

**PSCHTECIN PUBLIC SCHOOL  
FRANKLIN COUNTY**

**Financial Statements**

**For the Period  
September 26, 2005 to June 30, 2006**





Mary Taylor, CPA  
Auditor of State

Governing Board  
Pshtecin Public School  
985 Mediterranean Avenue  
Columbus, Ohio 43229

We have reviewed the *Independent Accountants' Report* of the Pshtecin Public School, Franklin County, prepared by Hemphill & Associates, for the audit period September 26, 2005 through June 30, 2006. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The Pshtecin Public School is responsible for compliance with these laws and regulations.

*Mary Taylor*

Mary Taylor, CPA  
Auditor of State

November 16, 2007

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**PSCHTECIN PUBLIC SCHOOL  
FRANKLIN COUNTY**

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## INDEPENDENT ACCOUNTANTS' REPORT

Pschtecin Public School  
Franklin County  
975 Mediterranean Avenue  
Columbus, Ohio 43229

To the Governing Board:

We have audited the accompanying financial statements of the Pschtecin Public School, Franklin County, (the School) as of and for the period September 26, 2005 to June 30, 2006, which collectively comprise the School's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the School's management. Our responsibility is to express 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 the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to reasonably assure 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 our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Pschtecin Public School, Franklin County, as of September 26, 2005 to June 30, 2006, and the respective changes in financial position and cash flows, thereof for the year 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 September 15, 2007, on our consideration of the School's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting or on compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.



**INDEPENDENT ACCOUNTANTS' REPORT  
(CONTINUED)**

Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information accounting principles generally accepted in the United States of America requires. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measuring and presenting the required supplementary information. However, we did not audit the information and express no opinion on it.

Columbus, Ohio  
September 15, 2007

*Hemphill & Associates*



**PSCHTECIN PUBLIC SCHOOL**  
**FRANKLIN COUNTY**  
Management's Discussion and Analysis  
For the Period September 26, 2005 to June 30, 2006  
Unaudited

Management's discussion and analysis of the Pschtecin Public School's (the School) financial performance provides an overall view of the financial activities for the period September 26, 2005 to June 30, 2006, the initial period of operation. Readers should also review the basic financial statements and the 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 reporting model adopted by the Governmental Accounting Standards Board (GASB) in their Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments, issued in June 1999. Certain comparative information between the current year and the prior year is required to be presented, and is presented in the MD&A.

**Financial Highlights**

- Total assets were \$34,507.
- Total liabilities were \$21,871.
- The change in net assets was \$12,636.

**Using this Annual Financial Report**

This report consists of three parts: the Management's Discussion and Analysis (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. As the School reports its operations using enterprise fund accounting, all financial transactions and accounts are reported as one activity. Therefore, the entity-wide and the fund presentation information are the same.

These statements report the School's net assets and changes in those assets. This change in net assets is important because it tells the reader whether the financial position of the School has improved or diminished. The causes of this change may be the result of many factors, some financial, some not. Non-financial factors include the School's student enrollment, per-pupil funding as determined by the State of Ohio, change in technology, required educational programs, and other factors. The School uses enterprise presentation for all of its activities.



**PSCHTECIN PUBLIC SCHOOL**  
**FRANKLIN COUNTY**  
Management's Discussion and Analysis  
For the Period September 26, 2005 to June 30, 2006  
Unaudited

Table 1 provides a summary of the School's net assets at June 30, 2006. As this was the initial period of operation and not a full fiscal year, no comparison is made to prior period information.

Table 1  
Net Assets

<b>Assets</b>	
Current Assets	\$ 22,778
Security Deposit	2,000
Capital Assets, Net	<u>9,729</u>
Total Assets	<u>34,507</u>
<b>Liabilities</b>	
Current Liabilities	<u>21,871</u>
Total Liabilities	<u>21,871</u>
<b>Net Assets</b>	
Investment in Capital Assets (Net)	9,729
Unrestricted	<u>2,907</u>
Total Net Assets	<u><u>\$ 12,636</u></u>

**PSCHTECIN PUBLIC SCHOOL**  
**FRANKLIN COUNTY**  
Management's Discussion and Analysis  
For the Period September 26, 2005 to June 30, 2006  
Unaudited

Table 2 shows the total amount of operating and non-operating expenses and revenues associated with those expenses for the year.

