

**CLEARWATER CHRISTIAN COLLEGE
PRIVATE SCHOOL, INC.**

**Financial Statements
For the Years Ended June 30, 2010 and 2009
(With Independent Auditors' Report Thereon)**

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MARTIN SMITH & COMPANY

CERTIFIED PUBLIC ACCOUNTANTS, PA

INDEPENDENT AUDITORS' REPORT

Board of Trustees
Clearwater Christian College
Private School, Inc.
Clearwater, Florida

We have audited the accompanying statements of financial position of Clearwater Christian College Private School, Inc., as of June 30, 2010 and 2009, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the College'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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Clearwater Christian College Private School, Inc., as of June 30, 2010 and 2009, 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 our report dated February 24, 2011, on our consideration of Clearwater Christian College Private School's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants.

Our audit was performed for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying schedule of expenditures of federal awards and state financial assistance is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations", and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Martin Smith & Company CPAs PA

February 24, 2011

CLEARWATER CHRISTIAN COLLEGE PRIVATE SCHOOL, INC.
STATEMENTS OF FINANCIAL POSITION
June 30, 2010 and 2009

	2010				2009			
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<u>ASSETS</u>								
Cash and cash equivalents (Note 2)	\$ 1,713,548	\$ 96,691	\$ -	\$ 1,810,239	\$ 2,221,265	\$ 189,054	\$ 41,000	\$ 2,451,319
Investments (Note 3)	353,366	-	387,896	741,262	312,630	-	327,771	640,401
Accounts receivable, net (Note 4)	65,928	-	-	65,928	76,704	-	-	76,704
Inventories, prepaids and other assets (Note 5)	3,075,604	204,624	35,047	3,315,275	2,808,778	140,606	43,172	2,992,556
Annuity receivable (Note 14)	476,909	-	-	476,909	505,194	-	-	505,194
Property, plant, and equipment, net (Note 6)	8,628,206	-	-	8,628,206	8,925,378	-	-	8,925,378
Total assets	\$ <u>14,313,561</u>	\$ <u>301,315</u>	\$ <u>422,943</u>	\$ <u>15,037,819</u>	\$ <u>14,849,949</u>	\$ <u>329,660</u>	\$ <u>411,943</u>	\$ <u>15,591,552</u>
<u>LIABILITIES AND NET ASSETS</u>								
Accounts payable	\$ 29,503	\$ -	\$ -	\$ 29,503	\$ 16,591	\$ -	\$ -	\$ 16,591
Accrued expenses	199,792	-	-	199,792	223,927	-	-	223,927
Agency funds	32,736	-	-	32,736	31,076	-	-	31,076
Deferred income	175,286	-	-	175,286	206,520	-	-	206,520
Annuities payable (Note 14)	553,064	9,080	-	562,144	581,480	9,589	-	591,069
Capital leases payable (Note 8)	235,018	-	-	235,018	345,725	-	-	345,725
Notes and mortgages payable (Note 9)	8,862,117	-	-	8,862,117	9,174,422	-	-	9,174,422
Total liabilities	<u>10,087,516</u>	<u>9,080</u>	<u>-0-</u>	<u>10,096,596</u>	<u>10,579,741</u>	<u>9,589</u>	<u>-0-</u>	<u>10,589,330</u>
Net assets (Note 11)								
Unrestricted	4,226,045	-	-	4,226,045	4,270,208	-	-	4,270,208
Temporarily restricted	-	292,235	-	292,235	-	320,071	-	320,071
Permanently restricted	-	-	422,943	422,943	-	-	411,943	411,943
Total net assets	<u>4,226,045</u>	<u>292,235</u>	<u>422,943</u>	<u>4,941,223</u>	<u>4,270,208</u>	<u>320,071</u>	<u>411,943</u>	<u>5,002,222</u>
Commitments and contingencies (Notes 7, 8, 9 and 10)								
Total liabilities and net assets	\$ <u>14,313,561</u>	\$ <u>301,315</u>	\$ <u>422,943</u>	\$ <u>15,037,819</u>	\$ <u>14,849,949</u>	\$ <u>329,660</u>	\$ <u>411,943</u>	\$ <u>15,591,552</u>

See accompanying notes to financial statements.

CLEARWATER CHRISTIAN COLLEGE PRIVATE SCHOOL, INC.
STATEMENTS OF ACTIVITIES
For the Years Ended June 30, 2010 and 2009

