



**SCHOLARTS PREPARATORY AND CAREER CENTER FOR CHILDREN
FRANKLIN COUNTY**

REGULAR AUDIT

FOR THE YEAR ENDED JUNE 30, 2008



Mary Taylor, CPA
Auditor of State

**SCHOLARTS PREPARATORY AND CAREER CENTER FOR CHILDREN
FRANKLIN COUNTY**

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Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

ScholARTS Preparatory and Career Center for Children
Franklin County
PO Box 360895
Columbus, Ohio 43236

To the Board of Directors:

We have audited the accompanying basic financial statements of the ScholARTS Preparatory and Career Center for Children, Franklin County, Ohio (the School), as of and for the year ended June 30, 2008, as listed in the table of contents. These financial statements are the responsibility of the School's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in 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 opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of ScholARTS Preparatory and Career Center for Children, Franklin County, Ohio, as of June 30, 2008, 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 February 13, 2009 on our consideration of the School's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting 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.

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.

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

Mary Taylor, CPA
Auditor of State

February 13, 2009

**SCHOLARTS PREPARATORY AND CAREER CENTER FOR CHILDREN
FRANKLIN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
UNAUDITED**

Our discussion and analysis of the ScholArts Preparatory and Career Center for Children's (the School) financial performance provides an overall review of the School's financial activities for the fiscal year ended June 30, 2008. The intent of this discussion and analysis is to look at the School's financial performance as a whole; readers should also review the basic financial statements and notes to the basic financial statements to enhance their understanding of the School's financial performance.

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

Financial Highlights

- Total net assets at fiscal year end 2008 were \$2,107 compared with \$(26,731) reported in 2007. This represents an increase of 107.9% from the prior year.
- In fiscal year 2008, total operating revenues increased by \$904,419. The most significant increase in operating revenues was an increase in foundation payments in the amount of \$881,049 over the prior year. Foundation payments increased as a result of growth in student enrollment, which also accounts for the increase in total operating expenses of \$801,751 to provide services to students.
- Total assets for fiscal year 2008 were \$66,506, an 61.5% increase over the prior year, primarily due to an increase in cash balance at year end.
- Total liabilities were \$64,399 for fiscal year 2008, a decrease of 5.2% from the prior year.

Using this Financial Report

This report consists of three parts, the MD&A, the basic financial statements, and notes to those statements. The basic financial statements include a Statement of Net Assets, a Statement of Revenues, Expenses and Changes in Net Assets, and a Statement of Cash Flows.

One of the most important questions asked about the School's finances is, "Is the School better off or worse off as a result of the year's activities?" The Statement of Net Assets and the Statement of Revenues, Expenses and Changes in Net Assets report information about the School as a whole and about its activities in a manner that helps to answer this question. These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting used by private sector corporations. All of the current year's revenues and expenses are taken into consideration regardless of when cash is received or paid.

These two statements report the School's net assets and changes in them. The change in net assets provides the reader a tool to assist in determining whether the School's financial health is improving or deteriorating. The reader will need to consider other nonfinancial factors such as state revenue, student enrollment growth, and facility conditions in arriving at their conclusion regarding the overall health of the School. These two statements can be found on pages 7 and 8 of this report.

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

**SCHOLARTS PREPARATORY AND CAREER CENTER FOR CHILDREN
FRANKLIN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
UNAUDITED**

A comparative analysis of fiscal year 2008 and 2007 follows:

Net Assets

	<u>2008</u>	<u>2007</u>
Current Assets	\$ 45,744	\$ 6,100
Security Deposit	0	7,917
Capital Assets, Net	<u>20,762</u>	<u>27,170</u>
Total Assets	66,506	41,187
Current Liabilities	<u>64,399</u>	<u>67,918</u>
Total Liabilities	64,399	67,918
Net Assets:		
Invested in Capital Assets	20,762	27,170
Restricted for:		
Security deposit	0	7,917
Unrestricted	<u>(18,655)</u>	<u>(61,818)</u>
Total Net Assets	<u>\$ 2,107</u>	<u>\$ (26,731)</u>

At June 30, 2008 Capital Assets represented 31.2% of total assets. Capital assets consisted of furniture and computer equipment. There is no debt related to these assets. Capital assets are used to provide services to the students and are not available for future spending.

