**ZENITH ACADEMY**
**FRANKLIN COUNTY**

**SINGLE AUDIT**

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

Mary Taylor, CPA
Auditor of State

**ZENITH ACADEMY**
**FRANKLIN COUNTY**

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Mary Taylor, CPA
Auditor of State

# INDEPENDENT ACCOUNTANTS' REPORT

Zenith Academy
Franklin County
4606 Heaton Road
Columbus, Ohio 43229

To the Board of Directors:

We have audited the accompanying basic financial statements of Zenith Academy, Franklin County, Ohio (the Academy) as of 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 opinions 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 financial position of Zenith Academy, 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 July 11, 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.

We conducted our audit to opine on the financial statements that collectively comprise the Academy's basic financial statements. The federal awards receipts and expenditures schedule is required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements. We subjected the federal awards receipts and expenditures schedule to the auditing procedures applied in the audit of the basic financial statements. In our opinion, this information is fairly stated in all material respects in relation to the basic financial statements taken as a whole

Mary Taylor

**Mary Taylor, CPA**
Auditor of State

July 11, 2008

The discussion and analysis of Zenith Academy's (the Academy) financial performance provides an overall review of the 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 to the basic financial statements and financial statements to enhance their understanding of the Academy's financial performance.

## Financial Highlights

The Academy, a charter school, provides high-quality, global conscious and competency-based education programs from kindergarten to eighth grad. The Academy began operations in May of 2005.

Key financial highlights are as follows:

- Net assets increased $475,361.

- Total assets increased $481,580 or 86.2 percent, due to a $124,946 increase in cash, a $143,186 increase in intergovernmental receivable, and a $264,922 increase in capital assets. The increase was offset by a $51,474 decrease in prepaid items.

- Total liabilities increased $6,219 or 8.3 percent.

- The Academy had operating revenues of $1,977,987, operating expenses of $2,551,902, and non-operating revenues of $1,049,276.

## Using this Annual Report

This annual report consist a series of financial statements and notes to those statements. These statements are organized so the reader can understand the Academy's financial position. 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?" 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 considers all of the current year's revenues and expenses regardless of when cash is received or paid.

These two statements report the Academy's net assets and change 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 Academy reports its operations using enterprise fund accounting, all financial transactions and accounts are reported as one activity; therefore, the entity-wide and the fund presentations information is the same.

Table 1 below provides a summary of the Academy's assets, liabilities, and net assets for fiscal year 2007 and 2006:

**Table 1**
**Net Assets**

| | 2007 | 2006 |
|---|---|---|
| ***Assets:*** | | |
| Current and Other Assets | $523,469 | $306,811 |
| Capital Assets, Net | 516,757 | 251,835 |
| Total Assets | 1,040,226 | 558,646 |
| ***Liabilities:*** | | |
| Current Liabilities | 77,108 | 70,889 |
| Long Term Liabilities | 4,120 | 4,120 |
| Total Liabilities | 81,228 | 75,009 |
| ***Net Assets:*** | | |
| Invested in Capital Assets | 516,757 | 251,835 |
| Unrestricted | 442,241 | 231,802 |
| Total Net Assets | $958,998 | $483,637 |

Assets increased $481,580 or 86.2 percent, due to a $124,946 increase in cash, a $143,186 increase in intergovernmental receivable, and a $264,922 increase in capital assets. The increase was offset by a $51,474 decrease in prepaid items. Liabilities increased $6,219 or 8.3 percent.

Cash and capital assets represented 77.4% of total assets. There is no debt related to capital assets. Capital assets are used to provide services to students and are not available for future spending.

Table 2 below shows the changes in net assets for fiscal years 2007 and 2006:

**Table 2**
**Change in Net Assets**

| | 2007 | 2006 |
|---|---|---|
| **Operating Revenues:** | | |
| Foundation | $1,972,982 | $1,592,937 |
| Miscellaneous | 5,005 | 0 |
| Total Operating Revenues | 1,977,987 | 1,592,937 |
| **Operating Expenses:** | | |
| Salaries | 1,136,976 | 730,450 |
| Fringe Benefits | 236,561 | 137,571 |
| Purchased Services | 662,951 | 590,059 |
| Materials and Supplies | 433,001 | 156,465 |
| Depreciation | 20,037 | 6,715 |
| Other | 62,376 | 0 |
| Total Operating Expenses | 2,551,902 | 1,621,260 |
| Operating (Loss) | (573,915 | (28,323) |
| **Non-Operating Revenues:** | | |
| Federal Grants | 1,034,679 | 518,064 |
| State Grants | 14,597 | 12,144 |
| Total Non-Operating Revenues | 1,049,276 | 530,208 |
| Change in Net Assets | 475,361 | 501,885 |
| Net Assets at Beginning of Year | 483,637 | (18,248) |
| Net Assets at End of Year | $958,998 | $483,637 |

Fiscal year 2007was the Academy's second full year in operation. This led to increased state foundation revenues, federal grants, salaries, purchased services, and materials and supplies. Foundation revenues and federal grants represent 97.5% of total receipts. Salaries, purchased service, and materials and supply expenditures represent 87.5% of total expenses.

## Budgeting

The Academy is not required to follow the budgetary provisions set forth in Ohio Revised Code Chapter 5705, however, 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.