	<u>2010</u>				<u>2009</u>			
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Revenue and support:								
Tuition and fees, net (Note 13)	\$ 6,337,456	\$ -	\$ -	\$ 6,337,456	\$ 6,551,604	\$ -	\$ -	\$ 6,551,604
Private gifts and donations	1,007,078	298,823	11,000	1,316,901	1,102,781	663,369	100,057	1,866,207
Sales and services of auxiliary enterprises	3,116,737	-	-	3,116,737	2,958,741	-	-	2,958,741
Investment income (Note 3)	72,232	-	-	72,232	(131,417)	-	-	(131,417)
Other	216,031	-	-	216,031	234,021	-	-	234,021
Net assets released from restrictions (Note 12)	326,659	(326,659)	-	-	513,369	(513,369)	-	-
Total revenue and support	<u>11,076,193</u>	<u>(27,836)</u>	<u>11,000</u>	<u>11,059,357</u>	<u>11,229,099</u>	<u>150,000</u>	<u>100,057</u>	<u>11,479,156</u>
Expenses:								
Educational and general:								
Instruction	3,069,608	-	-	3,069,608	3,153,893	-	-	3,153,893
Public service	23,952	-	-	23,952	19,116	-	-	19,116
Student services	1,681,758	-	-	1,681,758	1,704,822	-	-	1,704,822
Academic support	873,774	-	-	873,774	857,609	-	-	857,609
Institutional support	2,647,021	-	-	2,647,021	2,765,842	-	-	2,765,842
Total educational and general	<u>8,296,113</u>	<u>-0-</u>	<u>-0-</u>	<u>8,296,113</u>	<u>8,501,282</u>	<u>-0-</u>	<u>-0-</u>	<u>8,501,282</u>
Auxiliary enterprises	<u>2,824,243</u>	<u>-</u>	<u>-</u>	<u>2,824,243</u>	<u>2,874,631</u>	<u>-</u>	<u>-</u>	<u>2,874,631</u>
Total operating expenses	<u>11,120,356</u>	<u>-0-</u>	<u>-0-</u>	<u>11,120,356</u>	<u>11,375,913</u>	<u>-0-</u>	<u>-0-</u>	<u>11,375,913</u>
Changes in net assets from operations	(44,163)	(27,836)	11,000	(60,999)	(146,814)	150,000	100,057	103,243
Reclassification of net assets (Note 16)	-	-	-	-	-	(30,000)	30,000	-
Net assets at beginning of year	<u>4,270,208</u>	<u>320,071</u>	<u>411,943</u>	<u>5,002,222</u>	<u>4,417,022</u>	<u>200,071</u>	<u>281,886</u>	<u>4,898,979</u>
Net assets at end of year	<u>\$ 4,226,045</u>	<u>\$ 292,235</u>	<u>\$ 422,943</u>	<u>\$ 4,941,223</u>	<u>\$ 4,270,208</u>	<u>\$ 320,071</u>	<u>\$ 411,943</u>	<u>\$ 5,002,222</u>

See accompanying notes to financial statements.

CLEARWATER CHRISTIAN COLLEGE PRIVATE SCHOOL, INC.
STATEMENTS OF CASH FLOWS
For the Years Ended June 30, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Cash flows from operating activities:		
Increase (decrease) in net assets	\$ (60,999)	\$ 103,243
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	475,922	471,990
Amortization of deferred debt expense	31,590	31,590
Private gifts and donations restricted for long-term investments	(87,815)	(168,815)
Actuarial change in annuities	27,873	90,976
Unrealized (gain) loss on investments	(54,674)	170,792
Debt forgiven	-	(30,085)
(Increase) decrease in assets:		
Accounts receivable	10,776	345
Inventories, prepaids and other assets	(354,309)	(468,713)
Increase (decrease) in liabilities:		
Accounts payable	12,912	(12,907)
Accrued expenses	(24,135)	(4,260)
Agency funds	1,660	(15,501)
Deferred income	(31,234)	39,996
Net cash provided by (used in) operating activities	<u>(52,433)</u>	<u>208,651</u>
Cash flows from investing activities:		
Purchases of property, plant, and equipment	(178,751)	(461,279)
Purchases of investments	(46,187)	(15,136)
Net cash used in investing activities	<u>(224,938)</u>	<u>(476,415)</u>
Cash flows from financing activities:		
Proceeds from private gifts restricted for long-term investment	87,815	168,815
Proceeds from annuity receivable	97,391	97,391
Proceeds from borrowings on line of credit	4,013	256,530
Proceeds from borrowings on unsecured notes payable to finance company	543,786	559,813
Proceeds from capital lease obligations	-	147,587
Payments on annuities payable	(125,904)	(119,605)
Payments on unsecured notes payable	(111,222)	(99,638)
Payments on mortgages payable	(72,040)	(67,183)
Payments on secured notes payable	(135,000)	(125,000)
Payments on unsecured notes payable to finance company	(541,841)	(518,377)
Payments on capital lease obligations	(110,707)	(80,072)
Net cash provided by (used in) financing activities	<u>(363,709)</u>	<u>220,261</u>
Net decrease in cash and cash equivalents	(641,080)	(47,503)
Cash and cash equivalents at beginning of year	<u>2,451,319</u>	<u>2,498,822</u>
Cash and cash equivalents at end of year	<u>\$ 1,810,239</u>	<u>\$ 2,451,319</u>

See accompanying notes to financial statements.

CLEARWATER CHRISTIAN COLLEGE PRIVATE SCHOOL, INC.
STATEMENTS OF CASH FLOWS, CONTINUED
For the Years Ended June 30, 2010 and 2009

Supplementary cash flow information:

	2010	2009
Interest paid	\$ <u>675,685</u>	\$ <u>721,508</u>

Schedule of nonmonetary investing and financing activities:

For the year ended June 30, 2010:

The College financed \$543,786 of insurance premiums relating to general liability and workers' compensation.
The liability is recorded as a note payable.

