



**Auditor of State
Betty Montgomery**

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

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**Auditor of State
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INDEPENDENT ACCOUNTANTS' REPORT

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

To the Board of Governors:

We have audited the accompanying basic financial statements of the Crittenton Community School, Inc. (the School) as of and for the year ended June 30, 2004, as listed in the table of contents. 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 School, as of June 30, 2004, and the changes in financial position and the cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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In accordance with *Government Auditing Standards*, we have also issued our report dated November 2, 2004, 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.

Management's Discussion and Analysis is not a required part of the basic financial statements, but is supplementary information the Governmental Accounting Standards Board requires. We applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion on it.

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

Betty Montgomery
Auditor of State

November 2, 2004

CRITTENTON COMMUNITY SCHOOL, INC.
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004
Unaudited

The discussion and analysis of the Crittenton Community School's financial performance provides an overall review of the School's financial activities for the fiscal year ended June 30, 2004. The intent of this discussion and analysis is to look at the School's financial performance as a whole; readers should also review the basic financial statements and notes to the basic financial statements to enhance their understanding of the School's financial performance.

The Management's Discussion and Analysis (MD&A) is an element of the new reporting model adopted by the Governmental Accounting Standard Board (GASB) in their Statement No. 34 Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Government issued June, 1999. Certain comparative information between the current year and the prior year is required to be presented in the MD&A.

Financial Highlights

- Net assets totaled (\$21,404).
- Total assets were \$93,265. Capital assets, net, amounted to \$7,653 while cash and other assets amounted to \$85,612.
- Liabilities totaled \$114,669. Accrued wages and benefits amounted to \$11,945 while accounts payable and other liabilities amounted to \$102,724.

Using this Financial Report

This report consists of three parts, the MD&A, the basic financial statements, and notes to those statements. The basic financial statements include a statement of net assets, a statement of revenues, expenses and changes in net assets, and a statement of cash flows.

Statement of Net Assets

The Statement of Net Assets answers the question, "How did we do financially during 2004?" This statement includes all assets and liabilities, both financial and capital, using the accrual basis of accounting and economic resources focus, which is similar to the accounting used by most private-sector companies. This basis of accounting takes into account all revenues and expenses during the year, regardless of when the cash is received or paid.

Table 1 provides a summary of the School's net assets for fiscal year 2004 and 2003:

(Table 1)		
Net Assets		
	2004	2003
Assets		
Current Assets	\$ 85,612	\$ 86,654
Capital Assets, Net	7,653	8,871
Total Assets	93,265	95,525
Liabilities		
Current Liabilities	114,669	103,572
Net Assets		
Invested in Capital Assets	7,653	8,871
Unrestricted	(29,057)	(16,918)
Total Net Assets	\$ (21,404)	\$ (8,047)

CRITTENTON COMMUNITY SCHOOL, INC.
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004
Unaudited

Total assets totaled \$93,265. Cash and cash equivalents amounted to \$49,950. Intergovernmental Receivables amounted to \$32,211. Capital Assets totaled \$7,653.

Table 2, on the following page, shows the changes in net assets for the year ended June 30, 2004, as well as a listing of revenues and expenses.

(Table 2)
Change in Net Assets

	2004	2003
Operating Revenues:		
Foundation Payments	\$ 249,660	\$ 82,916
Disadvantaged Pupil Impact Aid	6,426	6,300
Other	6,519	2,252
Non-Operating Revenues:		
Operating Grants and Contributions	136,012	129,584
Total Revenues	398,617	221,052
Operating Expenses		
Salaries	247,383	115,965
Fringe Benefits	53,501	25,356
Purchased Services	89,818	40,187
Materials and Supplies	6,576	41,320
Depreciation	1,218	609
Other Expenses	13,478	20,142
Total Expenses	411,974	243,579
Decrease in Net Assets	\$ (13,357)	\$ (22,527)

The School's business-type activities consist of enterprise activity. Community Schools receive no support from taxes.

Capital Assets

At the end of fiscal year 2004 the School had \$7,653 in furniture, fixtures, and equipment. Table 3 shows fiscal year 2004 and 2003:

(Table 3)

	2004	2003
Furniture, Fixtures, and Equipment	\$ 7,653	\$ 8,871

For more information on capital assets see note 5 to the basic financial statements.

