

**THE CHARLES SCHOOL AT OHIO DOMINICAN UNIVERSITY
FRANKLIN COUNTY**

REGULAR AUDIT

FOR THE YEAR ENDED JUNE 30, 2008



Mary Taylor, CPA
Auditor of State

THE CHARLES SCHOOL AT OHIO DOMINICAN UNIVERSITY
FRANKLIN COUNTY

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Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

The Charles School at Ohio Dominican University
Franklin County
1270 Brentnell Ave
Columbus, Ohio 43219

To the Board :

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

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to reasonably assure whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Charles School at Ohio Dominican University, Franklin County, Ohio, as of and for the year ended June 30, 2008, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

TCS is experiencing certain financial difficulties. Those difficulties and Management's Plans are discussed in Note 16.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 14, 2009, on our consideration of the TCS's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information accounting principles generally accepted in the United States of America requires. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measuring and presenting the required supplementary information. However, we did not audit the information and express no opinion on it.

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

Mary Taylor, CPA
Auditor of State

May 14, 2009

**THE CHARLES SCHOOL AT OHIO DOMINICAN UNIVERSITY
FRANKLIN COUNTY**

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

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

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

FINANCIAL HIGHLIGHTS

Key financial highlights for fiscal year 2008 are as follows:

- Total ending net assets were \$9,810 in fiscal year 2008.
- Total revenue was \$970,711 in fiscal year 2008.
- Similarly, total expenses were \$960,901 in fiscal year 2008.
- Total assets were 149,925 and total liabilities were \$140,115 in fiscal year 2008.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

The Statement of Net Assets and Statement of Revenues, Expenses, and Changes in Net Assets reflect how the School did financially during fiscal year 2008. These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting includes all of the current year revenues and expenses regardless of when cash is received or paid.

These statements report the School's net assets and changes in those assets. This change in net assets is important because it tells the reader whether the financial position of the School has improved or diminished. The causes of this change may be the result of many factors, some financial, some not. Non-financial factors include the School's student enrollment, per-pupil funding as determined by the State of Ohio, change in technology, required educational programs and other factors.

The School uses enterprise presentation for all of its activities.

Statement of Net Assets

The Statement of Net Assets answers the question of how the School did financially during 2008. This statement includes all assets and liabilities, both financial and capital, and short-term and long-term using the accrual basis of accounting and economic resources focus, which is similar to the accounting used by most private-sector companies. This basis of accounting takes into account all revenues and expenses during the year, regardless of when the cash is received or paid.

**THE CHARLES SCHOOL AT OHIO DOMINICAN UNIVERSITY
FRANKLIN COUNTY**

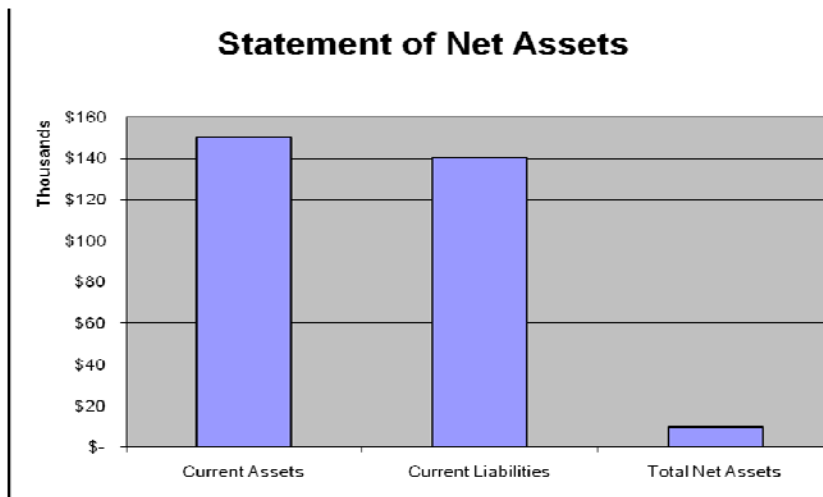
**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
UNAUDITED**

Table 1 provides a summary of the School's net assets for fiscal year 2008.

(Table 1)
Statement of Net Assets

	2008
Assets	
Total Assets	\$149,925
Liabilities	
Total Liabilities	\$140,115
Net Assets	
Invested in Capital Assets	\$ 48,674
Unrestricted	(38,864)
Total Net Assets	\$ 9,810

Total assets were \$149,925, while total liabilities were \$140,115. Cash and cash equivalents were \$95,221 and capital assets net of accumulated depreciation were \$48,674.



