



December 29, 2008

Andrea Leder
Arizona State Board for Charter Schools
1700 W. Washington Street, Room 164
Phoenix, AZ 85007

SENT VIA FAX: (602) 364-3089

Dear Ms. Leder:

This is in response to your request for information regarding CAS Y Country Day School dated December 9, 2008.

Repeat Disclaimer of Audit Opinion

Description of changes to ensure records will be auditable in the future

Our auditor advised us prior to completing the audit that there would be a "going concern" note in our audited financial statements. Because of the "going concern" issue, he would not be able to give an audit opinion on the financial statements due to the requirements of generally accepted auditing standards, regardless of how much financial testing was done. So because all of the normal testing was not done, the standard audit opinion verbiage used stated "Sufficient information related to the School's accounts payable, payroll and related liabilities, cash receipts and revenues was not available. Therefore, we were unable to satisfy ourselves on any of the amounts recorded in the accompanying financial statements". However, our records are in good order and auditable and always have been. The verbiage was not used because our auditor looked at the records and found them lacking. It was because he did not go to the time and considerable expense to review them since it would have no bearing on the outcome. Please feel free to confirm this by contacting our auditor directly. We hope to receive an unqualified opinion on our 2008-09 audit as the issues that caused the "going concern" are improving; i.e. our operating losses have been significantly reduced, over \$500,000 in debt has been eliminated, we are very close to an agreement with the IRS to resolve the outstanding tax issues, and once that agreement is reached we expect the charter board to return the 10% withheld, as promised. These are the primary issues that have caused the "going concern" note.

Progress made in improving financial circumstances

CAS Y has taken dramatic steps to reduce costs while maintaining a quality educational program. We have closed our South Valley and Larkspur campuses, which have not been sufficiently self-supporting, and focused our resources on the original Jenan campus. We are close to reaching an agreement with the IRS to resolve the outstanding tax issues. Once that happens and the charter board returns the 10% of revenue withheld, we will be able to keep up with all of our obligations on an ongoing basis. We have also been in contact with the Arizona Department of Revenue and are taking steps to resolve our outstanding tax issues with them.

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Federal Payroll Taxes and Retirement Defined Contributions

Statement of progress and copies of written communications

Our legal representatives have been in regular contact with the IRS and have made contact with ADOR regarding our outstanding tax matters. They report that they are awaiting responses from both entities. They report that with the holidays, key people have been on vacation and responses have been very slow in coming. I have requested our legal representative, Mr. Ryan Shamblin, to respond to you directly and provide you with any copies of communications that you may need.

Changes made to ensure CASY remains current with ASRS and schedule to meet obligations

Because of the cash shortage created by the 10% withholding of state aid payments, our board is securing a short-term loan to be used to catch up the ASRS payments along with several other obligations. We expect to secure an agreement with the IRS and, utilizing the loan proceeds, get completely current with ASRS during the coming month. At that point we believe the conditions will be met for the ASBCS to release the 10% withholding, enabling us to remain current with all of our obligations.

Classroom Site Fund

Confirmation of having read and understood the requirements of A.R.S.15-977 and USFRCS

Memorandum 44

This is to confirm that I have read and understand the requirements associated with Classroom Site Fund monies, including those related to document retention.

Steps taken to correct internal processes

The note related to this issue on our Legal Compliance Questionnaire states "Detailed records to support the use of Classroom Site Fund monies were not available as of November 15, 2008". This is essentially the same issue as we described above in the section headed "*Description of changes to ensure records will be auditable in the future.*" We have and do maintain records to support the expenditure of our Classroom Site Fund monies. However, because of the disclaimed opinion, our auditor did not review or perform audit tests on those records.

Recognition of violation of statute

We recognize and understand that schools are required to maintain records to support proper expenditures of Classroom Site Fund monies in order to remain compliant with the law and charter contract.

We have thoroughly reviewed our audit report. We have made and continue to make changes necessary to correct the deficiencies.



Steven Mills
Board Member