Table 2  
Changes in Net Assets

<b>Revenues</b>	
Operating Revenues:	
Foundation Basic Aid	\$ 259,751
Poverty-Based Assistance	3,707
Special Education	4,336
Total Operating Revenues	267,794
Non-Operating Revenues:	
Federal and State Grants	15,364
Interest	13
<b>Total Revenues</b>	283,171
<b>Expenses</b>	
Operating Expenses:	
Salaries	140,331
Fringe Benefits	19,052
Purchased Services	90,530
Materials and Supplies	15,211
Depreciation	2,143
Other Expenses	3,568
<b>Total Expenses</b>	270,535
 <b>Increase in Net Assets</b>	 \$ 12,636

State Foundation Basic Aid, Poverty-Based Assistance, and Special Education make up the primary support for the School, representing 100% of the operating revenue. Salaries and Fringe Benefits comprised 58.8% of operating expenses.

The School had total revenues of \$283,171 and total expenses of \$270,535. The change in net assets for the period was an increase of \$12,636. This increase shows that the School can meet its obligations.

**PSCHTECIN PUBLIC SCHOOL**  
**FRANKLIN COUNTY**  
Management's Discussion and Analysis  
For the Period September 26, 2005 to June 30, 2006  
Unaudited

**Budgeting Highlights**

Community schools must adopt a spending plan under Ohio Revised Code. Section 5705.391 requires annual appropriations and annual revenues estimates. The contract between the School and its sponsor requires the school to comply with the financial plan that details an estimated budget for each year of the contract.

**Capital Assets**

At the end of period June 30, 2006, the School had \$9,729 (net of \$2,143 in accumulated depreciation) invested in computers, furniture, and equipment. Table 3 show balances at June 30, 2006:

Table 3  
Capital Asset at June 30, 2006  
(Net of Depreciation)

Computers	\$ 3,224
Furniture, Fixtures, and Equipment	6,505
Capital Assets, Net of Accum. Depreciation	\$ 9,729

See Notes 2(E) and 4 of the notes to the basic financial statements for additional detailed information on the School's capital assets.

**Debt**

At June 30, 2006, the School had no debt.

**Current Financial Issues**

The inclusion of the Lucas County Educational Service Center as the School's fiscal agent greatly improves its internal control structure and the quality of its financial records. During the period September 26, 2005 to June 30, 2006, there were approximately 46 students enrolled in the School. The School receives its finances mostly from state aid. Per pupil aid for this period amounted to \$5,283 per student.

**Contacting the School's Financial Management**

This financial report is designed to provide all citizens, taxpayers, and creditors with a general overview of the School's finances and to show the School's accountability for the money it receives. Questions concerning any of the information in this report or requests for additional information should be directed to Mr. Martin Ashley, Superintendent, 975-1045 Mediterranean Avenue, Columbus, Ohio 43229 or at [mashley875@sbcglobal.net](mailto:mashley875@sbcglobal.net).

**PSCHTECIN PUBLIC SCHOOL  
FRANKLIN COUNTY  
STATEMENT OF NET ASSETS  
AS OF JUNE 30, 2006**

**ASSETS**

**Current Assets:**

Cash & Cash Equivalents	\$ 14,232
Intergovernmental Receivables	8,246
Prepaid Items	300
<b>Total Current Assets</b>	<u>22,778</u>

**Non-Current Assets:**

Security Deposits	2,000
Capital Assets (Net of Accumulated Depreciation)	9,729
<b>Total Non-Current Assets</b>	<u>11,729</u>
<b>TOTAL ASSETS</b>	<u>\$ 34,507</u>

