



Mary Taylor, CPA  
Auditor of State



**SABIS INTERNATIONAL SCHOOL OF CINCINNATI  
HAMILTON COUNTY**

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# Mary Taylor, CPA

Auditor of State

## INDEPENDENT ACCOUNTANTS' REPORT

SABIS® International School of Cincinnati  
Hamilton County

Ohio State Board of Education  
Attention: Ms. Deborah S. Delisle, Superintendent of Public Instruction  
25 South Front Street  
Columbus, Ohio 43215-4183

To the Board of Trustees and Sponsor:

We were engaged to audit the accompanying Balance Sheet of SABIS® International School of Cincinnati, Hamilton County, Ohio (the School), as of June 30, 2002 and the related Statement of Revenues, Expenses and Changes in Retained Earnings, and the Statement of Cash Flows for the year then ended. These financial statements are the responsibility of the School's management.

As disclosed in Note 1 and 10 the School ceased operations on June 30, 2002. The School failed to prepare or file with the Auditor of State financial statements for the period of time covered by the engagement. Financial records for the School were obtained via subpoena and from that information obtained by a subpoena as well as information obtained from the Ohio Department of Education the auditors prepared financial statements. *Government Auditing Standards, (1994 Revision) Amendment No. 3, Independence which was first applicable to all audits for periods beginning on or after October 1, 2002* considers this service to impair the independence of the Auditor of State to audit the School. Since there was no management from the School the Auditor of State in the preparation of financial statements was required to make management decisions. Thus, the Auditor of State had independence impairment for this engagement.

The School did not provide supporting documentation for student full-time equivalents reported to the Ohio Department of Education (ODE); the full-time equivalencies are used by ODE to calculate the School's State Foundation Settlement payment amounts shown as Foundation Payment revenue of \$3,222,090 on the School's Statement of Revenue, Expenses and Changes in Retained Earnings.

The School has not fully paid the Auditor of State for services provided more than one year prior to our report date. AICPA Code of Professional Conduct, ET Section 191 considers this circumstance to impair an auditor's independence. However, *Government Auditing Standards* would however permit the Auditor of State to audit and opine on this entity because Ohio Revised Code §§ 117.11(B) and 115.56 mandate the Auditor of State to audit Ohio governments. Ohio Revised Code § 117.13 also includes provisions to collect unpaid audit fees including negotiating a schedule for payment of the amount due, seeking payment through the office of budget and management or through the county auditor of the county in which the local public office is located. However due to the independence impairment discussed in the previous paragraph we were unable to opine on this entity.

Management has not provided written representations, which are required by auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Thus we were unable to obtain written representations related to the financial statements; completeness of information; and recognition, measurement and disclosure of misstatements, fraud, unasserted claims, undisclosed liabilities and violations of laws and regulations by management.

The School has no legal counsel from which we were able to obtain a response regarding any outstanding litigation, claims and assessments that may exist for the School. We are unable to obtain sufficient evidence regarding the completeness of unasserted claims and possible liabilities that existed at the School as of June 30, 2002.

The School did not provide sufficient evidence to support the completeness of the Assets, Liabilities, and beginning and ending Net Assets, Revenues, Expenses, Cash Flows and Disclosures as presented on the financial statements of the School.

The School was requested via subpoena but did not make available the minute records of the Board, receipts or disbursement ledgers, a cash journal or general ledger, expenditure documentation such as invoices, bank reconciliations, supporting documentation for any receipts, insurance policies, federal grants documentation. The documentation obtained via subpoena was incomplete.

Ohio Administrative Code Section 117-2-03 (A) requires the School to maintain an accounting system and accounting records sufficient to enable the public office to identify, assemble, analyze, classify, record and report its transactions, maintain accountability for the related assets and liabilities, document compliance with finance-related legal and contractual requirements. There was not sufficient evidential matter to support the completeness and accuracy of the financial statements. We were also unable to gain these assurances through other audit procedures.

The School ceased operations effective June 30, 2002. The School Board terminated its contracts with CEM and CPM effective June 30, 2002. The School Board then changed the School's name to Learning Opportunities of Greater Cincinnati, Inc., and planned to open for operation for the July 1, 2002 through June 30, 2003 fiscal year. However, the School never presented the Ohio Department of Education (ODE) with a valid contract including a modified business plan.

On October 11, 2002 the Ohio State Board of Education filed suit against Learning Opportunities of Greater Cincinnati, Inc. formerly known as Sabis International School of Cincinnati, Inc. claiming irreparable harm since the Schools had students that were attending their school but not receiving any educational credit for attendance since the school was not a state sponsored community school, stating that LOGC was spending down state funds advanced to LOGS for enrollment they were not entitled to, stating that LOGC did not demonstrate the ability to repay funds, and could not continue to operate as a state sponsored and state funded public school without approval from the Ohio State Board of Education. Based upon this lawsuit on November 8, 2002 the Court ordered LOGS to cease operating or holding itself out as a state sponsored public school and to repay amounts owed the Ohio State Board of Education for state funds advanced during calendar year 2002.

Due to the significance of the matters discussed in the preceding paragraphs, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on the financial statements of SABIS® International School of Cincinnati, Hamilton County, Ohio as of and for the year ended June 30, 2002.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 8, 2010, 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 do 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 describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. It does not opine on the internal control over financial reporting or on compliance. 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.

We were engaged to opine on the School's financial statements. The School failed to maintain financial records of the expenditures made from the federal grant funds. The School did not prepare a schedule of federal awards receipts and expenditures however from information provided from the Ohio Department of Education and review of the subpoenaed bank statements a schedule was prepared by the Auditor of State. This also represents a *Government Auditing Standards* impairment of the independence standard since there was no management available to review or assist in the preparation of this schedule. Since the School did not presented sufficient evidential matter related to the schedule of federal awards receipts and expenditures we are unable to express, and we do not express, an opinion on the schedule of federal awards receipts and expenditures.



**Mary Taylor, CPA**  
Auditor of State

December 8, 2010

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**SABIS® INTERNATIONAL SCHOOL OF CINCINNATI  
HAMILTON COUNTY**

**BALANCE SHEET  
AS OF JUNE 30, 2002**

**Assets**

Current Assets

Cash	\$ 332,469
Intergovernmental Receivable	188,140
Total Current Assets	<u>\$ 520,609</u>

**Liabilities and Fund Equity**

Current Liabilities

Intergovernmental Payable	<u>4,852</u>
Total Current Liabilities	4,852

Fund Equity

Unreserved Retained Earnings	<u>515,757</u>
Total Fund Equity	<u>515,757</u>

Total Liabilities and Fund Equity	<u>\$ 520,609</u>
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*The notes to the financial statements are an integral part of this statement.*

**SABIS® INTERNATIONAL SCHOOL OF CINCINNATI  
HAMILTON COUNTY**

**STATEMENT OF REVENUES, EXPENSES, AND  
CHANGES IN RETAINED EARNINGS  
FOR THE YEAR ENDED JUNE 30, 2002**

**Operating Revenues**

Foundation Payments	\$ 3,222,090
State Special Education Program	121,731
FY 02 funding level adjustment	645,983
Disadvantaged Pupil	5,314
Total Operating Revenues	<u>3,995,118</u>

**Operating Expenses**

Purchased Services	3,993,920
Fringe Benefits	201,652
Other operating expenses	2,407
FY 01 funding level adjustment	16,750
Total Operating Expenses	<u>4,214,729</u>

Operating Loss	<u>(219,611)</u>
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**Non-Operating Revenues**

Federal Grants	512,402
State Grants	5,000
Interest Income	2,668
Other	175,138
Total Non-Operating Revenues	<u>695,208</u>