The Net Assets of the School increased by \$28,838. Current liabilities decreased \$3,519 over the prior year. Total assets increased by \$25,319, with the most significant change being an increase of \$31,216 in the amount of cash on hand at the close of fiscal year 2008.

Changes in Net Assets

	<u>2008</u>	<u>2007</u>
Operating Revenues:		
Sales	\$ 1,214	\$ 122
Foundation payments	1,501,240	620,191
Other Operating Revenues	22,378	100
Non-Operating Revenues:		
Investment Earnings	2	-
State subsidies	27,244	40,405
Federal subsidies	<u>127,992</u>	<u>240,343</u>
Total Revenues	1,680,070	901,161

**SCHOLARTS PREPARATORY AND CAREER CENTER FOR CHILDREN
FRANKLIN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
UNAUDITED**

Operating Expenses:		
Salaries & Wages	359,952	281,553
Fringe Benefits	73,983	83,013
Purchased Services	1,053,884	387,877
Materials & Supplies	117,328	74,743
Depreciation	12,846	11,558
Miscellaneous	<u>33,239</u>	<u>10,737</u>
Total Expenses	<u>\$1,651,232</u>	<u>\$ 849,481</u>
Change in Net Assets	\$ 28,838	\$ 51,680

The School's increase in both revenue and expenses is a result of increased enrollment at the School, which resulted in a significant increase in foundation payments, as well as the related increase in the expenses associated with providing services to students. State Foundation payments are the primary support for the School, representing 89.3% of total revenues for fiscal year 2008. Salaries and Purchased Services accounted for 21.8% and 63.8% of total expenses for 2008, respectively.

Budgetary

Unlike other public schools located in the State of Ohio, community schools are not required to follow the budgetary provisions set forth in Ohio Revised Code Chapter 5705, unless specifically provided in the School's contract with its Sponsor. The contract between the School and its Sponsor does prescribe an annual budget requirement in addition to preparing a five-year forecast, which is to be updated annually.

Capital Assets

The School has \$20,762 invested in capital assets net of depreciation. Significant additions to the School's capital assets for the 2008 fiscal year were the purchase of music and media equipment for the School. Detailed information regarding capital asset activity is included in the notes to the basic financial statements (Note 5).

Current Financial Issues

The future financial stability of the School is not without challenges.

The first challenge is the state economy. The School does not receive any funds from taxes. The primary source of funding is the state foundation program. An economic slowdown in the state could result in budgetary cuts to education, which would have a negative impact on the School.

Contacting the School's Financial Management

This financial report is designed to provide our citizen's, taxpayers, investors and creditors with a general overview of the School's finances and to show the School's accountability for the money it receives. If you have questions about this report or need additional information contact Dr. Cheryl Parchia of the ScholARTS Preparatory and Career Center for Children, PO Box 360895, Columbus, Ohio 43215 or email at dr.ctp@scolarts.org.

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**SCHOLARTS PREPARATORY AND CAREER CENTER FOR CHILDREN
FRANKLIN COUNTY**

**STATEMENT OF NET ASSETS
AS OF JUNE 30, 2008**

Assets

Current Assets

Cash	\$ 31,939
Receivable - Federal	13,805
Total Current Assets	<u>45,744</u>

Non-Current Assets

Capital assets (Net of Accumulated Depreciation)	<u>20,762</u>
Total Assets	<u><u>\$ 66,506</u></u>

Liabilities

Current Liabilities

Accounts Payable	\$ 13,837
Accrued Wages & Benefits	30,160
Intergovernmental Payable	<u>20,402</u>
Total Current Liabilities	<u>64,399</u>
Total Liabilities	<u>64,399</u>

Net Assets

Invested in Capital Assets	20,762
Unrestricted	<u>(18,655)</u>
Total Net Assets	<u><u>\$ 2,107</u></u>

