



Balestra, Harr & Scherer, CPAs, Inc.

Accounting, Auditing and Consulting Services for Federal, State and Local Governments

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NEW BEGINNINGS ACADEMY
FRANKLIN COUNTY

REGULAR AUDIT

For the Year Ended June 30, 2011
Fiscal Year Audited Under GAGAS: 2011



Dave Yost • Auditor of State

Board of Trustees
New Beginnings Academy
3330 Scottwood Road
Columbus, Ohio 43227

We have reviewed the *Independent Auditor's Report* of the New Beginnings Academy, Franklin County, prepared by Balestra, Harr & Scherer, CPAs, Inc., for the audit period July 1, 2010 through June 30, 2011. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

A handwritten signature in black ink that reads "Dave Yost".

Dave Yost
Auditor of State

June 18, 2012

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NEW BEGINNINGS ACADEMY
YEAR ENDED JUNE 30, 2011

TABLE OF CONTENTS

<u>TITLE</u>	<u>PAGE</u>
Independent Auditor's Report	1-2
Financial Statements:	
Statement of Net Assets	3
Statement of Revenues, Expenses, and Change in Net Assets	4
Statement of Cash Flows.....	5
Notes to the Basic Financial Statements.....	6-18
Report on Internal Control over Financial Reporting and on Compliance and Other Matters Required by <i>Government Auditing Standards</i>	19-20
Schedule of Findings	21-23
Independent Auditor's Report on Applying Agreed Upon Procedures	24-25

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Accounting, Auditing and Consulting Services for Federal, State and Local Governments

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Independent Auditor's Report

Members of the Board
New Beginnings Academy
Franklin County, Ohio
3330 Scottwood Road
Columbus, Ohio 43227

We have audited the accompanying financial statements of the business-type activities of the New Beginnings Academy, Franklin County, Ohio, (the School), as of and for the year ended June 30, 2011, 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.

Except as discussed in the following paragraph, 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.

We were unable to obtain sufficient evidential matter supporting the amounts recorded as operating expenses or the related financial statement disclosures. Operating expenses are reported at \$584,552 for the year ended June 30, 2011. Additionally, we were unable to obtain sufficient audit evidence relating to the management company expenses disclosed in Note 11 which discloses management company expenses of \$584,552. We were unable to determine the completeness or accuracy of operating expenses, or the management company expense disclosure in Note 11 through alternative procedures.

In our opinion, except for the effects of such adjustments or changes to operating expenses and management company expenses note disclosure, if any, as might have been determined necessary had we been able to examine evidence regarding the operating expenses of the School or the management company expenses disclosure, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of New Beginnings Academy, Franklin County, Ohio, as of June 30, 2011, and the change in financial position and cash flows, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 27, 2012, 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. The 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.

The School has not presented *Management's Discussion and Analysis*, which accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of, the financial statements.

The accompanying financial statements have been prepared assuming that the School will continue as a going concern. As discussed in Note 13 to the financial statements, as shown in the financial statements, the School has significant liabilities as a result of overpayment from ODE through the State Foundation Program, unpaid operating expenses, outstanding notes payable and a minimal cash balance as of June 30, 2011. These conditions raise substantial doubt about the School's ability to continue as a going concern. Management's plans regarding those matters are described in Note 14. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.



Balestra, Harr & Scherer, CPAs, Inc.
April 27, 2012

NEW BEGINNINGS ACADEMY
FRANKLIN COUNTY

Statement of Net Assets
June 30, 2011

Assets	
Current Assets:	
Cash and cash equivalents	\$ 2,975
	<u> </u>
Total Assets	<u>\$ 2,975</u>
Liabilities	
Current Liabilities:	
Accounts Payable	\$ 926
Intergovernmental Payable	117,041
Edison Payable	195,436
Note Payable to Edison-Current	116,665
	<u> </u>
Total Liabilities	\$ 430,068
Net Assets	
Unrestricted	<u>(427,093)</u>
Total Net Assets	<u>\$ (427,093)</u>

See accompanying notes to the basic financial statements.

NEW BEGINNINGS ACADEMY
FRANKLIN COUNTY

Statement of Revenues, Expenses and Change in Net Assets
For the Fiscal Year ended June 30, 2011

Operating Revenues	
State Foundation	\$ 141,544
Other Miscellaneous	<u>100</u>
Total Operating Revenues	<u>141,644</u>
Operating Expenses	
Purchased Services- Management Fees	555,852
Other Operating Expenses	<u>28,700</u>
Total Operating Expenses	<u>584,552</u>
Operating (Loss)	<u>(442,908)</u>
Non-Operating Revenues/(Expenses)	
Federal Grants	20,491
Interest Expense	<u>(4,676)</u>
Total Non-Operating Income	<u>15,815</u>
Change in Net Assets	(427,093)
Net Assets at Beginning of Year	-
Net Assets at End of Year	<u><u>\$ (427,093)</u></u>

See accompanying notes to the basic financial statements.

