

A decorative border of colored pencils surrounds the text. The pencils are arranged in a rectangular frame. The top row consists of 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**

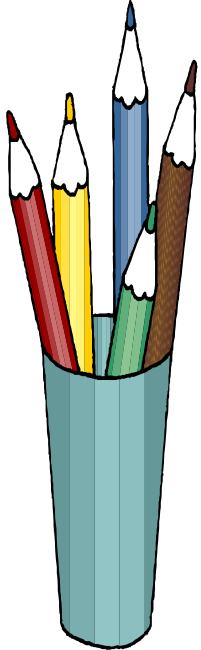
**Financial Statements  
And  
Independent Auditor's Report**

**June 30, 2011**

**KATTELL AND COMPANY, P.L.**  
*A professional accounting firm serving the nonprofit community*

**808-B NW 16<sup>th</sup> Avenue  
Gainesville, Florida 32601**

**(352) 395-6565**

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**Financial Statements and Independent Auditors' Reports**  
**June 30, 2011**  
**Children's Reading Center Charter School**

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# 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, 2011 and 2010, 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, 2011 and 2010, 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 21, 2011 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 21, 2011  
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, 2011 and 2010**  
**Children's Reading Center Charter School**

	2011	2010
<b>Assets</b>		
Current Assets:		
Cash	\$ 307,826	\$ 310,237
Accounts Receivable	18,812	7,100
Prepaid Expenses	133,815	130,094
Total Current Assets	460,453	447,431
Capital Assets:		
Furniture and Equipment	139,140	139,140
Leasehold Improvements	96,693	88,926
Improvements other than Building	8,921	8,921
Computer Software	3,818	3,818
Less: Accumulated Depreciation	(110,378)	(79,364)
Net Capital Assets	138,194	161,441
<b>Total Assets</b>	<b>\$ 598,647</b>	<b>\$ 608,872</b>
<b>Liabilities and Net Assets</b>		
Liabilities:		
Current Liabilities:		
Accounts Payable and Accrued Expenses	\$ 12,969	\$ 22,862
Total Current Liabilities:	12,969	22,862
Net Assets:		
Unrestricted:		
Investment in Property and Equipment	138,194	161,441
Board Designated	11,589	22,077
Other Unrestricted Net Assets	435,895	402,492
Total Unrestricted Net Assets	585,678	586,010
<b>Total Liabilities and Net Assets</b>	<b>\$ 598,647</b>	<b>\$ 608,872</b>

See accompanying notes.

**Statement of Activities**  
**For Years Ended June 30, 2011 and 2010**  
**Children's Reading Center Charter School**

	<u>2011</u>	<u>2010</u>
Revenue:		
Florida Education Finance Program	\$ 1,158,224	\$ 1,006,293
Title I Grant	57,015	56,754
Capital Outlay Funds	73,492	79,968
School Recognition Funds	12,225	10,875
ERATE Grant	9,073	--
Other State Revenue	40,080	--
Jump Ahead Grant (ESE)	7,000	7,000
Interest Income	3,168	3,890
Contributions	12,241	16,071
Other Revenues	12,926	12,414
	<hr/>	<hr/>
<b>Total Revenue</b>	<b>1,385,444</b>	<b>1,193,265</b>
Expenses:		
Basic Instructional	901,139	781,704
Instructional Support Services	8,516	6,605
General Support	476,121	450,483
	<hr/>	<hr/>
<b>Total Expenses</b>	<b>1,385,776</b>	<b>1,238,792</b>
<b>Change in Net Assets</b>	<b>(332)</b>	<b>(45,527)</b>
<b>Net Assets, Beginning</b>	<b>586,010</b>	<b>631,537</b>
	<hr/>	<hr/>
<b>Net Assets, End</b>	<b>\$ 585,678</b>	<b>\$ 586,010</b>
	<hr/>	<hr/>

See accompanying notes.

