(25,145)
Total expenditures	4,127,674	4,293,952	4,228,380	65,572
Net changes in fund balances	49,278	82,784	31,326	(51,458)
Fund balances at July 1, 2008	178,994	178,994	178,994	-
Fund balances at June 30, 2009	<u>\$ 228,272</u>	<u>\$ 261,778</u>	<u>\$ 210,320</u>	<u>\$ (51,458)</u>

See accompanying note to required supplemental information.

**South Lake Charter School**  
**(A division of Educational Charter Foundation of Florida, Inc.)**

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

**For the year ended June 30, 2009**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenue				
State & local revenue	\$ 441,550	\$ 391,240	\$ 391,240	\$ -
Less: Non-profit expenditures	<u>441,550</u>	<u>391,240</u>	<u>391,240</u>	<u>-</u>
Net changes in fund balances	-	-	-	-
Fund balances at July 1, 2008	-	-	-	-
Fund balances at June 30, 2009	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

See accompanying note to required supplemental information.

**South Lake Charter School  
(A division of Educational Charter Foundation of Florida, Inc.)**

**NOTE TO REQUIRED SUPPLEMENTAL INFORMATION**

**June 30, 2009**

**NOTE A - BUDGETARY INFORMATION**

Budgetary basis of accounting

Budgets are adopted on a basis consistent with U.S. generally accepted accounting principles. Annual budgets are adopted for the entire operations at the combined governmental level and may be amended by the Board of Directors (the "Board"). The budgets presented for fiscal year ended June 30, 2009, have been amended according to Board procedures.

Although budgets are adopted for the entire operation, budgetary comparisons have been presented for the general fund and each major special revenue fund for which a legally adopted budget exists.

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

## **SUPPLEMENTAL INFORMATION**



Central Services	Transportation	Operation of Plant	Maintenance of Plant	Community Services	Fixed Capital Outlay	Debt Service	Total
\$ -	\$ 202	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 60,483
-	-	51,480	-	-	-	-	51,480
-	-	-	-	-	-	-	63,491
-	-	-	-	-	-	-	1,843
-	-	8,487	-	-	-	-	8,487
-	20,030	-	-	-	-	-	20,030
-	847	364	1,354	1,894	-	-	211,558
-	-	63,795	-	-	-	-	76,305
-	-	-	-	-	-	11,549	11,549
-	-	-	-	-	-	-	694,104
-	7,440	-	-	-	-	-	12,591
-	-	-	-	-	-	-	42,067
-	-	-	-	-	-	-	2,477
22,379	-	2,214	-	-	-	-	230,311
-	-	460,263	-	-	-	54,115	514,378
-	-	44,295	-	-	-	-	70,840
-	56,799	10,726	14,089	21,148	-	-	2,176,719
-	4,891	834	1,041	1,572	-	-	168,329
-	7,641	-	-	22,654	-	-	76,209
-	-	9,442	-	-	-	-	58,476
-	-	-	-	-	-	-	11,459
-	-	2,646	-	-	-	-	2,646
-	-	-	-	-	5,527	-	5,527
-	-	-	-	-	21,260	-	65,366
-	-	-	-	-	-	-	2,493
-	-	-	-	-	-	-	5,335
<u>\$ 22,379</u>	<u>\$ 97,850</u>	<u>\$ 654,546</u>	<u>\$ 16,484</u>	<u>\$ 47,268</u>	<u>\$ 26,787</u>	<u>\$ 65,664</u>	<u>\$ 4,644,553</u>

**Southlake Charter School**  
**(A division of Educational Charter Foundation of Florida, Inc.)**

**SCHEDULE OF FUNCTIONAL EXPENDITURES - CAPITAL OUTLAY FUND**

**For the year ended June 30, 2009**

	Operation of Plant
	<hr/>
Rental	\$ 391,240
	<hr/>

**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**

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To the Board of Directors  
South Lake Charter School  
Clermont, Florida

