

A decorative border of colored pencils surrounds the text. The pencils are arranged in a rectangular frame. The top row has four pencils: brown, green, red, and blue. The right side has two pencils: blue and yellow. The bottom row has three pencils: brown, yellow, and blue. The left side has four pencils: yellow, blue, red, and green.

**Children's Reading Center  
Charter School**

**Financial Statements  
And  
Independent Auditor's Report**

**June 30, 2008**

**KATTELL AND COMPANY, P.L.**

*A professional accounting firm serving the nonprofit community*

**4055 NW 43<sup>rd</sup> Street, Suite 28  
Gainesville, Florida 32606**

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A light blue cup filled with several colored pencils (red, yellow, blue, green, brown) is positioned in the bottom right corner of the page.

FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT  
JUNE 30, 2008  
CHILDREN'S READING CENTER CHARTER SCHOOL

**Contents**

<b>Independent Auditors' Report</b>	1
<b>Financial Statements:</b>	
Statements of Financial Position	2
Statements of Activities	3-4
Statements of Cash Flows	5
Notes to Financial Statements	6-9
<b>Additional Required Elements:</b>	
<b>Auditors' Reports:</b>	
Management Letter	10
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters	11
Schedule of Findings	12
<b>Management's Response</b>	13

# Kattell and Company, P.L.

*Serving the Nonprofit Community*

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## INDEPENDENT AUDITORS' REPORT

Board of Directors  
Children's Reading Center Charter School  
Palatka, Florida

We have audited the accompanying statements of financial position of Children's Reading Center Charter School (the School) as of June 30, 2008 and 2007, and the related statements of activities and cash flows for the years then ended. These special purpose financial statements are the responsibility of the School's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits 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 significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

The School is a program of Children's Reading Center, Inc. As discussed in Note 1 to the financial statements, these special purpose financial statements are those of the School only, and are not intended to be a complete presentation of financial position, changes in net assets and cash flows of Children's Reading Center, Inc.

In our opinion, the special purpose financial statements referred to above present fairly, in all material respects, the financial position of the School, as of June 30, 2008 and 2007, and the changes in its net assets and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated September 4, 2008 on our consideration of the School's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

*Kattell and Company, P.L.*

September 4, 2008  
Gainesville, Florida

*"Not everything that counts can be counted, and not everything that can be counted counts."*

-Albert Einstein

**Statements of Financial Position**  
**June 30, 2008 and 2007**  
**Children's Reading Center Charter School**

	2008	2007
<b>Assets</b>		
Current Assets:		
Cash	\$ 340,653	\$ 446,694
Accounts Receivable	19,474	--
Prepaid Expenses	188,315	254,863
Total Current Assets	548,442	701,557
Capital Assets:		
Furniture and Equipment	106,493	18,328
Leasehold Improvements	88,926	--
Computer Software	3,818	--
Less: Accumulated Depreciation	(19,294)	(6,975)
Net Capital Assets	179,943	11,353
<b>Total Assets</b>	<b>\$ 728,385</b>	<b>\$ 712,910</b>
<b>Liabilities and Net Assets</b>		
Liabilities:		
Current Liabilities:		
Accounts Payable and Accrued Expenses	\$ 10,116	\$ 701
Due to District School Board	1,516	3,975
Total Current Liabilities:	11,632	4,676
Net Assets:		
Unrestricted:		
Investment in Property and Equipment	179,943	11,353
Board Designated	150,000	150,000
Other Unrestricted Net Assets	364,564	298,802
Total Unrestricted	694,507	460,155
Temporarily Restricted	22,246	248,079
Total Net Assets	716,753	708,234
<b>Total Liabilities and Net Assets</b>	<b>\$ 728,385</b>	<b>\$ 712,910</b>

See accompanying notes.