**Statements of Cash Flows**  
**June 30, 2011 and 2010**  
**Children's Reading Center Charter School**

	<u>2011</u>	<u>2010</u>
Cash Flows from Operating Activities:		
Change in Net Assets	\$ (332)	\$ (45,527)
Adjustments to Reconcile Change in Net Assets to Net Cash		
Provided by Operating Activities:		
Depreciation	31,014	30,188
Changes In:		
Receivables	(11,712)	15,483
Prepays	(3,721)	5,414
Accounts Payable and Accrued Expenses	<u>(9,893)</u>	<u>10,238</u>
<b>Net Cash Provided by Operating Activities</b>	<b>5,356</b>	<b>15,796</b>
Cash Flows from Investing Activities:		
<b>Purchase of Fixed Assets</b>	<u>(7,767)</u>	<u>(9,902)</u>
<b>Net Increase (Decrease) in Cash</b>	<b>(2,411)</b>	<b>5,894</b>
<b>Cash, Beginning</b>	<u>310,237</u>	<u>304,343</u>
<b>Cash, End</b>	<u>\$ 307,826</u>	<u>\$ 310,237</u>

See accompanying notes.

**Notes to the Financial Statements**  
**June 30, 2011 and 2010**  
**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.

The School taught 187 and 162 students for the years ended June 30, 2011 and 2010, respectively, in grades K-5.

Cash and Cash Equivalents

Cash consists of cash on hand and deposits in federally insured banks. Deposits in excess of \$250,000 are held in financial institutions that participate in the transaction account guarantee component of the temporary liquidity guarantee program of FDIC. As such, all deposits are fully insured by the FDIC.

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. The Corporation held no temporarily restricted net assets during the years ended June 30, 2010 and 2011.

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

**Notes to the Financial Statements**  
**June 30, 2011 and 2010**  
**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.

*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 five days of sick and personal leave time into the next year. However, the School does not pay for employees' unused sick and vacation time upon termination, therefore, no liability for compensated absences is recorded.

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. The School holds no uncertain tax positions and, therefore, has no policy for evaluating them. The Form 990, *Return of Organization Exempt from Income Taxes*, for Children's Reading Center, Inc., is subject to examination by the IRS, generally for four years after the date filed.

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 board used \$10,488 and \$91,158 of the grant in the years ending June 30, 2011, and 2010, respectively, for salary and educational supplies of teachers.

**Notes to the Financial Statements**  
**June 30, 2011 and 2010**  
**Children's Reading Center Charter School**

**NOTE 3 – CAPITAL ASSETS AND DEPRECIATION**

Capital asset activity for the year ended June 30, 2011 and 2010 was as follows:

	<b>Balance July 1, 2010</b>	<b>Additions</b>	<b>Deletions</b>	<b>Balance June 30, 2011</b>
Furniture and Equipment	\$ 139,140	\$ --	\$ --	\$ 139,140
Leasehold Improvements	88,926	7,767	--	96,693
Computer Software	3,818	--	--	3,818
Improvements other than Building	8,921	--	--	8,921
	<u>240,805</u>	<u>7,767</u>	<u>--</u>	<u>248,572</u>
Accumulated Depreciation	<u>(79,364)</u>	<u>(31,014)</u>	<u>--</u>	<u>(110,378)</u>
Net Capital Assets	<u>\$ 161,441</u>	<u>\$ (23,247)</u>	<u>\$ --</u>	<u>\$ 138,194</u>

	<b>Balance July 1, 2009</b>	<b>Additions</b>	<b>Deletions</b>	<b>Balance June 30, 2010</b>
Furniture & Equipment	\$ 129,238	\$ 9,902	\$ --	\$ 139,140
Leasehold Improvements	88,926	--	--	88,926
Computer Software	3,818	--	--	3,818
Improvements other than Building	8,921	--	--	8,921
	<u>230,903</u>	<u>9,902</u>	<u>--</u>	<u>240,805</u>
Accumulated Depreciation	<u>(49,176)</u>	<u>(30,188)</u>	<u>--</u>	<u>(79,364)</u>
Net Capital Assets	<u>\$ 181,727</u>	<u>\$ (20,286)</u>	<u>\$ --</u>	<u>\$ 161,441</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. The School paid Children's Reading Center, Inc., \$125,000 in rent payments for each of the years ending June 30, 2011 and 2010.

**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 \$34,317 and \$31,750 for the years ended June 30, 2011 and 2010, 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 in the current and previous two years.