CRITTENTON COMMUNITY SCHOOL, INC.
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004
Unaudited

Current Financial Issues

The Crittenton Community School began operations on July 1, 2002. The idea for this innovative school was formed through the board members of Directions For Youth & Families, an associated not-for-profit organization. Crittenton Community School was formed as a 501c (3) corporation with a governing board of nine members which are elected. During the start up process, the State of Ohio awarded a \$50,000 grant; and, later, the federal government awarded two grants, \$ 150,000 each in the first two years of operation. The School enrolls "high risk" middle school students, grades 6, 7 and 8, at-risk due to behavioral/emotional issues. The School uses two primary service models that are personalized through creation of the students Individualized Learning Plan. The Outreach component of the School is primarily community/home-based. Certified teachers manage a caseload of no more than 5-8 students who have demonstrated, in other schools, an inability to cope with the demands of a classroom setting. The Bridge component utilizes split scheduling and an abbreviated school day as teachers work in classrooms that emphasize proper school behavior by teaching students how to avoid the inappropriate disruptions that often characterize their participation in larger school environments. Both models have a low student-to-teacher ratio which is the key to a comprehensive and supportive academic intervention program.

Cash flow needs have been an issue during the first two years of operation. The School has had to borrow from its management company to meet cash flow needs and continues to have a third-party payable of \$ 99,246 at June 30, 2004. Due to the low student-to-teacher ratio the school has struggled to keep the enrollment at adequate levels to sustain a break-even position. However, the education plan for the Crittenton Community School has been modified, adding the Outreach component, to more appropriately serve the students that it is enrolling. With the implementation of the outreach program in January, 2004 the school was able to reduce the FY2004 annual loss to \$ 13,357. It is anticipated the new educational plan will build a student base sufficient to provide financial stability in the near future.

Contacting the School's Financial Management

This financial report is designed to provide the reader with a general overview of the School's finances and to show the School's accountability for the money it receives. If you have questions about this report or need additional information contact Barbara Martin, Treasurer at Crittenton Community School, 1515 Indianola Avenue, Columbus, Ohio 43201, 614-294-2661 or e-mail at bmartin@dfyf.org.

**CRITTENTON COMMUNITY SCHOOL
FRANKLIN COUNTY**

**STATEMENT OF NET ASSETS
JUNE 30, 2004**

Assets

Current Assets:

Cash and Cash Equivalents	\$ 49,950
Intergovernmental Receivable	32,211
Prepaid Items	3,451
Total Current Assets	<u>85,612</u>

Non-Current Assets:

Capital Assets:

Depreciable Capital Assets, Net	<u>7,653</u>
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Total Assets

93,265

Liabilities

Current Liabilities:

Related Party Accounts Payable	76,246
Accrued Wages	6,757
Benefits Payable	5,188
Intergovernmental Payable	3,478
Related Party Loan Payable	<u>23,000</u>

Total Liabilities

114,669

Net Assets

Invested in Capital Assets	7,653
Unrestricted	<u>(29,057)</u>

Total Net Assets

\$ (21,404)

See accompanying notes to the basic financial statements

**CRITTENTON COMMUNITY SCHOOL
FRANKLIN COUNTY**

**STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN NET ASSETS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

Operating Revenues	
Foundation Payments	\$ 249,660
Disadvantaged Pupil Impact Aid	6,426
Donations	1,450
Other Operating Revenue	<u>5,069</u>
<i>Total Operating Revenue</i>	<u>262,605</u>
Operating Expenses	
Salaries	247,383
Fringe Benefits	53,501
Purchased Services	89,818
Materials and Supplies	6,576
Depreciation	1,218
Other Operating Expenses	<u>13,478</u>
<i>Total Operating Expenses</i>	<u>411,974</u>
<i>Operating Loss</i>	<u>(149,369)</u>
Non-Operating Revenues	
Federal Restricted Grants	<u>136,012</u>
<i>Change in Net Assets</i>	(13,357)
<i>Net Assets Beginning of Year</i>	<u>(8,047)</u>
<i>Net Assets End of Year</i>	<u><u>\$ (21,404)</u></u>

See accompanying notes to the basic financial statements

**CRITTENTON COMMUNITY SCHOOL
FRANKLIN COUNTY**

**STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

Increase (Decrease) in Cash and Cash Equivalents

Cash Flows from Operating Activities:

Cash Received from State of Ohio	\$	226,864
Cash Payment to Suppliers for Goods and Services		(6,576)
Cash Payments for Other Operating Expenses		(151,733)
Cash Payment to Employees for Services		(236,547)
Other Operating Revenue		6,519
		6,519
Net Cash Used in Operating Activities		(161,473)