For the year ended June 30, 2009:

The College financed \$559,813 of insurance premiums relating to general liability and workers' compensation.
The liability is recorded as a note payable.

Lenders forgave \$30,085 in promissory notes payable.

The College entered into a capital lease for computer software in the gross amount of \$147,587. The liability is recorded as capital leases payable.

CLEARWATER CHRISTIAN COLLEGE PRIVATE SCHOOL, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2010 and 2009

1) REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) Reporting Entity

Clearwater Christian College Private School, Inc. ("the College") is a four-year, regionally accredited, liberal arts college dedicated to providing sound academic instruction while propagating the historic Christian faith.

b) Basis of Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

To ensure the observance of limitations and restrictions placed on the use of resources available, the College maintains its records in accordance with the principles and practices of fund accounting. Fund accounting is the procedure by which resources for various purposes are classified for accounting purposes in accordance with activities or objectives as specified by donors, in accordance with regulations, restrictions, or limitations imposed by sources outside the institution, or in accordance with directions issued by the board of directors.

The accompanying financial statements, however, have been prepared to focus on the organization as a whole and to present transactions according to the existence or absence of donor-imposed restrictions in conformity with Statements of Financial Accounting Standards (SFAS) No. 116 and 117 issued by the Financial Accounting Standards Board. SFAS No. 116 requires that unconditional promises to give be recorded as receivables and revenues and requires the organization to distinguish between contributions received for each net asset category in accordance with donor-imposed restrictions. SFAS No. 117 establishes standards for external financial reporting by not-for-profit organizations and requires that resources be classified for accounting and reporting purposes into three net asset categories based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the College and changes therein are classified and reported as follows:

Unrestricted net assets - Net assets that are not subject to donor-imposed stipulations.

Temporarily restricted net assets - Net assets subject to donor-imposed stipulations that may or will be met, either by actions of the College and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Permanently restricted net assets - Net assets subject to donor-imposed stipulations that they be maintained permanently by the College. Generally, the donors of these assets permit the College to use all or part of the income earned on any related investments for general or specific purposes.

c) Contributions and Revenue

Contributions are recognized when received or when the donor makes an unconditional promise to give to the College and are recorded as unrestricted, temporarily restricted, or permanently restricted contributions, depending on the existence and/or nature of any donor restrictions. Contributions which are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, (that is, when a stipulated time restriction ends or purpose 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.

Non-cash contributions are recorded as support at their estimated fair value at the date of the donation. Such donations are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the College reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service as instructed by the donor. The College reclassifies temporarily restricted net assets to unrestricted net assets at that time.

Tuition and fees are reported net of exchange transactions, such as scholarship allowances, reducing both student financial aid expenses and tuition revenue.

Revenues relating to the succeeding school year which are received prior to June 30 are recorded as deferred income.

CLEARWATER CHRISTIAN COLLEGE PRIVATE SCHOOL, INC.
NOTES TO FINANCIAL STATEMENTS, CONTINUED

1) REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

d) Cash and Cash Equivalents

For financial statement purposes, all cash and investments with original maturities of three months or less are considered cash and cash equivalents.

e) Investments

Investments, which are stated at fair market value, consist primarily of shares of mutual funds and common stocks. Marketable securities with readily determinable fair values are recorded on the statement of financial position at their fair value. Net realized and unrealized gains and losses on investments are reflected in the statement of activities.

f) Inventories

Inventories are valued at the lower of FIFO cost or market and consist of bookstore merchandise.

g) Split Interest Agreements

Assets recorded under split interest agreements are recorded at market values, which approximate the present value of expected cash flows. Annuity gifts and liabilities are calculated and recorded using published discount rates and actuarial assumptions. Liabilities to donors are adjusted for changes in the value of assets and estimates of future benefits, with those adjustments recorded as changes in value of split interest agreements and included in institutional support in the statement of activities.

h) Property, Plant, and Equipment

Property, plant, and equipment are stated at cost at the date of acquisition or fair value at the date of donation in the case of gifts. Depreciation is provided over the estimated useful lives of the respective assets on a straight line basis. Estimated useful lives range from 5 to 40 years. Maintenance, repairs, and other expenses not resulting in betterment are charged to expense as incurred. Net gains or losses on sales of property and equipment are reflected in current operations.

i) Promises to Give

Unconditional promises to give that are expected to be collected in future years are recorded as other revenue and support at the present value of their estimated future cash flows. The discounted value of the unconditional promises to give is computed using interest rates applicable to the year in which the promises are received. Amortization of the discount is included in other revenue. Conditional promises to give are not included as support until the conditions are substantially met. Intentions to give are not recorded as assets or contribution revenue.

j) Income Taxes

The College is exempt from Federal and state income taxes as an organization described in Section 501(c)(3) of the Internal Revenue Code. Effective as of the beginning of the fiscal year ending June 30, 2010, the College adopted the provisions of FASB Interpretation (FIN) No. 48, "Accounting for Uncertainty in Income Taxes". FIN 48 addresses the accounting uncertainty in income taxes recognized in an organization's financial statements and prescribes a threshold of more-likely-than-not for recognition and derecognition of tax positions taken or expected to be taken in a tax return. FIN 48 also provides related guidance on measurement classification, interest and penalties, and disclosure. As a result of the implementation of FIN 48, the College has determined that it has no uncertain tax positions requiring accrual and disclosure.