The accompanying Notes are an integral part of the Financial Statements

**SCHOLARTS PREPARATORY AND CAREER CENTER FOR CHILDREN
FRANKLIN COUNTY**

**STATEMENT OF REVENUES, EXPENSES,
AND CHANGES IN FUND NET ASSETS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

Operating Revenues	
Sales	\$ 1,214
Foundation Payments	1,501,240
Other Operating Revenues	<u>22,378</u>
Total Operating Revenues	<u>1,524,832</u>
 Operating Expenses	
Salaries & Wages	359,952
Fringe Benefits	73,983
Purchased Services	1,053,884
Materials & Supplies	117,328
Depreciation	12,846
Miscellaneous	<u>33,239</u>
Total Operating Expenses	<u>1,651,232</u>
 Operating Loss	 (126,400)
 Non-Operating Revenues	
Interest Earnings	2
State subsidies	27,244
Federal subsidies	<u>127,992</u>
Total Non-Operating Revenues	<u>155,238</u>
 Change in Net Assets	 28,838
 Net Assets Beginning of Year	 <u>(26,731)</u>
Net Assets End of Year	<u><u>\$ 2,107</u></u>

The accompanying Notes are an integral part of the Financial Statements

**SCHOLARTS PREPARATORY AND CAREER CENTER FOR CHILDREN
FRANKLIN COUNTY**

**STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

Cash Flows from Operating Activities

Cash received from sales	\$ 1,214
Cash received from Foundation Payments	1,501,240
Cash received from Other Operating Revenues	22,378
Cash payments for personal services	(412,726)
Cash payments for contract services	(1,072,436)
Cash payments for supplies and materials	(125,341)
Cash payments for Miscellaneous	(31,402)
Net Cash Used for Operating Activities	<u>(117,073)</u>

Cash Flows from Noncapital Financing Activities

Cash from Federal & State Subsidies	146,808
Net Cash from Noncapital Financing Activities	<u>146,808</u>

Cash Flows from Capital and Related Financing Activities

Payments for Capital Acquisitions	<u>(6,438)</u>
Net Cash Used for Capital and Related Financing Activities	<u>(6,438)</u>

Cash Flows from Investing Activities

Interest on cash and cash equivalents	<u>2</u>
Net cash from investing activities	<u>2</u>

Net increase in cash and cash equivalents :	31,216
Cash at beginning of year	723
Cash at end of year	<u><u>31,939</u></u>

**Reconciliation of Operating Loss to Net Cash
Provided By (Used for) Operating Activities**

Operating Loss	(126,400)
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**Adjustments to Reconcile Operating Loss to Net
Cash Provided by (Used for) Operating Activities**

Depreciation	12,846
Changes in Assets and Liabilities:	
Accounts Payable	(13,810)
Accrued Wages and Benefits	4,874
Intergovernmental payable	5,417
Total Adjustments	<u>9,327</u>

Net cash provided (used) by operating activities	<u><u>\$ (117,073)</u></u>
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The accompanying Notes are an integral part of the Financial Statements

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**SCHOLARTS PREPARATORY AND CAREER CENTER FOR CHILDREN
FRANKLIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

1. DESCRIPTION OF THE SCHOOL DISTRICT AND REPORTING ENTITY

The ScholArts Preparatory and Career Center for Children (the School) is a nonprofit corporation established pursuant to Ohio Revised Code Chapters 3314 and 1702. The School is an approved tax-exempt organization under section 501(c)(3) of the Internal Revenue Code exclusively for educational purposes. Management is not aware of any course of action or series of events, which could adversely affect the School's tax exempt status. The School's mission is for children to increase academic achievement, develop a community of scholars using the arts, and expose young children to a variety of options through an age-appropriate literacy based career center. The School, which is part of the State's education program, is independent of any school district and is nonsectarian in its programs, admissions policies, employment practices, and all other operations. The School may sue and be sued, acquire facilities as needed, and contract for any necessary services necessary for the operation of the School.

The School was originally approved for operation under contract with the Lucas County Educational Service Center effective for the 2004-2005 school year. However, effective September 26, 2006, the School changed sponsors to Kids Count of Dayton, Inc. the current Sponsor. The Sponsor is responsible for evaluating the performance of the School and has the authority to deny renewal of the contract at its expiration or terminate the contract prior to its expiration.

The School operates under the direction of a 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 qualifications of teachers. The Board of Directors controls the School's instructional/support facility staffed by 6 certificated full time teaching personnel, 4 certified part time teaching personnel, and 4 classified staff members who provide services to 122 students.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the School have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental nonprofit organizations. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The School also applies Financial Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989, provided they do not conflict with or contradict GASB pronouncements. The more significant of the School's accounting policies are described below.