**LIABILITIES**

**Current Liabilities:**

Accounts Payable	\$ 8,243
Accrued Wages and Benefits Payable	4,831
Intergovernmental Payables	5,257
Loan Payable - Owners	3,540
<b>TOTAL LIABILITIES</b>	<u>21,871</u>

**NET ASSETS**

Investment in Capital Assets (Net of Related Debt)	9,729
Unrestricted	2,907
<b>TOTAL NET ASSETS</b>	<u>\$ 12,636</u>

**PSCHTECIN PUBLIC SCHOOL  
FRANKLIN COUNTY  
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS  
FOR THE PERIOD SEPTEMBER 26, 2005 TO JUNE 30, 2006**

<b>Operating Revenues</b>	
Foundation Basic Aid	\$ 259,751
Poverty-Based Assistance	3,707
Special Education	4,336
Total Operating Revenues	<u>267,794</u>

<b>Operating Expenses</b>	
Salaries	140,031
Fringe Benefits	19,052
Purchased Services	90,530
Materials and Supplies	15,211
Depreciation	2,143
Other Operating Expenses	3,568
Total Operating Expenses	<u>270,535</u>

<b>Operating Loss</b>	<u>(2,741)</u>
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<b>Non-Operating Revenues:</b>	
Operating Grants	15,364
Interest	13
Total Non-Operating Revenues	<u>15,377</u>

Change in Net Assets	12,636
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Net Assets at Beginning of Year	<u>-</u>
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<b>Net Assets at End of Year</b>	<u><u>\$ 12,636</u></u>
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**PSCHTECIN PUBLIC SCHOOL  
FRANKLIN COUNTY  
STATEMENT OF CASH FLOWS  
FOR THE PERIOD SEPTEMBER 26, 2005 TO JUNE 30, 2006**

**Increase in Cash and Cash Equivalents:**

**Cash Flows from Operating Activities:**

Cash Received from State of Ohio	\$ 270,944
Cash Payments to Suppliers for Goods and Services	(100,667)
Cash Payments to Employees for Services & Benefits	(159,550)
Net Cash Provided by Operating Activities	<u>10,727</u>

**Cash Flows from Noncapital Financing Activities:**

Cash Received from Grants - Federal	11,223
Cash Received from Grants - State	3,000
Cash Received from Other	2,465
Cash Payments for Noncapital Financing Activities	(1,324)
Net Cash Provided by Noncapital Financing Activities	<u>15,364</u>

**Cash Flows from Capital and Related Financing Activities:**

Cash Payment for Capital Acquisitions	(11,872)
Net Cash Used in Capital & Related Financing Activities	<u>(11,872)</u>

**Cash Flows from Investing Activities:**

Cash Received from Interest Earnings	13
Net Cash Provided from Investing Activities	<u>13</u>

Net Increase (Decrease) in Cash and Cash Equivalents 14,232

Cash and Cash Equivalents, Beginning of Year -

**Cash and Cash Equivalents, End of Year** \$ 14,232

**Reconciliation of Operating Income to Net Cash Provided by Operating Activities**

Operating Income (2,741)

**Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:**

Depreciation 2,143

**Changes in Assets and Liabilities:**

Increase in Intergovernmental Receivable (8,246)

Increase in Prepaid Items (300)

Increase in Security Deposits (2,000)

Increase in Accounts Payable 8,243

Increase in Accrued Wages 4,831

Increase in Intergovernmental Payable 5,257

Increase in Loan Payable 3,540

Net Cash Provided by Operating Activities \$ 10,727

**PSCHTECIN PUBLIC SCHOOL  
FRANKLIN COUNTY  
Notes to the Basic Financial Statements  
For the Period September 26, 2005 to June 30, 2006**

**1. DESCRIPTION OF THE SCHOOL DISTRICT AND REPORTING ENTITY**

The Pschtecin Public School (the School) is a nonprofit corporation established pursuant to Ohio Revised Code Sections 3314 and 1702. The School is an approved tax-exempt organization under Section 501(c) (3) of the Internal Revenue Code exclusively for educational purposes. The School's mission is to provide fifteen- to twenty-one-year-old students an eighth through twelfth grade educational program with a better option to achieve high academic standards. The School, which is part of the State's education program, is independent of any school district and is nonsectarian in its programs, admission policies, employment practices, and all other operations. The School may acquire facilities as needed and contract for any services necessary for the operation of the school. This is the initial period of operations.

