**PREMIER ACADEMY OF OHIO**
**FRANKLIN COUNTY**

**REGULAR AUDIT**

**FOR THE YEAR ENDED JUNE 30, 2007**

Mary Taylor, CPA
Auditor of State

**PREMIER ACADEMY OF OHIO**
**FRANKLIN COUNTY**

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Mary Taylor, CPA
Auditor of State

# INDEPENDENT ACCOUNTANTS' REPORT

Premier Academy of Ohio
Franklin County
5979 East Livingston Ave., Suite 210
Columbus, Ohio 43232

To the Board of Directors:

We have audited the accompanying basic financial statements of the Premier Academy of Ohio, Franklin County, Ohio (the Academy), as of and for the year ended June 30, 2007, as listed in the table of contents. These financial statements are the responsibility of the Academy's management. Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the Management Company Expenses Note of the Academy. Other auditors audited that Note of the Academy. They have furnished their report thereon to us and we base our opinion, insofar as it relates to the Management Company Expenses Note, on the report of other auditors.

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 that our audit provides a reasonable basis for our opinion.

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of the Premier Academy of Ohio, Franklin County, Ohio, as of June 30, 2007, and the changes in its financial position and its cash flows 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 5, 2008, on our consideration of the Academy'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 and 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.

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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.

Mary Taylor

**Mary Taylor, CPA**
Auditor of State

September 5, 2008

**MANAGEMENT'S DISCUSSION AND ANALYSIS**
**FOR THE FISCAL YEAR ENDED JUNE 30, 2007**
**Unaudited**

The discussion and analysis of the Premier Academy of Ohio (the "Academy") financial performance provides an overall review of the Academy's financial activities for the fiscal year ended June 30, 2007. The intent of this discussion and analysis is to look at the Academy's financial performance as a whole; readers should also review the notes and basic financial statements to enhance their understanding of the Academy's financial performance.

## Financial Highlights

Key financial highlights for 2007 are as follows:

- In total, net assets were $183,557 at June 30, 2007.

- The Academy had operating revenues of $2,435,038, operating expenses of $2,726,519 and non-operating revenues of $481,985 and non-operating expenses of $6,947 for fiscal year 2007.

## Using these Basic Financial Statements

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand the Academy's financial activities. The *Statement of Net Assets* and *Statement of Revenues, Expenses and Change in Net Assets* provide information about the activities of the Academy, including all short-term and long-term financial resources and obligations.

## Reporting the Academy's Financial Activities

### *Statement of Net Assets, Statement of Revenues, Expenses, and Change in Net Assets and the Statement of Cash Flows*

These documents look at all financial transactions and ask the question, "How did we do financially during 2007?" The Statement of Net Assets and the Statement of Revenues, Expenses and Change in Net Assets answer this question. These statements include *all assets, liabilities, revenues and expenses* using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current fiscal year's revenues and expenses regardless of when cash is received or paid.

These two statements report the Academy's *net assets* and changes in those assets. This change in net assets is important because it tells the reader that, for the Academy as a whole, the *financial position* of the Academy has improved or diminished. The causes of this change may be the result of many factors, some financial, some not. These statements can be found on pages 7 and 8 of this report.

The statement of cash flows provides information about how the Academy finances and meets the cash flow needs of its operations. The statement of cash flows can be found on page 9 of this report.

The table below provides a summary of the Academy's assets, liabilities and net assets for fiscal year 2007.

**Assets, Liabilities and Net Assets**

| | 2007 |
|---|---|
| **Assets** | |
| Current assets | $ 529,760 |
| Capital assets, net | 24,762 |
| Total assets | 554,522 |
| **Liabilities** | |
| Current liabilities | 344,817 |
| Long term liabilities | 26,148 |
| Total liabilities | 370,965 |
| **Net Assets** | |
| Invested in capital assets, net of related debt | (2,091) |
| Restricted | 330,621 |
| Unrestricted (deficit) | (144,973) |
| Total net assets | $ 183,557 |

Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2007, the Academy's net assets were $183,557.

At June 30, 2007, capital assets represented 4.47% of total assets. Capital assets, net of related debt to acquire the assets at June 30, 2007, were ($2,091). These capital assets are used to provide services to the students and are not available for future spending. Although the Academy's investment in capital assets is reported net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities.