We have audited the accompanying financial statements of governmental activities, each major fund and the aggregate remaining fund information of South Lake Charter School (the "School"), a component unit of the School Board of Lake County, Florida and a division of Educational Charter Foundation of Florida, Inc. (the "Charterholder") as of and for the year ended June 30, 2009, which collectively comprise the School's basic financial statements and have issued our report thereon dated September 28, 2009. 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 South Lake Charter School's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements but not for the purpose of expressing an opinion on the effectiveness of South Lake Charter School's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of South Lake Charter School's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would 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.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the School's ability to initiate, authorize, record, process or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of South Lake Charter School's financial statements that is more than inconsequential

will not be prevented or detected by the School's internal control. We consider the deficiencies described in items 06-12 and 08-06 in the accompanying management letter to be significant deficiencies in internal control over financial reporting. A material weakness is a significant deficiency, or combination of significant deficiencies, that result in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the South Lake Charter School's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, we consider the significant deficiency described above at 06-12 to be a material weakness.

#### Compliance and Other Matters

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

We also noted certain matters that we reported to management of South Lake Charter School in the management letter dated September 28, 2009.

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

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

September 28, 2009  
Melbourne, Florida

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

**MANAGEMENT LETTER**

To the Board of Directors  
South Lake Charter School  
Clermont, Florida

**BREVARD OFFICE**

8035 Spyglass Hill Rd.  
Melbourne, FL 32940  
phone 321-757-2020  
fax 321-242-4844

We have audited the accompanying financial statements of the governmental activities each major fund and the aggregate remaining fund information of South Lake Charter School (the "School"), a component unit of the School Board of Lake County, Florida and a division of Educational Charter Foundation of Florida, Inc. (the "Charterholder") as of and for the year ended June 30, 2009, and have issued our report thereon dated September 28, 2009.

**ORLANDO OFFICE**

480 N. Orlando Ave.  
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We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. We have issued our Independent Auditor's Report on Internal Control over Financial Reporting and Compliance and Other Matters. Disclosures in that report, which are dated September 28, 2009, 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 the charter school and similar entity audits performed in the State of Florida. This letter includes the following information, which is not included in the aforementioned auditor's reports or schedule

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- 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. See the attached list for corrective actions, if any, that have been taken to address any significant findings and recommendations made in the preceding annual financial audit report.
- 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. See the attached list for 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 statements that is less than material but more than inconsequential. See the attached list for any such violations.

- 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; and (c) inaccuracies, shortages, defalcations, and instances of fraud discovered by, or that come to the attention of, the auditor. See the attached list for any such recommendations.
- 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 *South Lake Charter School*, which is a division of The Educational Charter Foundation of Florida Inc., which is a not-for-profit corporation organized pursuant to Chapter 617, Florida Statutes, the Florida Not-For-Profit Corporation Act, and Section 1002.33, Florida Statutes.
- 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 the 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 the 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 for the information of South Lake Charter School's management, the Foundation for Osceola Education, Inc, the School District of Osceola County, the State of Florida Office of the Auditor General and other regulatory agencies of federal and state governments and is not intended to be and should not be used by anyone other than these specified parties.

September 28, 2009  
Melbourne, Florida

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

## MANAGEMENT RECOMMENDATIONS

### Prior Year Findings and Recommendations - Corrected

#### 06-08 Journal entries

##### *Material Weakness*

Criteria: The School should have appropriate support and approval for general journal entries prior to being posted.

Condition: During our audit, we requested to view support for various general journal entries made throughout the year of which could not be provided. Of the entries that were provided with support many still lacked approval by a member of management.

Cause: Management of the School continues to allow journal entries to be posted with out the proper documentation and approval.

Effect: Inappropriate journal entries could be made without management's awareness. There is also a risk that management could override controls and/or a misstatement could occur that would go undetected.

Auditors' recommendation: We recommend the adoption of a policy to ensure that proper supporting documentation is available for all journal entries and where a knowledgeable member of management approves all general journal entries. Additionally, management should perform an inspection of posted journal entries and ensure that proper documentation is available and that proper authorization has been obtained.

Status: As of June 30, 2009, management has addressed the referenced condition.

#### 07-01 Reconcile accounts to supporting documents

##### *Material Weakness*

Criteria: It is the School's policy to reconcile all balance sheet accounts on a monthly basis.