The School is a non-profit organization that has been determined by the Internal Revenue Service to be exempt from federal income taxes as a tax-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.

The School was approved for operation under a contract with the Lucas County Educational Service Center that began on April 28, 2005. The sponsorship was then assigned to Buckeye Community Hope Foundation (BCHF) on July 21, 2005 and will expire on June 30, 2009. The Sponsor is responsible for evaluating the performance of the School and has authority to deny renewal of the contract at its expiration or terminate the contract prior to its expiration.

The School operates under the direction of a Governing Board. The Governing 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 Governing Board controls the School's one instructional/support facility staffed by 3 non-certified and 3 certified full-time teaching personnel who provide services to 46 students.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements of the School 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 before 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.

**PSCHTECIN PUBLIC SCHOOL  
FRANKLIN COUNTY  
Notes to the Basic Financial Statements  
For the Period September 26, 2005 to June 30, 2006**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**A. Basis of Presentation**

The School's basic financial statements consist of a Statement of Net Assets, a Statement of Revenues, Expenses, and Changes in Net Assets, and a Statement of Cash Flows.

The School uses enterprise accounting to maintain its financial records during the fiscal year. Enterprise accounting focuses on the determination of operating income, changes in net assets, financial position, and cash flows. Enterprise accounting may be used to account for any activity for which a fee is charged to external users for goods or services.

**B. Measurement Focus/Basis of Accounting**

Enterprise accounting uses a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of the School are included on the Statement of Net Assets.

The Statement of Revenues, Expenses, and Changes in Net Assets present increases (e.g., revenues) and decreases (e.g., expenses) in total net assets. The Statement of Cash Flows reflects how the School finances and meets its cash flow needs.

“Basis of accounting” refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. The accrual basis of accounting is used for reporting purposes. Revenue resulting from exchange transactions, in which each party gives and receives equal value, is recorded on the accrual basis when the exchange takes place. Revenue resulting from non-exchange transactions, in which the School receives value without directly giving equal value in return, such as grants, entitlements and donations, are recognized in the period in which all eligibility requirements have been satisfied. Expenses are recognized at the time they are incurred.

**C. Budgetary Process**

Community schools must adopt a spending plan under Ohio Revised Code. Section 5705.391 requires annual appropriations and annual revenues estimates. The contract between the School and its sponsor requires the school to comply with the financial plan that details an estimated budget for each year of the contract.



**PSCHTECIN PUBLIC SCHOOL  
FRANKLIN COUNTY  
Notes to the Basic Financial Statements  
For the Period September 26, 2005 to June 30, 2006**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**D. Cash**

All monies received by the School are accounted for by the School's fiscal agent, the Lucas County Educational Service Center. All cash received by the fiscal agent is maintained in separate bank accounts in the School's name.

For presentation on the financial statements, investments of the cash management pool and investments with the original maturity of three months or less at the time they are purchased by the School are considered to be cash equivalents. Investments with an initial maturity of more than three months that are not purchased from the pool are reported as investments.

**E. Capital Assets and Depreciation**

Capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the period. Donated capital assets are recorded at their fair market values as of the date received. The School does not maintain a capitalization policy and does not possess any infrastructure. 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.

All reported capital assets are depreciated. Depreciation is computed using the straight-line method over the following useful lives:

<u>Description</u>	<u>Estimated Lives</u>
Computers	5 years
Furniture, Fixtures and Equipment	5 years

**F. Intergovernmental Revenue**

The School currently participates in the State Foundation Basic Aid Program, Poverty-Based Assistance, and the State Special Education Program. Revenues from these programs are recognized as operating revenues in the accounting period in which all eligibility requirements are met.

