

**CENTRAL FLORIDA SPEECH AND
HEARING CENTER, INC.**

SPECIAL REPORT ON

FINANCIAL STATEMENTS

OF A.C.E. CHARTER SCHOOL

FOR THE YEAR ENDED JUNE 30, 2010

CONTENTS

	<u>Page</u>
INDEPENDENT AUDITORS' REPORT	1 - 2
FINANCIAL STATEMENTS	
Statement of Financial Position	3
Statement of Activities	4 - 5
Statement of Changes in Net Assets	6
Statement of Cash Flows	7
Notes to Financial Statements	8 - 14
SUPPLEMENTAL INFORMATION	
Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	15 - 17
Schedule of Findings and Questioned Costs	18
Independent Auditors' Management Letter	19 - 27
Statement of Explanation or Rebuttal From Audited Official	28

INDEPENDENT AUDITORS' REPORT

Board of Directors
**Central Florida Speech and
Hearing Center, Inc.**
A.C.E. Charter School
Lakeland, Florida

We have audited the accompanying statement of financial position of **Central Florida Speech and Hearing Center, Inc.'s A.C.E. Charter School** as of June 30, 2010, and the related statements of activities, changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the Center'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 *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 audit provides a reasonable basis for our opinion.

The accompanying financial statements for **A.C.E. Charter School** were prepared for the purpose of complying with the Rules of the Auditor General of the State of Florida for Charter Schools as described in Note G and are not intended to be a complete presentation of **Central Florida Speech and Hearing Center, Inc.'s** financial statements.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of **Central Florida Speech and Hearing Center, Inc.'s A.C.E. Charter School** at June 30, 2010, and the results of its operations and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated September 29, 2010, on our consideration of the **Central Florida Speech and Hearing Center, Inc.'s A.C.E. Charter School's** internal control over financial reporting and over tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Governmental Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.



**Central Florida Speech and
Hearing Center, Inc.
A.C.E. Charter School**
Independent Auditors' Report
Page Two

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

Baylin & Company PA

Certified Public Accountants

September 29, 2010



CENTRAL FLORIDA SPEECH AND HEARING CENTER, INC.

A.C.E. CHARTER SCHOOL

STATEMENT OF FINANCIAL POSITION

JUNE 30, 2010

ASSETS

CURRENT ASSETS

Cash and cash equivalents, Note A	\$163,469
Accounts receivable, Note B	-
Due from related party – parent division	20,898
Prepaid expenses	<u>2,331</u>

Total current assets 186,698

PROPERTY AND EQUIPMENT, net, Notes A and C 13,188

TOTAL ASSETS **\$199,886**

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES

Accounts payable and accrued expenses \$ 5,347

Total current liabilities 5,347

Total liabilities 5,347

NET ASSETS

Unrestricted, Note A:
Undesignated 181,351
Net investment in property and equipment 8,193

Total unrestricted net assets 189,544

Temporarily restricted, Notes A and H 4,995

Permanently restricted, Note A -

Total restricted net assets 4,995

Total net assets 194,539

TOTAL LIABILITIES AND NET ASSETS **\$199,886**

The accompanying notes are an integral part of these financial statements.

CENTRAL FLORIDA SPEECH AND HEARING CENTER, INC.

A.C.E. CHARTER SCHOOL

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2010

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>2010 Total</u>
SUPPORT AND REVENUE				
FEDERAL ASSISTANCE:				
US DEPARTMENT OF EDUCATION PASSED THROUGH FLORIDA DEPARTMENT OF EDUCATION				
Individuals with Disabilities Education Act (IDEA), Part B, Sections 611, and Part D, Section 674, CFDA #84.027	\$ -	\$ 31,817	\$ -	\$ 31,817
TOTAL FEDERAL ASSISTANCE	-	31,817	-	31,817
STATE ASSISTANCE:				
FLORIDA DEPARTMENT OF EDUCATION PASSED THROUGH POLK COUNTY SCHOOL BOARD				
Charter School Program (FEFP)	172,730	-	-	172,730
Charter School Program (Lottery Funds)	90	-	-	90
Charter School Program (Millage)	6,806	-	-	6,806
Charter School Program (Discretionary Tax Equalization)	4,860	-	-	4,860
Charter School Program (SAI Categoricals)	-	4,630	-	4,630
Charter School Program (Instructional materials)	-	1,489	-	1,489
Charter School Program (Class size reduction)	-	45,121	-	45,121
Charter School Program (Teacher lead)	-	188	-	188
ARRA State Fiscal Education	-	10,677	-	10,677
ARRA State Fiscal Discretion	-	401	-	401
Charter School Program (Capital outlay)	-	9,322	-	9,322
TOTAL STATE ASSISTANCE	184,486	71,828	-	256,314
OTHER SUPPORT AND REVENUE:				
Contributions	5,156	-	-	5,156
Miscellaneous income	-	-	-	-
Interest income	977	-	-	977
Net assets released from restriction	106,163	(106,163)	-	-
TOTAL OTHER SUPPORT AND REVENUE	112,296	(106,163)	-	6,133
TOTAL SUPPORT AND REVENUE	296,782	(2,518)	-	294,264

The accompanying notes are an integral part of these financial statements.