A. Basis of Presentation

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

B. Measurement Focus and Basis of Accounting

Enterprise accounting uses a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities are included on the statement of

**SCHOLARTS PREPARATORY AND CAREER CENTER FOR CHILDREN
FRANKLIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

net assets. Operating statements present increases and decreases in net total assets. The statement of cash flow reflects how the School finances and meets its cash flow needs.

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made. The accrual basis of accounting is used for reporting purposes. Revenues are recognized when earned and expenses are recognized when they are incurred.

C. Budgetary Process

Unlike other public schools located in the State of Ohio, community schools are not required to follow the budgetary provisions set forth in Ohio Revised Code Chapter 5705, unless specifically provided in the School's contract with its Sponsor. The contract between the School and its Sponsor does prescribe an annual budget requirement in addition to preparing a five-year forecast, which is to be updated annually.

D. Cash

The School's fiscal agent, Harris Computer Systems, accounts for all monies received by the School. All cash received by the fiscal agent is pooled and maintained in a separate demand deposit account in the School's name.

E. 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 these estimates.

F. Capital Assets and Depreciation

Capital assets are capitalized at cost and updated for additions and retirements during the year. Donated capital assets are recorded at their fair values as of the dates received. The School maintains a capitalization threshold of \$1,000. The School does not possess any infrastructure. Improvements are capitalized, the cost 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.

All recorded capital assets are depreciated using the straight line method over the following estimated useful lives. Improvements to capital assets are depreciated over the remaining useful live of the related capital assets.

<u>Assets</u>	<u>Years</u>
Furniture, Fixtures and Equipment	5
Computers	5

**SCHOLARTS PREPARATORY AND CAREER CENTER FOR CHILDREN
FRANKLIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

G. Intergovernmental Revenues

The School currently participates in the State Foundation Program. Revenues received from this program are recognized as operating revenues in the accounting period in which all eligibility requirements are met.

The School also participates in various federal and state grant programs through Ohio Department of Education. The programs the School participated in during fiscal year 2008 included the National School Lunch and Breakfast Program, the State Special Education Program, Title I, Safe and Drug-Free Schools, Enhancing Education through Technology Program, Improving Teacher Quality, and the Innovative Education Program. Grants and entitlements received under these programs are recognized as non-operating revenues in the accounting period in which all eligibility requirements have been met.

Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year use is first permitted, matching requirements, in which the School must provide local resources to be used for a specified purpose, and expenditure requirements, in which resources are provided to the School on a reimbursement basis.

Amounts awarded under the above named programs for the 2008 school year totaled \$1,656,476

H. Accrued Liabilities Payable

The School has recognized certain liabilities on its balance sheet relating to expenses, which are due but unpaid as of June 30, 2008, including:

Wages Payable – a liability has been recognized at June 30, 2008 for salary payments made after year-end that were for services rendered in fiscal year 2008.

Intergovernmental Payable – payment for the employer's share of the retirement contribution (\$19,842), worker's compensation (\$323), and Medicare (\$237), associated with services rendered during fiscal year 2008, but not paid until the subsequent fiscal year.

I. 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, 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 through external restrictions imposed by creditors, grantors, or laws and regulations of other governments. The School applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

**SCHOLARTS PREPARATORY AND CAREER CENTER FOR CHILDREN
FRANKLIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

J. Operating Revenues and Expenses

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

K. Economic Dependency

The Academy receives approximately 98% of its operating revenue from the Ohio Department of Education. Due to the significance of this revenue source, the Academy is considered to be economically dependent on the State of Ohio Department of Education.

3. DEPOSITS

At June 30, 2008, the carrying amount of all School deposits was \$31,939. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2008, \$36,570 of the School's bank balance was covered by the Federal Deposit Insurance Corporation.

4. INTERGOVERNMENTAL RECEIVABLES

All receivables are considered collectible in full due to the stable condition of State programs, and the fiscal year guarantee of federal funds. Intergovernmental receivables of the School at June 30, 2008 consisted of the following federal grants in which all grant requirements had been satisfied: Federal Breakfast and Lunch Reimbursement of \$11,146, Title II-A in the amount of \$404, Title II-D in the amount of \$8, Title IV-A in the amount of \$1,472, and Title IV-B in the amount of \$775.