Grants and entitlements are recognized as non-operating revenues in the accounting period in which all eligibility requirements are met. Eligibility requirements include timing requirements, which specify the period when the resources are required to be used or the period when use is first permitted, matching requirements, in which the School must provide local resources to be used for a specified purpose, and expenditures requirements, in which the resources are provided to the School on a reimbursement basis.

**PSCHTECIN PUBLIC SCHOOL  
FRANKLIN COUNTY  
Notes to the Basic Financial Statements  
For the Period September 26, 2005 to June 30, 2006**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**G. Estimates**

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

**H. Net Assets**

Net assets represent the difference between assets and liabilities. Net assets invested in capital 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. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the School or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. The School had no restricted net assets at June 30, 2006.

**I. Prepaid Items**

Payments made to vendors for services that will benefit periods beyond June 30, 2006 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 period in which services are consumed. Prepaid items totaled \$300 at June 30, 2006.

**J. Operating revenues and Expenses**

Operating revenues are those revenues that are generated directly from the primary activities of the School. All revenues and expenses not meeting this definition are reported as non-operating.

**3. DEPOSITS AND INVESTMENTS**

The following information classifies deposits by category of risk as defined in GASB Statement No.3 "Deposits with Financial Institutions, Investments (including Repurchase Agreements) and Reverse Repurchase Agreements," as amended by GASB Statement No. 40, "Deposit, and Investment Risk Disclosures".

At fiscal year end June 30, 2006, the carrying amount of the School's deposits was \$14,232 and the bank balance was \$15,926. based on the criteria described in GASB Statement No. 40, "Deposit and Investment Risk Disclosure," as of June 30, 2006, \$15,926 was covered by the Federal Depository Insurance Corporation and was not exposed to custodial risk. The School had no deposit policy for custodial risk beyond the requirement of state statute.

**PSCHTECIN PUBLIC SCHOOL  
FRANKLIN COUNTY  
Notes to the Basic Financial Statements  
For the Period September 26, 2005 to June 30, 2006**

**3. DEPOSITS AND INVESTMENTS (continued)**

Ohio law requires that deposits either be insured or be protected by eligible securities pledged to and deposited either with the school or a qualified trustee by the financial institution as security for repayment or by a collateral pool of eligible securities deposited with a qualified trustee to secure repayment of all public monies deposited in the financial institution whose market value shall be at least 105% of deposits being secured.

**4. CAPITAL ASSETS**

Capital asset activity for the period September 26, 2005 to June 30, 2006 was as follows:

	<b>Balance 09/26/05</b>	<b>Additions</b>	<b>Deductions</b>	<b>Balance 06/30/06</b>
Capital Assets:				
Computers	\$ -	\$ 3,761	\$ -	\$ 3,761
Furniture, Fixtures, and Equipment	-	8,111	-	8,111
Total Capital Assets	-	11,872	-	11,872
Less Accumulated Depreciation:				
Computers	-	(537)	-	(537)
Furniture, Fixtures, and Equipment	-	(1,606)	-	(1,606)
Total Accumulated Depreciation	-	(2,143)	-	(2,143)
Capital Assets, Net	\$ -	\$ 9,729	\$ -	\$ 9,729

**5. OPERATING LEASE**

The School entered into a School facility operating lease for \$2,000 monthly for the period September 15, 2005 through September 14, 2006 with Rainbow Development Corporation, with an option to renew for four successive additional periods of twelve months each. Payments totaled \$20,000 for the period September 26, 2005 to June 30, 2006. This lease was renewed on an annual basis starting with the period September 15, 2006 through September 14, 2007 at a rate of \$2,400 per month.