k) 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 certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates. Significant estimates include determining depreciable lives of assets and methods of depreciation, calculating an allowance for doubtful accounts, cost allocation to various departments, and disclosing investment cost as it approximates fair value.

l) Allocation of Expenses

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

CLEARWATER CHRISTIAN COLLEGE PRIVATE SCHOOL, INC.
NOTES TO FINANCIAL STATEMENTS, CONTINUED

2) CASH AND CASH EQUIVALENTS

The College maintains cash balances at four financial institutions. Accounts at each institution are insured by the Federal Deposit Insurance Corporation up to \$250,000. At June 30, 2010, cash and cash equivalents placed with two institutions exceeded the federal depository insurance by \$903,553. Management believes the credit risk associated with these deposits is minimal due to the strong credit rating of the institutions and the nature of the deposits.

Cash balances of \$41,000 are permanently restricted at June 30, 2009. Cash balances of \$96,691 and \$189,054 at June 30, 2010 and 2009, respectively, are temporarily restricted. Cash equivalent balances of \$173,215 and \$161,518 at June 30, 2010 and 2009, respectively, are held by a trustee and are board designated under the terms of a loan agreement for authorized property repair and replacement costs. Cash equivalent balances of \$975,992 and \$970,931 at June 30, 2010 and 2009, respectively, are held by a trustee and are board designated under the terms of a loan agreement for the periodic payment of debt service on such loan. Cash equivalent balances of \$282,754 and \$704,071 at June 30, 2010 and 2009, respectively, are board designated as operating reserves. Cash balances of \$32,736 and \$31,076 at June 30, 2010 and 2009, respectively, are held for others as agency funds.

3) INVESTMENTS

The cost and fair market value of investments at June 30, 2010 and 2009 are as follows:

	2010			2009		
	Amortized Cost	Unrealized Gain (Loss)	Fair Value	Amortized Cost	Unrealized Gain (Loss)	Fair Value
Mutual stock and bond funds	\$ 846,109	\$ (104,847)	\$ 741,262	\$ 597,683	\$ (134,574)	\$ 463,109
Corporate stocks	-	-	-	250,000	(72,708)	177,292
	\$ 846,109	\$ (104,847)	\$ 741,262	\$ 847,683	\$ (207,282)	\$ 640,401
Investment earnings:						
Interest and dividend income			\$ 17,558		\$ 39,375	
Realized and unrealized gains (losses) on investments			54,674		(170,792)	
Total			\$ 72,232		\$ (131,417)	

Mutual funds with a fair value of \$387,896 and \$327,771 at June 30, 2010 and 2009 are permanently restricted.

4) ACCOUNTS RECEIVABLE

Accounts receivable at June 30, 2010 and 2009 are as follows:

	2010	2009
Tuition and fees	\$ 126,928	\$ 112,704
Allowance for doubtful accounts	(61,000)	(36,000)
	\$ 65,928	\$ 76,704

The accounts receivable balance is adjusted monthly to reflect the amount due on tuition, registration and other fees. The allowance for doubtful accounts is adjusted periodically so as to estimate uncollectible balances, based upon the College's collection experience.

CLEARWATER CHRISTIAN COLLEGE PRIVATE SCHOOL, INC.
NOTES TO FINANCIAL STATEMENTS, CONTINUED

5) INVENTORIES, PREPAIDS AND OTHER ASSETS

Inventories, prepaids, and other assets at June 30, 2010 and 2009 are as follows:

	<u>2010</u>	<u>2009</u>
Deferred debt expense, net of accumulated amortization	\$ 667,049	\$ 698,639
Deferred expenses relating to future capital projects	735,610	1,006,044
Software acquisition costs	472,784	-
Promises to give, net of discount of \$20,365	239,671	183,778
Inventories	51,239	42,810
Other assets	1,148,922	1,061,285
	<u>\$ 3,315,275</u>	<u>\$ 2,992,556</u>

The College defers certain expenses pertaining to borrowings under loan agreements and amortizes these expenses over the term of the related loan. The College amortized \$31,590 of such expenses for each of the years ended June 30, 2010 and 2009.

The College defers certain expenses relating to capital projects to be completed in future periods and intends to capitalize such expenses when projects are completed.

The College capitalizes the costs associated with software acquisitions as an intangible asset and amortizes the cost of such software over its expected useful life of five years.

The College has received promises to give which are included as temporarily or permanently restricted, based upon donor stipulations, at the present value of the expected cash flows. These promises to give are due in the gross amount of \$69,109 within one year and in the amount of \$250,727 in one to five years, before any present value adjustment.

6) PROPERTY, PLANT, AND EQUIPMENT

Property, plant, and equipment are summarized by major classifications as follows at June 30, 2010 and 2009:

	<u>2010</u>	<u>2009</u>
Land and improvements	\$ 2,451,550	\$ 2,449,645
Buildings	9,573,049	9,502,710
Furniture, fixtures, and equipment	1,209,403	1,122,246
Library holdings	306,613	289,164
Vehicles	202,135	200,235
	<u>13,742,750</u>	<u>13,564,000</u>
Less accumulated depreciation	(5,114,544)	(4,638,622)
	<u>\$ 8,628,206</u>	<u>\$ 8,925,378</u>

Depreciation expense for the years ended June 30, 2010 and 2009 was \$475,922 and \$471,990, respectively. During the year ended June 30, 2009, the College retired certain old, fully depreciated property, plant, and equipment items having an original cost of approximately \$450,000.