## Capital Asset and Debt Administration

Capital Assets

At the end of fiscal year, the Academy had $516,757 invested in leasehold improvements, and furniture and equipment. Table 3 shows the balance at June 30, 2007:

**Table 3**
**Capital Assets (Net of Depreciation)**

| | |
|---|---|
| Leasehold Improvements | $460,336 |
| Furniture and Equipment | 56,421 |
| Total | $516,757 |

For more information, see Note 9 to the basic financial statements.

Debt

In fiscal year 2005, The Executive Director loaned $48,188 to the Academy for start up expenses prior to receiving funding from the Ohio Department of Education. The remaining balance of this loan is recorded as a Related party loan payable on the face of the financial statements. For more information, see Note 10 to the basic financial statements.

## Contacting the Academy's Financial Management

This financial report is designed to provide citizens, taxpayers, 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 any questions about this report or need additional financial information, contact Ashfaq Tashfeen, Executive Director, Zenith Academy, 4606 Heaton Road, Columbus, Ohio, 43229, by calling (614) 888-9997 or e-mail aatashfeen@yahoo.com.

**ZENITH ACADEMY**
**FRANKLIN COUNTY**

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

| | | |
|---|---|---|
| **Assets** | | |
| *Current Assets:* | | |
| Cash | $ | 288,555 |
| Intergovernmental Receivable | | 234,914 |
| *Total Current Assets* | | 523,469 |
| *Noncurrent Assets:* | | |
| Capital Assets, Net of Accumulated Depreciation | | 516,757 |
| *Total Noncurrent Assets* | | 516,757 |
| Total Assets | | 1,040,226 |
| **Liabilities** | | |
| *Current Liabilities:* | | |
| Accounts Payable | | 17,454 |
| Accrued Wages and Benefits | | 2,292 |
| Intergovernmental Payable | | 57,362 |
| Related Party Loan Payable | | 4,120 |
| *Total Current Liabilities* | | 81,228 |
| Total Liabilities | | 81,228 |
| **Net Assets** | | |
| Invested in Capital Assets | | 516,757 |
| Unrestricted | | 442,241 |
| Total Net Assets | $ | 958,998 |

The accompanying notes to the basic financial statements are an integral part of this statement.

**ZENITH ACADEMY**
**FRANKLIN COUNTY**

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

| | |
|---|---|
| **Operating Revenues:** | |
| Foundation | $ 1,972,982 |
| Miscellaneous | 5,005 |
| Total Operating Revenues | 1,977,987 |
| **Operating Expenses:** | |
| Salaries | 1,136,976 |
| Fringe Benefits | 236,561 |
| Purchased Services | 662,951 |
| Materials and Supplies | 433,001 |
| Depreciation | 20,037 |
| Other | 62,376 |
| Total Operating Expenses | 2,551,902 |
| Operating Loss | (573,915) |
| **Non-Operating Revenues:** | |
| Federal Grants | 1,034,679 |
| State Grants | 14,597 |
| Total Non-Operating Revenues | 1,049,276 |
| Change in Net Assets | 475,361 |
| Net Assets at Beginning of Year | 483,637 |
| Net Assets at End of Year | $ 958,998 |

The accompanying notes to the basic financial statements are an integral part of this statement.

## ZENITH ACADEMY
## FRANKLIN COUNTY

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

| | |
|---|---|
| **Cash Flows from Operating Activities:** | |
| Cash Received from Foundation | $ 1,912,077 |
| Other Cash Receipts | 5,005 |
| Cash Payments to Employees for Services | (1,120,170) |
| Cash Payments for Employee Benefits | (227,599) |
| Cash Payments for Goods and Services | (1,029,084) |
| Other Cash Payments | (62,376) |
| Net Cash Used For Operating Activities | (522,147) |
| **Cash Flows from Noncapital Financing Activities:** | |
| Federal and State Grants | 932,052 |
| Net Cash Provided By Noncapital Financing Activities | 932,052 |
| **Cash Flows from Capital and Related Financing Activities:** | |
| Acquisition of Capital Assets | (284,959) |
| Net Cash Used for Capital and Related Financing Activities | (284,959) |
| Net Increase in Cash and Cash Equivalents | 124,946 |
| Cash at Beginning of Year | 163,609 |
| Cash at End of Year | 288,555 |
| **Reconciliation of Operating Loss to Net Cash Used For Operating Activities:** | |
| Operating Loss | (573,915) |
| Adjustments to Reconcile Operating Loss to Net Used For Operating Activities: | |
| Depreciation | 20,037 |
| Increases/Decreases in Assets and Liabilities: | |
| Increase in Intergovernmental Receivable | (25,962) |
| Decrease in Prepaid Expense | 51,474 |
| Increase in Accounts Payable | 15,394 |
| Increase in Accrued Wages and Benefits | 2,292 |
| Decrease in Intergovernmental Payable | (11,467) |
| Total Adjustments | 51,768 |
| *Net Cash Used for Operating Activities* | $ (522,147) |

The accompanying notes to the basic financial statements are an integral part of this statement.