CENTRAL FLORIDA SPEECH AND HEARING CENTER, INC.

A.C.E. CHARTER SCHOOL

STATEMENT OF ACTIVITIES - CONTINUED

FOR THE YEAR ENDED JUNE 30, 2010

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>2010 Total</u>
EXCEPTIONAL STUDENTS PROGRAM				
DIRECT COSTS:				
Salaries and benefits, contract	\$145,364	\$ -	\$ -	\$145,364
Purchased services	6,040	-	-	6,040
Materials and supplies	7,030	-	-	7,030
Facilities rental	18,000	-	-	18,000
Transportation costs	2,542	-	-	2,542
Depreciation	5,009	-	-	5,009
TOTAL DIRECT COSTS	183,985	-	-	183,985
INDIRECT COSTS:				
Instructional staff training	1,337	-	-	1,337
General administration	14,599	-	-	14,599
School administration	23,818	-	-	23,818
Fiscal services	25,316	-	-	25,316
Administrative fee paid to District	12,340	-	-	12,340
Operation of plant	9,444	-	-	9,444
TOTAL INDIRECT COSTS	86,854	-	-	86,854
TOTAL COSTS	270,839	-	-	270,839
TOTAL SUPPORT AND REVENUE OVER (UNDER) COSTS	\$ 25,943	\$(2,518)	\$ -	\$ 23,425

The accompanying notes are an integral part of these financial statements.

CENTRAL FLORIDA SPEECH AND HEARING CENTER, INC.

A.C.E. CHARTER SCHOOL

STATEMENT OF CHANGES IN NET ASSETS

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
BALANCE, June 30, 2009	\$163,601	\$ 7,513	\$ -	\$171,114
Support and revenue over (under) costs	25,943	(2,518)	-	23,425
BALANCE, JUNE 30, 2010	<u>\$189,544</u>	<u>\$ 4,995</u>	<u>\$ -</u>	<u>\$194,539</u>

The accompanying notes are an integral part of these financial statements.

CENTRAL FLORIDA SPEECH AND HEARING CENTER, INC.

A.C.E. CHARTER SCHOOL

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED JUNE 30, 2010

OPERATING ACTIVITIES

Support and revenue over (under) costs	\$ 23,425
Adjustments to reconcile increase (decrease) in net assets to net cash provided (used) by operating activities:	
Depreciation	5,009
Changes in operating assets and liabilities:	
(Increase) decrease in accounts receivable	668
(Increase) decrease in prepaid expenses	1,724
(Increase) decrease in due from related party	(20,898)
Increase (decrease) in accounts payable, accrued expenses and due to related party	(12,709)
	<u>(2,781)</u>
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>(2,781)</u>

INVESTING ACTIVITIES

None	-
	<u>-</u>
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	<u>-</u>

FINANCING ACTIVITIES

None	-
	<u>-</u>
NET CASH PROVIDED (USED) BY FINANCING ACTIVITIES	<u>-</u>

INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(2,781)
CASH AND CASH EQUIVALENTS, beginning of year	<u>166,250</u>
CASH AND CASH EQUIVALENTS, end of year	<u>\$163,469</u>

The accompanying notes are an integral part of these financial statements.

CENTRAL FLORIDA SPEECH AND HEARING CENTER, INC.

A.C.E. CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Central Florida Speech and Hearing Center, Inc. (the "Center") established a charter school program in August of 2000. The A.C.E. Charter School (the "School") is a special education preschool for children ages 3-5 that have speech, language, and/or hearing difficulties. The School operates under a charter approved by its sponsor, the Polk County School Board. The School is funded through the Florida Department of Education through the Polk County School District and private contributions. The governing body of the A.C.E. Charter School is a separate and distinct Board of Directors which is composed of a minimum of 7 members. The President of Central Florida Speech and Hearing, Inc. is the President/Principal of the A.C.E. Charter School. These financial statements have been prepared for the purpose of complying with the Rules of the Auditor General of the State of Florida for Charter Schools and are not intended to be a complete presentation of Central Florida Speech and Hearing Center, Inc.'s financial statements.

The School reported, on average, an enrollment of 18.6667 unweighted full-time students for the 2009-10 fiscal year. The School is accredited by the Southern Association of Colleges and Schools (SACS).

The financial statements of Central Florida Speech and Hearing Center, Inc.'s A.C.E. Charter School have been prepared on the accrual basis of accounting and in accordance with the American Institute of Certified Public Accountants' Audit and Accounting Guide, *Audits of Not-for-Profit Organizations*. The significant accounting policies followed are described below to enhance the usefulness of the financial statements to the reader.

Unrestricted Net Assets

Unrestricted net assets consist of resources available for the various programs and administration of the School which have not been restricted by a donor or other outside party.