7) OPERATING LEASES

The College is obligated under non-cancelable operating leases for equipment. Rent expense for these leases amounted to \$71,193 and \$71,776 for the years ended June 30, 2010 and 2009, respectively. The annual minimum lease payments are as follows as of June 30:

2011	\$ 52,200
2012	38,260
	<u>\$ 90,460</u>

**CLEARWATER CHRISTIAN COLLEGE PRIVATE SCHOOL, INC.
NOTES TO FINANCIAL STATEMENTS, CONTINUED**

8) CAPITAL LEASES

The College is obligated under capital leases for computer software that expire during the next four years.

Future minimum lease payments required under these capital leases for fiscal years ending June 30:

2011	\$ 138,811
2012	91,138
2013	<u>44,364</u>
Total minimum lease payments	274,313
Less amount representing interest	<u>(39,295)</u>
Present value of minimum capital lease payments	<u>\$ 235,018</u>

9) NOTES AND MORTGAGES PAYABLE

Notes and mortgages payable as of June 30, 2010 and 2009 consist of the following:

	<u>2010</u>	<u>2009</u>
Notes payable to individuals, unsecured, due in quarterly payments of principal and interest at 9.5% through June 2016.	\$ 869,140	\$ 980,363
Note payable to foundation, secured by land, due in monthly payments of principal and interest at 7% through September 2012	181,707	253,747
Note payable to Pinellas County Educational Facilities Authority, secured by restricted cash balances, restricted investments, furniture, fixtures, equipment, library holdings, vehicles, land and improvements, buildings and specified revenues, with principal payable annually over twenty-eight years beginning September 2004 through September 2031, with interest payable semi-annually at 7.25%.	7,315,000	7,450,000
Unsecured line of credit, with interest payable monthly at LIBOR plus 2.5%, line renewable annually	260,544	256,530
Unsecured notes payable for insurance premiums, due in monthly payments of \$51,015, including principal and interest	<u>235,726</u>	<u>233,782</u>
Total notes and mortgages payable	<u>\$ 8,862,117</u>	<u>\$ 9,174,422</u>

Aggregate maturities of long-term debt are summarized as follows for the years ended June 30:

2011	\$ 497,172
2012	335,379
2013	690,391
2014	328,955
2015	351,823
Thereafter	<u>6,658,397</u>
	<u>\$ 8,862,117</u>

Interest expense totaled \$675,685 and \$717,228 for the years ended June 30, 2010 and 2009, respectively.

In a prior year, the College borrowed under an unsecured promissory note from an administrative officer of the College. This note, which has the same terms as the College's other promissory notes, has an outstanding balance of \$6,372 as of June 30, 2010.

CLEARWATER CHRISTIAN COLLEGE PRIVATE SCHOOL, INC.
NOTES TO FINANCIAL STATEMENTS, CONTINUED

9) NOTES AND MORTGAGES PAYABLE, CONTINUED

In September 2001, the College borrowed \$8,000,000 from Pinellas County Educational Facilities Authority (“the Authority”) evidenced by a loan agreement. The Authority issued \$8,000,000 Revenue Bonds, Series 2001 in connection with this loan agreement. These tax-exempt bonds pay interest semi-annually at 7.25% beginning March 1, 2002, and are subject to mandatory redemption. The repayment provisions of the loan agreement are identical to the bond requirements.

Covenants contained in the loan agreement limit the College’s ability to incur additional debt or grant security interests in its assets; require periodic financial reporting; and require the College to maintain minimum levels of net income available for debt service, as defined, in comparison with maximum annual debt service. Other customary covenants, representations, conditions, and default provisions for such a loan agreement are present. For the years ended June 30, 2010 and 2009, the College is in compliance with all such loan covenants.

In November 2010, the College borrowed \$715,000 from a bank and repaid the outstanding balance of the note payable to a foundation, the bank line of credit and the capital lease obligations. The new note is secured by a specified tract of vacant land and a building. Interest is payable monthly for the first twelve months of the loan; thereafter, principal and interest payments are payable monthly for eleven months with a final payment due of the outstanding principal plus accrued interest on the twenty-fourth month. Principal payments are calculated based upon an 84 month amortization. Interest is calculated and payable at LIBOR plus 2.01%, with a 3% floor rate. The aggregate maturities of notes and mortgages payable are shown on the preceding page giving recognition to the refinancing accomplished in November.

10) DEFINED CONTRIBUTION RETIREMENT PLAN

The College sponsors a defined contribution retirement savings plan in compliance with Section 403(b) of the Internal Revenue Code. Employer contributions are determined as a specified percentage of each covered employee’s salary and totaled \$40,348 and \$196,696 for the years ended June 30, 2010 and 2009, respectively.

11) RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purposes at June 30, 2010 and 2009:

	<u>2010</u>	<u>2009</u>
Restricted by time:		
Scholarships	\$ 213,873	\$ 149,855
Capital improvements	39,429	123,258
Annuity payments	24,376	24,376
Student services	14,557	14,557
Other	-	8,025
	<u>\$ 292,235</u>	<u>\$ 320,071</u>

Permanently restricted net assets at June 30, 2010 and 2009, consist of trust agreements.

12) NET ASSETS RELEASED FROM RESTRICTIONS

Net assets were released from donor restrictions during the years ended June 30, 2010 and 2009, by incurring expenses satisfying the restricted purposes, as follows:

	<u>2010</u>	<u>2009</u>
Student aid	\$ 58,938	\$ 270,804
Student services	73,651	185,434
Capital improvements	194,070	57,131
	<u>\$ 326,659</u>	<u>\$ 513,369</u>

CLEARWATER CHRISTIAN COLLEGE PRIVATE SCHOOL, INC.
NOTES TO FINANCIAL STATEMENTS, CONTINUED

13) TUITION AND FEES

Tuition and fees are reported net of scholarship allowances, reducing both tuition and fee revenue and scholarships and fellowships expense by \$2,307,746 and \$1,889,950 for the years ended June 30, 2010 and 2009, respectively

14) RELATED PARTY TRANSACTION

In a prior year, the College received a gift of property from a member of its board of directors, sold the property, and, in accordance with the donor's restrictions, used the proceeds to partially fund the purchase of an adjacent parcel of land and to establish an annuity for the donor. Included in annuities payable on the statement of financial position is an amount of \$486,346 and \$513,139 as of June 30, 2010 and 2009, respectively, representing the liability under this annuity, based upon the actuarial method of accounting. The College purchased an annuity contract with an insurance company, with the balance of \$476,909 and \$505,194 shown as annuity receivable on the statement of financial position as of June 30, 2010 and 2009, respectively. The College uses the monthly proceeds from this annuity contract to assist in paying the annuity payable.

15) FAIR VALUE OF FINANCIAL INSTRUMENTS

The College has adopted Statement of Financial Accounting Standards No. 157 Fair Value Measurements (FAS 157). FAS 157 defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. FAS 157 has been applied prospectively as of the beginning of the fiscal year ending June 30, 2009.

FAS 157 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. FAS 157 also establishes a fair value hierarchy, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value. Level 1 inputs represent fair values obtained using quoted prices in active markets. Level 2 inputs represent fair values obtained from observable market data but not from quoted market prices. Level 3 inputs represent unobservable inputs that are supported by little or no market activity and are generally based on the entity's own assumptions.

The following methods and assumptions are used to estimate the fair value of each financial instrument:

Cash and cash equivalents, accounts payable, other accrued liabilities, and unearned tuition and fees – the carrying values approximate fair value due to their short maturities.

Accounts receivable - the carrying values approximate fair value due to their short maturities.

Investments – the fair values are based on quoted market prices (Level 1 inputs) of the underlying investment securities. Investments are carried at fair value in the accompanying statement of financial position.

Annuities receivable and payable – the fair values are determined by discounting the future cash flows of each instrument at rates currently offered to or by the College for similar instruments of comparable maturities. The carrying amount of annuities receivable and payable approximates fair value.

Notes payable – the fair values are determined by discounting the future cash flows of each debt instrument at rates currently offered to the College for similar debt instruments of comparable maturities. The carrying amount of notes payable approximates fair value.

CLEARWATER CHRISTIAN COLLEGE PRIVATE SCHOOL, INC.
NOTES TO FINANCIAL STATEMENTS, CONTINUED

16) RECLASSIFICATION OF NET ASSETS

Based on a careful analysis of its net asset balances, the College has recorded a reclassification between temporarily restricted and permanently restricted net assets as of June 30, 2009. Temporarily restricted net assets decreased and permanently restricted net assets increased by \$30,000. The reclassification had no impact on total net assets.

17) SUBSEQUENT EVENTS

In preparing these financial statements, the College has evaluated events and transactions for potential recognition or disclosure through February 24, 2011, the date the financial statements were available to be issued.

**CLEARWATER CHRISTIAN COLLEGE
PRIVATE SCHOOL, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS –
FEDERAL AWARDS PROGRAM AND STATE FINANCIAL ASSISTANCE PROJECTS
For the Year Ended June 30, 2010**

Section I - Summary of Auditors' Results

Financial Statements

Type of auditors' report issued: Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? _____ yes X no
- Deficiency(ies) identified? _____ yes X none reported

Noncompliance material to financial statements noted

_____ yes X no

Federal Awards Program and State Financial Assistance Projects

Internal control over major federal programs and state projects:

- Material weakness(es) identified? _____ yes X no
- Deficiency(ies) identified? _____ yes X none reported

Type of auditors report issued on compliance for major federal programs and state projects: Unqualified

Any audit findings disclosed relative to major federal programs that required to be reported in accordance with section 510(a) of Circular A-133?

_____ yes X no

Any audit findings disclosed relative to state projects

_____ yes X no

Identification of major federal programs:

CFDA Numbers

84.063
84.007
84.033
84.075
84.076
84.032

Name of Federal Program or Cluster

Student Financial Aid Cluster

Identification of major state programs:

CFSA Numbers

48.064

Name of State Project

Florida Resident Assistance Grant

Dollar threshold used to distinguish between type A and type B programs:
Auditee qualified as low-risk auditee?