Net Income	475,597
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Retained Earnings at Beginning of Year	<u>40,160</u>
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Retained Earnings at End of Year (Accumulated Deficit)	<u>\$ 515,757</u>
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*The notes to the financial statements are an integral part of this statement.*

**SABIS® INTERNATIONAL SCHOOL OF CINCINNATI  
HAMILTON COUNTY**

**STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED JUNE 30, 2002**

**Increase (Decrease) in Cash**

**Cash Flows From Operating Activities**

Cash Received from State of Ohio	\$ 3,995,118
Cash Payments to Suppliers for Goods and Services	(4,187,017)
Cash Payments for Employee Benefits	(66,018)
Other Operating Expenditures	<u>(213,550)</u>
Net Cash Used for Operating Activities	<u>(471,467)</u>

**Cash Flows From Non-Capital Financing Activities**

Other Grants Received:	
Federal and State Grants	555,772
Other Non-operating revenue	175,138
Interest Income	<u>2,668</u>
Net Cash Provided by Non-Capital Financing Activities	<u>733,578</u>

Net Increase in Cash	262,111
Cash at Beginning of Year	<u>70,358</u>
Cash at End of Year	<u><u>\$ 332,469</u></u>

**Reconciliation of Operating Loss to Net Cash  
Used for Operating Activities**

Operating Loss	\$ (219,611)
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**Adjustments to Reconcile Operating Loss to  
Net Cash Used for Operating Activities**

Changes in Assets and Liabilities	
Increase (Decrease) in Governmental Payable	(11,898)
(Decrease) in Service Provider Payable	<u>(239,958)</u>
Total Adjustments	<u>(251,856)</u>

<b>Net Cash Used for Operating Activities</b>	<u><u>\$ (471,467)</u></u>
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*The notes to the financial statements are an integral part of this statement.*

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**SABIS® INTERNATIONAL SCHOOL OF CINCINNATI  
HAMILTON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2002**

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

Sabis® International School of Cincinnati, Hamilton County, Ohio (the School), was a state nonprofit corporation established pursuant to Ohio Rev. Code, Chapters 3314 and 1702, to maintain and provide a school exclusively for any educational, literary, scientific and related teaching service. The School, which was part of the State's education program, was independent of any school district. When in operation, the School had the authority to sue and be sued, acquire facilities as needed, and contract for any services necessary for the operation of the School.

The School contracted with Cincinnati Education Management LLC (CEM) for its operations and Cincinnati Property Management of Ohio LLC (CPM) for its facilities. See Note 6 for a description of the management agreements. The School was approved for operation under a Community School Contract (Contract) with the Ohio State Board of Education (Sponsor) for a period of five years commencing July 1, 2000 through June 30, 2005. However, the School ceased operations during the 2003 school year. The School began operations on July 1, 2000. The School operated under a self-appointing, multi-member Board of Directors (the Board) which consists of at least three (3) but not more than seven (7) members. The School's Code of Regulations specifies that vacancies that arose on the Board were filled by the appointment of successors by a majority of the then-existing directors. The Board was responsible for carrying out the provisions of the Contract with the Sponsor which included, but was not limited to, state-mandated provisions regarding student population, curriculum, academic goals, performance standards, admission standards, and qualifications of teachers. The School had one instructional/support facility staffed by teaching personnel employed by CEM, which provided services to 595 students.

The School terminated its contracts with CEM and CPM effective June 30, 2002. The School Board then changed the School's name to Learning Opportunities of Greater Cincinnati, Inc. and planned to open for operation for the July 1, 2002 through June 30, 2003 fiscal year. However, the School never presented Ohio Department of Education (ODE) with a valid contract including a modified business plan, and therefore was permanently closed for operations. As discussed in Note 11, the School received \$588,253 in funding from ODE for July and August 2002 foundation payments. Once ODE determined that Learning Opportunities was not going to open for operations ODE filed suit to recover those funds.

**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 most significant of the School's accounting policies are described below.

**A. BASIS OF PRESENTATION**

Enterprise accounting is used to account for those operations that are financed and operated in a manner similar to private business enterprises where the intent is that the cost (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges or where it has been decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

**SABIS® INTERNATIONAL SCHOOL OF CINCINNATI  
HAMILTON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2002  
(Continued)**

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

**B. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING**

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. Enterprise accounting uses a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities are included on the balance sheet. Operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in total net assets. The accrual basis of accounting is utilized for reporting purposes. Revenues are recognized when they are 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 budgetary provisions set forth in Ohio Revised Code, Chapter 5705, unless specifically provided in a school's contract with its sponsor. The Contract between the School and the Sponsor does not require the School to follow the budgetary provisions set forth in Ohio Revised Code, Chapter 5705.

**D. CASH**

All cash received by the School is maintained in an interest bearing checking account. Total cash for the school is presented as "cash" on the accompanying balance sheet. The school had no investments during the fiscal year.

**E. FIXED ASSETS AND DEPRECIATION**

The School operates under contracts with CEM and CPM and as such has no fixed assets. See Note 6 for information regarding these contracts.

**F. INTERGOVERNMENTAL REVENUES**

The School currently participates in the State Foundation Program, State Special Education, and State Disadvantaged Pupil Impact Aid (DPIA) Program. Revenues received from these programs are recognized as operating revenues in the accounting period in which all eligibility requirements have been met.

Grants and entitlements 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 when 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 the resources are provided to the School on a reimbursement basis.

The School also participates in the Federal Charter School Grant Program through the Ohio Department of Education, under this program; the School was awarded \$150,000, to offset startup costs of the School

**SABIS® INTERNATIONAL SCHOOL OF CINCINNATI  
HAMILTON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2002  
(Continued)**

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

Amounts awarded under the above named programs for the 2002 school year totaled \$4,337,341.

**G. PURCHASED SERVICES**

Per contractual agreement the School forwards all revenue received, except up to \$40,000 which can be retained by the Board for their expenses, to Cincinnati Education Management, LLC (CEM) for the management of the School. The disbursements to CEM are reported as purchased services on the attached financial statements. See Note 6 for a description of the service provider agreement between the School and CEM.

**H. USE OF ESTIMATES**

In preparing financial statements, the School is sometimes required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**3. DEPOSITS**

At June 30, 2002, the School had a cash balance of \$332,469 and the bank balance was \$332,469. Of the bank balance, \$100,000 was covered by the Federal Depository Insurance Corporation; the remaining \$232,469 was not insured or collateralized.

**4. INTERGOVERNMENTAL PAYABLE**

A related "Intergovernmental payable" has been recorded by the school at June 30, 2002 in the amount of \$4,852. This represents payable to the State Employees Retirement System for surcharges.

**5. RISK MANAGEMENT**

Property Liability

The School is exposed to various risks related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. As part of its net lease with Cincinnati Property Management LLC, the School has agreed to insure the premises in amounts sufficient to cover replacement or full repair and also to pay other insurance required by the landlord's mortgagees, creditors and secured parties. The School has agreed to keep in force a liability insurance policy of not less than \$1,000,000 per person and \$1,000,000 per occurrence for bodily injury. Said policy must cover \$500,000 per occurrence of property damage. Per the Service Provider Agreement, Cincinnati Education Management LLC is responsible for fulfilling these requirements.

Director and Officer

Coverage was purchased by the management company on behalf of the School with an effective date of July 1, 2001. The policy has a \$2,000,000 aggregate limit and a \$5,000 deductible per claim.

