



**Auditor of State
Betty Montgomery**

**CRITTENTON COMMUNITY SCHOOL, INC.
FRANKLIN COUNTY**

TABLE OF CONTENTS

TITLE	PAGE
Independent Accountants' Report.....	1
Balance Sheet.....	3
Statement of Revenues, Expenses, and Changes in Retained Earnings/Accumulated Deficit.....	4
Statement of Cash Flows.....	5
Notes to the Financial Statements.....	7
Independent Accountants' Report on Compliance and on Internal Control Required by <i>Government Auditing Standards</i>	17

THIS PAGE INTENTIONALLY LEFT BLANK



**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANTS' REPORT

Crittenton Community School, Inc.
Franklin County
1515 Indianola Avenue
Columbus, Ohio 43201

To the Board:

We have audited the accompanying Balance Sheet of the Crittenton Community School, Inc. (the School) as of June 30, 2003, and the related Statement of Revenues, Expenses, and Changes in Retained Earnings/Accumulated Deficit and the Statement of Cash Flows for the year then ended. These financial statements are the responsibility of the School's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and 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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Crittenton Community School, Inc. as of June 30, 2003, and the results of operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements have been prepared assuming that the School will continue as a going concern. As discussed in Note 15 to the financial statements, the School's accumulated deficit (\$8,047), operating loss (\$152,111), net loss (\$22,527), and enrollment below the state mandated twenty five students raise substantial doubt about its ability to continue as a going concern. Note 15 describes management's plans regarding these issues. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

35 N. Fourth St. / Second Floor / Columbus, OH 43215
Telephone: (614) 466-3402 (800) 443-9275 Fax: (614) 728-7199
www.auditor.state.oh.us

In accordance with *Government Auditing Standards*, we have also issued our report dated September 27, 2003, 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 grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

A handwritten signature in black ink that reads "Betty Montgomery". The signature is written in a cursive, flowing style.

Betty Montgomery
Auditor of State

September 27, 2003

**CRITTENTON COMMUNITY SCHOOL
FRANKLIN COUNTY**

**BALANCE SHEET
AS OF JUNE 30, 2003**

ASSETS

Current Assets

Cash and Cash Equivalents	\$ 32,417
Intergovernmental Receivable	45,923
Total Current Assets	<u>78,340</u>

Non Current Assets

Prepays	8,314
Furniture and Equipment (Net of Accumulated Depreciation)	8,871
Total Non Current Assets	<u>17,185</u>

Total Assets	<u><u>\$ 95,525</u></u>
---------------------	-------------------------

LIABILITIES AND EQUITY

Current Liabilities

Accounts Payable	\$ 500
Related Party Accounts Loan Payable	73,968
Accrued Wages	2,329
Benefits Payable	680
Intergovernmental Payable	3,095
Related Party Loan Payable	23,000
Total Current Liabilities	103,572

Equity

Accumulated Deficit	<u>(8,047)</u>
---------------------	----------------

Total Liabilities and Equity	<u><u>\$ 95,525</u></u>
-------------------------------------	-------------------------

The Accompanying Notes are an Integral Part of the Financial Statements.

**CRITTENTON COMMUNITY SCHOOL
FRANKLIN COUNTY**

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES
IN RETAINED EARNINGS/ACCUMULATED DEFICIT
FOR THE YEAR ENDED JUNE 30, 2003**

Operating Revenues	
Foundation Payments	\$ 82,916
Disadvantaged Pupil Impact Aid	6,300
Donations	1,696
Other Operating Revenue	<u>556</u>
Total Operating Revenue	91,468
Operating Expenses	
Salaries	115,965
Fringe Benefits	25,356
Purchased Services	40,187
Materials and Supplies	41,320
Depreciation	609
Other Operating Expenses	<u>20,142</u>
Total Operating Expenses	<u>243,579</u>
Operating Loss	(152,111)
Non-Operating Revenues	
State Restricted Grants	3,000
Federal Restricted Grants	<u>126,584</u>
Total Non-Operating Revenues	<u>129,584</u>
Net Loss	(22,527)
Retained Earnings Beginning of Year	<u>14,480</u>
Accumulated Deficit End of Year	<u><u>\$ (8,047)</u></u>

The Accompanying Notes are an Integral Part of the Financial Statements.