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## NOTE 1 - DESCRIPTION OF THE SCHOOL AND REPORTING ENTITY

Zenith Academy (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 mission of the Academy is to provide an educational environment wherein students at the Academy will build a foundation of knowledge, will master core skills, and will develop a life-long love of learning that will empower them to fulfill their roles as citizens. The Academy will accomplish this mission by focusing on knowledge, civic values, and service. The Academy is part of the State's education program, is nonsectarian in its programs, admission policies, employment practices, and all other operations.

The Academy was originally approved for operation under a contract with the Lucas County Educational Resource Center of Toledo. In April, 2006, the Board of Directors (the Board) entered into a contract with The Educational Resource Consultants of Ohio (the Sponsor). The Sponsor is responsible for evaluating the performance of the Academy and has the authority to deny renewal of the contract at its expiration.

The Academy operates under the direction of a five-member Board of Directors. The Board is responsible for carrying out the provisions of the sponsor 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.

## NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Academy have been prepared in conformity with generally accepted accounting principles (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 they do not conflict with or contradict GASB pronouncements. The Academy has elected not to apply FASB statements issued after November 30, 1989. Following are the more significant of the Academy's accounting policies.

### 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 fund presentation for its financial records. Enterprise reporting focuses on the determination of operating income, change in net assets, financial position, and cash flows.

### B. Measurement Focus

Enterprise accounting uses a flow of economic resources measurement focus. All assets and 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 meet its cash flow needs.

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

**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. Revenue 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 period in which all eligibility requirements have been satisfied. 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 Academy must provide local resources to be used for a specified 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 the budgetary provisions set forth in the Ohio Revised Code Chapter 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**

Cash received by the Academy is reflected as "Cash" on the Statement of Net Assets. The Academy did not have any investments as of June 30, 2007.

**F. Capital Assets and Depreciation**

Capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. The Academy maintains a capitalization threshold of $1,000 dollars. 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. Improvements are capitalized. The Academy does not capitalize interest.

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

| | |
|---|---|
| Furniture, Fixtures, and Equipment | 5 years |
| Leasehold Improvements | 27 years |

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

**G. Net Assets**

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets consist of capital assets, net of accumulated depreciation. Net assets are reported as restricted when there are limitations imposed on their use, either through the enabling legislation adopted by the Academy or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments.

The Academy applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net assets are available. The Academy did not have any restricted net assets at June 30, 2007.

**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 generally accepted accounting principles 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 for deposits is the risk that, in the event of bank failure, the Academy will not be able to recover deposits or collateral securities that are in the possession of an outside party. At June 30, 2007, $212,904 of the Academy's bank balance of $312,904 was exposed to custodial credit risk because it was uninsured and uncollateralized. Although all statutory requirements for the deposit of money had been followed, non-compliance with federal requirements could potentially subject the Academy to a successful claim by the FDIC.

The Academy does not have a deposit policy for custodial credit risk beyond the requirements of State statute. Ohio law requires that deposits be either insured or be protected by eligible securities pledged to and deposited either with the Academy 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 and pledge to secure the repayment of all public monies deposited in the financial institution whose market value at all times shall be at least one hundred five percent of the deposits being secured.

## NOTE 4 - RECEIVABLES

Receivables consisted of foundation and intergovernmental federal grants. The receivables are expected to be collected in full within one year.

A summary of intergovernmental receivables for the year ended June 30, 2007 follows:

| | |
|---|---|
| Foundation | $25,962 |
| Title 1 | 65,520 |
| Nutrition Cluster | 39,114 |
| Title II-A | 3,985 |
| Title III | 6,641 |
| Charter School | 93,692 |
| Total | $234,914 |

## NOTE 5 - RISK MANAGEMENT

### A. Property and Liability Insurance

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 fiscal year 2007, the Academy contracted with Erie Insurance Company for property and general liability insurance with a $1,000,000 single occurrence limit, $2,000,000 annual aggregate, and $1,000 deductible.

### B. Worker's 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 $7,726 for this premium on January through June 2007 wages. The liability is reflected in the Statement of Net Assets as an Intergovernmental Payable at June 30, 2007.

## NOTE 6 - 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 State statute, 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 43215-3746, by calling (800) 878-5853 or by visiting the SERS website at www.ohsers.org.

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 Academy 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 the 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.

**NOTE 6 - PENSION PLANS** (Continued)

**A. School Employees Retirement System** (Continued)

The Academy's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2007, 2006, and 2005 were $36,639, $21,765, and $3,651, respectively; 46.8 percent has been contributed for fiscal year 2007 and 100 percent for the fiscal years 2006 and 2005. $30,788 representing the unpaid contribution for fiscal year 2007 is recorded as an Intergovernmental Payable liability on the statement of net assets.

**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 publicly available stand-alone financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the State Teachers Retirement System of Ohio, 275 East Broad Street, Columbus, Ohio 43215-3771, by calling (614) 227-4090 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 fiscal year ended June 30, 2007, plan members are 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. For fiscal year 2006, the portion used to fund pension obligations was also 13 percent. 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.

**NOTE 6 - PENSION PLANS** (Continued)

**B. State Teachers Retirement System** (Continued)

The Academy's contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2007, 2006, and 2005 were $81,766, $23,519, and $0, respectively; 78.6 percent has been contributed for fiscal year 2007 and 100 percent for the fiscal year 2006. $18,848 representing the unpaid contribution for fiscal year 2007 is recorded as an Intergovernmental Payable liability on the statement of net assets.