The table below shows the change in net assets for fiscal year 2007.

**Change in Net Assets**

| | 2007 |
|---|---|
| **Operating Revenues:** | |
| State foundation | $ 2,434,376 |
| Charges for services | 662 |
| Total operating revenue | 2,435,038 |
| **Operating Expenses:** | |
| Salaries and wages | 694,688 |
| Fringe benefits | 122,128 |
| Purchased services | 1,661,276 |
| Materials and supplies | 226,004 |
| Depreciation | 6,190 |
| Other | 16,233 |
| Total operating expenses | 2,726,519 |
| **Non-operating Revenues and (Expenses):** | |
| Federal and state grants | 479,186 |
| Interest expense | (6,947) |
| Interest income | 2,799 |
| Total non-operating revenues and (expenses) | 475,038 |
| Change in net assets | 183,557 |
| Net assets at beginning of year | - |
| Net assets at end of year | $ 183,557 |

### Capital Assets

At June 30, 2007, the Academy had $24,762 invested in furniture and computer equipment. The Academy had $30,952 in capital asset additions and $6,190 in depreciation expense for the fiscal year. See Note 4 to the basic financial statements for more detail on capital assets.

### Debt Administration

The Academy entered into capital leases for copier equipment, computers, and phone equipment. At June 30, 2007, $35,962 was due in one year and $26,148 was due in more than one year.

### Current Financial Related Activities

For fiscal year 2007, the Academy was sponsored by the Franklin County Educational Service Center. The Academy is reliant upon State Foundation monies and State and Federal Grants to offer quality, educational services to students.

In order to continually provide learning opportunities to the Academy's students, the Academy will apply resources to best meet the needs of its students. It is the intent of the Academy to apply for other State and Federal funds that are made available to finance its operations.

**Contacting the Academy's Financial Management**

This financial report is designed to provide citizens and creditors with a general overview of the Academy's finances and to show the Academy's accountability for the money it receives. If you have questions about this report or need additional financial information contact Doug Male, Superintendent, Premier Academy of Ohio, 5979 East Livingston Avenue, Suite 210, Columbus, Ohio 43232.

**PREMIER ACADEMY OF OHIO**
**FRANKLIN COUNTY**

**STATEMENT OF NET ASSETS**
**JUNE 30, 2007**

| | |
|---|---|
| **Assets:** | |
| *Current assets:* | |
| Cash and cash equivalents | $ 378,770 |
| Intergovernmental Receivable | 150,990 |
| Total current assets | 529,760 |
| | |
| *Non-current assets:* | |
| Capital assets, net | 24,762 |
| Total non-current assets | 24,762 |
| | |
| Total assets | 554,522 |
| | |
| **Liabilities:** | |
| *Current:* | |
| Accounts payable | 149,718 |
| Accrued wages and benefits | 112,379 |
| Pension obligation payable | 31,763 |
| Intergovernmental payable | 14,995 |
| Capital lease payable | 35,962 |
| Total current liabilities | 344,817 |
| | |
| *Long-term liabilities:* | |
| Capital lease payable | 26,148 |
| | |
| Total liabilities | 370,965 |
| | |
| **Net Assets:** | |
| Invested in capital assets, net of related debt | (2,091) |
| Restricted for: | |
| State funded programs | 55,000 |
| Federally funded programs | 275,621 |
| Unrestricted (deficit) | (144,973) |
| | |
| Total net assets | $ 183,557 |

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**PREMIER ACADEMY OF OHIO**
**FRANKLIN COUNTY**

**STATEMENT OF REVENUES, EXPENSES AND CHANGE IN NET ASSETS**
**FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

| | |
|---|---|
| **Operating revenues:** | |
| State foundation | $ 2,434,376 |
| Charges for services | 662 |
| Total operating revenues | 2,435,038 |
| **Operating expenses:** | |
| Salaries and wages | 694,688 |
| Fringe benefits | 122,128 |
| Purchased services | 1,661,276 |
| Materials and supplies | 226,004 |
| Depreciation | 6,190 |
| Other | 16,233 |
| Total operating expenses | 2,726,519 |
| Operating loss | (291,481) |
| **Non-operating revenues (expenses):** | |
| Federal and state grants | 479,186 |
| Interest expense | (6,947) |
| Interest income | 2,799 |
| Total non-operating revenues (expenses) | 475,038 |
| Change in net assets | 183,557 |
| **Net assets at beginning of year** | - |
| **Net assets at end of year** | $ 183,557 |