**SABIS® INTERNATIONAL SCHOOL OF CINCINNATI  
HAMILTON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2002  
(Continued)**

**6. SERVICE PROVIDER AGREEMENT**

**A. CINCINNATI EDUCATION MANAGEMENT, LLC  
(An Affiliate of SABIS® Education Systems, Inc.)**

Effective November 1, 1999, the School entered into a Service Provider Agreement with Cincinnati Education Management LLC (CEM), an education management company. The Agreement is in effect for fifteen (15) years, subject to renewal of the Charter and the provisions of the Ohio Community School Law and any other applicable federal and state laws and regulations. Operating functions of the School have been delegated to CEM.

CEM is accountable to the School's Board of Directors (the "School Board") for the administration, operation, and performance of the School in accordance with the School's contract (Contract) with the Ohio State Board of Education to operate the School. Significant provisions of the Agreement are as follows:

**Financial Provisions**

**Management and License Fees**

The Board may set aside \$40,000 for fulfillment of its oversight responsibilities. All other funds are transferred to CEM for management and operations of the School, subject to any terms and conditions attached to grants. The Board also agrees to pay CEM a license fee of six percent of total revenues (less grants and donations secured by the School Board and fees from School programs not managed by CEM) for use of SABIS® Educational Systems' proprietary pedagogical materials and system and a fee for management services of six percent of total revenues (less grants and donations secured by the School Board and fees from School programs not managed by CEM).

Management and license fees are retained by CEM from the funds transferred by the School to CEM. If funds transferred to CEM by the School are not sufficient to cover operating expenses, management and license fees, the shortfall that exists in license and management fees will accrue as a loan from CEM to the School and be repaid in the first subsequent quarter in which sufficient funds are transferred from the School to CEM. The School owed no amounts to CEM related to management and license fees at June 30, 2002.

**Other School Financial Responsibilities**

The School is responsible for legal fees for School Board representation and general corporate matters, including professional services not incurred in the normal day-to-day operation of the School.

**CEM Financial Responsibilities**

Except as otherwise provided in the Agreement, all costs incurred in providing the educational program at the School are to be paid by CEM. Such costs include, but are not limited to, salaries for all personnel, curriculum materials, textbooks, library books, computer and audio visual equipment, software and supplies. All personal property used in the operation of the school is the property of CEM, unless purchased directly by the School or Cincinnati Property Management (CPM).



**SABIS® INTERNATIONAL SCHOOL OF CINCINNATI  
HAMILTON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2002  
(Continued)**

**6. SERVICE PROVIDER AGREEMENT (Continued)**

Personnel

CEM has the responsibility and authority to determine staffing levels, and to select, evaluate, assign, discipline, transfer, and terminate personnel, consistent with state and federal law, and the Contract. All school personnel are employees of CEM.

Agreement Termination

The Agreement may be terminated by either party prior to the end of the term by sending written notice by certified mail, return receipt requested, not less than six (6) months prior to the last day of classes in the school year. A termination can be for any reason or no reason. Except as otherwise required by Ohio Community School Law or applicable laws, a termination shall be effective as of June 30 of the then current school year. The School terminated its agreement with CEM effective June 30, 2002.

During fiscal year 2002 the School paid CEM \$3,993,920 for their services.

**B. CINCINNATI PROPERTY MANAGEMENT, LLC  
(An Affiliate of SABIS® Education Systems, Inc.)**

Effective September 1, 2000, the School entered into a four (4) year Lease with Cincinnati Property Management, LLC (CPM). The Lease automatically renews for another five (5) years contingent upon renewal of the charter. The School gained access to the property in August 2000 for preparation of the school year without charge.

**Financial Provisions**

Rent

During the Primary Term (the first four years), the School shall pay CPM annual rent in the sum of \$936,000 payable in monthly installments of \$78,000. The annual rent is subject to change because of changing market conditions or if CPM adds new facilities. Rent payments are made by CEM as their service provider.

Insurance

The School agrees to insure the property. See Note 5.

Repairs

The School shall, at its expense, keep the Premises in a safe and sanitary condition and maintain and repair buildings and associated facilities.

Real Estate Taxes

The School pays all real estate taxes and assessments during the term of the Lease.

**SABIS® INTERNATIONAL SCHOOL OF CINCINNATI  
HAMILTON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2002  
(Continued)**

**7. FEDERAL TAX EXEMPTION STATUS**

The School applied for tax-exempt status under Section 501(c)(3) of the Internal Revenue Code. The Internal Revenue Service responded August 6, 2001, deferring action until the receipt of further information. On October 9, 2001, the application for tax exemption was withdrawn until such time as the matters in question were investigated. To date no further applications have been submitted. As a result, the School may be subject to federal income tax, the effect of which has not been determined.

**8. DEFINED BENEFIT PENSION PLANS**

**A. School Employees Retirement System**

The School contributes to the School Employees Retirement System of Ohio (SERS), a cost sharing multiple employer public employee retirement system administered by the School Employees Retirement Board. SERS provides basic retirement benefits, disability, survivor, and health care benefits based on eligible service credit to members and beneficiaries. Benefits are established by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available financial report that includes financial statements and required supplementary information for SERS. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746.

Plan members are required to contribute 9 percent of their annual covered salary and the School is required to contribute at an actuarially determined rate. The current rate is 14 percent of annual covered payroll; 5.46 percent was the portion to fund pension obligation. The contribution rates are not determined actuarially, but are established by the SERS Retirement Board within the rates allowed by State statute. The adequacy of the contribution rates is determined annually. The School's required contribution for pension obligations to SERS for the fiscal years ended 2001 and 2002 have not been determined due to lack of records available.

**B. State Teachers Retirement System**

The School contributes to the State Teachers Retirement System of Ohio (STRS), a cost sharing multiple employer public employee retirement system administered by the State Teachers Retirement Board. STRS provides basic retirement benefits, disability, survivor, and health care benefits based on eligible service credit to members and beneficiaries. Benefits are established by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available financial report that includes financial statements and required supplementary information for STRS. That report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3771.

Plan members are required to contribute 9.3 percent of their annual covered salary and the School is required to contribute 14 percent; 9.5 percent was the portion used to fund pension obligations. Contribution rates are established by STRS, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. The School's required contribution for pension obligations to STRS for the fiscal years ended 2001 and 2002 have not been determined due to lack of records available.

**SABIS® INTERNATIONAL SCHOOL OF CINCINNATI  
HAMILTON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2002  
(Continued)**

**9. POST EMPLOYMENT BENEFITS**

The School provides comprehensive health care benefits to retired teachers and their dependents through the State Teachers Retirement System (STRS), and to retired non-certified employees and their dependents through the School Employees Retirement System (SERS). Benefits include hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare premiums. Benefit provisions and the obligations to contribute are established by the Systems based on authority granted by State statute. Both systems are on a pay-as-you-go basis.

For STRS, all benefit recipients are required to pay a portion of health care costs in the form of a monthly premium. By Ohio Law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14 percent of covered payroll. The board currently allocates employer contributions equal to 4.5 percent of covered payroll to the Health Care Reserve Fund for which payments for health care benefits are paid. The amount related for this benefit during the 2002 fiscal year has not been determined.

STRS pays health care benefits from the Health Care Reserve Fund. At June 30, 2001 (the latest information available) net health care costs paid by STRS were \$300,772,000 and STRS had 102,132 eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten or more fiscal years of qualifying service credit, disability and survivor benefit recipients. Members retiring on or after August 1, 1989, with less than twenty-five years of service credit must pay a portion of their premium for health care. The portion is based on years of service up to a maximum of 75 percent of the premium.

For this fiscal year, employer contributions to fund health care benefits were 8.54 percent of covered payroll. 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 2002, the minimum pay has been established at \$12,400. For the School, the amount to fund health care benefits, including surcharge, has not been determined.