**C. Social Security System**

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System have an option to choose Social Security or the School Employees Retirement System/State Teachers Retirement System. As of June 30, 2007, no members of the Board of Directors have elected Social Security.

**NOTE 7 - 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-certificated 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 retires who participated in the DB or combined plans and their dependents are eligible for health care coverage. The State Teachers Retirement Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. All benefit recipients pay a portion of health care cost in the form of a monthly premium. By Ohio Law, the cost of coverage paid from STRS Ohio funds shall be included in the employer contribution rate, currently 14 percent of covered payroll. For fiscal year 2007, the STRS Ohio Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. For the Academy, this amount equaled $6,290 during fiscal year 2007.

STRS Ohio pays health care benefits from the Health Care Stabilization Fund. The balance in the Fund was $3.5 billion at June 30, 2006, (the latest information available). For the year ended June 30, 2006, net health care costs paid by STRS Ohio were $282,743,000 and STRS had 119,184 eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten or more years of qualifying service credit, disability and survivorship 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 fiscal year 2007, employer contributions to fund health care benefits were 3.32 percent of covered payroll, compared to 3.42 percent of covered payroll for 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 has been established at $35,800. However, the surcharge is capped at 2 percent of each employer's SERS salaries. For the 2007 fiscal year, the District paid $18,177 to fund health care benefits, including surcharge.

## NOTE 7 - POSTEMPLOYMENT BENEFITS (Continued)

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 annual health care expenses. For fiscal year ended June 30, 2006 (the latest information year available), net health care cost paid by SERS were $158,751,207. At June 30, 2006, SERS had net assets available for payment of health care benefits of $295.6 million. The number of participants currently receiving health care benefits is approximately 59,492.

## NOTE 8 - EMPLOYEE BENEFITS

The Academy provides health, drug, and dental insurance for all eligible employees through Medical Mutual and Guardian Dental Guard Preferred. The Academy pays 75% of the monthly premium and employees pay the remaining 25%. The Academy does not provide life insurance and accidental death and dismemberment insurance to employees.

## NOTE 9 - CAPITAL ASSETS

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

| | Balance at June 30, 2006 | Additions | Disposals | Balance at June 30, 2007 |
|---|---|---|---|---|
| Depreciable Capital Assets: | | | | |
| Leasehold Improvements | $237,959 | $238,009 | $0 | $475,968 |
| Furniture and Equipment | 20,591 | 46,951 | 0 | 67,542 |
| Less: Accumulated Depreciation | (6,715) | (20,038) | 0 | (26,753) |
| Capital Assets, Net | $251,835 | $264,922 | $0 | $516,757 |

## NOTE 10 – RELATED PARTY LOAN

Prior to receiving funding from the Ohio Department of Education (ODE), the Academy’s Executive Director personally loaned $48,188, to cover general operating expenses. There was no specific loan agreement with a specified repayment schedule. Also, there was no interest charged. The Academy has repaid the Executive Director $44,068 as of June 30, 2007. The remaining $4,120 is reflected as a liability on the Statement of Net Assets at June 30, 2007.

## NOTE 11 - BUILDING LEASE

The Academy leases its facilities from the Academy Kids Learning Center, Inc. under a five year lease agreement. This lease is effective August 1, 2005 and expires August 31, 2010. The monthly rent is based on the square footage of the office space. For the period September 1, 2006 through August 31, 2007 rent was $7,627 per month. The total amount paid during fiscal year 2007 was $76,270.

## NOTE 12 - TAX EXEMPT STATUS

The Academy is a nonprofit corporation established pursuant to Ohio Revised Code Chapters 3314 and 1702. The Academy was approved on July, 28, 2006 for tax exempt status under 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 nonprofit status.

## NOTE 13 - PURCHASED SERVICES

At June 30, 2007 purchased service expenses were as follows:

| | |
|---|---:|
| Professional and Technical Services | $135,197 |
| Pupil Transportation | 151,114 |
| Rent and Property Services | 191,379 |
| Accounting Services | 15,600 |
| Catering | 169,661 |
| Total | $662,951 |

## NOTE 14 - SPONSOR CONTRACT

The Academy entered into a five-year contract commencing on April 6, 2006 and continuing through June 30, 2011 with The Educational Resource Consultants of Ohio (the Sponsor) for its establishment. Under the contract, the following terms were agreed upon:

- The Academy shall operate in substantial compliance with its "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, the Academy calendar, the academic goals and the method of measurement that will be used to determine progress toward those goals, graduation requirements, and the focus of the curriculum.

- The Academy shall operate in substantial compliance with a "Financial Plan", which establishes an estimated school budget for each year and a total estimated per pupil expenditure amount for each such year.

- The Academy shall secure the services of a Chief Executive Officer, who shall be the chief operating officer of the school, with primary responsibility for day-to-day operations of the Academy, and a liaison between the Academy and Sponsor.

As part of the agreement, the Academy agreed to compensate the Sponsor three percent of all funds received by the Academy from funding provided by ODE, including state start-up grants, for the time, organization, oversight, fees and costs of the Sponsor in overseeing the Academy. Total contract payments of $59,554 were paid related to the provision of this contract as of June 30, 2007.