Cash Flows from Noncapital Financing Activities:

Federal Restricted Grants		179,006
		179,006
Net Increase in Cash and Cash Equivalents		17,533
Cash at Beginning of Year		32,417
		32,417
Cash at End of Year	\$	49,950

Reconciliation of Operating Loss to Net Cash Used for Operating Activities

Operating Loss	\$	(149,369)
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Adjustments to Reconcile Operating Loss to Net Cash Used for Operating Activities

Depreciation Expense		1,218
Changes in Assets and Liabilities:		
Increase in Intergovernmental Receivable		(29,222)
Increase in Accounts/Loans Payable		1,778
Increase in Accrued Wages & Benefits		8,876
Increase in Intergovernmental Payable		383
Decrease in Prepaids		4,863
		4,863
Total Adjustments		(12,104)
Net Cash Used for Operating Activities	\$	(161,473)

See accompanying notes to the basic financial statements

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2004**

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.

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 Director of the School, under the direction of the CEO, controls the School's one instructional facility staffed by two full-time certificated personnel, 27 part-time certificated personnel and the five noncertificated personnel, who provided services to the approximately ninety-four 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

The School's basic financial statements consist of a statement of net assets, a statement of revenue, expenses and change in net assets, and a statement of cash flow. Enterprise reporting focuses on the determination of the change in net assets, financial position and cash flows.

B. 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 statement of net assets. The statement of changes in net assets presents increases (i.e., revenues) and decreases (i.e., expenses) in net total assets. The statement of cash flows provides information about how the School finances and meets the cash flow needs of its enterprise activities.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2004
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. The School's financial statements are prepared using the accrual basis of accounting.

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place.

Non-exchange transactions, in which the School receives value without directly giving equal value in return, include grants, entitlements, and donations. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first 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. Expenses are recognized at the time they are incurred.

D. 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; therefore no budgetary information is presented in the financial statements.

E. 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 statement of net assets.

F. 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.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2004
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

G. Capital Assets

Capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital 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 capital 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. The School does not possess infrastructure.

H. 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 accounting period in which all eligibility requirements have been met. 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. Amounts awarded under the above named programs for the 2004 school year totaled \$256,086.

I. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2004, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expense is reported in the year in which services are consumed.

J. Net Assets

Net assets represent the difference between assets and liabilities. Assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets.

K. Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activities. For the School, these revenues are operating grants and sales for food service. Operating expenses are necessary costs incurred to provide the good or service that is the primary activity of the School. Revenues and expenses not meeting this definition are reported as non-operating.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2004
(Continued)**

3. RECEIVABLES

Intergovernmental Receivable: The School has estimated Foundation payments still due for the 2004 school year. The estimated receivable of \$29,282 is based on student enrollment at the end of March, April and May of fiscal year 2004. An additional amount of \$2,929 is due from the Federal Government. The balance is considered to be 100% collectable.

4. DEPOSITS

Deposits: At June 30, 2004, the carrying amount of the School's deposits was \$49,950. Of the bank balance, 100% was covered by federal depository insurance.

5. CAPITAL ASSETS

A summary of the School's capital assets at June 30, 2004 follows:

Furniture and Equipment	\$ 9,479
Less: Accumulated Depreciation	<u>(1,827)</u>
Net Capital Assets	<u>\$ 7,653</u>

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 in fiscal year 2004. 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 2004 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 of Ohio (SERS), a cost sharing multiple employer public employee retirement system administered by the School Employees Retirement Board. SERS provides basic retirement benefits, disability, survivor, and health care benefits based on eligible service credit to members and beneficiaries. Benefits are established by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available financial report that includes financial statements and required supplementary information for SERS. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2004
(Continued)**

7. DEFINED BENEFIT PENSION PLANS (continued)

B. School Employees Retirement System (continued)

Plan members are required to contribute 10 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. The contribution requirements of plan members and employers are established and may be amended up to statutory maximum amounts. The School's required contribution for pension obligations to SERS for the fiscal year ended June 30, 2004 was \$6,021. There were no unpaid contributions at the end of the fiscal year. The prepaid portion of the employer contributions for the fiscal year 2004 was \$1,400 and is recorded as a prepaid.