**PSCHTECIN PUBLIC SCHOOL  
FRANKLIN COUNTY  
Notes to the Basic Financial Statements  
For the Period September 26, 2005 to June 30, 2006**

<b>6. RISK MANAGEMENT</b>
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**A. Insurance Coverage**

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. For the period 2006, the School contracted with the Indiana Insurance Company and had the following insurance coverage:

<b>Commercial General Liability:</b>	
Each Occurrence	\$ 1,000,000
Personal and Advertising Injury	1,000,000
Products and Completed Operations Aggregate	2,000,000
General Aggregate (Location Aggregate)	2,000,000
Medical Expense	15,000
Stop-gap Liability Bodily Injury by Disease Policy Limit	1,000,000
<b>Crime:</b>	
Money and Securities Theft, Disappearance and Destruction	2,500
<b>Property Coverage:</b>	
Business Personal Property and Extra Expense	25,000
Extra Expense	10,000
<b>Business Automobile:</b>	
Liability Non-Owned and Hired Auto Only	1,000,000
<b>Umbrella Liability:</b>	
Each Occurrence/Aggregate	1,000,000
Retained Limit	10,000

**B. Workers' Compensation**

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

**C. Employee Medical Benefits**

The School has contracted through an independent agent to provide employee medical insurance to its full time employees. The School pays a portion of the monthly premiums for all selected coverage (medical).

**PSCHTECIN PUBLIC SCHOOL  
FRANKLIN COUNTY  
Notes to the Basic Financial Statements  
For the Period September 26, 2005 to June 30, 2006**

<b>7. DEFINED BENEFIT PENSION PLANS</b>
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**A. School Employees Retirement System**

The School contributes to the School Employees Retirement System of Ohio (SERS), a cost sharing multiple employer defined benefit pension plan administered by the School Employees Retirement Board. 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. The report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3476 or by calling (614) 222-5853.

Plan members are required to contribute 10% of their annual covered salary and the School is required to contribute at an actuarially determined rate. The current School rate is 14% 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 period 2006, 10.57% of annual covered salary was the portion used to fund pension obligations. For period 2005, 9.09% 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 contribution for pension obligation to SERS for the period ended June 30, 2006 was \$2,917; 97.5% has been contributed for period September 26, 2005 to June 30, 2006.

**B. State Teachers Retirement Systems**

The School contributes to the State Teachers Retirement System of Ohio (STRS), a cost-sharing, multiple-employer, public employee retirement system. STRS 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, 275 E. Broad St., Columbus, Ohio 43215-3371 or by calling (614) 227-4090.

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan, and a Combined Plan (CP). 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 fund 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 CP offers features of both the DC Plan and the DB Plan. In the CP, 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.

**PSCHTECIN PUBLIC SCHOOL  
FRANKLIN COUNTY  
Notes to the Basic Financial Statements  
For the Period September 26, 2005 to June 30, 2006**

**7. DEFINED BENEFIT PENSION PLANS (continued)**

DC and CP members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or CP. 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.

A DB or CP member with five or more years credited services 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 period September 26, 2005 to June 30, 2006, plan members were required to contribute 10% of their annual covered salaries. The School was required to contribute 14%; 13% 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 contribution for pension obligations to the DB Plan for the fiscal year ended June 30, 2006 was \$13,639; 100% has been contributed for fiscal year 2006.

**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 funded on a pay-as-you-go basis.

STRS retirees who participated in the DB or combined plans and their dependents are eligible for health care coverage. The STRS Board has statutory authority over how much, if any, of the healthcare costs will be absorbed by STRS. All benefit recipients pay a portion of 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% of covered payroll. For the fiscal year ended September 26, 2005 to June 30, 2006, the STRS Board allocated employer contributions equal to 1% of covered payroll to the Health Care Reserve Fund. For the School, this amount equaled \$1,525 for fiscal year 2006.

**PSCHTECIN PUBLIC SCHOOL  
FRANKLIN COUNTY  
Notes to the Basic Financial Statements  
For the Period September 26, 2005 to June 30, 2006**

**8. POST EMPLOYMENT BENEFITS (continued)**

STRS pays health care benefits from the Health Care Stabilization Fund. At June 30, 2005 (the latest information available), the balance in the Fund was \$3.3 billion. For June 30, 2005, net health care costs paid by STRS were \$254,780,000 and STRS had 111,395 eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten or more periods of qualifying service credit, and to disability and survivor benefit recipients. All retirees and beneficiaries are required to pay a portion of their premium for health care. The portion is based on years of service, Medicare eligibility, and retirement status.