NEW BEGINNINGS ACADEMY
FRANKLIN COUNTY

Statement of Cash Flows
For the Fiscal Year ended June 30, 2011

Increase (Decrease) in Cash and Cash Equivalents:

Cash Flows from Operating Activities

Cash Received from State of Ohio	\$ 257,149
Cash Received from Miscellaneous Sources	100
Cash Payments to Suppliers for Goods and Services	<u>(271,525)</u>

Net Cash Used for Operating Activities (14,276)

Cash Flows from Non-Capital Financing Activities

Cash Received from Federal Grants	21,927
Cash Payments for Interest Expense	<u>(4,676)</u>

Net Cash Provided by Non-Capital Financing Activities 17,251

Net Increase in Cash and Cash Equivalents 2,975

Cash and Cash Equivalents at Beginning of Year -

Cash and Cash Equivalents at End of Year \$ 2,975

Reconciliation of Operating Loss to Net Cash

Used for Operating Activities:

Operating Loss (442,908)

Adjustments to Reconcile Operating Loss to Net Cash

Used for Operating Activities:

Changes in Liabilities:

Increase in Accounts Payable	926
Increase in Intergovernmental Payable	115,605
Increase in Edison Payable	195,436
Increase in Note Payable to Edison	<u>116,665</u>

Total Adjustments 428,632

Net Cash Used for Operating Activities \$ (14,276)

See accompanying notes to the basic financial statements.

NEW BEGINNINGS ACADEMY
FRANKLIN COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2011

1. DESCRIPTION OF THE SCHOOL AND REPORTING ENTITY

New Beginnings Academy, previously East Columbus Drop Back In (“the School”) is a nonprofit corporation established pursuant to Ohio Rev. Code Chapters 3314 and 1702 to maintain and provide a school to provide the ‘opportunity for success’ to, and motivate and instruct, these students who fail to learn in traditional school settings and have decided to drop out of the school system. Included in this population are students described as generally disruptive with chronic behavioral issues, students who have been suspended or expelled, and students with special needs. It will advocate student achievement in school and in life via individualized learning that ensures every student meets all expected performance standards, graduates, and is able to compete on a global scale. The School, which is part of the State’s education program, is independent of any School and is nonsectarian in its programs, admission policies, employment practices, and all other operations.

The School may sue and be sued, acquire facilities as needed, and contract for any services necessary for the operation of the School. The School qualifies as an exempt organization under Section 501(c)(3) of the Internal Revenue Code. Management is not aware of any course of action or series of events that have occurred that might adversely affect the school’s tax-exempt status.

The creation of the School was initially proposed to Education Resource Consultants of Ohio (ERCO), the sponsor, by the Board on April 7, 2010. The School was originally opened with the name East Columbus Drop Back In and changed its name on April 1, 2011 to New Beginnings Academy. The Ohio State Board of Education approved the proposal and entered into a contract with the Board, which provided for the commencement of School operations beginning with the 2011 academic year.

The School operates under a five member Board of Trustees. The Board of Trustees is responsible for carrying out the provisions of the sponsor contract which include, but are not limited to, State-mandated provisions regarding student population, curriculum, academic goals, performance standards, admission standards, and qualifications of teachers. The School has contracted with Edison Learning, Inc. to act as a management company for the School. (See Note 10)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic 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 School has elected not to apply FASB Statements and Interpretations issued after November 30, 1989. The more significant of the School’s accounting policies are described below.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

A. Basis Of Presentation

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

During the fiscal year, the School segregates transactions related to certain School functions or activities into separate funds in order to aid financial management and to demonstrate legal compliance. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. For financial reporting, the School uses a single enterprise fund presentation.

Enterprise fund reporting focuses on the determination of operating income, change in net assets, financial position and cash flows. An enterprise fund may be used to account for any activity for which a fee is charged to external users for goods and services.

B. Measurement Focus

The accounting and financial reporting treatment of an entity's financial transactions is determined by the entity's measurement focus. The enterprise activity is accounted for using a flow of economic resources measurement focus. Within this measurement focus, all assets and all liabilities associated with the operation of the School are included on the Statement of Net Assets. The Statement of Revenues, Expenses and Change in Net Assets presents increases (e.g., revenues) and decreases (e.g., expenses) in net assets. The Statement of Cash Flows provides information about how the School finances and meets its cash flow needs.

C. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Basis of accounting relates to the timing of the measurements made. The School's financial states are prepared using the accrual basis of accounting.

D. Revenues – Exchange and Non-Exchange Transactions

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place.

NEW BEGINNINGS ACADEMY
FRANKLIN COUNTY

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Non-exchange transactions, in which the School receives value without directly giving equal value in return, include grants, entitlements, and donations. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the fiscal year when the resources are required to be used or the fiscal year when use is first permitted; matching requirements, in which the 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.

E. Expenses

Expenses are recognized at the time they are incurred.

F. Cash and Cash Equivalents

To improve cash management, all cash received by the School is pooled in a central bank account. Total cash amount at the end of the fiscal year is presented as "Cash" in the Statement of Net Assets. Any investment with an original maturity date less than 90 days is considered a cash equivalent and any investment with a maturity date greater than 90 days is considered an investment. The School did not have any investments during fiscal year 2011.