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**PREMIER ACADEMY OF OHIO**
**FRANKLIN COUNTY**

**STATEMENT OF CASH FLOWS**
**FOR THE YEAR ENDED JUNE 30, 2007**

| | |
|---|---|
| **Cash flows from operating activities:** | |
| Cash received from State foundation | $ 2,403,553 |
| Cash received from customers | 662 |
| Cash payments for salaries and benefits | (666,484) |
| Cash payments to suppliers for goods and services | (1,528,381) |
| Cash payments for materials and supplies | (174,124) |
| Cash payments for other operating activities | (7,228) |
| Net cash provided by operating activities | 27,998 |
| **Cash flows from noncapital financing activities:** | |
| Federal and state grants | 359,019 |
| Proceeds of line of credit | 25,000 |
| Principal payment on line of credit | (25,000) |
| Net cash provided by noncapital financing activities | 359,019 |
| **Cash flows from capital and related financing activities:** | |
| Principal payment on capital lease | (4,099) |
| Interest payment on capital lease | (5,690) |
| Interest payment on line of credit | (1,257) |
| Net cash used in capital and related financing activities | (11,046) |
| **Cash flows from investing activities:** | |
| Interest received | 2,799 |
| Net cash provided by investing activities | 2,799 |
| Net increase in cash and cash equivalents | 378,770 |
| **Cash and cash equivalents at beginning of year** | - |
| **Cash and cash equivalents at end of year** | $ 378,770 |
| **Reconciliation of operating loss to net cash provided by operating activities:** | |
| Operating loss | $ (291,481) |
| Adjustments: | |
| Depreciation | 6,190 |
| Changes in assets and liabilities: | |
| Increase in intergovernmental receivable | (30,823) |
| Increase in accounts payable | 149,718 |
| Increase in capital lease payable (assets not capitalized) | 35,257 |
| Increase in accrued wages and benefits | 112,379 |
| Increase in pension obligation payable | 31,763 |
| Increase in intergovernmental payable | 14,995 |
| Net cash provided by operating activities | $ 27,998 |

**Non-Cash Transactions**

During fiscal year 2007, the Academy entered into a new capital lease for copier equipment. This lease has been capitalized in the amount of $30,952.

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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## NOTE 1 - DESCRIPTION OF THE ACADEMY

The Premier Academy of Ohio (the “Academy”) is a nonprofit corporation established pursuant to Ohio Revised Code Chapters 3314 and 1702. The Academy is an approved 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 Academy’s tax-exempt status. The Academy specializes in providing a custom-made curriculum for each student to ensure academic success. The Academy utilizes sophisticated technology and small classroom sizes to guarantee individual attention to expose students in grades 7 through 12 to real world experience. The Academy, which is part of the State’s education program, is nonsectarian in its programs, admission policies, employment practices and all other operations. The Academy may sue and be sued, acquire facilities as needed, and contract for any services necessary for the operation of the Academy.

The Academy was approved under a contract with the Educational Service Center of Franklin County (the “Sponsor”) for a period of five years commencing July 22, 2005. However, the Academy severed its sponsorship agreement with the Educational Service Center of Franklin County and entered into a sponsorship contract with The Educational Resource Consultants of Ohio for an initial term of June 18, 2007 through June 30, 2010. The Sponsor is responsible for evaluating the performance of the Academy and has the authority to deny renewal of the contract at its expiration or terminate the contract prior to its expiration.

The Academy operates under the direction of a self-appointed five-member Board of Directors. 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 qualification of teachers who provide services to 210 students.

## NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements (BFS) of the Academy have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The Academy also applies Financial Accounting Standards Board (FASB) Statements and Interpretations issued on or before November 30, 1989, provided those pronouncements do not conflict with or contradict GASB pronouncements. The Academy has elected not to apply FASB Statements and Interpretations issued after November 30, 1989. The Academy's significant accounting policies are described below.

### A. Basis of Presentation

The Academy’s basic financial statements consist of a Statement of Net Assets, a Statement of Revenues, Expenses, and Change in Net Assets, and a Statement of Cash Flows.