The surcharge added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of the annual health care expenses. Expenses for health care for the fiscal year ended June 30, 2001 (the latest information available), were \$161,439,934 and the target level was \$242.2 million. At June 30, 2001, SERS had net assets available for payment of health care benefit of \$315.7 million. SERS has approximately 50,000 participants currently receiving health care benefits.

**10. 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 School.

**SABIS® INTERNATIONAL SCHOOL OF CINCINNATI  
HAMILTON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2002  
(Continued)**

**10. CONTINGENCIES (Continued)**

**B. STATE FUNDING**

The Ohio Department of Education conducts reviews of enrollment data and full time equivalency (FTE) calculations made by the schools. These reviews are conducted to ensure the schools are reporting accurate student enrollment data to the State, upon which state foundation funding is calculated. The School's review performed in January 2002, for fiscal year end June 30, 2001, revealed that the School was overpaid by \$16,750. This amount was repaid during the fiscal year.

**11. SUBSEQUENT EVENTS**

The SABIS® International School Board of Directors (School Board) operated the School through the 2002 school year, and provided notice to their service provider, Cincinnati Education Management LLC, a Delaware Limited Liability Company, terminating the operating agreement effective June 14, 2002. The School Board changed the School's name to Learning Opportunities of Greater Cincinnati, Inc. The Ohio Department of Education (ODE) did not believe that the School Board met the requirements to open a facility, and did not approve the School for operation for the July 1, 2002 through June 30, 2003 fiscal year. ODE requested a valid contract from the School Board which included a modified business plan. ODE discontinued foundation payments to the School in September 2002 and requested a refund from the School Board of the July and August 2002 foundation payments totaling \$588,253.

On October 11, 2002, the Ohio State Board of Education, the Ohio Department of Education (ODE) and the Superintendent of Public Instruction filed a temporary restraining order and preliminary injunction for recovery of state funds with the Hamilton County Common Pleas Court to require the School to cease operations, to provide the plaintiffs with a list of students, to stop spending funds advanced to them by the state, and return \$588,253 in funds advanced to them by the state in anticipation that the School would obtain approval for the 2002-2003 school year.

On October 22, 2002 the State Attorney General filed a motion in the Hamilton County Common Pleas Court to issue an Order finding the School in contempt for refusing to allow an inspection of the school required under an earlier court order, and to ensure the security of the \$588,253 in State funds.

On November 8, 2002, the Hamilton County Common Pleas Court ordered the School to cease operations and repay \$588,253 in state funds.

On December 19, 2002, ODE confirmed the receipt of a \$447,263 refund of the \$588,253 in state funds provided to the School. ODE stated that although the School had not authorized operations for the 2002-2003 school year, the ODE considered the status of the School to be open and are willing to work with the school to reinitiate operations. However, the ODE had not received the modifications to the School Charter that were required to reinitiate operations. The School still owes the ODE \$140,990.

**SABIS® INTERNATIONAL SCHOOL OF CINCINNATI  
HAMILTON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2002  
(Continued)**

**11. SUBSEQUENT EVENTS (Continued)**

**Distribution of Remaining Monies**

•	Bank Balance at 7/1/02	\$ 332,469
•	<b>Subsequent Receipts</b>	
•	July Foundation payment from ODE	297,662
•	August Foundation payment from ODE	290,591
•	School lunch reimbursement – May / June	23,724
•	Interest	2,598
•	Miscellaneous Reimbursements	1,022
	Total Receipts	<u>615,597</u>
•	<b>Subsequent Expenses</b>	
	<b><u>Expenses related to SABIS</u></b>	
•	ODE repayment for foundation payments	447,268
•	Legal fees	161,106
•	Bank Transfer to Sponsor	5,000
	<b><u>Expenses related to Learning Opportunities Inc. operations</u></b>	
•	Classroom equipment	50,329
•	Advertising school	3,208
•	Check written to Learning Opp. Inc.	37,000
•	Insurance	7,871
•	Miscellaneous	132
•	Moving Expenses	4,164
•	Office supplies	958
•	Payroll	51,786
•	Personnel Services	9,460
•	Professional Services	50,364
•	Misc. reimbursable expenses	11,099
•	Rent	25,450
•	STRS / SERS	4,794
•	Payroll and other taxes	21,232
•	Telephone	4,217
•	Bank Fees	<u>314</u>
	Total Expenses	<u>895,752</u>
•	Bank Balance at 7/31/03 (remaining distribution unknown)	<u>\$52,314</u>

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**SABIS® INTERNATIONAL SCHOOL OF CINCINNATI**

**HAMILTON COUNTY**

**SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES  
FOR THE YEAR ENDED JUNE 30, 2002**

Federal Grantor/ Pass Through Grantor Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Disbursements
<b><u>U.S. DEPARTMENT OF AGRICULTURE</u></b>				
<i>Passed Through Ohio Department of Education:</i>				
Nutrition Cluster:				
National School Lunch Program	LL-P1 / LL-P4	10.555	\$166,743	\$166,743
Total U.S. Department of Agriculture - Nutrition Cluster			<b><u>166,743</u></b>	<b><u>166,743</u></b>
<b><u>U.S. DEPARTMENT OF EDUCATION</u></b>				
<i>Passed Through Ohio Department of Education:</i>				
Title I - Disadvantaged Children	C1-S1 - 2002	84.010	217,547	217,547
Charter Schools Program	CH-SI	84.282	150,000	150,000
Title IV- Safe and Drug-Free Schools	DR-S1 - 2002	84.186	1,288	1,288
Title VI- Innovative Assistance Programs	C2-S1 - 2002	84.298	4,763	4,763
Title II - Eisenhower Professional Development Grant	MS-S1 - 2002	84.281	<u>10,432</u>	<u>10,432</u>
Total Department of Education			<b><u>384,030</u></b>	<b><u>384,030</u></b>
<b>Totals</b>			<b><u>\$ 550,773</u></b>	<b><u>\$ 550,773</u></b>

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

**SABIS INTERNATIONAL SCHOOL OF CINCINNATI  
HAMILTON COUNTY**

**NOTES TO THE SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES  
FOR THE YEAR ENDED JUNE 30, 2002**

**NOTE A--SIGNIFICANT ACCOUNTING POLICIES**

The accompanying schedule of federal awards receipts and expenditures (the Schedule) summarizes activity of the School'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.





# 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*

SABIS® International School of Cincinnati  
Hamilton County

Ohio State Board of Education  
Attention: Ms. Deborah S. Delisle, Superintendent of Public Instruction  
25 South Front Street  
Columbus, Ohio 43215-4183

To the Board of Trustees and Sponsor:

We were engaged to audit the financial statements of SABIS International School of Cincinnati, Hamilton County, Ohio (the School), as of and for the year ended June 30, 2002 and have issued our report thereon dated December 8, 2010 in which we disclaimed an opinion upon the financial statements because School failed to prepare financial statements including the required Statement of Net Assets, Statement of Revenues, Expenditures, and Changes in Net Assets, Statement of Cash Flows and the required note disclosures, evidence regarding the accuracy of Foundation payments and other revenues and evidence to support the completeness and accuracy of expenses. We were unable to obtain written representations from the school's management or legal counsel or board minutes. In addition, our report indicated the School ceased to exist as of June 30, 2002 and the school has unpaid audit fees and the AOS was not independent under *Government Auditing Standards* on this engagement.