**CRITTENTON COMMUNITY SCHOOL
FRANKLIN COUNTY**

**STATEMENT OF CASH FLOWS
FOR THE YEAR END JUNE 30, 2003**

Increase in Cash and Cash Equivalents

Cash Flows from Operating Activities

Cash Received from State of Ohio	\$	89,216
Cash Payment to Suppliers for Goods and Services		(89,231)
Cash Payments for Other Operating Expenses		(20,142)
Cash Payment to Employees for Services		(61,339)
Other Operating Revenue		2,252
		2,252
Net Cash Used in Operating Activities		(79,244)

Cash Flows from Noncapital Financing Activities

State Restricted Grants		3,000
Federal Restricted Grants		80,660
Loan Proceeds from Related Party		23,000
		106,660
Net Cash Provided by Noncapital Financing Activities		106,660

Cash Flows from Capital & Related Financing Activities

Fixed Asset Purchases		(9,479)
		(9,479)
Net Cash Provided by Capital and Related Financing Activities		(9,479)
Net Increase in Cash and Cash Equivalents		17,937
Cash and Cash Equivalents at Beginning of Year		14,480
		14,480
Cash and Cash Equivalents at End of Year	\$	32,417

Reconciliation of Operating Loss to Net Cash Used for Operating Activities

Operating Loss	\$	(152,111)
----------------	----	-----------

Adjustments to Reconcile Operating Loss to Net Cash Used for Operating Activities

Depreciation Expense		609
Changes in Assets and Liabilities		
Increase in Accounts/Loans Payable		74,468
Increase in Accrued Wages & Benefits		3,009
Increase in Intergovernmental Payable		3,095
Increase in Prepaids		(8,314)
		72,867
Total Adjustments		72,867
Net Cash Used for Operating Activities	\$	(79,244)

The School's Management company paid \$ 73,968 for operating expenses on behalf of the School

The Accompanying Notes are an Integral Part of the Financial Statements.

THIS PAGE INTENTIONALLY LEFT BLANK

**CRITTENTON COMMUNITY SCHOOL, INC.
FRANKLIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2003**

1. DESCRIPTION OF THE SCHOOL AND REPORTING ENTITY

Crittenton Community School, Inc. (the School) is a nonprofit corporation established pursuant to Ohio Rev. Code Chapters 3314 and 1702 to maintain and provide a school exclusively for any educational, literary, scientific and related teaching service that qualifies as an exempt organization under Section 501(c)(3) of the Internal Revenue Code. Management is not aware of any course of action or series of events that have occurred that might adversely affect the School's tax exempt status. Specifically, the School's purpose is to be a model charter school serving middle school students in the sixth (6th) through eighth (8th) grades. The School, which is part of the state's education program, is independent of any school district. The School may sue and be sued, acquire facilities as needed, and contract for any services necessary for the operation of the school. Management is not aware of any course of action or series of events that have occurred that might adversely affect the School's tax-exempt status.