Net investment in property and equipment, if any, represents amounts expended for property and equipment used in the operations of the School, net of amounts borrowed, if any.

Undesignated net assets are available for the various programs and administration of the School.

CENTRAL FLORIDA SPEECH AND HEARING CENTER, INC.

A.C.E. CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS - CONTINUED

JUNE 30, 2010

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Temporarily Restricted Net Assets

Temporarily restricted net assets consist of donor restricted contributions. Amounts restricted by the donor, grantor or other outside party for a particular purpose are deemed to be earned and are reported as revenue when received and such unexpended amounts are reported as temporarily restricted net assets at year end.

When a donor restriction expires, that is, when a stipulated time 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". The School does not imply a time restriction on gifts of long-lived assets.

Permanently Restricted Net Assets

Permanently restricted net assets consist of donor restricted contributions which are required to be held in perpetuity, and income from the assets held must be used as designated by the donor.

There are no permanently restricted net assets at June 30, 2010.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Financial Instruments and Credit Risk

The carrying amounts approximate fair value based on quoted market prices or discounted cash flow analysis for cash equivalents and other financial instruments. The School is subject to some credit risk through short-term cash investments which are placed with high credit quality financial institutions. The School had \$-0- in excess of federally insured or other insured limits at June 30, 2010.

CENTRAL FLORIDA SPEECH AND HEARING CENTER, INC.

A.C.E. CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS - CONTINUED

JUNE 30, 2010

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Income Taxes

The Center is a not-for-profit organization that is exempt from income taxes under the provisions of Section 501(c)(3) of the Internal Revenue Code; therefore, no provision for income taxes has been made in these financial statements. The Center has also been classified as an entity that is not a private foundation with the meaning of Section 509(a) and qualifies for deductible contributions as provided in Section 170(b)(1)(A)(vi).

Cash and Cash Equivalents

The School considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. Interest received on cash equivalents was \$977 for the year ended June 30, 2010.

Property and Equipment

The School follows the practice of capitalizing all expenditures in excess of \$500 for property and equipment, at cost; the fair market value of donated fixed assets is similarly capitalized. Depreciation is provided over the estimated useful lives of the respective assets on a straight-line basis. Routine repairs and maintenance are expensed as incurred.

NOTE B - ACCOUNTS RECEIVABLE

Accounts receivable represent amounts due to A.C.E. Charter School for capital outlay and reimbursable costs. Management has determined that the receivable is fully collectible; therefore, no allowance for uncollectible accounts is considered necessary at June 30, 2010.

	<u>2010</u>
Polk County School District	<u>\$ -</u>
Total	<u><u>\$ -</u></u>

CENTRAL FLORIDA SPEECH AND HEARING CENTER, INC.

A.C.E. CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS - CONTINUED

JUNE 30, 2010

NOTE C - PROPERTY AND EQUIPMENT

Property and equipment, at cost, consist of the following at June 30, 2010:

	<u>Balance 6/30/09</u>	<u>Additions</u>	<u>(Deletions)</u>	<u>Balance 6/30/10</u>	<u>Estimated Useful Lives</u>
Leasehold improvements	\$ 9,670	\$ -	\$ -	\$ 9,670	10 years
Equipment	<u>48,519</u>	<u>-</u>	<u>(4,250)</u>	<u>44,269</u>	5 – 10 years
Total costs	58,189	-	(4,250)	53,939	
Less accumulated depreciation	<u>(39,992)</u>	<u>(5,009)</u>	<u>4,250</u>	<u>(40,751)</u>	
Total	<u>\$ 18,197</u>	<u>\$(5,009)</u>	<u>\$ -</u>	<u>\$ 13,188</u>	

Depreciation expense was \$5,009 for the year ended June 30, 2010.

The book value of property and equipment restricted by the Charter School grant was \$4,995 at June 30, 2010 (See Notes G and H).

NOTE D - FUNCTIONAL ALLOCATION OF EXPENSES

The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

NOTE E - RETIREMENT PLAN AND COMPENSATED ABSENCES

The Center changed to a 401(k) retirement program effective July 1, 2000. All employees with over a year of service are eligible to participate in the program. The Center can elect to match an employee contribution. The School has no liability for the administration or payment of benefits of the plan and, accordingly, the present value of the related vested benefits is not reflected in these financial statements. Contributions to the plan by the School as of the year ended June 30, 2010 were \$2,343.

CENTRAL FLORIDA SPEECH AND HEARING CENTER, INC.

A.C.E. CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS - CONTINUED

JUNE 30, 2010

NOTE E - RETIREMENT PLAN AND COMPENSATED ABSENCES - CONTINUED

No material amounts were owed to School employees under the Center's Earned Time Off (ETO) policy. The Center's policy is for the employee to utilize leave, donate hours to their sick bank, and/or cash out any remaining accrued balances within 90 days after the fiscal year end.