### **Internal Control Over Financial Reporting**

In planning and performing our engagement, we considered the School's internal control over financial reporting as a basis for designing our audit procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of opining on the effectiveness of the Government's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the Government'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 was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. Therefore, we cannot assure that we have identified all deficiencies, significant deficiencies or material weaknesses. However, as described in the accompanying schedule of findings and questioned costs we identified certain deficiencies in internal control over financial reporting, that we consider material weaknesses and other deficiencies we consider to be significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and timely corrected. We consider findings 2002-004 through 2002-005, 2002-007, 2002-009 and 2002-010 described in the accompanying schedule of findings and questioned costs to be material weaknesses.

A significant deficiency is a deficiency or a combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider findings 2002-006 and 2002-008 described in the accompanying schedule of findings and questioned costs to be significant deficiencies.

### **Compliance and Other Matters**

As part of reasonably assuring whether the Government's financial statements are free of material misstatement, we were engaged to test 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 instances of noncompliance or other matters that we must report under *Government Auditing Standards* which are described in the accompanying schedule of findings and questioned costs as items 2002-001 through 2002-003, 2002-005, 2002-007, and 2002-009 through 2002-010.

We intend this report solely for the information and use of management, the service provider, sponsor, federal awarding agencies, and pass-through entities. It is not intended for anyone other than these specified parties.



**Mary Taylor, CPA**  
Auditor of State

December 8, 2010



# 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 REQUIRED BY OMB CIRCULAR A-133

SABIS® International School of Cincinnati  
Hamilton County

Ohio State Board of Education  
Attention: Ms. Deborah S. Delisle, Superintendent of Public Instruction  
25 South Front Street  
Columbus, Ohio 43215-4183

To the Board of Trustees and Sponsor:

#### Compliance

We were engaged to audit the compliance of SABIS® International School of Cincinnati, Hamilton County, Ohio (the School), 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 fiscal year ended June 30, 2002. We were unable to perform the audit because of a lack of evidence supporting federal receipts and disbursements. The Auditor of State also had independence impairment according to *Government Auditing Standards* on this engagement due to our office preparing the schedule of federal awards receipts and expenditures for this engagement as no schedule was prepared by the School. The School's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to its major federal programs. Our responsibility is to express an opinion on the City's compliance based on our audit.

We were unable to conduct our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits included in the Comptroller General of the United States' *Government Auditing Standards*; 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 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 School's compliance with those requirements and performing other procedures we considered necessary in the circumstances. Our engagement does not provide a legal determination on the School's compliance with those requirements.

While we were generally unable to perform the procedures required by OMB Circular A-133, we did determine the noncompliance findings described in the following two paragraphs. As described in item 2002-013 and 2002-014 in the accompanying schedule of findings and questioned costs we were unable to determine if the School complied with the requirements of the eligibility of students for the Title I - Grants to Local Educational Agencies and the lack of supporting documentation of allowable costs related to the Charter Schools Program major federal programs for the year ended June 30, 2002 as described in the U. S. Office of Management and Budget (OMB) Circular A-133, *Compliance Supplement*. Nor were we able to satisfy ourselves as to the School's compliance with those requirements by other auditing procedures.

As described in item 2002-012 the School did not present a schedule of federal awards receipts and expenditures. We were also unable to adequately obtain and test the supporting documentation to determine the completeness and existence of the schedule of federal awards receipts and expenditures and the federal financial records. Since the School did not provide the evidence described in the above paragraph and we were not independent according to *Government Auditing Standards* with respect to the School and the schedule of federal awards receipts and expenditures, the scope of our auditing procedures were not sufficient to enable us to express, and we do not express, an opinion on whether the School had complied with the requirements in regard to its major federal programs for which it had received funding.

The results of our auditing procedures also disclosed another instance of noncompliance with those requirements that OMB Circular A-133 require us to report, which is described in the accompanying schedule of findings and questioned costs as item 2002-011.

### **Internal Control Over Compliance**

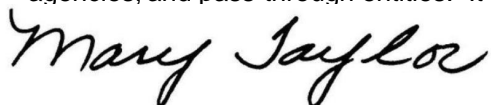
The School's management is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our engagement, we considered the School's internal control over compliance with requirements that could directly and materially affect a major federal program in order to determine our auditing procedures for the purpose of opining on compliance in accordance with OMB Circular A-133, but not for the purpose of opining on the effectiveness of internal control over compliance. Accordingly, we have not opined on the effectiveness of the School's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and therefore, we cannot assure we have identified all deficiencies, significant deficiencies, or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses. and other deficiencies that we consider to be significant deficiencies.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, when performing their assigned functions, to prevent, or to timely detect and correct, noncompliance with a federal program compliance requirement. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a federal program compliance requirement will not be prevented, or timely detected and corrected. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2002-012 through 2002-014 to be material weaknesses.

*A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a federal program compliance requirement that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2002-011 to be a significant deficiency.

We intend this report solely for the information and use of management, the sponsor, federal awarding agencies, and pass-through entities. It is not intended for anyone other than these specified parties.

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

December 8, 2010

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**SABIS® INTERNATIONAL SCHOOL OF CINCINNATI  
HAMILTON COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
OMB CIRCULAR A -133 § .505  
JUNE 30, 2002**

**1. SUMMARY OF AUDITOR'S RESULTS**

<b>(d)(1)(i)</b>	<b>Type of Financial Statement Opinion</b>	<b>Disclaimer</b>
<b>(d)(1)(ii)</b>	<b>Were there any material control weaknesses reported at the financial statement level (GAGAS)?</b>	<b>Yes</b>
<b>(d)(1)(ii)</b>	<b>Were there any significant deficiencies in internal control reported at the financial statement level (GAGAS)?</b>	<b>Yes</b>
<b>(d)(1)(iii)</b>	<b>Was there any reported material noncompliance at the financial statement level (GAGAS)?</b>	<b>Yes</b>
<b>(d)(1)(iv)</b>	<b>Were there any material internal control weaknesses reported for major federal programs?</b>	<b>Yes</b>
<b>(d)(1)(iv)</b>	<b>Were there any significant deficiencies in internal control reported for major federal programs?</b>	<b>Yes</b>
<b>(d)(1)(v)</b>	<b>Type of Major Programs' Compliance Opinion</b>	<b>Disclaimer</b>
<b>(d)(1)(vi)</b>	<b>Are there any reportable findings under § .510?</b>	<b>Yes</b>
<b>(d)(1)(vii)</b>	<b>Major Programs (list):</b>	<b>CFDA # 84.010 - Title I Grants to Local Educational Agencies</b>  <b>CFDA # 84.282 –Charter Schools Program</b>
<b>(d)(1)(viii)</b>	<b>Dollar Threshold: Type A/B Programs</b>	<b>Type A: &gt; \$ 300,000</b> <b>Type B: all others</b>
<b>(d)(1)(ix)</b>	<b>Low Risk Auditee?</b>	<b>No</b>

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

**FINDING NUMBER 2002-001**

**Finding for Recovery**

On December 20, 2002, check number 1083 was written out of the Bank One bank account made payable to Bank One, with a notation on the check "cashier's check to Learning Opp." The check was signed by Tracey Lowe, Governing Authority Chairman of Learning Opportunities of Greater Cincinnati, Inc. (LOGC) and was written in the amount of \$37,000. No documentation was provided in the records obtained via subpoena to document the purpose of this check nor was there evidence that it was deposited into another bank account of SABIS / LOGC.

Due to the lack of documentation to support that these funds were expended for educational purposes it could not be determined that these funds were used for a proper public purpose.

In accordance with the foregoing facts and pursuant to **Ohio Revised Code, Section 117.28**, a finding for recovery for public money illegally expended is hereby issued against Tracey Lowe, LOGC Governing Authority Chairman as the signatory on the check in the amount of \$37,000, and in favor of the Ohio Department of Education.