The Academy uses a single enterprise presentation. Enterprise accounting focuses on the determination of operating income, changes in net assets, financial position, and cash flows.

## NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

### B. Measurement Focus

Enterprise activity is accounted for using a flow of economic resources measurement focus. All assets and all liabilities associated with the operation of the Academy are included on the statement of net assets. The statement of revenues, expenses, and change in net assets presents increases (e.g. revenues) and decreases (e.g. expenses) in total net assets. The statement of cash flows reflects how the Academy finances and meets its cash flow needs.

### C. Basis of Accounting

Basis of accounting determines when transactions are recognized in the financial records and reported on the financial statements. The Academy'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. Revenues resulting from non-exchange transactions, in which the Academy receives value without directly giving equal value in return, such as grants and entitlements, are recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the fiscal year when the resources are required to be used or the fiscal year when use is first permitted; matching requirements, in which the Academy must provide local resourced to be used for a specific purpose; and expenditure requirements, in which the resources are provided to the Academy 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, the Academy is not required to follow budgetary provisions set forth in Ohio Revised Code Section 5705, unless specifically provided in the contract between the Academy and its sponsor. The contract between the Academy and its Sponsor prescribes an annual budget requirement in addition to preparing a five-year forecast which is updated on an annual basis.

### E. Cash and Cash Equivalents

Cash held by the Academy is reflected as "Cash and Cash Equivalents" on the Statement of Net Assets. Investments with an original maturity of three months or less at the time they are purchased are presented as cash equivalents on the financial statements. Investments with an initial maturity of more than three months are reported as investments. The Academy did not have any investments during fiscal year 2007.

## NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

### F. Capital Assets and Depreciation

Capital assets are capitalized at cost (or estimated historical cost) and updated for additions and reductions during the year. Donated capital assets are recorded at their fair market value on the date donated. The Academy maintains a capitalization threshold of $1,000. The Academy does not have 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 capitalized. The Academy does not capitalize interest.

All capital assets are depreciated. The Academy's capital assets consist of furniture and equipment. Depreciation is computed using the straight-line method. Equipment is depreciated over a period of five to ten years.

### G. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consist 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 enabling legislation adopted by the Academy or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments.

The Academy first applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available. The Academy did not have any net assets restricted by enabling legislation at fiscal year end.

### H. Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the Academy. Operating expenses are necessary costs incurred to provide the service that is the primary activity of the Academy. All revenues and expenses not meeting this definition are reported as non-operating.

### I. Estimates

The preparation of financial statements in conformity with 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.

## NOTE 3 - DEPOSITS

Custodial credit risk is the risk that, in the event of bank failure, the Academy's deposits may not be returned. The Academy does not have a deposit policy for custodial credit risk. At June 30, 2007, the carrying amount of the Academy's deposits was $378,770 and the bank balance was $498,580. $100,000 of the bank balance was covered by the Federal Deposit Insurance Corporation (FDIC), with the remaining $398,580 being uninsured and uncollateralized. There are no significant statutory restrictions regarding the deposit and investment of funds by the non-profit corporation.

## NOTE 4 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2007, was as follows:

| | Balance at July 1, 2006 | Additions | Disposals | Balance at June 30, 2007 |
|---|---|---|---|---|
| Depreciable capital assets: | | | | |
| Furniture and equipment | $ - | $ 30,952 | $ - | $ 30,952 |
| Less: accumulated depreciation | - | (6,190) | - | (6,190) |
| Capital assets, net | $ - | $ 24,762 | $ - | $ 24,762 |

## NOTE 5 - CAPITALIZED LEASES - LESSEE DISCLOSURE

The Academy has entered into capital lease agreements for copiers, computers, and phone equipment. These leases meet the criteria of a capital lease as defined by FASB Statement No. 13, "Accounting for Leases", which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee at the conclusion of the lease term.

Copier equipment has been capitalized in the amount of $30,952. This amount represents the present value of the future minimum lease payments at the time of acquisition. Accumulated depreciation as of June 30, 2007 was $6,190 leaving a current book value of $24,762.

Principal payments related to the copier equipment totaled $4,099 in fiscal year 2007.