**Statement of Activities**  
**For Year Ended June 30, 2008**  
**Children's Reading Center Charter School**

	Unrestricted	Temporarily Restricted	Total
Revenue:			
Florida Education Finance Program	\$ 764,350	\$ --	\$ 764,350
Title I Grant	43,070	--	43,070
Capital Outlay Funds	81,738	--	81,738
Jump Ahead Grant (ESE)	5,968	--	5,968
School Recognition Funds	12,250	--	12,250
Public School Technology	1,572	--	1,572
Interest Income	9,167	--	9,167
Contributions	44,222	--	44,222
Other Revenues	7,251	--	7,251
Released from Restrictions	225,833	(225,833)	--
<b>Total Revenue</b>	<b>1,195,421</b>	<b>(225,833)</b>	<b>969,588</b>
Expenses:			
Basic Instructional	560,557	--	560,557
Instructional Support Services	29,475	--	29,475
General Support	371,037	--	371,037
<b>Total Expenses</b>	<b>961,069</b>	<b>--</b>	<b>961,069</b>
<b>Change in Net Assets</b>	<b>234,352</b>	<b>(225,833)</b>	<b>8,519</b>
<b>Net Assets, Beginning</b>	<b>460,155</b>	<b>248,079</b>	<b>708,234</b>
<b>Net Assets, End</b>	<b>\$ 694,507</b>	<b>\$ 22,246</b>	<b>\$ 716,753</b>

See accompanying notes.

**Statement of Activities**  
**For Year Ended June 30, 2007**  
**Children's Reading Center Charter School**

	Unrestricted	Temporarily Restricted	Total
Revenue:			
Florida Education Finance Program	\$ 660,306	\$ --	\$ 660,306
Florida Reads DOE Contribution	--	248,079	248,079
Walton Family Foundation Contribution	150,000	--	150,000
Title I Grant	48,207	--	48,207
Public School Technology	1,476	--	1,476
Interest Income	4,053	--	4,053
Contributions	9,445	--	9,445
Other Revenues	8,268	--	8,268
<b>Total Revenue</b>	<b>881,755</b>	<b>248,079</b>	<b>1,129,834</b>
Expenses:			
Basic Instructional	449,252	--	449,252
Instructional Support Services	10,193	--	10,193
General Support	235,077	--	235,077
<b>Total Expenses</b>	<b>694,522</b>	<b>--</b>	<b>694,522</b>
<b>Change in Net Assets</b>	<b>187,233</b>	<b>248,079</b>	<b>435,312</b>
<b>Net Assets, Beginning</b>	<b>272,922</b>	<b>--</b>	<b>272,922</b>
<b>Net Assets, End</b>	<b>\$ 460,155</b>	<b>\$ 248,079</b>	<b>\$ 708,234</b>

See accompanying notes.

**Statements of Cash Flows**  
**June 30, 2008 and 2007**  
**Children's Reading Center Charter School**

	<b>2008</b>	<b>2007</b>
Cash Flows from Operating Activities:		
Change in Net Assets	\$ 5,961	\$ 435,312
Adjustments to Reconcile Change in Net Assets to Net Cash		
Provided by Operating Activities:		
Depreciation	14,877	3,495
Changes In:		
Receivables	(19,474)	5,000
Prepays	66,548	(154,863)
Accounts Payable and Accrued Expenses	6,956	(4,464)
<b>Net Cash Provided by Operating Activities</b>	<b>74,868</b>	<b>284,480</b>
Cash Flows from Investing Activities:		
<b>Purchase of Fixed Assets</b>	<b>(180,909)</b>	<b>(6,295)</b>
<b>Net Increase (Decrease) in Cash</b>	<b>(106,041)</b>	<b>278,185</b>
<b>Cash, Beginning</b>	<b>446,694</b>	<b>168,509</b>
<b>Cash, End</b>	<b>\$ 340,653</b>	<b>\$ 446,694</b>

See accompanying notes.

**Notes to the Financial Statements**  
**June 30, 2008 and 2007**  
**Children's Reading Center Charter School**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Reporting Entity

Children's Reading Center, Inc. is a not-for-profit corporation organized in 1999 pursuant to Chapter 617, Florida Statutes and the Florida Not-for-Profit Corporation Act. In 2003, the Children's Reading Center, Inc. began operating Children's Reading Center Charter School (the "School") an elementary school in Palatka, Florida. These special purpose financial statements are those of the School only, and are not intended to present the financial position, changes in net assets or cash flows of Children's Reading Center, Inc. In accordance with the provisions of paragraph 10.855(3), Rules of the Auditor General, these special purpose financial statements are prepared in accordance with the provisions of the Financial Accounting Standards Board for not-for-profit organizations.