**FINDING NUMBER 2002-002**

**Finding for Recovery**

The SABIS Board had a checking account and market index account in which monies were on deposit with Bank One. Signatories on the bank accounts evidenced by signature cards provided as of January 28, 2002 indicated Tracey Lowe and Damita Jo Ramsey were signatories on the account. Bank records subpoenaed by our office were provided by Bank One up to July 31, 2003 at which time there was a depository balance of \$12,865.80 (\$25.51 in checking and \$12,840.29 in market index). No additional documentation was provided in other subpoenaed records to support that this remaining balance in the bank accounts was expended for an educational purpose of the School or that the funds were used for a proper public purpose.

In accordance with the foregoing facts and pursuant to **Ohio Revised Code, Section 117.28**, a finding for recovery for public money illegally expended is hereby issued against Tracey Lowe, LOGC Governing Authority Chairman and Damita Jo Ramsey, joint and severally as the signatories on the Bank One accounts in the amount of \$12,865 and in favor of the Ohio Department of Education.

**FINDING NUMBER 2002-003**

**Finding for Recovery**

The SABIS Board had a checking account with monies on deposit with US Bank. On October 1, 2002 the account had an accountholder name change to Learning Opportunities Inc. – Attention Tracey Lowe. No signatory cards were provided for audit; however, review of subpoenaed bank statements and cancelled checks provided by the bank indicated that most of the checks were signed by Tracey Lowe with a few having signature by Damita Jo Ramsey.

Bank records subpoenaed by our office were provided by U S Bank from June 29, 2001 through July 31, 2003. As of July 31, 2003 there was a depository balance of \$39,448.36 remaining in the bank account. No additional documentation was provided in other subpoenaed records to support that this remaining balance in the bank account was expended for an educational purpose of the School or that the funds were used for a proper public purpose.



**FINDING NUMBER 2002-003  
(Continued)**

In accordance with the foregoing facts and pursuant to **Ohio Revised Code, Section 117.28**, a finding for recovery for public money illegally expended is hereby issued against Tracey Lowe, LOGC Governing Authority Chairman, as the individual indicated on the bank statements as to whom the account information was mailed and also as supported by the main signatory on those subpoenaed cancelled checks provided by the bank in the amount of \$39,448 and in favor of the Ohio Department of Education.

**FINDING NUMBER 2002-004**

**Material Weakness**

**Board Oversight – Monitoring Contract and Controls**

A contract was entered into on July 7, 1999 between the Ohio State Board of Education, as the Sponsor of the school, and the governing authority of SABIS International School of Cincinnati to operate as a charter school. This contract along with various exhibits outlined the responsibilities of the Governing Board and the Sponsor.

The Board was responsible for all aspects of the School, even though the operations of the School were contracted to CEM. Effective management by the Board should have include monitoring for compliance with the various aspects of their contract with the sponsor, and monitoring for compliance related to the Board's Contract with CEM. Additionally, effective oversight by the Board should have included the monitoring of all agreements that could have created financial liabilities for which the Board was responsible. These agreements should have been reviewed to verify that they were legal and the related financial records should have been monitored to determine potential liability.

The contract also called upon the Sponsor to evaluate the performance of SABIS International School of Cincinnati in accordance with the contract.

The Community School Contract, Exhibit 2 provided that, "Any start-up funding needed will be provided through a one-year loan from SABIS®. Start-up funding needs will be low because the School will lease the school facilities and all equipment from SABIS®, so capital expense will be low." The Board did not monitor these start-up costs and was unable to determine the School's potential liability. It was not until August 14, 2002, that Cincinnati Education Management LLC (CEM) represented to the Board that the "promissory note expired on its due date of July 16, 2001 without ever having been utilized."

Also, the Service Provider Agreement, Section 6.3, provides that if funds transferred to CEM by the School are not sufficient to cover operating expenses, management and license fees, the shortfall that exists in management and license fees will accrue as a loan from CEM to the School and be repaid in the first subsequent quarter in which sufficient funds are transferred from the School to CEM. Although no loan existed at June 30, 2002, the Board did not monitor and retain complete and accurate records related to the School's potential indebtedness to CEM.

The Board did not monitor for compliance with the sponsor or CEM contracts. Because of this lack of oversight, the Board could not determine whether procedures and practices carried out by CEM were in compliance with applicable laws, regulations and contracts. The Board indicated the management company would not provide certain records including financial reports, financial statements and notes, and the insurance policy. These records would have allowed the Board to monitor the financial position and operations of the School more effectively.

**FINDING NUMBER 2002-004  
(Continued)**

The Community School Contract, Section B, Financial Plan, stated that the Board should maintain financial records of the School in the same manner as are financial records of school districts. Although the School contracted with CEM to assist it with carrying out its administrative, financial, and operational duties, there was no evidence that the Board monitored the preparation and maintenance of such records.

Exhibit 2 of the Community School Contract provided that budgets would be reviewed by the Finance Committee of the Board on a quarterly basis and adjusted as necessary. Exhibit 3 of the Community School Contract required the Finance Committee to review, approve and monitor budgets. We could not determine whether the "Quarterly Financial Activity Reports" were prepared and provided to the Finance Committee of the Board to effectively monitor the budget. The Board did not provide evidence that they approved "Quarterly Financial Activity Reports" provided by the business manager, an employee of the management company, for any of the Board meetings during our audit period.

Failure to monitor the contracts, regulations, and agreement requirements could have increased the risk of material noncompliance, material misstatements of the financials, and the loss of their charter. The Board should have addressed areas of responsibility in their quarterly meetings and documented all official proceedings and actions by the Board.

**FINDING NUMBER 2002-005**

**Material Noncompliance/Material Weakness**

**Board Minutes and Contractual Agreements**

When read together, Ohio Rev. Code, Sections 121.22 and 149.43, imposed a duty on the school to maintain a full and accurate record of their proceedings. See, White v. Clinton Cty. Bd. Of Commrs., 76 Ohio St.3d 416 (1996). Minutes of meetings must be promptly recorded and open for public inspection. State, ex rel. The Fairfield Leader v. Ricketts, 56 Ohio St.3d 97 (1990).

The Board minutes from July 1, 2001 through June 30, 2002 were not presented for review. Most responsibilities of the Board were defined in the Ohio Revised Code, the Board's Code of Regulations, the Community School Contract between the Ohio State Board of Education and the governing authority of SABIS® International School of Cincinnati, the Service Provider Agreement and the Lease.

1. Exhibit 3 of the Community School Contract provided that:
  - The Board was to determine the date, time and place for the Annual Meeting and the regular meetings at the first Board meeting.
  - At the Annual meeting the Board was to elect officers.
  - The initial directors of the Board were to be appointed by resolution of the Board and would consist of a President, Vice President/Secretary, and Treasurer.
  - The Board was to have two standing committees: a Finance Committee and an Accountability Committee appointed at the Annual meeting.
  - The School was to be governed by the Board.

There was also no evidence of an annual meeting, regular meetings or the appointment of the initial or subsequent directors of the Board and committees.

**FINDING NUMBER 2002-005  
(Continued)**

2. Although the School contracted with CEM to assist it with carrying out its administrative, financial, and operational duties, there were no resolutions authorizing/approving actions of the Service Provider on behalf of the School approved by the Board during the audit period.
3. Per the Service Provider Agreement, the Service Provider was to prepare an "Annual Budget" broken down by quarters, for approval by the Board. There was no evidence of an Annual Budget being approved in the minutes for the period under audit. An Annual Budget was approved in the Community School Contract.
4. There was no evidence that the Board approved the Service Provider Agreement, the Lease with Cincinnati Property Management of Ohio LLC, loans from the management company and the application for tax exempt status. These documents were signed only by the former Board President.