G. Net Assets

Net assets represent the difference between assets and liabilities. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the School or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. The School applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net assets are available. The School had no restricted net assets as of June 30, 2011.

H. Operating Revenues and Expenses

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

NEW BEGINNINGS ACADEMY
FRANKLIN COUNTY

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

I. 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 have been met. Amounts awarded under this program in fiscal year 2011 originally totaled \$257,149; however, adjustments to FTE's reduced the actual revenues to \$141,544 which is the amount reported in the accompanying financial statements.

The amount of these grants is directly related to the number of students enrolled in the School. The Ohio Department of Education conducts reviews of enrollment data and full-time equivalency (FTE) calculations made by the School. 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 remaining grants and entitlements received by the School are recognized as non-operating revenues in the accounting period in which all eligibility requirements have been met. Amounts awarded under these programs in fiscal year 2011 totaled \$20,491 after adjustments from the ODE review of FTE's.

J. Estimates

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

K. 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, rather community schools are required to create a Five Year Budget Forecast that is approved by the School Board and submitted to ODE and the School's sponsor twice a year. The contract between the School and its sponsor does not prescribe any other budgetary process for the School.

3. DEPOSITS AND INVESTMENTS

On June 30, 2011, the total carrying balance of the School's bank account at Chase Bank was \$2,975 and the bank balance was \$2,975. The bank balance was insured by FDIC for the full amount. The School had no investments at June 30, 2011 or during the fiscal year.

NEW BEGINNINGS ACADEMY
FRANKLIN COUNTY

4. RISK MANAGEMENT

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. AS part of its management agreement with EdisonLearning Inc., EdisonLearning has contracted with Lauterbach & Elber, Inc. for general liability, excess liability, automobile liability, educator's legal liability and employment practices liability, pursuant to the Management Agreement.

The general liability provides \$1,000,000 per occurrence and \$2,000,000 in the aggregate with no deductible. The educator's legal liability provides \$1,000,000 per claim and with a \$2,500 deductible. The automobile liability provides \$1,000,000 per occurrence with no deductible. The employment practices liability insurance provides a \$1,000,000 limit per claim with no deductible. Excess liability is provided at a \$1,000,000 limit with a \$10,000 self-insured retention.

5. DEFINED BENEFIT PENSION PLANS

The School has contracted with EdisonLearning Inc. to provide employee services and to pay those employees. However, these contracts services do not relieve the School of the obligation for remitting pension contributions. The State retirement systems consider the School as the Employer-of-Record and the School is ultimately responsible for remitting retirement contributions to each of the State systems noted below.

A. School Employees Retirement System

Plan Description – EdisonLearning, Inc., on behalf the School, contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing multiple-employer 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. That report can be obtained on SERS' website at www.ohsers.org under **Employers/Audit Resources**.

Funding Policy – Plan members are required to contribute 10 percent of their annual covered salary and the School is required to contribute at an actuarially determined rate. The current School rate is 14 percent 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 Retirement Board acting with the advice of the actuary, allocates the employer contribution rate among four of the funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund) of the System. For fiscal year ending June 30, 2011, the allocation to pension and death benefits is 11.81 percent. The remaining 2.19 percent of the 14 percent employer contribution rate is allocated to the Health Care and Medicare B Funds.

NEW BEGINNINGS ACADEMY
FRANKLIN COUNTY

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

The School's contributions to SERS for the year ended June 30, 2011 which are paid and reported by EdisonLearning, Inc. were \$3,162, which equaled the required contributions for the year.

B. State Teachers Retirement System of Ohio

Plan Description – EdisonLearning, Inc., on behalf of the School, contributes to the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement system. STRS Ohio is a statewide retirement plan for licensed teachers and other faculty members employed in the public schools of Ohio or any school, community school, college, university, institution or other agency controlled, managed and supported, in whole or in part, by the state or any political subdivision thereof. STRS Ohio issues a stand-alone financial report. Copies of STRS Ohio's 2011 *Comprehensive Annual Financial Report* can be requested by writing to STRS Ohio, 275 E. Board St. Columbus, OH 43215-3771, by calling toll-free 1-888-227-7877, or by visiting the STRS Ohio website at www.strsoh.org.

Plan Options – 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. The DC Plan allows members to allocate all their member contributions and employer contributions equal to 10.5 percent of earned compensation among various investment choices. The Combined Plan offers features of the DC Plan and the DB Plan. In the Combined Plan, member contributions are allocated to investment choices by the member, and employer contributions are used to fund a defined benefit payment at a reduced level from the regular DB Plan. Contributions into the DC Plan and the Combined Plan are credited to member accounts as employers submit their payroll information to STRS Ohio, generally on a biweekly basis. DC and Combined Plan members will transfer to the DP Plan during their fifth year of membership unless the permanently select the DC or Combined Plan.