NOTE F - CONTRIBUTED MATERIALS, EQUIPMENT AND SERVICES

A number of other volunteers have donated significant amounts of their time to the School's administrative and program services, and in its fund raising campaigns during the year; however, these donated services are not reflected in the financial statements since these services are not professional in nature, and, as such, do not meet the criteria for recognition as contributed services.

Contributed equipment and services, if any, are recorded in the accompanying financial statements at their fair value at the date of receipt.

NOTE G - GRANTS, GOVERNMENT

The Center has a contract with the Polk County School Board to operate a charter school. The current charter is effective until June 30, 2010, and may be renewed in increments of five to fifteen years by mutual agreement between the School and the District. 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. A new contract was negotiated during the year that is effective from July 1, 2010 and ending June 30, 2015.

Revenues for current operations are received primarily from the Polk County School 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(18), 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 full-time equivalent (FTE) students and related data to the Florida Department of Education (FDOE) for funding through the Florida Education Finance Program (FEFP).

CENTRAL FLORIDA SPEECH AND HEARING CENTER, INC.

A.C.E. CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS - CONTINUED

JUNE 30, 2010

NOTE G - GRANTS, GOVERNMENT - CONTINUED

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

The basic amount of funding through the FEFP under Section 1011.62 is the product of the (1) unweighted FTE, multiplied by (2) the cost factor for each program, multiplied by (3) the base student allocation established by the legislature. Additional funds for exceptional students who do not have a matrix of services are provided through the guaranteed allocation designated in Section 1011.62(1)(e)(2), Florida Statutes. For the 2009-2010 school year the school reported 18.6667 unweighted FTE and 29.8300 weighted FTE. Weighted funding represented approximately 37.42% of the total funding.

FEFP funding may also be adjusted as a result of subsequent FTE audits conducted by the Auditor General pursuant to Section 1010.305, Florida Statutes, and Rule 6A-1.0453, Florida Administrative Code (FAC). Schools are required to maintain the following documentation for three years or until the completion of an FTE audit:

- attendance and membership documentation (Rule 6A-1.044, FAC)
- teacher certificates and other certification documentation (Rule 6A-1.0503, FAC)
- documentation for instructors teaching out-of-field (Rule 6A-1.0503, FAC)
- procedural safeguards for weighted programs (Rule 6A-6.03411, FAC)
- evaluation and planning documents for weighted programs (Sections 1011.62(1)(e), FS, and Rule 6A-6.03411, FAC)

The School receives state awards for capital outlay expenditures. The state grant award is based on an application submitted and approved by the state. Since a claim to the grant proceeds is based upon incurring eligible expenditures, revenue is temporarily restricted and once eligible expenditures have been made, the revenue is reclassified to unrestricted revenue and is reported in the statement of activities as "net assets released from restrictions".

The School also receives Federal IDEA and ARRA grant awards for the enhancement of various education programs. Federal awards are generally received based on applications submitted to and approved by various granting agencies. Since a claim to the grant proceeds is based upon incurring eligible expenditures, revenue is temporarily restricted and once eligible expenditures have been made, the revenue is reclassified to unrestricted revenue and is reported in the statement of activities as "net assets released from restrictions".

CENTRAL FLORIDA SPEECH AND HEARING CENTER, INC.

A.C.E. CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS - CONTINUED

JUNE 30, 2010

NOTE G - GRANTS, GOVERNMENT - CONTINUED

Under the terms of the grant, any property and equipment purchased with Polk County School District funds must be returned to the District if the contract for the School is terminated. (See Notes C and H)

The School contract is on a June 30th year-end. A summary of funds earned during the year ended June 30, 2010 is as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total 2010</u>
Polk County School District	<u>\$184,486</u>	<u>\$103,645</u>	<u>\$287,631</u>
Total	<u><u>\$184,486</u></u>	<u><u>\$103,645</u></u>	<u><u>\$287,631</u></u>

NOTE H - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following uses as of June 30, 2010:

	<u>2010</u>
Net investment in property and equipment (net of amounts borrowed, if any) – use restricted by Charter School grant (See Notes C and G)	<u>\$4,995</u>
Total	<u><u>\$4,995</u></u>

NOTE I - RISK MANAGEMENT - COMMERCIALY PURCHASED INSURANCE

Workers' compensation, motor vehicle liability, general liability and health and hospitalization coverage are being provided through the Center's purchased commercial insurance with minimum deductibles for each line of coverage. Settled claims resulting from these risks have not exceeded commercial coverage in any of the past three fiscal years. The School is named as an additional insured party on the Center's insurance policies.

SUPPLEMENTAL INFORMATION

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

Board of Directors
**Central Florida Speech and
Hearing Center, Inc.
A.C.E. Charter School**
Lakeland, Florida

We have audited the financial statements of **Central Florida Speech and Hearing Center, Inc.'s A.C.E. Charter School** (the "School") as of and for the year ended June 30, 2010, and have issued our report thereon dated September 29, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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.