The minutes of the Board should have included the following information:

- Minute proceedings, including all attachments, should have been recorded on numbered pages and placed into a bound book to ensure their completeness and prohibit changes;
- Proceedings should have been read aloud and approved by a vote of the meeting body at the subsequent meeting to verify their accuracy and authenticity;
- Budgets, spending plans and financial reports should have been submitted to and approved by the Board at each quarterly meeting. These reports should have been thoroughly reviewed by the Board and discrepancies resolved in a satisfactory manner.
- All official actions should have been voted on by the Board and the vote should have been documented;
- Minutes should have stated the type of meeting held.

**FINDING NUMBER 2002-006**

**Significant Deficiency**

**Bank Signature Cards**

The Board did not provide evidence of signature cards for their U.S. Bank account to document the person(s) who are authorized to conduct business and sign checks for the account. Subpoenaed information provided by Bank One did show that signatory cards were on file for the School. The Board did not present this information for audit. Failure to maintain and update this information could have resulted in unauthorized transactions for the account, and a possible risk of financial loss. The Board should have maintained updated signature cards for their bank account(s).

## FINDING NUMBER 2002-007

### Material Noncompliance/Material Weakness

#### Lack of GAAP Financial Statements

Management is responsible for implementing and maintaining a system of controls designed to enable management to determine the accuracy of financial transactions of the School. Also, management is responsible for developing and maintaining complete and accurate financial records.

Ohio Admin. Code, Section 117-2-02(A), requires public offices to maintain an accounting system and accounting records sufficient to identify, assemble, analyze, classify, record and report its transactions, maintain accountability for the related assets, document compliance with finance-related legal and contractual requirements and prepare financial statements.

The School did not provide accounting records which were sufficient evidence to support the completeness of the Assets, Liabilities, and beginning and ending Net Assets, Revenues, Expenses, Cash Flows and Disclosures as presented on the financial statements of the School.

**Ohio Revised Code, Section 117.38**, provides that each public office shall file a financial report for each fiscal year. The Auditor of State may prescribe forms by rule or may issue guidelines, or both, for such reports. If the Auditor of State has not prescribed a rule regarding the form for the report, the public office shall submit its report on the form utilized by the public office. Ohio Administrative Code Section 117-2-03 further clarifies the requirements of **Ohio Revised Code, Section 117.38**. Ohio Administrative Code, Section 117-2-03, states, in part, that all community schools shall file annual financial reports which are prepared using generally accepted accounting principles (GAAP). Also, entities must publish notice in a local newspaper stating the financial report is available for public inspection at the office of the chief fiscal officer.

The School did not file their fiscal year 2002 annual report with the Auditor of State or publish notice in a local newspaper stating the report was available for inspection. Failure to file an annual report with the Auditor of State can result in penalties to the School. Failure to publish notice in the newspaper stating the annual report is available for inspection can result in the public being unaware of the financial operations of the School.

Due to the lack of GAAP financial statements provided for audit, the Auditor of State issued an unauditible letter to the School requiring them to prepare these statements within 90 days of receipt. Financial statements were never presented by the School for audit. Financial records had to be obtained via subpoena. The Auditor of State's office then prepared the financial statements and footnote disclosures from records obtained via subpoena and information we were able to obtain from third parties such as the Ohio Department of Education. Since there was no management from the School available to assist the Auditor of State in the preparation of financial statements, the Auditor of State was required to make management decisions. This resulted in the Auditor of State having an independence impairment in accordance with *Government Auditing Standards* for this engagement.

It is important that the School develop and present financial statements which are comprised of all required financial statements and disclosures. The School should have reviewed their current procedures and available resources to assure that GAAP financial statements and footnotes could have been prepared and filed with the Auditor of State within 150 days of year end. Without properly prepared financial statements, the uses or the financial statements, including the Governing Authority and parents could reach improper conclusions on the School. We recommend the sponsor of the School monitor the preparation of the financial statements to help ensure the school is complying with laws and regulations regarding completing and filing of annual financial statements.

## FINDING NUMBER 2002-008

### Significant Deficiency

#### Determination of funds due to ODE

The School Board terminated its contracts with CEM and CPM effective June 30, 2002. The School Board then changed the School's name to Learning Opportunities of Greater Cincinnati, Inc. (LOGC), and planned to open for operation for the July 1, 2002 through June 30, 2003 fiscal year. SABIS' break with CEM was a fundamental premise of the community school contract SABIS had with ODE. Due to this contract modification, the parties had to restructure their arrangement in order to operate for the 2002-2003 school year.

The Ohio Department of Education (ODE) sent payments totaling \$588,253.51 for July and August 2002 Foundation payments. However, the School never presented the Ohio Department of Education (ODE) with a valid contract including a modified business plan; and therefore, was permanently closed for operation. Although LOGC did start classes in September 2002, they operated in violation of state law.

On October 11, 2002, the Ohio State Board of Education, ODE and Ohio's Superintendent of Public Instructions filed a Motion for Preliminary Injunction against LOGC / SABIS to recover the \$588,253.51 of school foundation funding sent to the School. A court order was filed November 8, 2002 which required LOGC to immediately cease and desist operating and / or holding itself out as a state sponsored public school until further court order and required immediate repayment to the State of Ohio the remainder of the \$588,252,51 in state funds advanced to LOGC by the Ohio State Board of Education during calendar year 2002. As a result of this order ODE confirmed that on December 17, 2002, \$447,263.11 was received by ODE and "credited" to the July overpayment and partly to the August overpayment however \$140,990.40 was still owed by the School to ODE.

Although the School officially ended operations as SABIS International School of Cincinnati at June 30, 2002, and began operations as Learning Opportunities of Greater Cincinnati, Inc., they continued to deposit to and write checks from bank accounts under the name of SABIS International School of Cincinnati. This practice could have resulted in misrepresentation of who they were, and could have implied that they continued to have ties with SABIS Education System, Inc.

The School Board should consult with their legal counsel to determine what if any action they should take since the school may have outstanding liabilities due to the Ohio Department of Education.

This matter will be referred to the Ohio Department of Education.

## FINDING NUMBER 2002-009

### Material Noncompliance / Material Weakness

#### Lack of Supporting documentation

**Ohio Revised Code, Section 149.351**, provides that no public record shall be removed or disposed of, in whole or part, except as provided by law or under the rules adopted by the records commissions provided for under Ohio Revised Code, Section 149.28 to 149.42.

- The School did not maintain support or any documentation for receipts. We were able to trace receipts to third party verification. IE: Distribution Transaction Listing, Federal Subsidy Report, Summary Foundation settlement sheets and the CCIP application on the Ohio Department of Education's website.

**FINDING NUMBER 2002-009  
(Continued)**

- The School was ordered via subpoena but did not make available the minute records of the Board, receipts or disbursement ledgers, a cash journal or general ledger, check register, expenditure documentation such as invoices, bank reconciliations, supporting documentation for any receipts, insurance policies, federal grants documentation. The documentation submitted by the school and obtained via subpoena was incomplete.
- In relation to student data, the School did not provide grade cards, schedules, attendance records, transcripts, and student files for each student. The School did not provide supporting documentation for student full-time equivalents reported to the Ohio Department of Education (ODE); the full-time equivalencies are used by ODE to calculate the School's State Foundation Settlement payment amounts shown as Foundation Payment revenue of \$3,222,090 on the School's Statement of Revenue, Expenses and Changes in Retained Earnings.