The general operating authority of the School is contained in Section 1002.33, Florida Statutes. The School operates under a charter of the sponsoring school district, the Putnam County District School Board (the "District"). The current charter is effective until June 30, 2015, and may be renewed provided that a program review demonstrates that certain criteria addressed in Section 1002.33(7), Florida Statutes, have been successfully accomplished. 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. Pursuant to Section 1002.33(8)(e), Florida Statutes, the charter school contract provides that in the event the School is dissolved or terminated, any unencumbered funds and all School property purchased with public funds automatically revert to the District. During the term of the charter, the District may also terminate the charter if good cause is shown. The School is considered a component unit of the District.

Cash and Cash Equivalents

Cash and equivalents include cash and certificates of deposit in financial institutions. At times, such deposits may be in excess of the Federal Deposit Insurance Corporation (FDIC) insurance limit. At June 30, 2008 and 2007, approximately \$241,000 and \$358,000, respectively, was held in excess of FDIC insurance coverage.

Prepaid Expenses

The majority of prepaid expenses include prepayments on the School's lease for facilities (See Note 7). Also included in prepaid expenses is prepaid insurance.

Capital Assets and Depreciation

Capital assets are defined by the School as assets with an initial, individual cost of \$1,000 or more and an estimated useful life of more than one year. These assets are recorded at historical cost. Donated capital assets are recorded at estimated fair value on the date of donation. Depreciable capital assets such as equipment, furniture, software, etc. are depreciated using the straight-line method over estimated useful lives of 5 years. Depreciable capital assets such as leasehold improvements are depreciated using the straight-line method over estimated useful life of 7 years which is the term of the lease agreement.

Accounting for Net Assets

The Corporation's net assets, the excess of assets over liabilities, are reported in two mutually exclusive classes:

Temporarily Restricted - Those net assets resulting from inflows of assets whose use is limited by donor-imposed restrictions which are fulfilled by actions of the Corporation.

Unrestricted - Those net assets that are neither permanently or temporarily restricted.

**Notes to the Financial Statements**  
**June 30, 2008 and 2007**  
**Children's Reading Center Charter School**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (concluded)**

Revenue Recognition

*Student Funding.* 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 Florida Statutes, the School reports the number of full-time equivalent students (FTEs) and related data to the District. Under the provisions of Florida Statutes, the District reports the number of FTEs and related data to the Florida Department of Education (FDOE) for funding through the Florida Education Finance Program (FEFP). Funding for the School is adjusted during the year to reflect the revised calculations by the FDOE under FEFP and the actual weighted FTEs reported by the School during the designated full-time equivalent student survey periods. FEFP funding is paid to the School monthly. All amounts are paid and reported as revenue within the fiscal year. During the year the School served 130 full-time equivalent students.

*Government Grants.* The School receives financial assistance in the form of government grants that are provided on a cost-reimbursement basis. This assistance is generally based on applications submitted to and approved by the granting agency. Grant revenues are recognized as allowable expenses are incurred.

*Contributions.* Contributions are recorded at fair value when received. The Corporation reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. However, donor-restricted contributions whose restrictions are met within the same fiscal year are reported as unrestricted support. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as "net assets released from restrictions."

Compensated Absences

The School pays employees for unused sick and vacation time at the end of each school year or the employee may choose to roll over up to 3 days of leave time into the next year. Any leave time in excess of the roll over amount expires and no longer available to the employee. Therefore, the School has no liability for compensated absences.

Tax Exempt Status

Children's Reading Center, Inc. and its programs are exempt from income taxes according to provisions of Section 501(c)(3) of the Internal Revenue Code and the School has not earned any unrelated business income. Therefore, the School has no provision for federal income taxes. In addition, the Children's Reading Center, Inc. has been classified by the Internal Revenue Service as an organization that is not a private foundation and qualifies for the charitable contribution deduction. The School is operated exclusively for charitable, scientific and educational purposes; specifically the operation of a charter school in Putnam County, Florida.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make various estimates. Actual results could differ from those estimates.

**NOTE 2 – NET ASSETS**

*Designated.* The board has designated the unexpended portion of the Walton Family Foundation grant for future uses. The funds have been placed into a six-month CD with the intent to expend the entire grant by June 30, 2009.