Internal Control Over Financial Reporting

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

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 deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A significant



Internal Control Over Financial Reporting - Continued

deficiency is a deficiency, or combination of deficiencies, in internal control, that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying schedule of findings and responses to be a significant deficiency in internal control over financial reporting as item 2010-1.

A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the financial statements will not be prevented or detected and corrected on a timely basis.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe 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 grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statements amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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



Independent Auditors' Report on Internal Control Over
Financial Reporting and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed
In Accordance with *Government Auditing Standards*
Page Three

This report is intended solely for the information and use of management, the Board of Directors, the Polk County School District and Federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Bayliss & Company PA

Certified Public Accountants

September 29, 2010



CENTRAL FLORIDA SPEECH AND HEARING CENTER, INC.

A.C.E. CHARTER SCHOOL

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED JUNE 30, 2010

Finding/Noncompliance

Questioned Costs

2010-1

Proper segregation of all internal control functions is not possible due to limitations inherent to the size of **Central Florida Speech and Hearing Center, Inc.'s A.C.E. Charter School's** paid staff; however, continuous monitoring and oversight is performed by the School's Board of Directors. Audit work was extended due to these limitations and nothing came to our attention that caused us to believe that the basic financial statements were not free of material misstatements.

None

**CENTRAL FLORIDA SPEECH &
HEARING CENTER, INC.**

Report to the Board of Directors

JUNE 30, 2010

Board of Directors
Central Florida Speech & Hearing Center, Inc.
Lakeland, Florida

We are pleased to report that we have completed our engagement to examine the financial statements of **Central Florida Speech & Hearing Center, Inc.** (the "Center") and have issued our report thereon, dated September 29, 2010.

Our report has been completed without qualification or exception.

Baylis & Company PA is privileged to have the opportunity to assist the Center in the important responsibility of reporting the financial results of its operations for the recent fiscal period. The information contained in the financial reports will assist the Board of Directors as it monitors and plans the financial activities of the Center.

This report provides the members of the Board of Directors further insight into our audit processes and conclusions and is intended solely for its use internally.

Finally, we are proud of our working relationship with the Center and appreciate the cooperation we received from the staff in the performance of this engagement and look forward to continuing our professional relationship in the future.

As always, we stand ready to answer any questions you may have regarding our report or any other matter.

Baylis & Company PA

Certified Public Accountants

September 29, 2010



CENTRAL FLORIDA SPEECH & HEARING CENTER, INC.

Report to the Board of Directors For the Year Ended June 30, 2010

SCOPE OF EXAMINATION

We have audited the financial statements of **Central Florida Speech & Hearing Center, Inc.** (the "Center") whose headquarters is located in Lakeland, Florida, as of and for the fiscal year ended June 30, 2010, and have issued our report thereon dated September 29, 2010. We have also issued a special report on the A.C.E. Charter School's (the "School") financial statements dated September 29, 2010.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and our report was rendered without qualification.

Management cooperated fully with our audit team and we had no disagreements concerning accounting or auditing procedures. We were provided access to all records, documents and other supporting data that we requested, and no restrictions were imposed on the method or extent of our work.

REQUIRED COMMENTS/DISCLOSURES

Professional standards require the auditor to determine that certain matters are communicated to the audit committee or its equivalent. Other comments are for the general use and consideration of the Board of Directors.

Auditor's Responsibility Under Generally Accepted Auditing Standards

We are responsible for performing an audit in accordance with auditing standards generally accepted in the United States of America which require that we plan and perform the audit to obtain reasonable, not absolute, assurance about whether the financial statements are free of material misstatement. An audit of the financial statements includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. An audit of financial statements, however, does not include a detail audit of transactions as would be necessary to disclose defalcations or other misappropriations that do not cause a material misstatement of the financial statements.

Significant Accounting Policies

There have not been any initial selections of, or changes in, significant accounting policies during the year. In addition, there have not been any controversial or emerging areas for which there is a lack of authoritative guidance or consensus for which the significant accounting policy selected would have a significant effect. The significant accounting policies of the Center are discussed in the footnotes to the financial statements.

Management Judgment and Accounting Estimates

Estimates are an integral part of preparing the financial statements. These estimates are based upon management's current judgment, which include the knowledge and experience about past and current events. A portion of our audit effort surrounded the evaluation of management estimates in the areas of accounts receivable allowances for doubtful accounts. The results of our testing indicated that these reserves appeared reasonable, in relation to the financial statements taken as a whole.



CENTRAL FLORIDA SPEECH & HEARING CENTER, INC.

**Report to the Board of Directors
For the Year Ended June 30, 2010**

Significant Audit Adjustments

There were no significant audit adjustments made to the financial statements of the Center for the year ended June 30, 2010 as a result of our audit.

Disagreements with Management or Difficulties Encountered in Performing the Audit

Management cooperated fully with our audit team, and we had no disagreements concerning accounting matters or difficulties in dealing with management relating to the performance of auditing procedures.