5. CAPITAL ASSETS

A summary of the School's capital assets at June 30, 2008, follows:

	Balance June 30, 2007	Additions	Deductions	Balance June 30, 2008
Capital Assets Being Depreciated				
Furniture, Fixtures, and Equipment	\$ 54,428	\$ 6,438	\$ -	\$ 60,866
Computers	3,362	-	-	3,362
Total Capital Assets				
Being Depreciated	57,790	6,438	-	64,228
Less Accumulated Depreciation:				
Furniture, Fixtures, and Equipment	\$ (29,667)	\$ (12,173)		\$ (41,840)
Computers	(953)	(673)		(1,626)
Total Accumulated Depreciation	(30,620)	(12,846)	-	(43,466)
Capital Assets, Net of Accumulated Depreciation	\$ 27,170	\$ (6,408)	\$ -	\$ 20,762

**SCHOLARTS PREPARATORY AND CAREER CENTER FOR CHILDREN
FRANKLIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
(Continued)**

6. RISK MANAGEMENT

A. Property and Liability

The School is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. For fiscal year 2008, the School contracted with Western World Insurance Company for property and for general liability insurance. There is a \$250 deductible for both coverages.

Professional liability is protected by Western World Insurance with a \$1,000,000 single occurrence limit and \$1,000,000 aggregate with a \$250 deductible.

B. Worker's Compensation

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

7. DEFINED BENEFIT PENSION PLANS

A. State Teachers Retirement System

The School 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 comprehensive annual financial report that may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, Ohio 43215-3371 or by calling toll-free 1-888-227-7877, or by visiting the STRS website at www.strsoh.org.

New members have a choice of three retirement plan options. In addition to the Defined Benefit (DB) Plan, new members are offered a Defined Contribution (DC) Plan and a Combined Plan. DC and Combined Plan members will transfer to the DB plan during their fifth year of membership unless they permanently select the DC or Combined Plan.

The DB Plan benefits are established under Chapter 3307 of the Ohio Revised Code. Any member may retire who has (i) five years of service credit and attained age 60; (ii) 25 years of service credit and attained age 55; or (iii) 30 years of service credit regardless of age. The annual retirement allowance, payable for life, is the greater of the "formula benefit" or the "money-purchase benefit" calculation. Under the formula benefit the retirement allowance is based on years of credited service and final average salary, which is the average of the members' three highest salary years. The annual allowance is calculated by using a base percentage of 2.2% multiplied by the total number of years of service credit (including Ohio-valued purchased credit) times the final average salary. The 31st year of earned Ohio service credit is calculated at 2.5% with an additional one-tenth of a percent added to the calculation for every year over 31 years until 100% of the final average salary is reached. For members with 35 or more years of Ohio contributing services, the first 30 years will be calculated at 2.5%. Under the money-purchase benefit, members' lifetime contributions plus interest at specified rates are matched by an equal amount from other STRS Ohio funds. The total is then divided by an actuarially determined annuity factor to determine the maximum annual

**SCHOLARTS PREPARATORY AND CAREER CENTER FOR CHILDREN
FRANKLIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
(Continued)**

7. DEFINED BENEFIT PENSION PLANS (Continued)

A. State Teachers Retirement System (Continued)

retirement allowance. Benefits are increased annually by 3% of the original base amount.

The DC Plan allows members to allocate all their member contributions and employer contributions equal to 10.5% of earned compensation among various investment choices. Benefits are established under Sections 3307.80 to 3307.89 of the Ohio Revised Code. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump sum withdrawal. Employer contributions into members' accounts are vested after the first anniversary of the first day of paid service. Members in the DC Plan who become disabled are entitled only to their account balance. If a member dies before retirement benefits begin, the members' designated beneficiary is entitled to receive the member's account balance.

Combined Plan offers features of the DC Plan and the DB Plan. Member contributions are allocated to investments selected by the member, and employer contributions are used to fund a defined benefit payment at a reduced level from the regular DB Plan. Plan members' defined benefit is determined by multiplying 1% of the members' final average salary by the members' years of service credit. The defined benefit portion of the Combined Plan is payable to members on or after age 60. The defined contribution

portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50.