Statement of Revenues, Expenses and Changes in Net Assets

Table 2 shows the changes in net assets for fiscal year 2008, as well as a listing of revenues and expenses. This change in net assets is important because it tells the reader that, for the School as a whole, the financial position of the School has improved or diminished. The cause of this may be the result of many factors, some financial, some not. Non-financial factors include the current laws in Ohio restricting revenue growth, facility conditions, required educational programs and other factors.

**THE CHARLES SCHOOL AT OHIO DOMINICAN UNIVERSITY
FRANKLIN COUNTY**

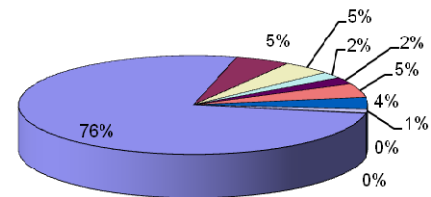
**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
UNAUDITED**

(Table 2)
Change in Net Assets

		2008
Operating Revenues		
State Aid	\$	423,626
Food Service		4,314
Classroom Fees		2,360
Other Operating		265
Non-Operating Revenue		
Federal Grants		164,151
State Grants		3,000
Contributions & Donations		372,910
Investment Income		85
Total Revenues		970,711
Operating Expenses		
Purchased Services: Management Fees		732,488
Purchased Services: Rent and Property Services		48,901
Purchased Services: Professional Services		43,480
Purchased Services: Food Services		20,206
Purchased Services: Professional Development		21,117
Purchased Services: Other		44,436
Materials and Supplies		36,121
Depreciation		12,168
Other		1,984
Total Expenses		960,901
Change in Net Assets	\$	9,810

Operating revenues were \$430,565, which represents 44.4% of total revenue. Operating expenses were \$960,961, which represents all expenses. The School's most significant expense "Purchased Services: Management Fees" represents 76.2% of total expenses, because of the management agreement in place between The Charles School (TCS) and The Graham School (TGS). The agreement provides that specific percentages of the revenues received by TCS will be paid to TGS to fund operations. (See Notes to the Basic Financial Statements, Note 14)

Where it Goes



<ul style="list-style-type: none"> ■ Purchased Services: Management Fees ■ Purchased Services: Professional Services ■ Purchased Services: Professional Development ■ Materials and Supplies ■ Other 	<ul style="list-style-type: none"> ■ Purchased Services: Rent and Property Services ■ Purchased Services: Food Services ■ Purchased Services: Other ■ Depreciation
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**THE CHARLES SCHOOL AT OHIO DOMINICAN UNIVERSITY
FRANKLIN COUNTY**

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

BUDGETING HIGHLIGHTS

Unlike traditional public schools located in the State of Ohio, community schools are not required to follow budgetary provisions set forth in Ohio Rev. Code Chapter 5705, unless specifically provided in the Community School's contract with its Sponsor. The contract between TCS and its Sponsor does prescribe a budgetary process. TCS has developed a five-year projection that is reviewed periodically by the Board of Trustees. The five-year projections are also submitted to the Sponsor and the Ohio Department of Education.

CAPITAL ASSETS

At the end of fiscal year 2008, the School had \$48,674 invested in computers and equipment net of accumulated depreciation. For more information on capital assets, see Note 4 in the Notes to the Basic Financial Statements.

DEBT

At June 30, 2008, TCS had \$140,115 in current liabilities. Of this amount, TCS had \$117,000 in a line of credit. Note 10 summarizes TCS's line of credit.

OTHER INFORMATION

For the Future

In conclusion, TCS has committed itself to financial excellence. TCS has contracted with Columbus City Schools to rent its facility on Brentnell Ave. effective July 1, 2008. This building is expected to ensure that the school can meet its enrollment projections and give students a positive learning environment. TCS has donations and private grants to help its operations and development of curriculum and this practice is expected to continue. The school has an annual giving program and uses the Graham School's fund raising specialists to help with this effort.

CONTACTING TCS'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizen's, taxpayers, investors and creditors with a general overview of TCS's finances and to show TCS's accountability for the money it receives. If you have questions about this report or need additional information contact Ms. Cheryl Long of The Charles School at Ohio Dominican University, 3950 Indianola Avenue, Columbus, Ohio 43214 or e-mail at cheryl@thegrahamschool.org.