Consultation with Other Independent Accountants

We are not aware that management consulted with other accountants regarding accounting, auditing or reporting issues relative to our audit of the June 30, 2010 financial statements of the Center.

Major Issues Discussed with Management Prior to Engagement as Independent Accountants

No major accounting or reporting issues were discussed with management prior to our engagement as independent accountants for the Center for the year ended June 30, 2010.

Significant Deficiencies in the Design or Operation of the Control Structure

Our review and evaluation of the internal control over financial reporting disclosed no condition that we believe to be a material weakness.

Difficulties Encountered in Performing the Audit

We did not encounter any difficulties in performing the audit. Management provided adequate and timely access to all necessary audit information.

Consideration of Fraud

Professional standards require the auditor to communicate to the audit committee any fraud involving senior management and fraud that causes a material misstatement of the financial statements. These standards clarify the auditor's responsibility for detection of fraud, which has been expanded in description to include both fraudulent financial reporting and misappropriations.

We did not note any incidence of fraud during the course of our audit. Further, we did not note any fraud risk factors which would have continuing control implications.



CENTRAL FLORIDA SPEECH & HEARING CENTER, INC.

Report to the Board of Directors For the Year Ended June 30, 2010

Illegal Acts

Professional standards require the auditor to communicate to the audit committee any illegal acts involving senior management that come to the auditor's attention and to obtain assurance that the audit committee is adequately informed about any other illegal acts that come to the auditor's attention unless clearly inconsequential. Matters to be communicated in accordance with these standards are as follows:

We did not note any illegal acts during the course of our audit.

Consulting Services

Independent accounting and auditing firms often gain substantial insight into the "best practices" of many organizations which they are privileged to provide professional services. To the extent these practices are general and non-proprietary in nature, they apply to all types of organizations. Business schools, trade associations and leadership groups often share this information in a continuous effort to improve and develop organizations.

These insights can be of substantial benefit to organizations seeking to improve their operations or financial results, particularly if they come from trusted advisors, such as independent certified public accountants.

During the course of the engagement period, management may engage our firm to perform consulting services which are beyond the scope of the normal audit engagement.

We do not consider such services to be significant in scope nor to impair our independence or objectivity.

During the period ended June 30, 2010, consulting services performed were less than \$7,000.

AUDITOR GENERAL REQUIRED COMMENTS/DISCLOSURES

The Rules of the Auditor General (Section 10.854(1)(e)1.) require that we address in the management letter, if not already addressed in the auditor's reports on compliance and internal control or schedule of findings and questioned costs, whether or not corrective actions have been taken to address findings and recommendations made in the preceding annual financial report. One out of six recommendations made in the preceding annual financial audit report have been corrected.

As required by the Rules of the Auditor General (Section 10.854(1)(e)2.), a statement must 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 **Central Florida Speech & Hearing Center, Inc.** did not meet any of the conditions described in Section 218.503(1), Florida Statutes.

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

The Rules of the Auditor General (Section 10.854(1)(e)4.) require disclosure in the management letter whether there were any violations of provisions of contracts or grant agreements, or abuse, that have an effect on the financial statements that is less than material but more than inconsequential. Our audit disclosed the following matters required to be disclosed by Rules of Auditor General (Section 10.854(1)(e)4.): None.



CENTRAL FLORIDA SPEECH & HEARING CENTER, INC.

**Report to the Board of Directors
For the Year Ended June 30, 2010**

AUDITOR GENERAL REQUIRED COMMENTS/DISCLOSURES - CONTINUED

The Rules of the Auditor General (Section 10.854(1)(e)5.) provides that the auditor may, based on professional judgment, report the following matters that have an inconsequential effect on the financial statements considering both quantitative and qualitative factors: (1) violations of provisions of contracts or grant agreements, fraud illegal acts, or abuse, and (2) control deficiencies that are not significant deficiencies. In connection with our audit, we did not have any such findings.

The Rules of the Auditor General (Section 10.854(1)(e)6.) also require that the name or official title and legal authority for the charter school be disclosed in the management letter, unless disclosed in the notes to the financial statements. **Central Florida Speech & Hearing Center, Inc.** was established as a not-for-profit organization in 1960 and continues to provide comprehensive quality services to individuals with speech, language or hearing disorders under its mission statement through its existing programs and a charter school. A.C.E. Charter School was established in 2000 by contract with the Polk County School District as allowed by act of the Florida State Legislature, Chapter 77-588. The School included the following component units: None.

As required by the Rules of the Auditor General (Section 10.854(1)(e)7.a. and 10.855(10), we applied financial condition assessment procedures. It is management's responsibility to monitor the entity'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. Our audit disclosed the following matters required to be disclosed by Rules of Auditor General (Section 10.854(1)(e)7.a. and 10.854(1)(e)7.b.): None.