The creation of the School was initially proposed to the Ohio Department of Education, the sponsor, by the developers of the School in January, 2001. The Ohio Department of Education approved the proposal and entered into a contract with the developers, which provided for the commencement of School operations on August 26, 2002. The School operates under a nine -member Board of Governors, which is comprised of the developers. The Board is responsible for carrying out the provisions of the contract, which include, but are not limited to, state-mandated provisions regarding student population, curriculum, academic goals, performance standards, admission standards, and qualifications of teachers. The Lead Teacher, under the direction of the CEO, controls the School's one instructional facility staffed by two full-time certificated personnel and the two noncertified personnel, who provided services to the approximately twenty-one students.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of Crittenton Community School, Inc. have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental nonprofit organizations. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The School also applies Financial Accounting Standards Board (FASB) statements and interpretations issued on or after November 30, 1989, provided they do not conflict with or contradict GASB pronouncements. The more significant of the School's accounting policies are described below:

A. Basis of Presentation

Enterprise accounting is used to account for operations that are financed and operated in a manner similar to private business enterprises where the intent is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges or where it has been decided that periodic determination of revenues earned, expenses incurred, and net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

**CRITTENTON COMMUNITY SCHOOL, INC.
FRANKLIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2003
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

B. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment is determined by its measurement focus. Enterprise accounting uses a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities are included on the balance sheet. Operating statements present increases (e.g., revenues) and decreases (e.g., expenses) in net total assets. Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made. The accrual basis of accounting is used for reporting purposes. Revenues are recognized when they are earned, and expenses are recognized when they are incurred.

C. Budgetary Process

Unlike other public schools located in the State of Ohio, community schools are not required to follow budgetary provisions set forth in the Ohio Revised Code Chapter 5705, unless specifically provided by the School's contract with its sponsor. The contract between Crittenton Community School, Inc. and its sponsor, Ohio Department of Education, does not prescribe a budgetary process for the School.

D. Cash and Cash Equivalents

All monies received by the School are maintained in a demand deposit account. For internal accounting control purposes, the School segregates its cash. Individual fund integrity is maintained through School records and the USAS accounting system. Total cash for all funds is presented as "cash and cash equivalents" on the accompanying balance sheet.

E. Estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP) requires management to make certain estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from these estimates.

F. Fixed Assets and Depreciation

Fixed assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the dates received. The School maintains a capitalization threshold of five hundred dollars. The School did not capitalize any interest during the fiscal year. Improvements are capitalized. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized. Depreciation of furniture and equipment and vehicles is computed using the straight-line method over the estimated useful life, using a half year in the year of acquisition. Improvements to fixed assets are depreciated over the remaining useful lives of the related fixed assets. Useful life ranges are from 5 to 10 years depending on the asset.

**CRITTENTON COMMUNITY SCHOOL, INC.
FRANKLIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2003
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

G. Intergovernmental Revenue

The School currently participates in the State Foundation Program and the State Disadvantaged Pupil Impact Aid (DPIA) Program. Revenues received from these programs are recognized as operating revenues in the accompanying financial statements. Grants and entitlements are recognized as non-operating revenues in the accounting period in which all eligibility requirements have been met. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is permitted, matching requirements, in which the School must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the School on a reimbursement basis. The School also participates in the Federal Charter School Grant Program through the Ohio Department of Education. Under this program, the School was awarded \$150,000 to offset startup costs of the School. Revenue received from this program is recognized as non-operating revenue in the accompanying financial statements.

H. Prepaid Items

Prepayments represent payment in advance of the receipt of goods or services and are therefore not current expendable resources. These items are reported as assets on the balance sheet using the allocation method which amortizes their cost over the periods benefiting from the advance payment.

3. RECEIVABLES

Intergovernmental Receivable: The entire Intergovernmental Receivable balance at June 30 was due from the Ohio Department of Education related to a Federal grant. The balance is considered to be 100% collectable.

4. DEPOSITS

Deposits: At June 30, 2003, the carrying amount of the School's deposits was \$32,417 and the bank balance was \$33,156. The entire bank balance was covered by federal depository insurance.

5. FIXED ASSETS

A summary of the School's fixed assets at June 30, 2003 follows:

Furniture and Equipment	\$ 9,480
Less: Accumulated Depreciation	<u>(609)</u>
Net Fixed Assets	<u>\$8,871</u>

**CRITTENTON COMMUNITY SCHOOL, INC.
FRANKLIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2003
(Continued)**

6. RISK MANAGEMENT

A. Property and Liability

The School is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The School maintains insurance coverage for rental/theft, general liability, and directors and officers liability in the amount of \$1,000,000 for each occurrence.