**THE CHARLES SCHOOL AT OHIO DOMINICAN UNIVERSITY
FRANKLIN COUNTY**

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

Assets

Current Asset

Cash and Cash Equivalents	\$ 95,221
Prepays	<u>6,030</u>

Total Current Assets	101,251
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Noncurrent Assets

Depreciable Capital Assets, net	48,674
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Total Assets	<u>\$ 149,925</u>
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Liabilities

Current Liabilities

Accounts Payable	\$ 23,115
Line of Credit Payable	<u>117,000</u>

Total Liabilities	<u>\$ 140,115</u>
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Net Assets

Investment in Capital Assets	48,674
Unrestricted	<u>(38,864)</u>

Total Net Assets	<u>\$ 9,810</u>
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See accompanying notes to the basic financial statements

**THE CHARLES SCHOOL AT OHIO DOMINICAN UNIVERSITY
FRANKLIN COUNTY**

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

Operating Revenues	
State Aid	\$ 423,626
Food Service	4,314
Classroom Fees	2,360
Other Operating	<u>265</u>
 Total Operating Revenues	 <u>430,565</u>
 Operating Expenses	
Purchased Services: Management Fees	732,488
Purchased Services: Rent and Property Services	48,901
Purchased Services: Professional Services	43,480
Purchased Services: Food Services	20,206
Purchased Services: Professional Development	21,117
Purchased Services: Other	44,436
Materials and Supplies	36,121
Depreciation	12,168
Other	<u>1,984</u>
 Total Operating Expenses	 <u>960,901</u>
 Operating Loss	 <u>(530,336)</u>
 Non-Operating Revenues (Expenses)	
Federal Grants	164,151
State Grants	3,000
Contributions & Donations	372,910
Investment Income	<u>85</u>
 Total Non-Operating Revenues (Expenses)	 <u>540,146</u>
 Change in Net Assets	 <u>9,810</u>
 Net Assets Beginning of Year	 -
 Net Assets End of Year	 <u>\$ 9,810</u>

See accompanying notes to the basic financial statements

**THE CHARLES SCHOOL AT OHIO DOMINICAN UNIVERSITY
FRANKLIN COUNTY**

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

Increase (Decrease) in Cash and Cash Equivalents

Cash Flows from Operating Activities

Cash Received from State of Ohio	\$ 423,626
Cash Received from Other Operating Sources	6,939
Cash Payments to Suppliers for Goods and Services	(929,649)
Other Cash Payments	<u>(1,999)</u>

Net Cash Used for Operating Activities (501,083)

Cash Flows from Noncapital Financing Activities

Cash Received from Grants	167,151
Cash Received from Line of Credit	112,000
Cash Received from Contributions and Donations	<u>372,910</u>

Net Cash Provided by Noncapital Financing Activities 652,061

Cash Flows from Capital and Related Financing Activities

Cash Payments for Capital Assets (60,842)

Net Cash Used for Capital and Related Financing Activities (60,842)

Cash Flows from Investing Activities

Interest Income 85

Net Cash Provided by Investing Activities 85

Net Increase in Cash and Cash Equivalents 90,221

Cash and Cash Equivalents Beginning of Year 5,000

Cash and Cash Equivalents End of Year \$ 95,221

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

Operating Loss \$ (530,336)

**ADJUSTMENTS TO RECONCILE OPERATING LOSS TO NET
CASH USED FOR OPERATING ACTIVITIES**

Depreciation 12,168

Changes in Assets and Liabilities:

Increase in Prepaid Items	(6,030)
Increase in Accounts Payable	<u>23,115</u>

Net Cash Used for Operating Activities \$ (501,083)

See accompanying notes to the basic financial statements

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**THE CHARLES SCHOOL AT OHIO DOMINICAN UNIVERSITY
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2008**

1. DESCRIPTION OF THE REPORTING ENTITY

The Charles School at Ohio Dominican University (TCS) is a nonprofit corporation established pursuant to Ohio Revised Code Chapters 3314 and 1702. The Charles School is an approved tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code. Management is not aware of any course of action or series of events that have occurred that might adversely affect TCS's tax-exempt status. TCS's objective is to use the Columbus community to form partnerships for student learning. Individualized programs are used to meet student's needs. Parents and students are included in all decision-making. TCS, which is part of the State's education program, is independent of any school district and is nonsectarian in its programs, admission policies, employment practices, and all other operations. TCS may acquire facilities as needed and contract for any services necessary for the operation of the school.

TCS contracts with The Graham School (TGS) for most of its functions. (See Note 14)

TCS was approved for operation under a contract with the Educational Service Center of Central Ohio (the sponsor) for a period of one year commencing July 1, 2007. A new one year contract was approved commencing July 1, 2008. The Sponsor is responsible for evaluating the performance of The Charles School and has the authority to deny renewal of the contract at its expiration or terminate the contract prior to its expiration.