*Temporarily Restricted.* These net assets are restricted to the purposes of a Florida Department of Education grant, as specified in the grant budget. Those purposes are generally restricted to a reading coach and related training, technology, and equipment to be acquired in the coming year.

**Notes to the Financial Statements**  
**June 30, 2008 and 2007**  
**Children's Reading Center Charter School**

**NOTE 3 – CAPITAL ASSETS AND DEPRECIATION**

Capital asset activity for the year ended June 30, 2008 and 2007 was as follows:

	<b>Balance July 1, 2007</b>	<b>Additions</b>	<b>Deletions</b>	<b>Balance June 30, 2008</b>
Furniture and Equipment	\$ 18,328	\$ 88,165	--	\$106,493
Leasehold Improvements	--	88,926	--	88,926
Computer Software	--	3,818	--	3,818
Accumulated Depreciation	(6,975)	(12,319)	--	(19,294)
Net Capital Assets	<u>\$ 11,353</u>	<u>\$168,590</u>	<u>\$ --</u>	<u>\$ 179,943</u>

	<b>Balance July 1, 2006</b>	<b>Additions</b>	<b>Deletions</b>	<b>Balance June 30, 2007</b>
Furniture & Equipment	\$ 12,033	\$ 6,295	--	\$ 18,328
Accumulated Depreciation	(3,480)	(3,495)	--	(6,975)
Net Capital Assets	<u>\$ 8,553</u>	<u>\$ 2,800</u>	<u>--</u>	<u>\$ 11,353</u>

Depreciation expense was charged to General Support.

**NOTE 4 – RELATED PARTY TRANSACTIONS**

The School operates as a separate program for the Children's Reading Center, Inc. See Note 1.

**NOTE 5 – EMPLOYEE RETIREMENT PLAN**

The School made contributions on behalf of its employees to a Simplified Employee Pension (SEP), a non-contributory defined contribution pension plan for the benefit of substantially all full time employees. Contributions to the plan are 7% of eligible salaries. The plan is administered by Capital Bank and Trust Company. Retirement plan contributions amounted to \$19,912 and \$10,442 for the years ended June 30, 2008 and 2007, respectively.

**NOTE 6 – RISK MANAGEMENT**

The School is exposed to various risks of loss, including general liability, personal injury, workers compensation, and errors and omissions. To manage its risks, the School has purchased commercial insurance. Settled claims resulting from these risks have not exceeded commercial coverage for the past three years.

**Notes to the Financial Statements**  
**June 30, 2008 and 2007**  
**Children’s Reading Center Charter School**

**NOTE 7 – OPERATING LEASES**

The School entered an agreement to lease the School’s primary facilities from Children’s Reading Center, Inc. beginning in December of 2007. Lease payments will be \$10,417 per month and the lease term ends December 15, 2014. In accordance with the lease the School advanced first and last year’s rent prior to occupancy which has been recorded as prepaid rent (see Note 1). As a result, the first regular lease payment is due twelve months after occupancy, December 15, 2008. The following schedule displays the composition of future minimum lease payments and total lease expense:

<u>Fiscal Year</u> <u>Ending June 30:</u>	<u>Use of</u> <u>Prepaid</u>	<u>Cash</u>	<u>Total Lease</u> <u>Expense</u>
2009	\$ 52,081	\$ 72,919	\$ 125,000
2010	--	125,000	125,000
2011	--	125,000	125,000
2012	--	125,000	125,000
2013	--	125,000	125,000
2014	72,919	52,081	125,000
2015	52,081	--	52,081
Total	<u>\$ 177,081</u>	<u>\$ 625,000</u>	<u>\$ 802,081</u>

# Kattell and Company, P.L.

*Certified Public Accountants Serving the Nonprofit Community*

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## MANAGEMENT LETTER

To the Board of Directors,  
Children's Reading Center Charter School

We have audited the special purpose financial statements of Children's Reading Center Charter School (the "School"), as of and for the year ended June 30, 2008, and have issued our report thereon dated September 4, 2008. We have also issued our report on compliance and on internal control over financial reporting. That report should be considered in conjunction with this management letter.

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. Additionally, our audit was conducted in accordance with the provisions of Chapter 10.850, Rules of the Auditor General, which govern the conduct of charter school audits performed in the State of Florida and require that certain items be addressed in this letter.