The following is a schedule of the future minimum lease payments required under the capital leases and the present value of the future minimum lease payments as of June 30, 2007:

| Year Ending June 30 | Copiers | Computers | Phone Equipment |
|---|---|---|---|
| 2008 | $ 8,976 | $ 24,762 | $ 5,060 |
| 2009 | 8,976 | - | 5,060 |
| 2010 | 8,976 | - | 1,686 |
| 2011 | 3,908 | - | - |
| Total minimum lease payment | 30,836 | 24,762 | 11,806 |
| Less: amount representing interest | (3,983) | (242) | (1,069) |
| Present value of minimum lease payments | $ 26,853 | $ 24,520 | $ 10,737 |

$35,962 in capital lease principal payments are due in fiscal year 2008 and $26,148 are due in greater than one year.

## NOTE 6 - LINE OF CREDIT

The Academy borrowed $25,000 through a line of credit from Huntington Bank on October 13, 2006, for the purpose of paying various start-up operating expenses. Upon receipt of grant funding, this amount was paid in full on May 8, 2007, along with a total of $1,257 in interest and fiscal charges.

## NOTE 7 - OPERATING LEASE

The Academy's school facilities are located in a space leased at 1555 Elaine Road, Columbus, Ohio. The lease agreement is with St. Phillip Church for the period of August 14, 2006 through August 13, 2009. The base rental of the lease is $8,500 per month, with a 3% increase in rental payment after the first and second year of the lease term. However, for fiscal year 2008, the Academy and the Lessor agreed to a $1,000 per month reduction in lease payments due to the Academy purchasing security cameras for the property. Payments totaling $93,500 were made during fiscal year 2007.

The following minimum lease payments will be made for the fiscal year ending June 30:

| | |
|---|---|
| 2008 | $ 93,805 |
| 2009 | 106,949 |
| 2010 | 9,018 |
| | $209,772 |

## NOTE 8 - RECEIVABLES

At June 30, 2007, receivables consisted of intergovernmental receivables of $150,990, which includes $120,167 in state and federal grants, and $30,823 owed to the Academy from the Ohio Department of Education as a result of the annual enrollment review discussed in Note 16. The receivables are expected to be collected in full within one year.

## NOTE 9 - PENSION PLANS

### A. School Employees Retirement System

The Academy contributes to the School Employees Retirement System (SERS), a cost-sharing multiple employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746 or by calling (800) 878-5853. It is also posted on SERS' website, www.ohsers.org, under Forms and Publications.

Plan members are required to contribute 10 percent of their annual covered salary and the Academy is required to contribute at an actuarially determined rate. The current rate is 14 percent of annual covered payroll. A portion of the Academy's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal year 2007, 10.68 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS' Retirement Board. The Academy's required contribution for pension obligations to SERS for fiscal year ended June 30, 2007 was $6,615; 73.42 percent has been contributed for fiscal year 2007.

## NOTE 9 - PENSION PLANS (Continued)

### B. State Teachers Retirement System

The Academy participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement system. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3371 or by calling (888) 227-7877 or by visiting the STRS Ohio website at www.strsoh.org.

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 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan. Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one time irrevocable decision to transfer their account balances from the existing DB Plan into the DC Plan or the Combined Plan. This option expired on December 31, 2001. Benefits are established by Chapter 3307 of the Ohio Revised Code.

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

For the fiscal year ended June 30, 2007, plan members were required to contribute 10 percent of their annual covered salaries. The Academy was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The Academy’s required contributions for fund pension obligations to the DB Plan for the fiscal year ended June 30, 2007 were $66,365; 85.53 percent has been contributed for fiscal year 2007. $9,601 represents the unpaid contribution for fiscal year 2007 and is recorded as a liability.

## NOTE 10 - POSTEMPLOYMENT BENEFITS

The Academy provides comprehensive health care benefits to retired teachers and their dependents through the State Teachers Retirement System of Ohio (STRS Ohio), 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.

All STRS Ohio retirees who participated in the DB or combined plans and their dependents are eligible for health care coverage. The STRS Ohio Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. 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 Ohio funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2007, the STRS Ohio Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Reserve Fund. For the Academy, this amount equaled $5,105 for fiscal year 2007.