## NOTE 15 - CONTINGENCIES

### A. Grants

The Academy received financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the Academy. 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. Full Time Equivalency

ODE conducts reviews of enrollment data and full-time equivalency (FTE) calculations made by the Academy. These reviews are conducted to ensure the Academy is reporting accurate student enrollment data to the State, upon which state foundation funding is calculated. The review for the year ended June 30, 2007 resulted in an underpayment of $25,962. This amount is reflected as intergovernmental receivable on the Statement of Net Assets.

## NOTE 16 – NONCOMPLIANCE

Purchase orders were not completed for forty-three percent (43%) of the expenditures tested over materials and supplies in 2007.

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**ZENITH ACADEMY**
**FRANKLIN COUNTY**

**FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE**
**FOR THE YEAR ENDED JUNE 30, 2007**

| **FEDERAL GRANTOR**<br>***Pass Through Grantor***<br>Program Title | Pass Through Entity Number | Federal CFDA Number | Receipts | Expenditures |
|---|---|---|---|---|
| **U.S. DEPARTMENT OF AGRICULTURE** | | | | |
| ***Passed Through Ohio Department of Education*** | | | | |
| Nutrition Cluster: | | | | |
| School Breakfast Program | 05PU-06/07 | 10.553 | $ 65,948 | $ 65,948 |
| National School Lunch Program | LLP1-06/07 | 10.555 | 22,921 | 22,921 |
| | LLP4-06/07 | | 109,989 | 109,989 |
| | VGS1-07 | | 24,377 | 24,377 |
| Total National School Lunch Program | | | 157,287 | 157,287 |
| Total Nutrition Cluster | | | 223,235 | 223,235 |
| Total U.S. Department of Agriculture | | | **223,235** | **223,235** |
| **U.S. DEPARTMENT OF EDUCATION** | | | | |
| ***Passed Through Ohio Department of Education*** | | | | |
| Title 1 Grants to Local Educational Agencies | C1S1-2006 | 84.010 | 60,304 | 60,304 |
| | | | (3,569) | - |
| | C1S1-2007 | | 159,624 | 170,375 |
| Total Title 1 Grants to Local Educational Agencies | | | 216,359 | 230,679 |
| Safe and Drug-Free Schools and Communities_ State Grants | DRS1-2007 | 84.186 | 2,495 | 2,167 |
| Charter Schools | CHS1-2007 | 84.282 | 206,308 | 213,717 |
| State Grants for Innovative Programs | C2S1-2007 | 84.298 | 506 | 496 |
| Education Technology State Grants | TJS1-2007 | 84.318 | 2,145 | 2,204 |
| English Language Acquisition Grants | T3S1-2007 | 84.365 | 54,898 | 63,447 |
| Improving Teacher Quality State Grants | TRS1-2007 | 84.367 | 5,005 | 7,567 |
| Hurricane Education Recovery | HR01-2006 | 84.938 | 7,000 | 7,000 |
| Total U.S. Department of Education | | | **494,716** | **527,277** |
| **U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES** | | | | |
| ***Passed Through Franklin County Department of Job and Family Services*** | | | | |
| Temporary Assistance for Needy Families | 25-07-6011 | 93.558 | 107,776 | 107,776 |
| Total U.S. Department of Health and Human Services | | | **107,776** | **107,776** |
| **Totals** | | | **$ 825,727** | **$ 858,288** |

*The accompanying notes to this schedule are an integral part of this schedule.*

**ZENITH ACADEMY**
**FRANKLIN COUNTY**

**NOTES TO FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE**
**FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

## NOTE A - SIGNIFICANT ACCOUNTING POLICIES

The accompanying Federal Awards Receipts and Expenditures Schedule (the Schedule) summarizes activity of the Academy's federal award programs. The schedule has been prepared on the cash basis of accounting.

## NOTE B - CHILD NUTRITION CLUSTER

Cash receipts from the U.S. Department of Agriculture are commingled with State grants. It is assumed federal monies are expended first.

## NOTE C - MATCHING REQUIREMENTS

Certain Federal programs require that the Academy contribute non-Federal funds (matching funds) to support the Federally-funded programs. The Academy has complied with the matching requirements. The expenditure of non-Federal matching funds is not included on the Schedule.

## NOTE D - TRANSFERS BETWEEN COST CENTERS

Transfers were made between the 2006 and 2007 grant years for the following grant:

| Program Title | CFDA Number | Amount |
|---|---|---|
| Title 1 Grants to Local Educational Agencies | 84.010 | $3,569 |

Mary Taylor, CPA
Auditor of State

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

Zenith Academy
Franklin County
4606 Heaton Road
Columbus, Ohio 43229

To the Board of Directors:

We have audited the basic financial statements of Zenith Academy, Franklin County, Ohio (the Academy) as of June 30, 2007, and have issued our report thereon dated July 11, 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*.

**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 and questioned costs to be significant deficiencies in internal control over financial reporting: 2007-001 and 2007-002.

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.

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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, of the significant deficiencies described above, we believe findings 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 July 11, 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 we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings and questioned costs as item 2007-003.