DB Plan Benefits – Plan benefits are established under Chapter 3307 of the 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 member's three highest salary years. The annual allowance is calculated by using a base percentage of 2.2 percent 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 percent. An additional one-tenth of a percent is added to the calculation for every year of earned Ohio service over 31 years until 100 percent of final average salary is reached. For members with 35 or more years of Ohio contribution service, the first 30

NEW BEGINNINGS ACADEMY
FRANKLIN COUNTY

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

years will be calculated at 2.5 percent instead of 2.2 percent. Under the “money-purchase benefit” calculation, a member’s lifetime contributions plus interest at specified rates are matched by an equal amount from other STRS Ohio funds. This total is then divided by an actuarially determined annuity factor to determine the maximum annual retirement allowance.

DC Plan Benefits – Benefits are established under Sections 3307.80 to 3307.89 of the Revised Code. For members who select the DC Plan, all member contributions and employer contributions at a rate of 10.5 percent are placed in an investment account. The member determines how to allocate the member and employer money among various investment choices. 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 member’s designated beneficiary is entitled to receive the member’s account balance.

Combined Plan Benefits – Member contributions are allocated by the member, and employer contributions are used to fund a defined benefit payment. A member’s defined benefit is determined by multiplying 1 percent of the member’s final average salary by the member’s years of service credit. The defined benefit portion of the Combined Plan payment is payable to a member 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.

Eligible faculty of Ohio’s public colleges and universities may choose to enroll in either STRS Ohio or an alternative retirement plan (ARP) offered by their employer. Employees have 120 days from their employment date to select a retirement plan.

A retiree of STRS Ohio or another Ohio public retirement system is eligible for reemployment as a teacher following the elapse of two months from the date of retirement. Contributions are made by the reemployed member and employer during the 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. Benefits are increased annually by 3 percent of the original base amount for DB Plan participants. The DB and Combined Plans offer access to health care coverage to eligible retirees who participated in the plans and their eligible dependants. Coverage under the current program includes hospitalization, physicians’ fees, prescription drugs and partial reimbursement of monthly Medicare Part B premiums. By Ohio law, health care benefits are not guaranteed.

NEW BEGINNINGS ACADEMY
FRANKLIN COUNTY

5. DEFINED BENEFIT PENSION PLANS (continued)

A DB or Combined Plan member with five or more years of credited service who becomes disabled may qualify for a disability benefit. Eligible spouses and dependants of members who die before retirement may qualify for survivor benefits. A death benefit of \$1,000 is payable to the beneficiary of each deceased retired member who participated in the DB Plan. Death benefit coverage up to \$2,000 can be purchased by participants in the DB, DC or Combined Plans. Various other benefits are available to members' beneficiaries.

Funding Policy – Chapter 3307 of the Revised Code provides statutory authority for member and employer contributions. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Contribution requirements and the contributions actually made for the fiscal year ended June 30, 2011, were 10 percent of covered payroll for members and 14 percent for employers. The School's contributions to STRS for the year ended June 30, 2011 which are paid and reported by EdisonLearning, Inc. were \$17,064, which equaled the required contributions for the year.

6. POSTEMPLOYMENT BENEFITS

A. School Employees Retirement System

Plan Description – In addition to a cost-sharing multiple-employer defined benefit pension plan the School Employees Retirement System of Ohio (SERS) administers two postemployment benefit plans. The Medicare Part B plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries as set forth in Ohio Revised Code (ORC) 3309.69. Qualified benefit recipients who pay Medicare Part B premiums may apply for and receive a monthly reimbursement from SERS. The reimbursement amount is limited by statute to the lesser of the January 1, 1999 Medicare Part B premium or the current premium. The Medicare Part B monthly premium for calendar year 2011 was \$96.40 for most participants, but could be as high as \$369.10 per month depending on their income. SERS' reimbursement to retirees was \$45.50

ORC 3309.375 and 3309.69 permit SERS to offer health care benefits to eligible retirees and beneficiaries. SERS' Retirement Board reserves the right to change or discontinue any health plan or program. SERS offers several types of health plans from various vendors, including HMOs, PPOs, Medicare Advantage and traditional indemnity plans. A prescription drug program is also available to those who elect health coverage. SERS employs two third-party administrators and a pharmacy benefit manager to manage the self-insurance and prescription drug plans, respectively.

The ORC provides the statutory authority to fund SERS' postemployment benefits through employer contributions. Active members do not make contributions to the postemployment benefit plans.

NEW BEGINNINGS ACADEMY
FRANKLIN COUNTY

6. POSTEMPLOYMENT BENEFITS (continued)

The Health Care Fund was established under, and is administered in accordance with Internal Revenue Code 105 (e). Each year after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer 14 percent contribution to the Health Care Fund.