B. Workers' Compensation

The School pays the State Workers' Compensation System a premium for employee injury coverage. The premium is calculated by multiplying the monthly gross total payroll by a factor that is calculated by the State.

C. Employee, Medical, Dental, and Vision Benefits

The School provided employee health insurance and dental insurance benefits to full-time certificated and noncertificated personnel during fiscal year 2003 through purchased policies. Personnel contribute to a portion of the cost of the benefit.

7. DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

The School contributes to the School Employees Retirement System (SERS), a cost-sharing multiple employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3476.

Plan members are required to contribute 9 percent of their annual covered salary and the School is required to contribute at an actuarially determined rate. The current School rate is 14 percent of annual covered payroll. A portion of the School's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2003, 5.46 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The School's required contributions for pension obligations to SERS for the fiscal year ended June 30, 2003 was \$5,055. The unpaid contribution for fiscal year 2003 amounted to \$409 and is recorded as a liability.

B. State Teachers Retirement System

The School District participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement system. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3371 or by calling (614) 227-4090.

**CRITTENTON COMMUNITY SCHOOL, INC.
FRANKLIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2003
(Continued)**

7. DEFINED BENEFIT PENSION PLANS (Continued)

B. State Teachers Retirement System (Continued)

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5% of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan. Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one time irrevocable decision to transfer their account balances from the existing DB Plan into the DC Plan or the Combined Plan. This option expired on December 31, 2001. Benefits are established by Chapter 3307 of the Ohio Revised Code.

A DB or Combined Plan member with five or more years credited service who becomes disabled may qualify for a disability benefit. Eligible spouses and dependents of these active members who die before retirement may qualify for survivor benefits. Members in the DC Plan who become disabled are entitled only to their account balance. If a member dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

For the fiscal year ended June 30, 2003, plan members were required to contribute 9.3 percent of their annual covered salaries. The School District was required to contribute 14 percent; 9.5 percent was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions. The School's required contributions for pension obligations for the fiscal year ended June 30, 2003 was \$9,508; 100 percent has been contributed for fiscal year 2003.

8. POST EMPLOYMENT BENEFITS

The School provides comprehensive health care benefits to retired teachers and their dependents through the State Teachers Retirement System (STRS), and to retired non-certified employees and their dependents through the School Employees Retirement System (SERS). Benefits include hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare premiums. Benefit provisions and the obligations to contribute are established by the Systems based on authority granted by State statute. Both systems are on a pay-as-you-go basis. All STRS benefit recipients and sponsored dependents are eligible for health care coverage. The STRS Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS.

**CRITTENTON COMMUNITY SCHOOL, INC.
FRANKLIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2003
(Continued)**

8. POST EMPLOYMENT BENEFITS (Continued)

Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2003, the STRS Board allocated employer contributions equal to 4.5 percent of covered payroll to the Health Care Reserve Fund. For the School, this amount equaled \$4,504 for fiscal year 2003. STRS pays health care benefits from the Health Care Reserve Fund. At June 30, 2002, (the latest information available) the balance in the Fund was \$3,256 million. For the year ended June 30, 2002, net health care costs paid by STRS were \$300,772,000 and STRS had 102,132 eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten or more fiscal years of qualifying service credit, and to disability and survivor benefit recipients. Members retiring on or after August 1, 1989, with less than twenty-five years of service credit must pay a portion of their premium for health care. The portion is based on years of service up to a maximum of 75 percent of the premium. After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2003, employer contributions to fund health care benefits were 8.54 percent of covered payroll.

In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2003, the minimum pay was established at \$12,400. For the School, the amount contributed to fund health care benefits, including the surcharge, during the 2003 fiscal year equaled \$7,906. The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of the annual health care expenses.