Federal :N/A - only 1 major program Florida: \$300,000
 X yes _____ no

**CLEARWATER CHRISTIAN COLLEGE
PRIVATE SCHOOL, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS –
FEDERAL AWARDS PROGRAMS AND STATE FINANCIAL ASSISTANCE PROJECTS
For the Year Ended June 30, 2010**

Section II - Financial Statement Findings

There are no findings to report.

Section III - Federal Award Findings and Questioned Costs

Federal Student Financial Aid Cluster - There are no findings required to be reported by Section 510(a) of Circular A-133.

Florida Department of Education Programs - None

Section IV – State Financial Assistance Projects Findings and Questioned Costs

There are no findings to report.

Section V – Prior Year Audit Findings and Questioned Costs - Financial Statement Findings, Federal Award Findings, State Financial Assistance Projects Findings

A separate summary schedule of prior audit findings is not necessary due to no findings.

Section VI – Management Letter

There were no findings related to State financial assistance required to be reported; therefore, no management letter has been issued for the current year.

CLEARWATER CHRISTIAN COLLEGE PRIVATE SCHOOL, INC.
SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
For the Year Ended June 30, 2010

<u>Federal Grantor/State Agency Program/Project Title</u>	<u>CFDA/CSFA Number</u>	<u>Total Expenditures</u>
<u>U.S. DEPARTMENT OF EDUCATION</u>		
Direct programs:		
Federal Pell Grant Program	84.063	\$ 1,033,004
Federal Supplemental Education Opportunity Grant	84.007	37,281
Federal Work Study	84.033	33,519
Academic Competitiveness Grant	84.375	44,425
National Science and Mathematics Access to Retain Talent	84.376	22,000
Passed through Florida Department of Education		
Robert C. Byrd Scholarship Program	84.185	6,000
Passed through financial institutions:		
Federal Family Education Loan Program	84.032	<u>2,514,605</u>
TOTAL U.S. DEPARTMENT OF EDUCATION		<u>3,690,834</u>
TOTAL FEDERAL ASSISTANCE EXPENDED		<u>\$ 3,690,834</u>
<u>FLORIDA DEPARTMENT OF EDUCATION</u>		
Direct programs:		
Florida Resident Assistance Grant	48.064	\$ 627,997
Florida Private Student Assistance Grant	48.054	176,097
Florida Bright Futures - Academic	48.059	70,938
Florida Bright Futures - Medallion	48.059	229,330
Florida Work Experience Program	48.053	15,365
Scholarship for Children/Spouses of Deceased or Disabled Veterans and servicemembers	48.055	4,284
Florida Fund for Minority Teachers	48.049	4,000
Florida Bright Futures - Vocational Gold Seal	48.059	<u>3,135</u>
TOTAL FLORIDA DEPARTMENT OF EDUCATION		<u>1,131,146</u>
<u>FLORIDA DEPARTMENT OF HIGHWAY SAFETY AND MOTOR VEHICLES</u>		
Direct programs:		
Clearwater Christian College License Plate Program	76.042	<u>1,501</u>
TOTAL FLORIDA ASSISTANCE EXPENDED		<u>\$ 1,132,647</u>

CLEARWATER CHRISTIAN COLLEGE PRIVATE SCHOOL, INC.
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
For the Year Ended June 30, 2010

1) **GENERAL**

The accompanying Schedule of Expenditures of Federal Awards and State Financial Assistance presents the activity of all federal and state financial assistance programs of Clearwater Christian College Private School, Inc., for the year ended June 30, 2010. All federal financial assistance received directly from federal agencies, as well as federal financial assistance passed through financial institutions, is included on the schedule. All state financial assistance is also included on the Schedule.

2) **BASIS OF ACCOUNTING**

The accompanying Schedule of Expenditures of Federal Awards and State Financial Assistance is presented using the accrual basis of accounting, which is described in Note 1 to the College's financial statements.

3) **RELATIONSHIP TO THE FINANCIAL STATEMENTS**

The College's financial statements recognize federal and state funds as agency transactions and, therefore, do not reflect any amounts relating to federal and state revenues and expenditures in the financial statements.

4) **RELATIONSHIP TO FEDERAL FINANCIAL REPORTS**

Amounts reported in the accompanying schedule agree with the amounts reported in the related federal financial reports except for timing difference relating to revenues and expenditures received or made subsequent to the filing of federal financial reports.