Funding Policy – The Retirement Board, acting with the advice of the actuary, allocates a portion of the current employer contribution rate to the Medicare B Fund. For fiscal year 2011, the actuarially required allocation is .76 percent. The School’s contributions for the year ended June 30, 2011, which are paid and reported by EdisonLearning, Inc., were \$172, which equaled the required contributions for the year. For the year ended June 30, 2011, the health care allocation is 1.43 percent. 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. State law provides that no employer shall pay a health care surcharge greater than 2 percent of that employer’s SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the total statewide SERS-covered payroll for the health care surcharge. For fiscal year 2011, the minimum compensation level was established at \$35,800. The surcharge, added to the unallocated portion of the 14 percent employer contribution rate is the total amount assigned to the Health Care Fund. The School contributions assigned to health care for the year ended June 30, 2011, which are paid and reported by EdisonLearning, Inc. were \$323, which equaled the required contributions for the year.

B. State Teachers Retirement System of Ohio

Plan Description – Ohio law authorizes STRS Ohio to offer a cost-sharing, multiple-employer health care plan. STRS Ohio provides access to health care coverage 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 B premiums. Pursuant to Chapter 3307 of the Revised Code, the Retirement Board has discretionary authority over how much, if any, of the associated health care costs will be absorbed by STRS Ohio. All benefit recipients, for the most recent year, pay a portion of the health care costs in the form of a monthly premium. STRS Ohio issues a stand-alone financial report. Interested parties can view the most recent *Comprehensive Annual Financial Report* by visiting www.strsoh.org or by requesting a copy by calling toll-free 1-888-227-7877.

Funding Policy – Under Ohio law, funding for post-employment health care may be deducted from employer contributions. Of the 14 percent employer contribution rate, 1 percent of covered payroll was allocated to post-employment health care for the year ended June 30, 2011. The 14 percent employer contribution rate is the maximum rate established under Ohio law. The School’s contribution for health care for the fiscal year ended June 30, 2011, which are paid and reported by EdisonLearning, Inc. were \$1219, which equaled the required contributions for the year.

NEW BEGINNINGS ACADEMY
FRANKLIN COUNTY

7. RELATED PARTY TRANSACTIONS

The School contract requires three percent of all funds received from State foundation revenues to be transferred to ERCO for sponsorship fees. Total payments made during the period ended June 30, 2011 were \$7,715.

8. CONTINGENCIES

A. Grants

Amounts received from grantor agencies are subject to audit and adjustment by the grantor. Any disallowed costs may require refunding to the grantor. Amounts, which may be disallowed, if any, are not presently determinable. However, in the opinion of the School, any such disallowed claims will not have a material adverse effect on the financial position of the School.

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. This review resulted in an adjustment of \$117,041 that the School was overpaid during fiscal year 2011. This amount is reflected under Intergovernmental Payables in the Statement of Net Assets. AS more fully described in Note 2, revenues were reduced by the same amount in the accompanying financial statements.

9. PURCHASED SERVICES

For the fiscal year ended June 30, 2011, purchased service expenses represent payments for management services rendered by EdisonLearning, Inc. (See Note 10) and STRS and SERS payments made by the School on behalf of EdisonLearning, Inc.

Purchased Services Agreements	\$555,852
STRS and SERS Payments	<u>28,700</u>
Total Purchased Services	\$584,552

NEW BEGINNINGS ACADEMY
FRANKLIN COUNTY

10. AGREEMENT WITH EDISONLEARNING, INC.

On April 20, 2010, the School contracted with EdisonLearning, Inc. to provide educational programs that offer educational excellence and educational innovation based on EdisonLearning, Inc.'s unique school design, comprehensive educational programs, and management principles. The contract may be renewed for an additional five year term. Under the contract, EdisonLearning, Inc. is responsible and accountable to the School's Board of Trustees for the administration, operation, and performance of the School in accordance with the School's contract with ERCO to operate the School. Significant provisions of the contract are as follows:

A. Financial Provisions

1. Management Consulting and Operation Fee

The School is required to remit monthly to EdisonLearning, Inc. all qualified gross revenue defined in the contract as "all external source revenue which the School receives and for which the School or its students are eligible from Federal or State sources." The following is a summary of current payment activity to EdisonLearning, Inc.:

Amount due for fiscal year 2011	
(Purchased Services- Management Fees)	\$555,852
Amount remitted current fiscal year	(243,751)

2. The School's Financial Responsibility

The School is responsible for initial start up costs and rent. The School is responsible to pay for fees for legal services not related to the operation of the School. The actual transactions related to these expenditures are performed by EdisonLearning, Inc. under the School's direction.

3. Edison Financial Responsibilities

EdisonLearning, Inc. is responsible for costs associated with operating the School. Such costs shall include, but shall not be limited to, salaries and benefits, including payroll taxes; pension and retirement; the purchase of curriculum materials, textbooks, computers and other equipment, software, and supplies; insurance premiums, utilities, janitorial services, audit, legal and financial management services related to the operation of the School and repairs and maintenance of the School's facilities, except for capital repair. EdisonLearning, Inc. shall equip the School's facilities with desks and other furniture and furnishings and these items are considered property of EdisonLearning, Inc. EdisonLearning, Inc. must secure and maintain commercial general liability coverage for bodily injury and property damage; educator liability coverage; automobile liability insurance, for, personal injury and property damage; property insurance for facilities; and workers' compensation insurance for employees.