After the allocation for basic benefits, the remainder of the employer's 14% contribution is allocated to providing health care benefits. For the period September 26, 2005 to June 30, 2006, employer contributions to fund health care benefits were 3.43% of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14% of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For period 2006, the minimum pay was established at \$27,400. The surcharge, added to the unallocated portion of the 14% employer contribution rate, provides for maintenance of the asset target level for the health care fund. For the 2006 period, the School paid \$1,403 to fund health care benefits, including the surcharge.

Net health care costs for the year ending June 30, 2005 (the latest information available) were \$178,221,113. The target level for the health care fund is 150% of projected claims less premium contributions for the next period. At June 30, 2005, the value of the health care fund was \$267.5 million, which is about 168% of next year's projected net health care costs of \$158,776,151. On the basis of actuarial projections, the allocated contributions will be insufficient, in the long term, to provide for a health care reserve equal to at least 150% of estimated annual net claim costs. The number of participants eligible to receive benefits is 58,123.

**9. FISCAL AGENT**

The School entered into a service agreement with the Treasurer of the Lucas County Educational Service Center to serve as the Chief Fiscal Officer of the School. As part of this agreement, the School shall compensate the Lucas County Educational Service Center one percent (1%) of the per-pupil allotment paid to the School from the State of Ohio. A total contract payment of \$5,703 was paid during the period, and a liability of \$851 was accrued as a liability for the period ending June 30, 2006.

**PSCHTECIN PUBLIC SCHOOL  
FRANKLIN COUNTY  
Notes to the Basic Financial Statements  
For the Period September 26, 2005 to June 30, 2006**

**9. FISCAL AGENT (continued)**

The Treasurer shall perform all of the following functions while serving as the Chief Fiscal Officer of the School:

- Maintain custody of all funds received by the School in segregated accounts separate from the Sponsor or any other Community School's funds;
- Maintain all books and accounts of the School;
- Maintain all financial records of all state funds of the School and follow State Auditor procedures for receiving and expending state funds;
- Assist the School in meeting all financial reporting requirements established by the Auditor of Ohio;
- Invest funds of the School in the same manner as the funds of the Sponsor are invested, but the Treasurer shall not commingle the funds with any of the Sponsor or any other community school; and
- Pay obligations incurred by the School within a reasonable amount of time, not more than 14 calendar days after receipt of a properly executed voucher signed by the Chief Administrative Officer of the School so long as the proposed expenditure is within the approved budget and funds are available.

**10. PURCHASED SERVICES**

For the period September 26, 2005 through June 30, 2006, purchased service expenses were payments for services rendered by various vendors, as follows:

Professional and Technical Services	\$ 38,066
Property Services	26,497
Travel	15,019
Communications	7,399
Utilities	3,514
Other Purchased Services	35
Total Purchased Services	\$ 90,530



**PSCHTECIN PUBLIC SCHOOL  
FRANKLIN COUNTY  
Notes to the Basic Financial Statements  
For the Period September 26, 2005 to June 30, 2006**

**11. MANAGEMENT AGREEMENT**

The School contracts with MJ Ashley Realty LLC to serve as the School's management company. MJ Ashley Realty LLC agrees to provide such requisite management, educational, financial, and other consulting services for a variety of services, including management of personnel and human resources, the program of instruction, purchasing, strategic planning, public relations, financial reporting, recruiting, compliance issues, budgets, contracts, and equipment and facilities.

Per the management agreement with the School, MJ Ashley Realty LLC is entitled to up to 15% of all revenues received. The management fee paid for the fiscal year ended 2006 totaled \$15,029. MJ Ashley Realty LLC is owned by Martin Ashley, Superintendent of the School.