STRS Ohio pays health care benefits from the Health Care Stabilization Fund. At June 30, 2007, the balance in the Health Care Stabilization Fund was $4.1 billion. For the fiscal year ended June 30, 2007, net health care costs paid by STRS Ohio were $265.558 million and STRS Ohio had 122,934 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. 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 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2007, employer contributions to fund health care benefits were 3.32 percent of covered payroll, a decrease of .10 percent from fiscal year 2006. 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 2007, the minimum pay was established at $35,800. Total surcharge is capped at 2 percent of each employer’s SERS salaries. For the 2007 fiscal year, the Academy paid $7,550 to fund health care benefits, including the surcharge.

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 projected claims less premium contributions for the next year. Expenses for health care for the fiscal year ended June 30, 2006 (the latest information available) were $158.751 million. At June 30, 2006 (the latest information available), SERS had net assets available for payment of health care benefits of $295.6 million. At June 30, 2006 (the latest information available), SERS had 59,492 participants eligible to receive health care benefits.

## NOTE 11 - RISK MANAGEMENT

### A. Property and Liability

The Academy 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. During the fiscal year ended June 30, 2007, the Academy contracted with Indiana Insurance for the following coverage:

| | |
|---|---|
| General Liability | |
| Per Occurrence | 1,000,000 |
| Aggregate | 2,000,000 |
| Errors and Omissions | 1,000,000 |

Settled claims did not exceed this commercial coverage in fiscal year 2007.

### B. Workers' Compensation

The Academy pays the State Workers' Compensation System a premium for employee injury coverage. The premium is calculated by multiplying the monthly total gross payroll by a factor determined by the State. The Academy owed $3,505 for this premium on January through June 2007 wages and $1,056 on accrued wages. The liability is reflected in the financial statements at June 30, 2007.

## NOTE 12 - EMPLOYEE BENEFITS

The Academy provides health, drug, and dental insurance for all eligible employees through Polaris Benefits. The Academy pays 80% of the monthly premium and employees pay the remaining 20%. The Academy provides life insurance and accidental death and dismemberment insurance to employees through Polaris Benefits.

## NOTE 13 - PURCHASED SERVICES

For fiscal year ended June 30, 2007, purchased services expenses were as follows:

| | |
|---|---|
| Professional and Technical Services | $ 1,422,555 |
| Property Services | 96,259 |
| Travel/Mileage/Meeting Expense | 874 |
| Communications | 124,568 |
| Other Purchased Services | 17,020 |
| Total | $ 1,661,276 |

## NOTE 14 – MANAGEMENT COMPANY EXPENSES

The Academy's contract with its management company, Premier Educational Services (PES), outlines the services to be provided by PES. These include implementation and administration of the Academy's educational program, professional development of instructional personnel, operation of the Academy's building, and all aspects of the business administration of the Academy, with the exception of superintendent and fiscal agent/treasurer services. For fiscal year ended June 30, 2007, PES incurred the following expenses on behalf of the Academy.

| | |
|---|---|
| Salaries and Wages | $ 339,141 |
| Employee Benefits | 93,857 |
| Professional Services | 825 |
| Property Services | 7,631 |
| Travel | 4,927 |
| Communications | 2,082 |
| Utilities | 6,536 |
| Contracted Services | 144,423 |
| Transportation | 18,694 |
| Books, Periodicals, and Films | 1,971 |
| Food and Related Supplies | 852 |
| Other Supplies | 38,320 |
| Other Expenses | 11,283 |
| Total | $ 670,542 |

## NOTE 15 - CONTRACTS

### A. Sponsor Contract

The Academy entered into a five-year contract commencing on July 22, 2005 and continuing through July 31, 2010 with the Sponsor, Franklin County Educational Service Center, for its establishment. Under the contract, the following terms were agreed upon:

- The Academy shall comply with the policies and provisions described in the "Educational Program", which contains the Academy's mission, educational philosophy, the ages and grades of students, the characteristics of the students the Academy is expected to attract, and the focus of the curriculum.
- The Academy shall comply with a "Financial Plan", which details an estimated school budget for each year of the period of the contract, and shall specify the total estimated per pupil expenditure amount for each such year.
- The Academy shall comply with the procedures by which the members of the Academy will be selected in the future as set forth in the "Governance and Administrative Plan".
- The Academy shall agree to assess student achievement of academic goals using the methods of measurement identified in the "Assessment and Accountability Plan".
- The Sponsor shall evaluate the performance of the Academy and agrees to comply with the standards by which the success of the Academy will be evaluated.