CLEARWATER CHRISTIAN COLLEGE PRIVATE SCHOOL, INC.
SUMMARY OF POPULATION, ITEMS TESTED, AND FINDINGS FOR
FLORIDA STUDENT FINANCIAL ASSISTANCE PROGRAMS
For the Year Ended June 30 2010

<u>Description of Category</u>	<u>Number of Students</u>	<u>Percent of Population</u>	<u>Amount of Awards</u>	<u>Percent of Population</u>
<u>FLORIDA RESIDENT ASSISTANCE GRANT</u>				
Population	276	100.0%	\$ 627,997	100.0%
Tested	50	18.1%	113,071	18.0%
Findings	0	0.0%	0	0.0%
<u>FLORIDA PRIVATE STUDENT ASSISTANCE GRANT</u>				
Population	148	100.0%	176,097	100.0%
Tested	38	25.7%	43,555	24.7%
Findings	0	0.0%	0	0.0%
<u>FLORIDA BRIGHT FUTURES - ACADEMIC</u>				
Population	19	100.0%	70,938	100.0%
Tested	19	100.0%	39,816	56.1%
Findings	0	0.0%	0	0.0%
<u>FLORIDA BRIGHT FUTURES - MEDALLION</u>				
Population	86	100.0%	229,330	100.0%
Tested	22	25.6%	59,850	26.1%
Findings	0	0.0%	0	0.0%
<u>SCHOLARSHIP FOR CHILDREN/SPOUSES OF DECEASED OR DISABLED VETERANS</u>				
Population	1	100.0%	4,284	100.0%
Tested	1	100.0%	4,284	100.0%
Findings	0	0.0%	0	0.0%
<u>FLORIDA FUND FOR MINORITY TEACHERS</u>				
Population	1	100.0%	4,000	100.0%
Tested	1	100.0%	4,000	100.0%
Findings	0	0.0%	0	0.0%
<u>FLORIDA BRIGHT FUTURES - VOCATIONAL GOLD SEAL</u>				
Population	2	100.0%	3,135	100.0%
Tested	2	100.0%	3,135	100.0%
Findings	0	0.0%	0	0.0%
<u>FLORIDA WORK EXPERIENCE PROGRAM</u>				
Population	43	100.0%	15,365	100.0%
Tested	11	25.6%	3,198	20.8%
Findings	0	0.0%	0	0.0%

MARTIN SMITH & COMPANY

CERTIFIED PUBLIC ACCOUNTANTS, PA

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

Board of Trustees
Clearwater Christian College Private School, Inc.
Clearwater, Florida

We have audited the basic financial statements of Clearwater Christian College Private School, Inc. (the "College") as of and for the year ended June 30, 2010, and have issued our report thereon dated February 24, 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.

Compliance

As part of obtaining reasonable assurance about whether the College's basic 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Clearwater Christian College Private School, Inc.'s internal control over financial reporting in order to determine 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 internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of internal control over financial reporting.

Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be deficiencies or material weaknesses.

A deficiency in 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 controls 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. We noted no matters involving the internal control over financial reporting and its operation that we consider material weaknesses.

This report is intended for the information of the Board of Trustees, management and federal awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited.

Martin Smith & Company CPAs PA

Greenville, South Carolina
February 24, 2011

MARTIN SMITH & COMPANY

CERTIFIED PUBLIC ACCOUNTANTS, PA

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR FEDERAL PROGRAM AND STATE FINANCIAL
ASSISTANCE PROJECT AND ON INTERNAL CONTROL OVER COMPLIANCE IN
ACCORDANCE WITH OMB CIRCULAR A-133 AND CHAPTER 10.650 RULES OF THE
AUDITOR GENERAL

Board of Trustees
Clearwater Christian College Private School, Inc.
Clearwater, Florida

We have audited the compliance of Clearwater Christian College Private School, Inc. with the types of compliance requirements described in the United States Office of Management and Budget (OMB) Circular A-133 Compliance Supplement, and the requirements described in the Department of Financial Services' State Projects Compliance Supplement, that are applicable to its major federal awards program and state financial assistance projects for the year ended June 30, 2010. The College's major federal awards program and state financial assistance projects are identified in the Summary of Auditors' Results Section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal awards program and state financial assistance projects is the responsibility of the College's management. Our responsibility is to express an opinion on the College's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; OMB Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations;" and Chapter 10.650, Rules of the Auditor General. Those standards, OMB Circular A-133 and Chapter 10.650, Rules of the Auditor General, require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal awards program or state financial assistance project occurred. An audit includes examining, on a test basis, evidence about the College's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the College's compliance with those requirements.

In our opinion, the College complied, in all material respects, with the requirements referred to above that are applicable to its major federal awards program and state financial assistance projects for the year ended June 30, 2010.

Internal Control Over Compliance

The management of Clearwater Christian College Private School, Inc. is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal awards programs and state financial assistance projects. In planning and performing our audit, we considered the College's internal control over compliance with requirements that could have a direct and material effect on a major federal awards program or state financial assistance project in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133 and Chapter 10.650, Rules of the Auditor General, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of internal control over compliance.

A deficiency in control in an entity's internal control over compliance 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, noncompliance with a type of compliance requirement of a federal awards program or state financial assistance project 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 material noncompliance with a type of compliance requirement of a federal awards program or state financial assistance project will not be prevented, or detected and corrected, by the College's internal controls. We noted no matters involving the internal control over compliance that we consider material weaknesses.

Our consideration of the internal control over compliance was for the limited purpose described above and would not necessarily disclose all deficiencies in the College's internal control that might be deficiencies or material weaknesses.

This report is intended solely for the information and use of the Board of Trustees, management and specific legislative or regulatory bodies and is not intended to be and should not be used by anyone other than these specified parties.

Martin Smith & Company CPAs PA

Greenville, South Carolina
February 24, 2011