Condition: During our audit, we noted various balance sheet accounts, revenue accounts and expense accounts that were not being reconciled monthly. As a result material adjustments were necessary for these accounts.

Cause: A review and reconciliation of accounts are not being performed in a timely manner.

Effect: The School's trial balance had to be materially adjusted by approximately \$171,000 to reconcile errors.

Auditors' recommendation: A benefit of monthly reconciliations is that errors do not accumulate but can be identified and attributed to a particular period, which makes it easier to perform future reconciliations. In order to make the financial reports generated by the accounting system as meaningful as possible, we recommended the School reconcile the aforementioned accounts to supporting documentation on a monthly basis.

Status: As of June 30, 2009, management has addressed the referenced condition.

## MANAGEMENT RECOMMENDATIONS

### Prior Year Findings and Recommendations - Corrected

#### 08-01 Cash disbursements approval

Criteria: The School's disbursement policy requires that proper approval be obtained for all disbursements.

Condition: Out of a sample of 26 disbursements, there were six that lacked proper approval.

Cause: Proper approval is not being obtained for all disbursements.

Effect: Disbursements not allowable by the budget could be made without management awareness.

Auditors' recommendations: We recommend that management follows the School's policy and reviews all disbursements noting proper approval, before the disbursement is made. We also recommend that the school develop monitoring procedures to ensure that this policy is being followed.

Status: As of June 30, 2009, management has addressed the referenced condition.

#### 08-02 Capitalization policy

##### *Significant Deficiency*

Criteria: The School's capitalization policy calls for capitalization of any property and equipment additions in excess of \$500.

Condition: There was an instance where the capitalization policy was not followed. There were several pieces of furniture, fixtures and equipment that were grouped together and capitalized when they should have been expensed because their individual values were under the threshold.

Cause: A review of the general ledger is not occurring in a timely manner.

Effect: The School was understating their expenses and overstating their assets for the government-wide financial statements.

Auditor's recommendations: We recommend that management review all fixed asset additions and ensure that the current capitalization policy is being followed.

Status: As of June 30, 2009, management has addressed the referenced condition.



## MANAGEMENT RECOMMENDATIONS

### Prior Year Findings and Recommendations - Corrected

#### 08-03 Cash disbursements and purchase card transactions support

Criteria: The School's policy requires that supporting documentation is obtained for all cash disbursements and purchase card transactions, regardless of dollar value.

Condition: Out of a sample of 25 cash disbursements, 1 instance was noted in which expenses had no supporting documentation. Also, of the 45 purchase card transactions tested, 3 transactions had no supporting documentation. There was also 2 transactions that had a receipt or invoice, however there was no documentation regarding the reason for the expense so that we could ensure that it was an eligible school expense.

Cause: Employees did not follow the School's policy.

Effect: We were unable to determine whether the exceptions discussed above were eligible school expenses.

Auditors' recommendation: We recommend that the School implement a policy of examining cash disbursements and purchase card transactions regularly to ensure that these disbursements have the appropriate documentation and are eligible expenses of the School.

Status: As of June 30, 2009, management has addressed the referenced condition.

#### 08-04 Equipment lease agreement

##### *Material Weakness*

Criteria: The School maintains three equipment lease agreements, which should be reviewed regularly to ensure that the leases are being expensed in the appropriate period.

Condition: During the course of our audit, we noted that the School underpaid its equipment lease for the year.

Cause: Agreements were not reviewed on a regular basis and all invoices were not promptly entered into the system upon receipt.

Effect: An audit adjustment had to be made to account for this error.

Auditors' recommendation: It is our recommendation that the School regularly reviews its agreements and ensure that the appropriate amounts are being expensed and paid in the proper period.

Status: As of June 30, 2009, management has addressed the referenced condition.

## MANAGEMENT RECOMMENDATIONS

### Prior Year Findings and Recommendations - Corrected

#### 08-05 Bank Reconciliations

##### *Material Weakness*

Criteria: A cash reconciliation that reconciles from the bank balance to the general ledger should be prepared to determine that all cash transactions have been recorded properly and to discover bank errors.