Expenses for health care for the fiscal year ended June 30, 2002 (the latest information available), were \$182,946,777 and the target level was \$274.4 million. At June 30, 2002, SERS had net assets available for payment of health care benefits of \$335.2 million. SERS has approximately 50,000 participants currently receiving health care benefits.

9. OTHER EMPLOYEE BENEFITS

Compensated Absences

The criteria for determining vacation and sick leave components are derived from School policy and State laws. All employees are at-will employees and do not have contracts as employees in traditional school districts. Salaried employees accrue sick time of 15 days per calendar year. Hourly rate employees do not accrue leave and are paid based upon hours worked only. Upon separation of service, sick time is not paid. Unused employee vacation leave is paid out at the end of the fiscal year.

10. STATE SCHOOL FUNDING DECISION

On December 11, 2002, the Ohio Supreme Court issued its latest opinion regarding the State's school funding plan. The decision reaffirmed earlier decisions that Ohio's current school funding decision is unconstitutional.

The Supreme Court relinquished jurisdiction over the case and directed "...the Ohio General Assembly to enact a school funding scheme that is thorough and efficient...".

The School is currently unable to determine what effect, if any, this decision will have on its future State funding and on its financial operations.

**CRITTENTON COMMUNITY SCHOOL, INC.
FRANKLIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2003
(Continued)**

11. CONTINGENCIES

A. Grants

The School received financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the School. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the School at June 30, 2003.

B. Litigation

A suit was filed in Franklin County Common Please Court on May 14, 2001, alleging that Ohio's Community (i.e. Charter) Schools program violates the State Constitution and State Law. On April 31, 2003 the Court dismissed the counts containing constitutional claims and stayed the other counts pending appeal of the constitutional issues. The plaintiffs appealed to the Court of Appeals, the issues have been briefed, and the case is set for oral arguments on November 18th, 2003.

12. LEASES

The School leases classroom and office space in a building under a cancelable operating lease. The terms of this lease continue from year to year until terminated. Total lease payments were \$12,204 for the year ended June 30, 2003. The future payments for this lease are as follows:

Year Ending June 30, Amount

2004	\$	12,204
2005		12,204
2006		12,204
2007		12,204
Total	\$	<u>48,816</u>

13. RELATED PARTY TRANSACTIONS/MANAGEMENT COMPANY

The School contracts with Directions for Youth & Families, Inc. for executive management and financial management services. The contract specifies a payment of \$2,181 per month for the performance of these services. Executive management services include representing the School's interests with the Board of Directors, the community, and various funding sources. Financial management services include, but are not limited to, financial statement and budget preparation and accounts payable and payroll preparation. Management services also include planning, property management, and public relations. Total charges for fiscal year 2003 amounted to \$26,172. No payments were made in fiscal year 2003.

The \$26,172 is included in the related party accounts payable amount of \$73,968 owed to Directions for Youth and Families at June 30, 2003. The payable amount also includes operating expenses (payroll, benefits, and rent) paid on behalf of the School by the management company due to the School's lack of available cash.

**CRITTENTON COMMUNITY SCHOOL, INC.
FRANKLIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2003
(Continued)**

13. RELATED PARTY TRANSACTIONS/MANAGEMENT COMPANY (Continued)

The management company also loaned the School \$23,000 which is reflected as a related party loan payable at June 30, 2003. The loan agreement provides that the School will repay, at no interest, the amount borrowed (\$23,000) from Directions for Youth and Families, Inc. yearly payments of \$7,667 beginning June 30, 2005, and extending through June 30, 2007.

The lease disclosed in Note 12 is also with Directions for Youth & Families, Inc. The total lease payments for the year ended June 30, 2003 were \$12,204.