PRIOR YEAR IRREGULARITIES

None

CURRENT YEAR IRREGULARITIES

None

MANAGEMENT LETTER COMMENTS

In planning and performing our audit of the financial statements of **Central Florida Speech & Hearing Center, Inc.** for the year ended June 30, 2010, in accordance with auditing standards generally accepted in the United States of America, we considered its 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 Center's internal control. Accordingly, we do not express an opinion on the effectiveness of the Center's internal control.

Our consideration of internal control 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 that we consider to be significant deficiencies.



CENTRAL FLORIDA SPEECH & HEARING CENTER, INC.

**Report to the Board of Directors
For the Year Ended June 30, 2010**

MANAGEMENT LETTER COMMENTS - CONTINUED

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the following deficiencies to be significant deficiencies in internal control:

PRIOR YEAR RECOMMENDATIONS (current year comments in *italics*)

The following significant deficiency involves matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the Center's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

Internal Control

The existence of a sound internal control structure suggests a proper segregation of duties and responsibilities among accounting staff. Staff size permitting, the purpose of the segregation is to preclude instances where employees have full responsibility for all of the tasks associated with a particular function (i.e.: cash receipts or cash disbursements). The size of the Center's accounting and administrative staff precludes certain internal controls that would be preferred if the office staff were large enough to provide optimum segregation of duties. This situation suggests that the Board continue to remain involved in the financial affairs of the Center to provide oversight and independent review functions.

The Board continues to monitor the accounting activity on a regular basis.

An optimum segregation of duties is not always possible in organizations or environments with a limited number of personnel, as the costs of maintaining an adequate system of internal accounting controls should not exceed the benefits to be derived. Our recommendations and comments should be considered by management in light of the environment and the expected costs and benefits associated with the implementation of any procedure or control.

In addition to the significant deficiency set forth above, we noted certain items of a general nature regarding operational matters that are presented for your consideration.

Accounts Receivable/Accounts Payable

We noted errors in reimbursements to the Center by ACE Charter School (some were over and some were underpaid). Procedures should be reviewed, and modified as necessary, to assure that the computations are reviewed for accuracy and the reimbursements are made in the correct amounts.

During the current year, we continued to note the same issue, although improvement has been made.



CENTRAL FLORIDA SPEECH & HEARING CENTER, INC.

**Report to the Board of Directors
For the Year Ended June 30, 2010**

PRIOR YEAR RECOMMENDATIONS (continued)

General Ledger

During the current year we noted that the Center is periodically reconciling various accounts, but not adjusting the general ledger so that it ties to the reconciliations (i.e. inventory and accrued earned time off). We recommend that the Center periodically adjust account balances to the reconciled schedules.

During the current year, we continued to note the same issue.

Property and Equipment

We noted that the Center capitalized one asset that had a value that was below its current capitalization policy limits.

During the current year, the Center revised its capitalization policy; however the new threshold is in conflict with a new contract signed with the Polk County School Board. Also, we continue to note some exceptions to the policy implemented. We recommend that personnel who review invoices for proper recording in the accounting records pay particular attention to items that might require capitalization. We also recommend that the Board revisit the policy in light of the new contract signed with the school board.

Cash Disbursements

During our test work, we noted that not all invoices paid had documentation showing approval for payment (although implied approval is given when checks are signed) or account distribution. It was also noted that some invoices did not note that the invoice was clerically checked or that the merchandise had been received. We also noted that not all invoices were being defaced (i.e. invoices paid for with petty cash). The Center does utilize a block stamp and we would encourage the Center to make sure that each block stamp is completely filled out. The block stamp is used to standardize and document various cash disbursement policies and procedures. The block stamp should be used on each individual invoice paid and payment made only from invoices versus statements. If multiple invoices are being paid with one check, all the invoices should, at a minimum, be marked paid so that the invoice could not be resubmitted for payment.

During the current year, we continued to note the same issue.

During our test work, we noted that many checks were signed by the two back-up check signers. The Center's policy states that it is preferable for the President and one back-up check signer signs most checks. The Center's policy also states that the President is to review checks signed in her absence when she returns. We noted no indication of such review. We recommend that the Center review its policy to determine if this policy should be amended, or more consistently applied.

During the current year, the board changed its policy. The Center appears to be applying the new policy consistently.

During our test work, we noted that significant numbers of invoices were not being paid within 30 days.

During the current year, we continued to note the same issue.



CENTRAL FLORIDA SPEECH & HEARING CENTER, INC.
Report to the Board of Directors
For the Year Ended June 30, 2010

CURRENT YEAR RECOMMENDATIONS

Payroll

During our tests of payroll, we noted that pay rate change authorizations, which were sent to the payroll processor in order to implement changes in pay rates, are not being returned to the personnel file once they were received back from the payroll processor. This could potentially result in an incorrect rate being paid to an employee, due to the lack of documentation in the file.

During our test work, we noted two employees for whom documentation of their good moral character could not be located. Each employee had a background check performed with clean results. The Center felt this was an indication of good moral character.