A retiree of STRS Ohio or another Ohio public retirement system is eligible for reemployment following the elapse of two months from the date of retirement. Contributions are made by the reemployed member and employer during reemployment. Upon termination of reemployment or age 65, whichever comes later, the retiree is eligible for an annuity benefit or equivalent lump-sum payment in addition to the original retirement allowance. A reemployed retiree may alternatively receive a refund of only member contributions with interest before age 65, once employment is terminated.

For fiscal year ended June 30, 2008 members were required to contribute 10% of their annual covered salary and the School was required to contribute 14%. Member and employer contributions were established by the State Teachers Retirement Board, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers provided by Chapter 3307 of the Ohio Revised Code. Of the 14% contributed by the School, 13% was the portion used to fund pension obligations.

The School's required contributions for pension obligations to the DB Plan for the fiscal years ended June 30, 2008, 2007 and 2006 were \$31,169, \$33,813 and \$46,062, respectively; 63.66% has been contributed for fiscal year 2008 and 100% for fiscal years 2007 and 2006. \$19,842 representing the unpaid contribution for fiscal year 2008 is recorded as a liability at June 30, 2008. Member and employer contributions actually made for DC and Combined Plan participants will be provided upon written request.

**SCHOLARTS PREPARATORY AND CAREER CENTER FOR CHILDREN
FRANKLIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
(Continued)**

7. DEFINED BENEFIT PENSION PLANS (Continued)

B. School Employees Retirement System

The School contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing multiple employer defined pension plan. SERS provides retirement, disability, and survivor 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 per 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 can be obtained by contacting SERS, 300 E. Broad Street, Suite 100, Columbus, Ohio 43215-3746 or by calling toll free 1-800-878-5853. It is also posted on SERS' website at www.ohsers.org under *Forms and Publications*.

Plan members are required to contribute 10% of their annual covered salary and the School is required to contribute at an actuarially determined rate. The current rate is 14% of annual covered payroll. 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 School's contributions to SERS for the years ended June 30, 2008, 2007 and 2006 were \$12,836, \$2,291 and \$2,251, respectively; 100% has been contributed for fiscal year 2008, 2007 and 2006. In addition, the School had a prepaid balance to SERS in the amount of \$2,912 at June 30, 2008, all of which is related to pension obligations.

8. POSTEMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS

Ohio law authorizes STRS to offer a cost-sharing, multiple employer health care plan to eligible retirees who participated in the defined benefit or combined plans. Coverage under the current program includes hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare Part B premiums.

Pursuant to 3307 of the Ohio Revised Code, the Retirement Board has discretionary authority over how much, if any, of the associated health care costs will be absorbed by STRS. All benefit recipients, for the most recent year, pay a portion of the health care costs in the form of a monthly premium.

Under Ohio law funding for post-employment health care may be deducted from employer contributions. Of the 14% employer contribution rate, 1% of covered payroll was allocated to post-employment health care. For fiscal years ending June 30, 2008, 2007 and 2006 the School's contributions to post-employment health care were \$2,398, \$2,601, and \$3,543; respectively. 63.66% has been contributed for 2008 and 100% for fiscal years 2007 and 2006.

SERS administers two post-employment benefit plans, the Medicare Part B Plan and the Health Care Plan as permitted by Ohio Revised Code Sections 3309.69 and 3309.375. The Medicare Part B Plan reimburses for Medicare Part B premiums paid by eligible retirees. The Health Care Plan provides health care and prescription drug plans administered by two third-party administrators. The Retirement Board establishes rules for premiums paid by retirees for health care coverage and varies depending on the plan selected, qualified years of service, Medicare eligibility, and retirement status.

**SCHOLARTS PREPARATORY AND CAREER CENTER FOR CHILDREN
FRANKLIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
(Continued)**

8. POSTEMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS (Continued)

The Medicare Part B premium reimbursement plan reimburses eligible retirees for the lesser of January 1, 1999 Medicare Part B premiums or the current premium. The Medicare Part B premium for calendar year 2007 (most recent information available) was \$93.50. SERS' reimbursement to retirees was \$45.50. The Retirement Board, with the advice of the actuary, allocates a portion of the current employer contribution rate to the Medicare Part B Fund. For fiscal year 2007 (most recent information available) the actuarially required allocation was .68%. For the fiscal years ended June 30, 2008, 2007 and 2006 the School's contributions to Medicare Part B were \$900, \$321 and \$315 respectively; 100% has been contributed for fiscal year 2008, 2007 and 2006.