NEW BEGINNINGS ACADEMY
FRANKLIN COUNTY

10. AGREEMENT WITH EDISONLEARNING, INC. (continued)

4. Budget

EdisonLearning, Inc. shall provide the School with an annual budget, in reasonable detail, by June 30 of each fiscal year for the following fiscal year.

B. Educational Services

EdisonLearning, Inc. subcontracted Alternatives Unlimited, which provides educational services to dropout prevention and recovery schools, to assist in executing the Edison financial responsibilities noted above.

C. Personnel

All personnel working at the School are employees of Alternative Unlimited. Alternative Unlimited selects and hires all teaching staff, administrative or other staff. They also evaluate, assign, discipline and transfer personnel. Alternative Unlimited determines the number of teachers needed for the operation of the School.

D. Agreement Termination

1. Termination by the School

The School may terminate the contract in the event EdisonLearning, Inc. materially breaches the contract and EdisonLearning, Inc. fails to remedy such breach within 90 days of its receipt of written notice of such breach from the School.

2. Termination by EdisonLearning, Inc.

EdisonLearning, Inc. may terminate the contract in the event the School materially breaches the contract and the School fails to remedy such breach within 90 days of its receipt of written notice of such breach from EdisonLearning, Inc.

11. EDISONLEARNING, INC. EXPENSES

For the fiscal year ended June 30, 2011, EdisonLearning, Inc. incurred the following expenses on behalf of the School.

2011 Expenses:

Direct Expenses:

Salaries and Wages and Benefits	\$331,584
Professional and Technical Services	63,060
Property Services	55,150
Curriculum and materials	86,998
Other Direct Costs	<u>47,760</u>
Total Expenses	\$584,552

NEW BEGINNINGS ACADEMY
FRANKLIN COUNTY

12. NOTE PAYABLE

In 2011 the School entered into a loan agreement with EdisonLearning Inc. for \$116,665 with an annual interest rate of 0% for the purpose of paying costs related to the startup of the School. The loan is scheduled to be paid back by June 1, 2011 starting with repayment on October 1, 2010 with 9 equal installments of \$12,963. The School did not make any payments on this note as of June 30, 2011. The entire note payable is due by June 30, 2012.

13. GOING CONCERN

Several factors create an uncertainty about the School's ability to continue as a going concern. The School's cash balance at June 30, 2011 was \$2,975. The School has significant liabilities at June 30, 2011 as a result of overpayment from ODE through the State Foundation Program, unpaid operating expenses and outstanding notes payable. The significant amount of liabilities at June 30, 2011 has resulted in deficit net assets of \$427,093 that may be difficult for the School to overcome due. The School needs to increase revenues sufficiently to pay off outstanding liabilities and cover ongoing operating costs.

14. MANAGEMENT PLAN

The School has moved locations and had an almost complete turnover in staff. The School has invested in marketing, recruiting, enrollment and retention. The entire amount owed at June 30, 2011 for unpaid operating expenses and outstanding notes payable is to the management company EdisonLearning. EdisonLearning is committed to the success of the school both academically and financially. The only way for EdisonLearning to be paid back for their investment in the school is to make the school a success. Fiscal year 2011 year end FTE was around 22. Currently in SOES the FTE is 57.05 with an active headcount of 77 students. The active headcount has continued to increase throughout the year and enrollment is closely monitored and a detailed marketing plan has been put in place.



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Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by *Government Auditing Standards*

Members of the Board
New Beginnings Academy
Franklin County
3330 Scottwood Road
Columbus, Ohio 43227

We have audited the financial statements of the business-type activities of New Beginnings Academy, Franklin County, Ohio, (the School), as of and for the year ended June 30, 2011, and have issued our report thereon dated April 27, 2012, wherein we noted certain conditions that raise substantial doubt about the School's ability to continue as a going concern. Additionally, we qualified our opinion due to the lack of sufficient, appropriate evidential matter for the amounts reported as operating expenses and the management company expense disclosure. Except as discussed in the preceding sentence, 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 the purpose of expressing our opinion on the financial statements, but not for the purpose of opining 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 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 we identified certain deficiencies in internal control over financial reporting, that we consider material weaknesses.

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 School's financial statements will not be prevented, or detected and timely corrected. We consider findings 2011-001 through 2011-003 described in the accompanying schedule of findings to be material weaknesses.

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 instances of noncompliance or other matters we must report under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 2011-002 through 2011-004.

We also noted certain matters not requiring inclusion in this report that we reported to the School's management in a separate letter dated April 27, 2012.

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

We intend this report solely for the information and use of management, the Board Members, the Community School's sponsor, and others within the School. We intend it for no one other than these specified parties.



Balestra, Harr & Scherer, CPAs, Inc.
April 27, 2012

**NEW BEGINNINGS ACADEMY
FRANKLIN COUNTY**

**SCHEDULE OF FINDINGS
FOR THE YEAR ENDED JUNE 30, 2011**

FINDING NUMBER 2011-001

Material Weakness- Financial Reporting and Accounting

The School has experienced accounting and reporting issues as evidenced by the audit adjustments made and report findings.