We also noted certain noncompliance or other matters that we reported to the Academy's management in a separate letter dated July 11, 2008.

The Academy's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. 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 the audit committee, management, Board of Directors, the Community School's Sponsor, the Educational Resource Consultants of Ohio, and federal awarding agencies and pass-through entities. We intend it for no one other than these specified parties.

Mary Taylor

**Mary Taylor, CPA**
Auditor of State

July 11, 2008

Mary Taylor, CPA
Auditor of State

# INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Zenith Academy
Franklin County
4606 Heaton Road
Columbus, Ohio 43229

To the Board of Directors:

## Compliance

We have audited the compliance of Zenith Academy, Franklin County, Ohio (the Academy) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133, Compliance Supplement* that apply to each of its major federal programs for the year ended June 30, 2007. The summary of auditor's results section of the accompanying schedule of findings and questioned costs identifies the Academy's major federal programs. The Academy's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to each major federal program. Our responsibility is to express an opinion on the Academy's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to reasonably assure whether noncompliance occurred with the types of compliance requirements referred to above that could directly and materially affect a major federal program. An audit includes examining, on a test basis, evidence about the Academy's compliance with those requirements and performing other procedures we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Academy's compliance with those requirements.

As described in finding 2007-004 in the accompanying schedule of findings and questioned costs, the Academy did not comply with requirements regarding reporting that apply to its Nutrition Cluster program. Compliance with this requirement is necessary, in our opinion, for the Academy to comply with requirements applicable to this program.

In our opinion, except for the noncompliance described in the preceding paragraph, Zenith Academy, Franklin County, Ohio, complied in all material respects with the requirements referred to above applying to each of its major federal programs for the year ended June 30, 2007.

In a separate letter to the Academy's management dated July 11, 2008, we reported a matter related to federal noncompliance not requiring inclusion in this report.

## Internal Control over Compliance

The Academy's management is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs.

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In planning and performing our audit, we considered the Academy's internal control over compliance with requirements that could directly and materially affect a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Academy's internal control over compliance.

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

A *control deficiency* in internal control over compliance exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent or detect noncompliance with a federal program compliance requirement on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the Academy's ability to administer a federal program such that there is more than a remote likelihood that the Academy's internal control will not prevent or detect more-than-inconsequential noncompliance with a federal program compliance requirement. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as findings 2007-004 and 2007-005 to be significant deficiencies.

A material weakness is significant deficiency, or combination of significant deficiencies, that result in more than a remote likelihood that the Academy's internal control will not prevent or detect material noncompliance with a federal program's compliance requirements. Of the significant deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs, we consider findings 2007-004 and 2007-005 to be material weaknesses.

We also noted a matter involving the internal control over federal compliance not requiring inclusion in this report, that we reported to the Academy's management in a separate letter dated July 11, 2008.

The Academy's responses and corrective action plan to the findings we identified are described in the accompanying schedule of findings and questioned costs. 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 the audit committee, management, the Board of Directors, the Community School's sponsor, the Educational Resource Consultants of Ohio, and federal awarding agencies, and pass-through entities. It is not intended for anyone other than these specified parties.

**Mary Taylor, CPA**
Auditor of State

July 11, 2008

**ZENITH ACADEMY**
**FRANKLIN COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**
**OMB CIRCULAR A -133 § .505**
**JUNE 30, 2007**

## 1. SUMMARY OF AUDITOR'S RESULTS

| | | |
|---|---|---|
| ***(d)(1)(i)*** | **Type of Financial Statement Opinion** | Unqualified |
| ***(d)(1)(ii)*** | **Were there any material control weaknesses reported at the financial statement level (GAGAS)?** | Yes |
| ***(d)(1)(ii)*** | **Were there any other significant deficiencies in internal control reported at the financial statement level (GAGAS)?** | No |
| ***(d)(1)(iii)*** | **Was there any reported material noncompliance at the financial statement level (GAGAS)?** | Yes |
| ***(d)(1)(iv)*** | **Were there any material internal control weaknesses reported for major federal programs?** | Yes |
| ***(d)(1)(iv)*** | **Were there any other significant deficiencies in internal control reported for major federal programs?** | No |
| ***(d)(1)(v)*** | **Type of Major Programs' Compliance Opinion** | Qualified - Nutrition Cluster (CFDA #10.553 and #10.555)<br><br>Unqualified Title 1 (CFDA #84.010) |
| ***(d)(1)(vi)*** | **Are there any reportable findings under § .510?** | No |
| ***(d)(1)(vii)*** | **Major Programs (list):** | Nutrition Cluster (CFDA #10.553 and # 10.555)<br><br>Title 1 (CFDA #84.010) |
| ***(d)(1)(viii)*** | **Dollar Threshold: Type A\B Programs** | Type A: > $ 300,000<br>Type B: all others |
| ***(d)(1)(ix)*** | **Low Risk Auditee?** | No |

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

### FINDING NUMBER 2007-001

**Significant Deficiency/Material Weakness**

**Financial Statements**

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

The Academy made 12 audit adjustments and reclassifications to the June 30, 2007 financial statements. A sample of the more significant adjustments and reclassifications were as follows:

- Capital assets were understated $189,819,
- Intergovernmental receivables were understated $234,914,
- Depreciation expense was understated $13,845,
- Accounts payable was understated $17,376,
- Accrued wages and benefits was overstated $94,136, and
- Intergovernmental payables were understated $57,362.