### Prior Audit Findings

The Rules of the Auditor General require that we comment as to whether or not findings reported in the preceding audit report have been corrected and recommendations made in the preceding audit report have been followed. In that regard, there were no prior year audit findings.

### Financial Emergency

The scope of our audit included a review of the provisions of Section 218.503(1), Florida Statutes, *Determination of Financial Emergency*. We determined that the School has not met one or more of the conditions described in that section that are indicative of a state of financial emergency.

### Financial Condition Assessment

We applied financial condition assessment procedures pursuant to Section 10.855(10) of the Rules of the Auditor General. We did not identify deteriorating financial conditions.

### Other Matters

Our audit did not reveal any other matters that we are required to include in this management letter.

This report is intended solely for the information and use of the School's management and Board of Directors, the District School Board and the State of Florida Auditor General, and is not intended to be and should not be used by anyone other than these specified parties.

Thank you for the cooperation and courtesies extended to us during the course of the audit. Please let us know if you have any questions or comments concerning this letter, our accompanying reports, or any other matters.

*Kattell and Company, P.L.*

September 4, 2008  
Gainesville, Florida

**Kattell and Company, P.L.**  
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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE  
AND OTHER MATTERS**

Board of Directors of  
Children’s Reading Center Charter School  
Palatka, Florida

We have audited the special purpose financial statements of Children’s Reading Center Charter School (the “School”) as of and for the year ended June 30, 2008, and have issued our report thereon dated September 4, 2008. Our report was modified to explain that the School is a program of Children’s Reading Center, Inc. and prepares special purpose financial statements that are not intended to be a complete presentation of financial position, changes in net assets and cash flows of Children’s Reading Center, Inc. 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 (internal control) 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 the School’s internal control. Accordingly, we do not express an opinion on the effectiveness of the School’s internal control.

Our consideration of the 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 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 entity’s ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity’s financial statements that is more than inconsequential will not be prevented or detected by the entity’s internal control. We consider the deficiencies described in the accompanying Schedule of Findings to be significant deficiencies in internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity’s internal control. Our consideration of the 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 that might be significant deficiencies, and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described above is a material weakness.

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 grants, 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 that are required to be reported under *Government Auditing Standards*.

\* \* \* \* \*

The School’s response to the finding identified in our audit is described in the accompanying letter from the School. We did not audit the School’s response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the School’s management and Board of Directors, the District School Board and the State of Florida Auditor General, and is not intended to be and should not be used by anyone other than these specified parties.

September 4, 2008  
Gainesville, Florida

*Kattell and Company, P.L.*

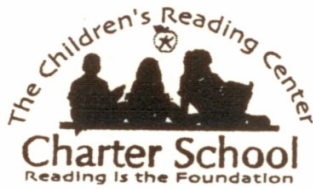
**Schedule of Findings**  
**June 30, 2008**  
**Children's Reading Center Charter School**

08-01 *Finding* – The School does not have sufficient personnel who are skilled in the principles.

*Recommendation* – We have no recommendation since we do not believe it is cost effective for the entity to employ such personnel. However, professional standards require us to make you aware of this condition. This finding should not be interpreted to reflect negatively on the fiscal operations of the School in general. It should only be viewed in light of the preparation of financial statements at the end of the year.

08-02 *Finding* – The School paid for approximately \$1,900 in legal fees related to closing on the loan that financed the construction of the new facility. These are not costs of the School, but costs of Children's Reading Center, Inc., the lessor. In addition, the School paid as lease prepayments over \$4,800 more to Children's Reading Center, Inc. than is called for in lease.

*Recommendation* – The School should seek repayment of these amounts from Children's Reading Center, Inc. and should consider whether additional controls could prevent similar transactions.



September 4, 2008

To Whom It May Concern:

We read and understand the finding 08-01. Since you have no recommendation, we appreciate being made aware of the finding. We agree that is not cost effective for the entity to employ such personnel.

We read and understand the finding 08-02. We have reimbursed the school for the cost of legal fees paid. The first cash payment will be reduced by the amount over payment in lease prepayment.

Thank you for your assistance with our audit this year.

Sincerely,

Dr. Geri Melosh  
Principal

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Geri Melosh, Principal

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