**Notes to the Financial Statements**  
**June 30, 2011 and 2010**  
**Children’s Reading Center Charter School**

**NOTE 7 – OPERATING LEASES**

The School entered into an agreement to lease the School’s primary facilities from Children’s Reading Center, Inc. beginning in December of 2007. Lease payments are \$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). The following schedule displays the composition of future minimum lease payments and total lease expense:

<u>Fiscal Year Ending June 30:</u>	<u>Use of Prepaid</u>	<u>Cash</u>	<u>Total Lease Expense</u>
2012	--	125,000	125,000
2013	--	125,000	125,000
2014	72,920	52,080	125,000
2015	52,080	--	52,080
Total	<u>\$ 125,000</u>	<u>\$ 302,080</u>	<u>\$ 427,080</u>

**NOTE 8– SUBSEQUENT EVENTS**

The School evaluated events and transactions for potential recognition or disclosure through September 21, 2011, which is the date the financial statements were available to be issued.

# 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 financial statements of Children's Reading Center Charter School (the "School"), as of and for the fiscal year ended June 30, 2011, and have issued our report thereon dated September 21, 2011.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. We have issued our Independent Auditors' Report on Internal Control over Financial Reporting and Compliance and Other Matters and our Schedule of Findings. Disclosures in that report and schedule 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 govern the conduct of charter school and similar entity audits performed in the State of Florida. This letter includes the following information, which is not included in the aforementioned auditors' reports or schedule:

Prior Audit Findings. The Rules of the Auditor General require that we determine whether or not corrective actions have been taken to address findings and recommendations made in the preceding annual financial audit report. In that regard, there were no findings reported in the prior year.

Recommendations to Improve Financial Management. Rules of the Auditor General require that we address any recommendations to improve financial management. We did not have any such recommendations.

Immaterial Noncompliance. Rules of the Auditor General require that we address violations of laws, regulations, contract 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. We did not have any such findings.

Other Matters. Section 10.854(1)(e)4, Rules of the Auditor General, provides that the auditor may report other matters that are inconsequential to the determination of financial statement amounts. There are no other matters that, based on our professional judgment, will be included in this management letter.

Name. The name or official title of the School is Children's Reading Center Charter School.

Financial Emergency. Rules of the Auditor General require 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. We determined that the School did not meet any of the conditions described in Section 218.503(1), Florida Statutes.

Financial Condition Assessment. Rules of the Auditor General require that we apply 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 management. We did not identify deteriorating financial conditions.

\* \* \* \* \*

Pursuant to Chapter 119, Florida Statutes, this management letter is a public record and its distribution is not limited. Auditing standards generally accepted in the United States of America require us to indicate that this letter is intended solely for the information and use of management and the Board of Directors of the School, 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 21, 2011  
Gainesville, Florida

**Kattell and Company, P.L.**  
*Certified Public Accountants Serving the Nonprofit Community*

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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE  
AND OTHER MATTERS**

Board of Directors  
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, 2011, and have issued our report thereon dated September 21, 2011. 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

Management of the School is responsible for establishing and maintaining effective internal control over financial reporting (internal control). In planning and performing our audit, we considered the School’s 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.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity’s financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance that all such deficiencies have been identified. We did not identify any deficiencies in internal control that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the School’s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and 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 an instance of noncompliance or other matters that is required to be reported under Government Auditing Standards and which is described in the accompanying Schedule of Findings as item 11-01.

\* \* \* \* \*

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.

*Kattell and Company, P.L.*  
September 21, 2011  
Gainesville, Florida

**Schedule of Findings**  
**June 30, 2011**  
**Children's Reading Center Charter School**

11-01 *Finding* – The School did not report a certification bonus in the amount of \$1,967 as employee compensation and did not withhold and pay the appropriate payroll taxes.

*Recommendation* - Employee incentives exceeding the IRS guidelines for de minimis fringe benefits should be included as employee compensation and the School should withhold and pay the appropriate payroll taxes.



September 21, 2011

To Whom It May Concern:

We understand and agree with the finding, and we will implement the recommendations.

Sincerely,

Geraldine Melosh

Principal

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The Children's Reading Center Charter School  
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Geri Melosh, Principal