Not presenting financial information accurately resulted in the financial statements requiring the above audit adjustments and reclassification entries, including additional time and effort to identify the variances and discrepancies.

We recommend the Academy's Treasurer take steps to ensure the accurate presentation of the financial statements. Financial transactions should be posted in accordance with procedures established by generally accepted account principles (GAAP). By exercising accuracy in recording financial activity, the Academy can reduce posting errors and increase the reliability of the financial data throughout the year and at year end.

The Academy's financial statements and capital asset records have been adjusted to accurately reflect these adjustments.

The Treasurer should review the audit adjustments and reclassifications identified above to ensure that similar errors are not reported in subsequent years. In addition, the Academy should adopt policies and procedures, including a final review of the financial statements, including the notes and management's discussion and analysis by the Treasurer to identify and correct errors and omissions.

Officials' Response:

Steps will be taken to ensure the accurate presentation of the financial statements, including increased collaboration and review.

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

### FINDING NUMBER 2007-002

**Significant Deficiency/Material Weakness**

**Capital Assets**

The Academy should maintain one current listing of all capital assets. The list should be updated yearly for any additions, disposals, and depreciation. An appropriate asset tracking or management system allows the Academy to properly report the value of its capital assets in the financial statements including accounting for and reporting depreciation of its assets. It also helps in reflecting dollar value of assets for insurance coverage, proof of loss, and replacement of assets.

The Academy maintained two capital asset listings, one maintained by the Treasurer and one maintained by the Executive Director. The Treasurer's listing was utilized and reported in the Academy's financial statements. As noted in Finding Number 2007-001, an audit adjustment of $189,819 was proposed to reflect the Academy's capital assets and an audit adjustment of $13,845 was proposed to reflect depreciation expense in the financial statements.

The lack of properly updating the capital asset system could allow for missing or unreported equipment and increases the risk of loss or theft. Additionally, these deficiencies resulted in inaccurate financial reporting of the Academy's capital assets, including depreciation, and hinder the prevention of loss or misappropriation of assets.

We recommend the Academy update its capital asset database for items purchased and disposed after the item has been purchased or disposed of.

Adjustments have been made to the capital asset records of the Academy.

<u>Officials' Response:</u>

In the future, one capital asset listing will be utilized and the capital asset policy will be updated. The issue here is primarily one of timing for the recording of the expenditure as a capital asset, and one of recording an item as a capital asset versus an expense. Greater care will be taken in the future to ensure the proper categorization and date of entry.

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

### FINDING NUMBER 2007-003

**Non-Compliance Finding**

**Non-Payroll Disbursements**

In accordance with Attachment 11, Part 4 of the sponsor contract dated April 6, 2006, the Academy's Business Manager must complete a purchase order for all supplies and materials. In addition, the signature of one of the Board Members or the Executive Director is required on the purchase order.

Purchase orders were not completed for forty- three percent (43%) of the expenditures tested that related to the purchase of materials and supplies.

The lack of an approved purchase order could result in the Academy being in violation of their sponsor contract and could result in overspending funds and negative cash fund balances.

We recommend that purchase orders are prepared for all purchases of supplies and materials, and that they be approved by the Executive Director or a Board Member.

Officials' Response:

The Sponsor contract will be modified to allow purchases for regular supplies under $1,000 to be purchased without a purchase order. The purchase orders issued will be approved by the Executive Director and checked for accuracy by the Business Manager or Assistant Director.

## 3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

**Noncompliance Finding / Questioned Costs / Significant Deficiency / Material Weakness - Reporting**

| | |
|---|---|
| **Finding Number** | 2007-004 |
| **CFDA Title and Number** | Nutrition Cluster, #10.553 and #10.555 |
| **Federal Award Number / Year** | 000725-05PU-2007; 000725-LLP4-2007; 000725-VGS1-2007 |
| **Federal Agency** | U.S. Department of Education |
| **Pass-Through Agency** | Ohio Department of Education |

7 C.F.R. Sections 210.7(c), 210.8(c), and 225.9(d) address claims for reimbursement, and provide, in part, in order to receive reimbursement payments for meals (and milk) served, the Academy must submit claims for reimbursement to its administering agency. 7 C.F.R. Sections 210.7, 210.8, 215.8, 215.10, 220.9, and 220.11 provide, in part, that all claims must be supported by accurate meal counts by category and type taken at the point of service or developed through an approved alternative procedure.

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 § .505
JUNE 30, 2007
(Continued)**

## 3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS (Continued)

| **Finding Number** | 2007-004 (Continued) |
|---|---|

During 2007, the Academy was reimbursed $223,235 for the Nutrition Cluster program. We noted the following deficiencies:

1. The Academy did not adequately track meals served to student's eligible for Free/Reduced priced lunches during FY07,
2. The Academy did not adequately track the number of breakfasts served for the months of July and August, 2006, and the months of March through June 2007, and
3. The Academy did not track the number of snacks served during FY07.