Condition: During the course of our audit, we noted that there were 2 separate errors with the bank reconciliation. There were 2 checks recorded on the outstanding check listing that were in fact held not sent to the vendor until after June 30, 2008 and should have been included as accounts payable. There was also a deposit listed as in transit that was not deposited until the first day of the next fiscal year, this should have been included in accounts receivable.

Cause: Due to the conversion of the School's software system, while reconciliations of the bank balance were being performed on monthly basis, these reconciliations did not agree to what was posted in the trial balance.

Effect: The School's trial balance had to be materially adjusted to reconcile these errors.

Auditors' recommendation: A benefit of monthly reconciliations is that errors do not accumulate but can be identified and attributed to a particular period, which makes it easier to perform future reconciliations. In order to make the financial reports generated by the accounting system as meaningful as possible, we recommended the School reconcile the aforementioned accounts to supporting documentation on a monthly basis.

Status: As of June 30, 2009, management has addressed the referenced condition.

## MANAGEMENT RECOMMENDATIONS

### Prior Year Findings and Recommendations - Repeated

#### 06-04 Insurance requirements

##### Criteria:

##### *Workers Compensation*

The charter school agreement requires that the School obtain Worker's Compensation/Employers' Liability Insurance with a minimum limit of \$1,000,000 per occurrence and \$2,000,000 annual aggregate.

##### *General Liability*

Additionally, the charter school agreement requires a deductible for property damage liability of \$1,000 per occurrence.

##### *Errors and Omissions*

The charter school agreement requires that the School obtain School Leader's Errors and Omissions Insurance with a maximum deductible not to exceed \$5,000.

Status as of June 30, 2009:

##### Condition:

##### *Workers Compensation*

The School's current Worker's Compensation/Employers' Liability Insurance limit is \$1,000,000 per occurrence and \$1,000,000 annual aggregate; however the School's umbrella policy insurance limit is \$10,000,000 per occurrence and \$10,000,000 annual aggregate. Therefore, it appears that the School is in compliance in regards to Workers Compensation.

##### *General Liability*

The School's current deductible for property damage liability is \$25,000 per occurrence.

##### *Errors and Omissions*

The School's current deductible is \$25,000 per occurrence.

Cause: The School hasn't changed the policy limits or amended the charter agreement as of date of the auditors' report.

Auditors' recommendation: We recommend the School carry appropriate coverage for insurance purposes. Additionally, we recommend that the School regularly review its agreements to ensure that they remain in compliance.

## MANAGEMENT RECOMMENDATIONS

### Prior Year Findings and Recommendations - Repeated

#### 06-12 General ledger review

##### *Material Weakness*

Criteria: A timely review of the general ledger is required to identify and correct discrepancies that may occur from error.

Status as of June 30, 2009:

Condition: While the School did perform monthly reviews and identified various discrepancies in the general ledger the discrepancies were not investigated up and corrected.

Cause: The school did not investigate the discrepancies noted during the monthly review and correct the error.

Effect: The lack of follow-up caused the need for material adjustments to be made.

Auditors' recommendation: We recommend that the School institute policies to ensure that when a discrepancy is found in the monthly review of the general ledger that it is investigated and if necessary corrected.

#### 08-06 Proper period recording

##### *Significant Deficiency*

Criteria: A reconciliation of accounts payable from the general ledger to the outstanding accounts payable register should be prepared to determine that all additions to, and payments of, accounts payable are correctly recorded and to determine whether there are any disputed items.

Status as of June 30, 2009:

Condition: During the course of our audit we noted that there was one unprocessed invoice for \$18,868 was not properly recorded in the accounts payable ledger.

Cause: A review of the accounts payable listing and the outstanding accounts payable register is not being performed in a timely manner.

Effect: The School's trial balance had to be materially adjusted to reconcile these errors.

Auditors' recommendation: A benefit of monthly reviews is that errors do not accumulate but can be identified and attributed to a particular period. In order to make the financial reports generated by the accounting system as meaningful as possible, we recommended the School reviews the aforementioned account on a monthly basis.

**Management's Response will be forthcoming under separate cover.**