**12. RELATED PARTY TRANSACTIONS**

The School contracts with MJ Ashley Realty LLC, which is owned and operated by Martin Ashley, who also serves as Superintendent of the School. \$15,029 was paid to MJ Ashley Realty LLC during the period September 26, 2005 to June 30, 2006.

During fiscal year 2006, Martin Ashley loaned the School \$18,057 (non-interest-bearing loan) for operating expenses in the startup of the School. \$14,517 was paid back, leaving an outstanding balance of \$3,540 at June 30, 2006. This amount is reported as a loan payable in the financial statements.

**13. CONTINGENCIES**

**A. Grants**

The School receives significant financial assistance from numerous 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 are 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 effect on any of the financial statements of the individual fund types included herein or on the overall financial position of the School at June 30, 2006.

**B. Pending Litigation**

A suit was filed in Franklin County Common Pleas Court on May 14, 2001 alleging Ohio's Community (i.e., Charter) Schools program violates the state Constitution and state laws. On April 21, 2004, the court dismissed the counts containing constitutional claims and stayed the

**PSCHTECIN PUBLIC SCHOOL  
FRANKLIN COUNTY  
Notes to the Basic Financial Statements  
For the Period September 26, 2005 to June 30, 2006**

<b>14. CONTINGENCIES (continued)</b>
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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 18th, 2004.

On August 24, 2005, 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 Ohio Supreme Court accepted the appeal from the Court of Appeals for review on February 16, 2006. Oral argument occurred on November 29, 2006. The effect of this suit, if any, on the School is not presently determinable.

**C. Full-Time Equivalency**

The Ohio Department of Education conducts reviews on 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. For the fiscal year ended 2006, ODE's final FTE adjustment for the School decreased its foundation revenues by \$3,150. This amount is included as an intergovernmental payable on the Statement of Net Assets.

<b>15. CHANGE IN ACCOUNTING PRINCIPLES</b>
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For fiscal year 2006, the School has implemented GASB Statement No.42, "*Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*", GASB Statement No 46, "*Net Assets Restricted by Enabling Legislation*", and GASB Statement No. 47, "*Accounting for Termination Benefits*".

*GASB Statement No. 42* establishes accounting and financial reporting standards for the impairment of capital assets. A capital asset is considered impaired when its service utility has declined significantly and unexpectedly. This statement also clarifies and establishes accounting requirements for insurance recoveries. The implementation of this statement had no effect on the School financial statements for fiscal year 2006.

*GASB Statement No. 46* clarifies how legal enforceability should be applied for determining restricted net assets. The implementation of this new statement had no effect on the School's financial statements for fiscal year 2006.

*GASB Statement No. 47* establishes accounting and financial standards for termination benefits. This statement clarifies and established reporting requirements for those benefits provided by employers to employees as an incentive or settlement for voluntary early termination or as a consequence of the involuntary early termination of services. The implementation of this statement had no effect on the School's financial statements for fiscal year 2006.



**Report on Internal Control Over Financial Reporting and  
On Compliance and Other Matters Based on  
an Audit of Financial Statements Performed in Accordance  
with *Government Auditing Standards***

Pschtecin Public School  
Franklin County  
975 Mediterranean Avenue  
Columbus, Ohio 43229

To the Governing Board:

We have audited the financial statements of Pschtecin Public School (the Entity) as of and for the period September 26, 2005 to June 30, 2006, and have issued our report thereon dated September 15, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered Pschtecin Public School's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Entity's internal control over financial reporting.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.



**Report on Internal Control Over Financial Reporting and  
On Compliance and Other Matters Based on  
an Audit of Financial Statements Performed in Accordance  
with *Government Auditing Standards***  
(continued)

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Pschtecin Public School's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, 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 or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the audit committee, management, others within the organization and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

We noted certain matters that we reported to management of Pschtecin Public School in a separate letter September 15, 2007.

Columbus, Ohio  
September 15, 2007

A handwritten signature in black ink that reads "Hemphill &amp; Associates".



**Mary Taylor, CPA**  
Auditor of State

**PSCHTECIN PUBLIC 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 4, 2007**