Summary

Our comments and/or recommendations have been discussed with the appropriate members of management and we would be pleased to review these matters in further detail at your convenience. This report is intended solely for the information and use of the Board of Directors, management, Polk County District School Board, the State of Florida's Office of the Auditor General, and others within the Center and is not intended to be and should not be used by anyone other than these specified parties.

We would like to thank the staff and management for their support and assistance during our engagement and we look forward to continuing our working relationship in the future.





A.C.E. Charter School
(Academic and Communication Excellence)
710 East Bella Vista Street
Lakeland, Florida 33805

Response to "Report to the Board of Directors" Management Letter
from Baylis & Company PA
For the Year Ended June 30, 2010
September 29, 2010

AUDITOR GENERAL REQUIRED COMMENTS/DISCLOSURES:

I. **Prior Year Irregularities:**

None

II. **Current Year Irregularities:**

None

III. **Recommendations:**

NOTE: During the 2009-2010 year, the Director of Finance resigned on March 19, 2010 and a new Director was hired on May 17, 2010.

A. Internal Control

The existence of a sound internal control structure suggests a proper segregation of duties and responsibilities among accounting staff. Staff size permitting, the purpose of the segregation is to preclude instances where employees have full responsibility for all of the tasks associated with a particular function (i.e.: cash receipts or cash disbursements). The size of the Center's accounting and administrative staff precludes certain internal controls that would be preferred if the office staff were large enough to provide optimum segregation of duties. This situation suggests that the Board continue to remain involved in the financial affairs of the Center to provide oversight and independent review functions.

The Board continues to monitor the accounting activity on a regular basis.

B. Accounts Receivable/Accounts Payable

In the prior year, the auditor noted errors in reimbursements to the Center by ACE Charter School (some were over and some were underpaid). It was recommended that procedures be reviewed, and modified as necessary, to assure that the computations are reviewed for accuracy and the reimbursements are made in the correct amounts. During the current year, the auditors continued to note the same issue, although improvement has been made.

We will diligently review and modify our computations for accuracy and insure that any reimbursements are made in the correct amount.

C. General Ledger

During the current year the auditors noted that the Center is periodically reconciling various accounts, but not adjusting the general ledger so that it ties to the reconciliations (i.e. inventory and accrued earned time off). They recommend that the Center periodically adjust account balances to the reconciled schedules.

The Director of Finance will periodically review the general ledger and will adjust the account balance to the reconciled schedules.

D. Property and Equipment

During the current year, the Center revised its capitalization policy; however the new threshold is in conflict with a new contract signed with the Polk County School Board. Also, the auditors continue to note some exceptions to the policy implemented. They recommend that personnel who review invoices for proper recording in the accounting records pay particular attention to items that might require capitalization. They also recommend that the Board revisit the policy in light of the new contract signed with the school board.

It will be recommended to the Board of Directors that the Center revise its capitalization policy to comply with the Polk County School Board contract. When invoices are coded for entry into the general ledger, every effort will be made to assure compliance with the policy.

E. Cash Disbursements

During the prior year, the auditors noted that not all invoices paid had documentation showing approval for payment (although implied approval is given when checks are signed) or account distribution. It was also noted that some invoices did not note that the invoice was clerically checked or that the merchandise had been received. They also noted that not all invoices were being defaced (i.e. invoices paid for with petty cash). The Center does utilize a block stamp and we would encourage the Center to make sure that each block stamp is completely filled out. The block stamp is used to standardize and document various cash disbursement policies and procedures. The block stamp should be used on each individual invoice paid and payment made only from invoices versus statements. If multiple invoices are being paid with one check, all the invoices should, at a minimum, be marked paid so that the invoice could not be resubmitted for payment. During the current year, we continued to note the same issue.

We will continue to make every effort to insure that every invoice contains a completed block stamp and all paid invoices are clearly marked as paid.

During their test work, the auditors noted in both the prior year and the current year that significant numbers of invoices were not being paid within 30 days.

The timing of payments is dependent upon, among other things, available cash. The cash flow of the Center varies from month to month throughout the year. The President will continue to attempt to pay invoices in a more timely manner and within 30 days, whenever possible.

F. Payroll

During our tests of payroll, the auditors noted that pay rate change authorizations, which were sent to the payroll processor in order to implement changes in pay rates, are not being returned to the personnel file once they were received back from the payroll processor. This could potentially result in an incorrect rate being paid to an employee, due to the lack of documentation in the file.

The President has corrected this issue by insuring that the original authorization is placed in the employees personnel folder and a copy is given to the Director of Finance.

During our test work, they also noted two employees for whom their documentation of good moral character could not be located. Each employee had a background check performed, with clean results. The Center felt this was an indication of good moral character.

The President and Director of Finance will review the payroll related documentation policy and procedures to ensure that all employee records are complete and properly filed.

Submitted by,

A handwritten signature in black ink, appearing to read "L. Gay Ratcliff". The signature is stylized with a large, sweeping initial "L" and "R".

L. Gay Ratcliff
Central Florida Speech & Hearing Center President/CEO
A.C.E. Charter School Principal