B. State Teachers Retirement System

The School contributes to the State Teachers Retirement System of Ohio (STRS), a cost-sharing multiple employer public employee retirement system administered by the State Teachers Retirement Board. STRS provides basic retirement benefits, disability, survivor, and health care benefits based on eligible service credit to members and beneficiaries. Benefits are established by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available financial report that includes financial statements and required supplementary information for STRS. That report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3371.

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.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2004
(Continued)**

7. DEFINED BENEFIT PENSION PLANS (continued)

B. State Teachers Retirement System (continued)

Plan members are required to contribute 10 percent of their annual covered salary and the School is required to contribute 14 percent. Contribution rates are established by STRS, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. The School's required contribution for pension obligations to STRS for the fiscal year ended June 30, 2004 was \$28,022. The prepaid portion of the employer contributions for the fiscal year 2004 was \$2,051 and is recorded as a prepaid.

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.

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, 2004, 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 \$2,963 for fiscal year 2004. STRS pays health care benefits from the Health Care Reserve Fund. At June 30, 2003, (the latest information available) the balance in the Fund was \$3,256 million. For the year ended June 30, 2003, 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, 2002, 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 2004, the minimum pay was established at \$12,400. For the School, the amount contributed to fund health care benefits, including the surcharge, during the 2004 fiscal year equaled \$4,075. 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, 2003 (the latest information available), were \$182,946,777 and the target level was \$274.4 million. At June 30, 2003, 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.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2004
(Continued)**

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.

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, 2004.

B. Litigation

A suit was filed in Franklin County Common Pleas Court on May 14, 2001 alleging Ohio's Community (i.e., Charter) School's program violates the state Constitution and state laws. On April 21, 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 was heard on November 18, 2003. On August 24, 2004, the Court of Appeals rendered a decision that Community Schools are part of the state public educational system and this matter was sent to the Ohio Supreme Court. The effect of this suit, if any on the Crittenton Community School is not presently determinable.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2004
(Continued)**

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, 2004. The future payments for this lease are as follows:

Year Ending	<u>June 30,</u>	<u>Amount</u>
2005	\$	12,204
2006		12,204
2007		12,204
Total		\$ 36,612

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 \$2,182 per month for the performance of these services. Executive management services include representing the School's interests with the Board of Governors, 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 paid for fiscal year 2004 amounted to \$26,184. The Board approved the contract. The amount of \$76,246 was carried over from the prior fiscal year. The Management Company also loaned the School \$23,000 in the prior fiscal year which is reflected as a related party loan payable at June 30, 2004. The loan agreement provides that the School will repay, at no interest, the amount borrowed (\$23,000) from Directions for Youth and Families, 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, 2004 were \$12,204.

14. PURCHASED SERVICES

For fiscal year ended June 30, 2004, purchased services expenses were as follows:

Management Fees	\$26,184
Audit Fees	5,957
Consulting	39,431
Data Center	6,042
Building Lease	12,204
	\$89,818

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2004
(Continued)**

15. MANAGEMENT'S PLANS /FINANCIAL CONDITION

For fiscal year 2004, the School had an operating loss (\$149,369). When non-operating revenues of \$136,012 are included, the net change in assets (net loss) for year end is (\$13,357) and net assets at end of year (\$21,404). In fiscal year 2003, the School entered into a borrowing arrangement with its management company in order to meet cash flow needs. As of June 30, 2004, the School still owed \$76,246 in related party accounts payable and a \$ 23,000 loan payable. Projected revenues and expenses for fiscal year 2005 indicate these financial difficulties will not be entirely eliminated during fiscal year 2005.

Management desires to have 185 students enrolled by the end of fiscal year 2005. Current enrollment is 135 students. In order to achieve this goal, management has implemented an outreach program which encompasses teaching students at home. The School has been approached by the Columbus City School District to become part of their middle school drop-out prevention program, whereby Columbus City Schools would send students who drop out of their middle school as referrals to Crittenton. The School has also acquired a facility to house additional students. Management anticipates continued implementation of the outreach program will result in near term operating losses, but will build a student base sufficient to provide financial stability in the future.

16. 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 several times during the fiscal year and no errors were found in enrollment, withdrawals, or attendance.

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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 of Governors:

We have audited the accompanying basic financial statements of Crittenton Community School, Inc., (the School), as of and for the year ended June 30, 2004, and have issued our report thereon dated November 2, 2004. 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*.

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 November 2, 2004.

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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 of Governors, 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

November 2, 2004



**Auditor of State
Betty Montgomery**

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

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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
DECEMBER 21, 2004**