The Academy paid the Sponsor $35,606 during fiscal year 2007 for sponsorship fees.

## NOTE 16 - CONTINGENCIES

### A. Grants

The Academy received financial assistance from federal and state agencies in the form of grants. The expenditure 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. However in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the Academy at June 30, 2007.

### B. Ohio Department of Education Enrollment Review

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. As a result of the review after fiscal year end, the Academy is owed $30,823 from the Ohio Department of Education, which is reflected on the basic financial statements as an intergovernmental receivable.

### C. Litigation/Subsequent Event

On January 5, 2008, the Academy terminated its management contract with its management company, Premier Educational Services. Subsequent to this termination, the Academy became involved in litigation and arbitration with Premier Educational Services. This litigation and arbitration is currently pending in the Court of Common Pleas for Franklin County, Ohio, and before the American Arbitration Association. The Academy's management and legal counsel are unable to predict at this time the outcome of the litigation and arbitration. The Academy has continued operations without a management company.

**INDEPENDENT ACCOUNTANTS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS REQUIRED BY *GOVERNMENT AUDITING STANDARDS***

Premier Academy of Ohio
Franklin County
5979 East Livingston Ave., Suite 210
Columbus, Ohio 43232

To the Board of Directors:

We have audited the basic financial statements of the Premier Academy of Ohio, Franklin County, Ohio, (the Academy) as of and for the year ended June 30, 2007, and have issued our report thereon dated September 5, 2008. 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*. Other auditors audited the Management Company Expenses Note of the Academy as described in our opinion on the Academy's financial statements.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the Academy's internal control over financial reporting as a basis for designing our audit procedures for expressing our opinion on the financial statements, but not to opine on the effectiveness of the Academy's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the Academy's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in 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 Academy's ability to initiate, authorize, record, process, or report financial data reliably in accordance with its applicable accounting basis, such that there is more than a remote likelihood that the Academy's internal control will not prevent or detect a more-than-inconsequential financial statement misstatement.

We consider the following deficiencies described in the accompanying schedule of findings to be significant deficiencies in internal control over financial reporting: 2007-001 and 2007-002.

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A material weakness is a significant deficiency, or combination of significant deficiencies resulting in more than a remote likelihood that the Academy's internal control will not prevent or detect a material financial statement misstatement.

Our consideration of the 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 the internal control that might be significant deficiencies and accordingly, would not necessarily disclose all significant deficiencies that are also material weaknesses. However, we believe findings number 2007-001 and 2007-002 are also material weaknesses.

We also noted certain internal control matters that we reported to the Academy's management in a separate letter dated September 5, 2008.

**Compliance and Other Matters**

As part of reasonably assuring whether the Academy's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect 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 an opinion. The results of our tests disclosed an instance of noncompliance or other matter that we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2007-003.

We also noted certain noncompliance or other matters not requiring inclusion in this report that we reported to the Academy's management in a separate letter dated September 5, 2008.

The Academy's responses to the findings identified in our audit are described in the accompanying schedule of findings. We did not audit the Academy's responses and, accordingly, we express no opinion on them.

We intend this report solely for the information and use of management, the Board of Directors, and the Academy's sponsor. We intend it for no one other than these specified parties.

Mary Taylor

**Mary Taylor, CPA**
Auditor of State

September 5, 2008

## FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS

| **Finding Number** | **2007-001** |
| --- | --- |

**Material Weakness**
**Monthly Bank Reconciliations**

Monthly book to bank cash reconciliations should be performed by the Academy Treasurer to determine if all receipts and disbursements have been properly posted. Reconciling items should be investigated at the time of the reconciliation and resolved in a timely manner. Documentation supporting all reconciling items should be included with the reconciliation. Once completed, the reconciliation should be reviewed for completeness and accuracy by the Board.

When cash reconciliations are not properly performed, monthly fund balances may be understated or overstated and management can not be assured that the ledgers reflect the proper financial activities of the Academy. Also, lack of legislative monitoring of the monthly bank reconciliations may lead to errors, irregularities, or misappropriation of the Academy's assets.