Failure to maintain supporting documentation can and did result in posting errors of financial activity and questions regarding funding received. In order to provide complete and accurate financial statements; as well as, audit documentation, we recommend the School maintain all records regarding financial activity for the school.

**FINDING NUMBER 2002-010**

**Material Noncompliance/Material Weakness**

**Lack of Schedule of Federal Awards Receipts and Expenditures**

Finding Number 2002-015 describes deficiencies in preparing the School's schedule of federal awards receipts and expenditures. We believe this finding also represents material noncompliance and a material weakness under 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*

<b>3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS</b>
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**FINDING NUMBER 2002-011**

**Federal Noncompliance / Significant Deficiency - Reporting**

**OMB Circular A-133 Section .300(e)** provides that the auditee is responsible for appropriate submission of the audit reports to the appropriate government officials and organizations.

**OMB Circular A-133 Section .320(a)** further provides that the audit report and data collection form must be submitted within the earlier of 30 days after the reports are received from the auditors, or nine months after the end of the audit period, unless a longer period is agreed upon in advance by the cognizant or oversight agency.

No evidence was provided that the School had notified the cognizant or oversight agency when it became apparent that an audit report and data collection form would not be available within the prescribed reporting time.

We recommend management monitor the reporting requirements of the School to ensure proper submission of audit report filings or notification to the oversight agency.

**FINDING NUMBER 2002-012**

**Federal Noncompliance / Material Weakness - Reporting**

**OMB Circular No. A-133 Section .310(b)** states that the auditee shall prepare a schedule of federal awards receipts and expenditures for the period covered by the auditee’s financial statements.

The School did not prepare a schedule of federal awards receipts and expenditures for the audit period. Also the School failed to present financial records of the expenditures made from all federal grant funds. However from information provided by the ODE and our review of the subpoenaed bank statements obtained by the Auditor of State, we were able to prepare a schedule for the audit period. The Auditor of State’s preparation of the schedule represents an impairment of independence according to *Government Auditing Standards* since there was no management available to review or assist in the preparation of this schedule. Since the School did not present sufficient evidential matter related to the schedule of federal awards receipts and expenditures, we are unable to express an opinion on the schedule of federal awards receipts and expenditures. This resulted in a failure by the School to comply with federal requirements noted above and could result in the loss of federal financial assistance.

**FINDING NUMBER 2002-013**

<b>CFDA Title and Number</b>	Grants to Local Education Agencies – (Title I) CFDA # 84.010
<b>Federal Award Number/ Year</b>	C1-S1 / 2002
<b>Federal Agency</b>	U.S. Department of Education
<b>Pass-Through Agency</b>	Ohio Department of Education

**Federal Noncompliance / Material Weakness / Questioned Cost – Eligibility, Allowable Costs**

**2 C.F.R. Part 225 (formerly known as OMB Circular A-87), Appendix A, Section A(2)(a)(2)** states that governmental units assume responsibility for administrating Federal funds in a manner consistent with underlying agreements, program objectives, and the terms and conditions of the Federal award.

**2 C.F.R. Part 225 (formerly known as OMB Circular A-87), Appendix A, Section C(1)(j)** also provides that for a cost to be allowable, the expenditure must be adequately documented.

**OMB Circular No. A-133 Section .105** defines questioned costs, in part, as a cost that is questioned by the auditor because of an audit finding where the costs, at the time of the audit, are not supported by adequate documentation.

During our engagement to audit the financial records of the School, we were unable to determine if the School complied with the requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133, *Compliance Supplement*, for the Title I major federal program. The School operated a target assistance versus a school wide program and thus based upon certain attributes these services were to be offered only to students that met certain eligibility requirements.

The School did not provide documentation to enable a review of the compliance with the Circular. We were not provided with documentation supporting participant eligibility of listing of students for the program. Based on the inability to perform an audit, we question all of the costs for this program.

Accordingly, a questioned cost is issued in the amount of \$217,547, equal to the Federal Awards identified which were received during the year ended June 30, 2002, due to the School not providing documentation that services were rendered to eligible students.

**FINDING NUMBER 2002-013  
 (Continued)**

The School should ensure that documentation supporting direct costs of the Title I Program is maintained to demonstrate expenditures meet the direct costs provisions for expenditures incurred. The School should also contact the Ohio Department of Education to determine if repayment of these funds is necessary.

**FINDING NUMBER 2002-014**

<b>CFDA Title and Number</b>	84.282 - Charter Schools Program
<b>Federal Award Number/ Year</b>	CH-S1 / 2002
<b>Federal Agency</b>	U.S. Department of Education
<b>Pass-Through Agency</b>	Ohio Department of Education

**Noncompliance Citation / Material Weakness / Questioned Cost - Allowable Costs / Cost Principles**

**2 C.F.R. Part 225 (formerly known as OMB Circular A-87), Appendix A, Section C(1)(j)** provides that for a cost to be allowable, the expenditure must be adequately documented.

**2 C.F.R. Part 225 (formerly known as OMB Circular A-87), Appendix C, Section A.1** also provides, in part, that all costs and other data used to distribute the costs included in the plan should be supported by formal accounting and other records that will support the propriety of the costs assigned to Federal awards.

**OMB Circular No. A-133 Section .105** defines questioned costs, in part, as a cost that is questioned by the auditor because of an audit finding where the costs, at the time of the audit, are not supported by adequate documentation.

**OMB Circular No. A-133 Section .300(a)** requires the grantee identify, in its accounts, all Federal awards received and expended and the Federal programs under which they were received. Also, each federal program has specific requirements in regard to the allowable expenditure of these federal funds.

During our engagement to audit the financial records of the School, we were not given documentation for the existence of this grant or financial records detailing the expenditure of these funds. The grant funds were maintained in the Board's bank account and not handled by the service provider. Based on the lack of records we were unable to determine if the School complied with the requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133, *Compliance Supplement*.

Accordingly, a questioned cost is issued in the amount of \$150,000 equal to the Federal Awards identified which were received during the year ended June 30, 2002 of Charter Schools Program funds, due to the School not providing documentation for any expenditures of those funds related to this federal grant.

The School should ensure that documentation supporting direct costs of the Charter Schools Programs is maintained to demonstrate expenditures meet the direct costs provisions for expenditures incurred. The School should also contact the Ohio Department of Education to determine if repayment of these funds is necessary.



**Officials' Response to the findings reported above:**

During the period of time we are discussing we were in litigation and normal procedures did not apply. Under advisement of counsel and per Judge West's order, the board was directed to discontinue any activities, return remaining funds and subsequently the board was dissolved.

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**SABIS® INTERNATIONAL SCHOOL OF CINCINNATI  
HAMILTON COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS  
JULY 1, 2001 THROUGH JUNE 30, 2002**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <b><i>Explain</i></b>
2001-10431-001	Failure to monitor agreements and potential financial liabilities	No	Not Corrected – reissued as finding 2002-004
2001-10431-002	Failure to monitor compliance with sponsor and service provider contracts	No	Not Corrected – reissued as finding 2002-004
2001-10431-003	ORC 121.22 and 149.43, Failure to maintain full and accurate Board meeting minutes	No	Not Corrected – reissued as finding 2002-005
2001-10431-004	Accurate bank signature cards not maintained.	No	Not Corrected – reissued as finding 2002-006
2001-10431-005	OAC 117-2-03 and ORC 117.38, Failure to prepare and file GAAP financial statements.	No	Not Corrected – reissued as finding 2002-007

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**Mary Taylor, CPA**  
Auditor of State

**SABIS INTERNATIONAL SCHOOL OF CINCINNATI**

**HAMILTON 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  
JANUARY 4, 2011**