The lack of adequately tracking meals, breakfasts, and snacks served to students has resulted in questioned costs in the amount of $36,270 as follows:

| | **Claims for Reimbursement** | | | | |
|---|---|---|---|---|---|
| **Type** | **Per Daily Count Sheets** | **Per Site Claim Form** | **Variance** | **Cost** | **Questioned Costs** |
| **Breakfasts** | | | | | |
| Free | 23,046 | 43,805 | 20,759 | $1.56 | $32,384 |
| Paid | 0 | 828 | 828 | 0.24 | 199 |
| **Lunches** | | | | | |
| Free | 47,157 | 45,941 | (1,216) | 2.42 | (2,943) |
| Paid | 0 | 1,023 | 1,023 | 0.23 | 235 |
| **Snacks** | | | | | |
| Free | 25,049 | 34,887 | 9,838 | 0.65 | 6,395 |
| Paid | 0 | 0 | 0 | 0.06 | 0 |
| | | | **Total Questioned Costs** | | **$36,270** |

We recommend the Academy develop procedures to accurately count the number of breakfasts, lunches, and snacks served to student and claimed for reimbursement. We also recommend that procedures are developed to ensure student counts are adequately tracked and whether the student is eligible for free, reduced, or full priced lunches. Documentation should be maintained detailing how the information on reports claimed for reimbursement was obtained.

Officials' Response and Corrective Action Plan:

There were several months where the record for the data on breakfasts was not saved. Also, the data collected did not reflect the number of reduced meals each day. The snack count was not saved and the reimbursement was based on the quantity purchased. However, procedures have been refined to count each day the number of breakfasts, lunches, and snacks served, and to safeguard the data collected for the reimbursement. The above corrective action plan was implemented the first week of February, 2008. For more information regarding this corrective action plan, contact Ashfaq Tashfeen, Executive Director, or Nonane Nasiruddin, Data Manager.

## 3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS (Continued)

**Significant Deficiency/Material Weakness**

| | |
|---|---|
| **Finding Number** | 2007-005 |
| **CFDA Title and Number** | Title 1, #84.010 |
| **Federal Award Number / Year** | 000725-C1S1-2006; 000725-C1S1-2007 |
| **Federal Agency** | U.S. Department of Education |
| **Pass-Through Agency** | Ohio Department of Education |

**Title I Reporting**

The instructions for Project Cash Request (PCR) forms provided by the Ohio Department of Education (ODE) indicate that amounts reported in the fiscal summary section (i.e., project cash received, total award expenditures, fund cash balances, etc.) as of the date of the request should trace to the amounts actually expended.

Seven Title 1 PCR requests were submitted to ODE which did not agree to the Academy's records for amounts expended as follows:

| Date of Request | Amount Reported On Request Forms | Amount Spent Per Accounting Ledgers | Variance |
|---|---|---|---|
| **Title 1 Program** | | | |
| October 9, 2006 | $16,200 | $65,425 | ($49,225) |
| December 4, 2006 | 32,327 | 96,328 | (64,001) |
| January 8, 2007 | 77,500 | 110,246 | (32,746) |
| February 2, 2007 | 93,627 | 124,122 | (30,495) |
| March 6, 2007 | 116,318 | 149,033 | (32,715) |
| April 23, 2007 | 159,624 | 170,133 | (10,509) |
| June 14, 2007 | 159,624 | 200,697 | (41,073) |

In addition, the Final Expenditure Report (FER) did not agree to the Academy's records for amounts expended as follows:

| Object Code | Amount Reported On FER | Amount Spent Per Accounting Ledgers | Variance |
|---|---|---|---|
| **Title 1 Program** | | | |
| Salaries (100) | $143,657 | $149,193 | ($5,536) |
| Retirement Fringe Benefits (200) | 30,946 | 32,813 | (1,867) |
| Purchased Services (400) | 50,307 | 56,523 | (6,216) |
| Supplies (500) | 234 | 828 | (594) |
| Capital Outlay (600) | 0 | 1,258 | (1,258) |

## 3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS (Continued)

| **Finding Number** | 2007-005 (Continued) |
| --- | --- |

We recommend the Academy submit accurate information regarding amounts expended to ODE. We also recommend when completing PCR request and the FER, documentation be maintained detailing how the information on the reports were obtained.

Officials' Response and Corrective Action Plan:

Greater care will be taken in the future to ensure that beginning and end dates of the Project Cash Requests and software entries coincide as well as the specific invoices. The above correction action plan was implemented the first week of February, 2008. For more information regarding the corrective action plan, contact Ashfaq Tashfeen, Executive Director.

**ZENITH ACADEMY**
**FRANKLIN COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS**
**JUNE 30, 2007**

| Finding Number | Finding Summary | Fully Corrected? | Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; ***Explain*** |
|---|---|---|---|
| 2006-001 | To ensure the accurate presentation of the financial statements. | No | Repeated as finding 2007-001. |
| 2006-002 | To update the capital assets database for equipment purchased and disposed of. | No | Repeated as finding 2007-002. |
| 2006-003 | To prepare purchase orders for the purchase of supplies and materials. | No | Repeated as finding 2007-003. |

Mary Taylor, CPA
Auditor of State

**ZENITH ACADEMY**

**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**
**AUGUST 19, 2008**

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