Financial information is vital to an organization's management in its continual effort to effectively make decisions to guide the organization. It is also important for management to receive timely feedback on the reliability of financial information summarized in the financial statements, notes to the financial statements, and schedules used to make these decisions.

There was an obvious lack of controls over the financial accounting process, which need to be addressed promptly. The accounting system used is cumbersome.

Failure to implement controls over the financial accounting process has resulted in the School's records being inaccurate. Furthermore, the School was unable to provide supporting audit documentation for journal entries made to the accounting system.

The accompanying financial statements were adjusted to reflect audit adjustments to the following line items:

- Intergovernmental Payable
- Notes Payable
- Edison Payable
- State Foundation revenue
- Interest Expense
- Purchased Services Expenses
- Other Expenses

The School should implement application and monitoring controls to ensure that financial statement balances are accurately and completely stated.

Client Response:

The Board has contracted Treasurer Services outside of the management company.

FINDING NUMBER 2011-002

Material Weakness/Material Noncompliance

Ohio Revised Code, Section 3314.03(A)(11)(d) requires community schools to prepare 5 year projections. The School's actual revenues were \$280,845 less than the forecasted revenues (-51.85% Difference). The School's actual expenses were \$510,587 less than the forecasted expenses (-19.37% Difference). Also, according to the forecast, the School is expecting to receive \$1,191,619 in State Foundation payments for fiscal year 2012 which seems unrealistic considering they only received \$279,076 for fiscal year 2011 of which it was determined that the School was overpaid by \$117,041 after a review of the FTE's by the Ohio Department of Education.

The School's assumptions and projections do not appear reasonable. The severe variances in the projections do indicate going concern conditions.

**NEW BEGINNINGS ACADEMY
FRANKLIN COUNTY**

**SCHEDULE OF FINDINGS
FOR THE YEAR ENDED JUNE 30, 2011**

FINDING NUMBER 2011-002 (Continued)

Material Weakness/Material Noncompliance

Failure to implement controls over the budgeting process has resulted in the School's 5 year projections to be materially overstated.

The School should implement application and monitoring controls to ensure that projections are accurately and completely stated.

Client Response:

The School has moved locations and had an almost complete turnover in staff. The School has invested in marketing, recruiting, enrollment and retention. The entire amount owed at June 30, 2011 for unpaid operating expenses and outstanding notes payable is to the management company EdisonLearning. EdisonLearning is committed to the success of the school both academically and financially. The only way for EdisonLearning to be paid back for their investment in the school is to make the school a success. Fiscal year 2011 year end FTE was around 22. Currently in SOES the FTE is 57.05 with an active headcount of 77 students. The active headcount has continued to increase throughout the year and enrollment is closely monitored and a detailed marketing plan has been put in place.

FINDING NUMBER 2011-003

Material Weakness/Material Noncompliance

Ohio Rev. Code §3314.08 requires the board of education of each school district to annually report the number of students entitled to attend school in the district that are actually enrolled in community schools. This section also requires the governing authority of each community school to annually report the number of students enrolled in the community school. For each student, the governing board of the community school must report the city, exempted village, or local school district in which the student is entitled to attend.

Based on these reported numbers, the state Department of Education shall calculate and subtract the appropriate amount of state aid from each school district. The amount subtracted shall be paid to the corresponding community school.

Ohio Rev. Code §3314.03 requires that the contract entered into between a sponsor and the governing authority of a community school state the following:

- that the governing authority will adopt an attendance policy that includes a procedure for automatically withdrawing a student from the school if the student, without a legitimate excuse, fails to participate in one hundred five consecutive hours of the learning opportunities offered to the student;
- that the school will provide learning opportunities to a minimum of twenty-five students for a minimum of nine hundred twenty (920) hours per school year; the school is required to meet the minimum 25 student count prior to September 30th and may fall below that count throughout the year.
- that the governing authority will adopt a policy regarding the admission of students who reside outside the district in which the school is located; and
- a financial plan detailing an estimated school budget for each year of the period of the contract and specifying the total estimated per pupil expenditure amount of each such year.

Of the sample selected 60% of withdrawn students tested were not being reported in a timely manner.

**NEW BEGINNINGS ACADEMY
FRANKLIN COUNTY**

**SCHEDULE OF FINDINGS
FOR THE YEAR ENDED JUNE 30, 2011**

FINDING NUMBER 2011-003 (Continued)

Not properly reporting student withdraws in a timely manner can lead to improper reporting of students to the Ohio Department of Education and may lead to over/under payment of revenues from ODE.

The School should ensure that all student withdraws are properly reported.

Client Response:

The School has controls in place to ensure timely withdrawal.

FINDING NUMBER 2011-004

Material Noncompliance

Per Ohio Rev. Code § 3314.024: A management company providing services to a community school and charging more than twenty percent of the school's annual gross revenues shall provide a detailed accounting, including the nature and costs of the services it provides to the community school. This information shall be included in the footnotes of the financial statements of the school and be subject to audit during the school's regular financial audit.