The Treasurer did not timely reconcile the Academy's accounting ledgers to the bank balances throughout fiscal year 2007, and reconciliations were not reviewed by the Board. These circumstances led to the following errors and irregularities:

- A payroll check in the amount of $1,705 was voided on 10/24/06 and not issued; however, this check was not voided in the USAS accounting system and was shown as a reconciling item at year end;
- Several payroll checks totaling $31,538 were outstanding at year end which relate to employee withholdings dating back to October 2006;
- Maritime Academy expenditures totaling $27,644 were mistakenly paid out of Premier Academy's bank account. The Academy's financial institution made a partial correction of these errors in the amount of $4,842 on April 9, 2007. Premier Academy's fiscal agent, who is also the fiscal agent of Maritime Academy, made additional corrections totaling $27,555 on August 4, 2006, and May 22, 2007, by transferring funds from Maritime Academy's bank account to Premier Academy's bank account. This resulted in an over-correction of $4,753, which Premier Academy owes back to Maritime Academy as of June 30, 2007.

We recommend the Academy repay the $4,753 owed to Maritime Academy. We also recommend the Treasurer contact the appropriate federal, state, and local agencies to transmit all payroll withholdings at intervals required by such agencies. Furthermore, we recommend the Academy Treasurer perform monthly bank to book reconciliations that properly account for all transactions during the respective month, and promptly follow up on any reconciling items. The bank reconciliations, including supporting documentation, should be reviewed by the Board in order to assure accuracy and that all errors and/or irregularities are detected in a timely manner.

**Officials' Response**

Beginning June 30, 2008, the monthly bank to book reconciliation has been performed by the Academy Treasurer. This properly accounts for all transactions during the respective period. This report is shared with the Board each month subsequently. The payroll reconciliation is in process.

**FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)**

| Finding Number | 2007-002 |
|---|---|

**Material Weakness**
**Financial Reporting**

Sound financial reporting is the responsibility of the Treasurer and the Board of Directors and is essential to ensure the information provided to the readers of the financial statements is complete and accurate.

The following audit adjustments were made to the June 30, 2007 financial statements and the Academy's accounting records:

1. Adjustments of $22,926 and $2,293 to remove the amounts recorded as capital assets and accumulated depreciation, respectively, related to the security system which was purchased in FY 2008.
2. Adjustment of $56,024 to record payables found during the search for unrecorded payables.
3. Adjustment of $25,000 to record receipt and subsequent repayment of line of credit on Statement of Cash Flows.

The adjustments and reclassifications identified above should be reviewed by the Treasurer and Board of Directors to ensure that similar errors are not reported on financial statements in subsequent years. In addition, the Academy should develop procedures for the periodic review of the activity posted to the accounting records, as well as, for the review of the financial statement information to ensure it accurately reflects the Academy's activity.

**Officials' Response**

The Treasurer will coordinate with the firm converting the Academy's records from cash to accrual. These adjustments will be considered before posting.

| Finding Number | 2007-003 |
|---|---|

**Noncompliance Citation**
**Contract for Special Education Services**

Ohio Rev. Code Section 3314.022 states the governing authority of any community school may contract with the governing authority of another community school, the board of education of a school district, the governing board of an educational service center, a county MR/DD board, or the administrative authority of a nonpublic school for provision of services for any disabled student enrolled at the school.

In fiscal year 2007, the Academy contracted with Brookwood Presbyterian Church (d.b.a. Brookwood Community Learning Center) for special education services. Brookwood is a not-for-profit church, and as such, the Academy is not authorized to contract with them to provide special educations services. The Academy paid Brookwood $489,089 during fiscal year 2007 to provide special education services to approximately fifty students enrolled at the Academy.

**FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)**

| Finding Number | 2007-003 |
|---|---|

**Noncompliance Citation**
**Contract for Special Education Services (Continued)**

We recommend the Academy only contract with a governing authority of another community school, the board of education of a school district, the governing board of an educational service center, a county MR/DD board, or the administrative authority of a nonpublic school for provision of services for any disabled student enrolled at the school.

**Officials' Response**

Since November of 2007, special education services with this vendor have been discontinued.

Mary Taylor, CPA
Auditor of State

**PREMIER ACADEMY OF OHIO**

**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 9, 2008**

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