The Health Care Plan is funded through employer contributions. Each year after allocation for required benefits the Retirement Board allocates the remainder of the employers' 14% contribution. At June 30, 2007 (the most recent information available) the health care allocation was 3.32%. The actuarially required contribution (ARC), as of December 31, 2006 annual valuation, was 11.50% of covered payroll. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities of the plan over a period not to exceed thirty years.

An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. Statutes provide that no employer shall pay a health care surcharge greater than 2% of that employer's SERS covered payroll; nor may SERS collect in aggregate more than 1.5% of the total statewide SERS-covered payroll for the health care surcharge. For fiscal year 2007 (most recent information available), the minimum compensation level was established at \$35,800.

For fiscal year ended June 30, 2008, the School contribution to the Health Care Plan, including the surcharge, was \$5,778; 100% has been contributed for fiscal year 2008.

9. OTHER EMPLOYEE BENEFITS

The School has contracted with a private carrier to provide employee medical, dental, and vision insurance to its employees. The School pays the full amount of the monthly premiums for all selected coverages (medical, dental, and life).

10. OPERATING LEASE

On August 29, 2007, the School entered into an operating lease for the for the period September 1, 2007 to June 15, 2008 with The Community Arts Project, Inc. for the use of the School's facility. The School renewed the lease on August 1, 2008 for the period September 1, 2008 through June 15, 2009. Payments to The Community Arts Project, Inc. totaled \$28,137 for the fiscal year ended June 30, 2008.

**SCHOLARTS PREPARATORY AND CAREER CENTER FOR CHILDREN
FRANKLIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
(Continued)**

11. FISCAL AGENT

The sponsorship contract states that the School shall have a designated fiscal officer who shall meet all the requirements as set forth by law including:

- Maintain the financial records of the School in the same manner as are financial records of school districts, pursuant to rules of the Auditor of State
- Comply with the policies and procedures regarding internal financial control of the School
- Comply with the requirements and procedures for financial audits by the Auditor of State

The School entered into a contract with Ace Charter School Services, a division of Harris Software Corp. for fiscal services including school treasurer services, payroll services, and capital asset services. Total payments made to Harris were \$36,677 for the fiscal year ended June 30, 2008.

The School was originally approved for operation under contract with the Lucas County Educational Service Center effective for the 2004-2005 school year. However, effective September 26, 2006, the School changed sponsors to Kids Count of Dayton, Inc. the current Sponsor. As part of this contract, the Sponsor is entitled to a maximum of 3% of all revenues. Total amount paid for fiscal year 2008 was \$45,238.

12. CONTINGENCIES

A. Grants

The School received financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall position of the School at June 30, 2008.

B. State Funding

The Ohio Department of Education conducts reviews of enrollment data and 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 funding is calculated. The conclusions of this review could result in state funding being adjusted. The School does not anticipate any material adjustment for fiscal year 2008, as a result of such review.

**SCHOLARTS PREPARATORY AND CAREER CENTER FOR CHILDREN
FRANKLIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
(Continued)**

13. PURCHASED SERVICES EXPENSES

For the year ended June 30, 2008, purchased service expenses were payments for services rendered by various vendors as follows:

Professional and Technical Services	\$ 862,653
Property Services	137,182
Travel Mileage/Meeting Expense	3,060
Communications	15,220
Contracted Craft or Trade Services	287
Pupil Transportation	<u>35,482</u>
Total Purchased Services	\$1,053,884

14. RELATED PARTY TRANSACTIONS

Dr. Cheryl Parchia, Founder and voluntary CEO of the School, is also president of the board of directors. During fiscal year 2008, Dr. Parchia received no compensation for these duties.