This footnote should list management company expenses during the year by object codes (e.g., salaries, supplies, etc.). Ohio Rev. Code §3314.03(A)(8) discusses the requirements of community schools to have financial audits by the Auditor of State. The contract between the sponsor and the governing authority shall require financial records of the school to be maintained in the same manner as are financial records of school districts, pursuant to rules of the Auditor of State, and the audits shall be conducted in accordance with section 117.10 of the Revised Code. This includes classifying costs by function and object codes. Also, this footnote should differentiate between the direct costs and any overhead costs a management company allocates to a community school.

The management company sweeps all of the School's revenues (except enough to cover sponsor fees) from the School's bank account to EdisonLearning's bank account. The sweep of funds covers the School's management fee as well as all expenses incurred by the School. EdisonLearning contracts with Alternative Unlimited to handle all transactions on behalf of the school that are expense related. Because of this situation, the management company should have an audit or an AUP completed to comply with ORC 3314.024 and allow an opinion to be given over the School's expenses and related financial statement disclosures.

Since an AUP/Audit has not been performed over the management company we will have a qualification over the inability to audit the management company's reported expenses as disclosed in the notes to the basic financial statements.

The School should ensure that the management company receives an annual audit meeting the guidelines of the above compliance.

Client Response:

Funds were used to pay sub-contractor, Alternative Unlimited. There was always more operating expenses than available funds.

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Independent Auditor's Report on Applying Agreed Upon Procedures

New Beginnings Academy
Franklin County
3330 Scottwood Road
Columbus, Ohio 43227

To the Board of Education:

Ohio Rev. Code Section 117.53 states "the auditor of state shall identify whether the school district or community school has adopted an anti-harassment policy in accordance with Section 3313.666 of the Revised Code. This determination shall be recorded in the audit report. The auditor of state shall not prescribe the content or operation of any anti-harassment policy adopted by a school district or community school."

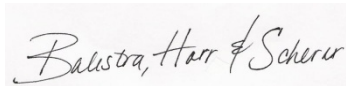
Accordingly, we have performed the procedure enumerated below, which was agreed to by the Board, solely to assist the Board in evaluating whether New Beginnings Academy (the School) has adopted an anti-harassment policy in accordance with Ohio Rev. Code Section 3313.666. Management is responsible for complying with this requirement. This agreed-upon procedure engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of this procedure is solely the responsibility of the Board. Consequently; we make no representation regarding the sufficiency of the procedure described below either for the purpose for which this report has been requested or for any other purpose.

1. We noted the Board adopted an anti-harassment policy at its meeting on November 11, 2010. However, this policy did not include all matters required by Ohio Revised Code 3313.666.
2. We read the policy, noting it included the following requirements from the Ohio Revised Code Section 3313.666(B):
 - (1) A statement prohibiting harassment, intimidation, or bullying of any student on school property or at school-sponsored events;
 - (2) A procedure for reporting prohibited incidents;
 - (3) A requirement that school personnel report prohibited incidents of which they are aware to the school principal or other administrator designated by the principal;
 - (4) A procedure for documenting any prohibited incident that is reported;
 - (5) A procedure for responding to and investigating any reported incident;
 - (6) A requirement that the school administration semiannually provide the president of the school board a written summary of all reported incidents and post the summary on its web site, if the school has a web site, to the extent permitted by section 3319.321 of the Revised Code and the "Family Educational Rights and Privacy Act of 1974" 88 Stat. 571, 20 U.S.C. 1232q, as amended.

3. We inquired with the Board's management regarding the aforementioned policy. They stated they have not amended the November 22, 2010 policy. Therefore, the policy still lacks the following required by Ohio Revised Code Section 3313.666.
 - (1) A definition of harassment, intimidation, or bullying that includes the definition in division (A) of Ohio Revised Code Section 3313.666, as amended by House Bill 19 of the 128th General Assembly;
 - (2) A requirement that parents or guardians of any student involved in a prohibited incident be notified and, to the extent permitted by Section 3319.321 of the Revised Code and the "Family Educational Rights and Privacy Act of 1974," 88 Stat. 571, 20 U.S.C. 1232q, as amended, have access to any written reports pertaining to the prohibited incident;
 - (3) A strategy for protecting a victim from additional harassment, intimidation, or bullying, and from retaliation following a report;
 - (4) A disciplinary procedure for any student guilty of harassment, intimidation, or bullying, which shall not infringe on any student's rights under the first amendment to the Constitution of the United States.

We were not engaged to and did not conduct an examination, the objective of which would be the expression of an opinion on compliance with the anti-harassment policy. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the Board and the School's sponsor, and is not intended to be and should not be used by anyone other than these specified parties.



Balestra, Harr & Scherer, CPAs, Inc.
April 27, 2012



Dave Yost • Auditor of State

NEW BEGINNINGS ACADEMY

FRANKLIN COUNTY

CLERK'S CERTIFICATION

This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
JUNE 28, 2012**