14. PURCHASED SERVICES

For fiscal year ended June 30, 2003, purchased services expenses were as follows:

Building Lease	\$	12,204
Management Fees		26,172
Consulting		1,811
Total	\$	<u>40,187</u>

15. MANAGEMENT'S PLANS

For fiscal year 2003, the School had an operating loss (\$152,111), net loss (\$22,527), and accumulated deficit (\$8,047). As further discussed in Note 13, the School entered into a borrowing arrangement with its management company in order to meet cash flow needs and has a related party payable of \$73,968 at June 30, 2003. Projected revenues and expenses for fiscal year 2004 indicates these financial difficulties will not be eliminated during fiscal year 2004. Additionally, Ohio Revised Code and the community school agreement with the Ohio Department of Education (ODE) require the School provide learning opportunities to a minimum of twenty-five students. As of September 24, 2003, eighteen students were enrolled for fiscal year 2004.

The School has held several meetings with ODE about its financial situation, although no formal agreements have resulted. The School is currently in the process of changing its programs to more appropriately serve the seriously disturbed students that it is enrolling. Management desires to have 85 students enrolled by the end of fiscal year 2004. In order to achieve this goal, Management has implemented an outreach program which encompasses teaching students at home. The Board has approved the hiring of three outreach teachers to provide home instruction to students and approved the development of a home study packet. The School is also in the process of acquiring facilities to house additional students. Management anticipates that implementing this outreach program will result in near term operating losses, but will build a student base sufficient to provide financial stability in the future. The School intends to meet cash flow needs and finance operating losses through further loans from its management company. Continued financing has been discussed with the management company although no formal agreement has been entered into.

16. BEGINNING RETAINED EARNINGS

The School received \$50,000 from the Ohio Department of Education prior to July 1, 2002 to offset start-up costs. The School incurred payroll and capital expenses of \$35,520 resulting in beginning retained earnings of \$14,480.

**CRITTENTON COMMUNITY SCHOOL, INC.
FRANKLIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2003
(Continued)**

17. FULLTIME EQUIVALENCY

The Ohio Department of Education conducts reviews of enrollment data and full-time equivalency (FTE) calculations made by the schools. These reviews are conducted to ensure the schools are reporting accurate student enrollment data to the State, upon which state foundation funding is calculated. The School was reviewed three times during this initial year of operations and zero errors were found in enrollment, withdrawals and attendance. The School does not anticipate any adjustments to state funding for fiscal year 2003, as a result of the reviews which have yet to be completed.

THIS PAGE INTENTIONALLY LEFT BLANK



Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE AND ON INTERNAL CONTROL REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

Crittenton Community School, Inc.
Franklin County
1515 Indianola Avenue
Columbus, Ohio 43201

To the Board:

We have audited the financial statements of Crittenton Community School, Inc., (the School), as of and for the year ended June 30, 2003, and have issued our report thereon dated September 27, 2003, wherein we noted matters which raise substantial doubt about the School's ability to continue as a going concern. 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 School's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance that we have reported to management of the School in a separate letter dated September 27, 2003.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the School's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the 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 material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that do not require inclusion in this report that we have reported to management of the School in a separate letter dated September 27, 2003.

35 N. Fourth St. / Second Floor / Columbus, OH 43215
Telephone: (614) 466-3402 (800) 443-9275 Fax: (614) 728-7199
www.auditor.state.oh.us

Crittenton Community School, Inc.
Franklin County
Independent Accountants' Report on Compliance and on
Internal Control Required by *Government Auditing Standards*
Page 2

This report is intended for the information and use of the finance committee, management, and the Board, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Betty Montgomery". The signature is written in a cursive, flowing style.

Betty Montgomery
Auditor of State

September 27, 2003



**Auditor of State
Betty Montgomery**

88 East Broad Street
P.O. Box 1140
Columbus, Ohio 43216-1140

Telephone 614-466-4514
800-282-0370

Facsimile 614-466-4490

CRITTENTON COMMUNITY SCHOOL

FRANKLIN COUNTY

CLERK'S CERTIFICATION

This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
NOVEMBER 18, 2003**