Mellody Parchia, daughter of Dr. Cheryl Parchia, is the Public Relations Specialist and Grant administrator of the School. Also during the period of August 15, 2007 through November 30, 2007, Mellody Parchia acted as an Administrative Assistant. During fiscal year 2008, Mellody Parchia was paid as an employee of the School \$60,000 for serving as Public Relations Specialist, \$20,000 for serving as Grant Administrator, and \$7,500 for serving as Administrative Assistant.

Also, Dean Parchia, son of Dr. Cheryl Parchia is a Discipline Assistant of the School. During fiscal year 2008, Dean Parchia was paid \$2,500 as an employee of the School.

15. SUBSEQUENT EVENT

As of July 1, 2008 the School changed their Fiscal Agent and Treasurer to All About Learning, Inc.



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*

ScholARTS Preparatory and Career Center for Children
Franklin County
PO Box 360895
Columbus, Ohio 43236

To the Board of Directors:

We have audited the basic financial statements of ScholARTS Preparatory and Career Center for Children, Franklin County, Ohio, (the School) as of and for the year ended June 30, 2008, and have issued our report thereon dated February 13, 2009. 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 School'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 School's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the School'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 a certain deficiency in internal control over financial reporting that we consider a significant deficiency.

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 School'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 School's internal control will not prevent or detect a more-than-inconsequential financial statement misstatement.

We consider finding 2008-001 described in the accompanying schedule of findings to be a significant deficiency in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies resulting in more than a remote likelihood that the School'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 the significant deficiency described above, finding number 2008-001 is also a material weakness.

We also noted certain internal control matters that we reported to the School's management in a separate letter dated February 13, 2009.

Compliance and Other Matters

As part of reasonably assuring whether the School'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 no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

We did note certain noncompliance or other matters that we reported to the School's management in a separate letter dated February 13, 2009.

The School's response to the finding identified in our audit is described in the accompanying schedule of findings. We did not audit the School's response and, accordingly, we express no opinion on it.

We intend this report solely for the information and use of management, the Board of Directors, and Kids Count of Dayton, Inc. the Community School's sponsor. We intend it for no one other than these specified parties.



Mary Taylor, CPA
Auditor of State

February 13, 2009

**SCHOLARTS PREPARATORY AND CAREER CENTER FOR CHILDREN
FRANKLIN COUNTY**

**SCHEDULE OF FINDINGS
JUNE 30, 2008**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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FINDING NUMBER 2008-001

Significant deficiency and material weakness

Service Organization

The School has contracted with ACE Charter School Services (now doing business as Harris School Solutions) for Treasurer and EMIS administration services, including processing accounting transactions on their ACE software, which was developed by ACE and provides a significant accounting function. The School has not established procedures to determine whether the accounting software package has sufficient controls in place and is operating effectively to reduce the risk that financial transactions have not been authorized or completely and accurately processed in accordance with the contract.

We recommend the School assure the completeness and accuracy of their accounting transactions processed by its service organization. Statement of Auditing Standards (SAS) No. 70, as amended prescribes standards for reporting on service organizations. An unqualified Type Two *Report on Policies and Procedures Placed in Operation and Tests of Operating Effectiveness* in accordance with SAS No. 70 should provide the School with reasonable assurance that transactions are completely and accurately processed.

We recommend the School require a Type Two SAS 70 report over the accounting software package developed and utilized by ACE Community School Services. The School should review the SAS 70 report timely. The report should follow American Institute of Certified Public Accountants standards and be performed by a firm registered and in good standing with the Accountancy Board of the respective state. If the service organization refuses to furnish the School with a Type Two SAS 70 report, we recommend the School contract with a service organization that will provide such a report

Officials' Response:

Effective for fiscal year beginning July 1, 2008, the School changed its Treasurer to the firm, "All About Learning." It is our understanding that the accounting software utilized by our new Treasurer is not subject to a SAS 70 report.

**SCHOLARTS PREPARATORY AND CAREER CENTER FOR CHILDREN
FRANKLIN COUNTY**

**SCHEDULE OF PRIOR FINDINGS
JUNE 30, 2008**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2007-001	Contracted Fiscal Agent/Treasurer did not have a SAS 70 Report.	No	Repeated as finding 2008-001



Mary Taylor, CPA
Auditor of State

SCHOLARTS PREPARATORY AND CAREER CENTER FOR CHILDREN
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
MARCH 24, 2009