TCS operates under the direction of a seven-member Governing Board. The Governing Board is responsible for carrying out the provisions of the contract, which include but are not limited to, state-mandated provisions regarding student population, curriculum, academic goals, performance standards, admission standards, and qualifications of teachers.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of TCS 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. TCS 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. Following are the more significant of TCS's accounting policies. However, TCS has elected not to apply FASB statements and interpretations issued after November 30, 1989.

A. Basis of Presentation

TCS's basic financial statements consist of a Statement of Net Assets, a Statement of Revenues, Expenses and Changes in Net Assets, and a Statement of Cash Flows. TCS uses enterprise accounting to maintain its financial records during the fiscal year. Enterprise accounting focuses on the determination of operating income, changes in net assets, financial position, and cash flows. Enterprise accounting may be used to account for any activity for which a fee is charged to external users for goods or services.

**THE CHARLES SCHOOL AT OHIO DOMINICAN UNIVERSITY
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2008
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Measurement Focus and Basis of Accounting

Enterprise accounting uses a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities are included on the Statement of Net Assets. Operating statements present increases and decreases in net total assets. Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made. The accrual basis of accounting is used for reporting purposes. Revenues are recognized when earned and expenses are recognized when they are incurred.

C. Budgetary Process

Unlike traditional 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 the school's contract with its Sponsor. The contract between TCS and its Sponsor does not prescribe an annual budget requirement. TCS prepares a five-year forecast, which is to be updated semi-annually.

D. Cash and Cash Equivalents

All cash received by the School is deposited in accounts in the School's name and reflected as Cash and Cash Equivalents on the Statement of Net Assets. The School did not have investments during fiscal year 2008.

E. Prepaid Items

TCS records payments made to vendors for services that will benefit periods beyond June 30, 2008, as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expense is reported in the year in which services are consumed.

F. Capital Assets and Depreciation

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. TCS's capitalization threshold is five hundred dollars.

Improvements are capitalized. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not. Interest incurred during the construction of capital assets is also capitalized.

Depreciation of furniture and equipment is computed using the straight-line method over an estimated life of five years. Improvements to capital assets are depreciated over the remaining useful lives.

**THE CHARLES SCHOOL AT OHIO DOMINICAN UNIVERSITY
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2008
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

G. Intergovernmental Revenues

TCS currently participates in the State Foundation Program. Revenues received from this program is recognized as operating revenue (foundation payments) in the accounting period in which it is earned and becomes measurable. Funding from this program is listed as "State Aid" on the Statement of Revenues, Expenses, and Changes in Net Assets.

TCS 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 start-up costs of the School. Revenue received from this program is recognized as non-operating revenue in the accompanying financial statements.

Grants 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 year when use is first permitted; matching requirements, in which TCS must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to TCS on a reimbursement basis.

Amounts awarded under the above programs for the 2008 school year totaled \$590,777.

H. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by TCS or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. TCS did not have any restricted net assets at June 30, 2008, but the Statement of Net Assets reports \$48,674 in Invested in Capital Assets.

I. Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of TCS. Operating expenses are necessary costs incurred to provide the service that is the primary activity of TCS. For TCS, these revenues are primarily State Aid receipts. All revenues and expenses not meeting this definition are reported as non-operating.

J. Estimates

The preparation of the 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.

**THE CHARLES SCHOOL AT OHIO DOMINICAN UNIVERSITY
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2008
(Continued)**

3. DEPOSITS AND INVESTMENTS

A. Deposits with Financial Institutions

Deposits: At June 30, 2008, the carrying value of the School's deposits totaled \$95,221, and the bank balance totaled \$105,447. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2008, all of the School's bank balance of \$105,447 was covered by Federal Deposit Insurance and was not exposed to custodial risk as discussed below.

Custodial credit risk is the risk that, in the event of bank failure, the School's deposits may not be returned. All deposits are collateralized with eligible securities in amounts equal to at least 105 percent of the carrying value of the deposits. Such collateral, as permitted by the Ohio Revised Code, is held in single financial institution collateral pools at Federal Reserve Banks, or at member banks of the federal reserve system, in the name of the respective depository bank and pledged as a pool of collateral against all of the public deposits it holds or as specific collateral held at the Federal Reserve Bank in the name of the School.

4. CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2008, was as follows:

Capital Assets Being Depreciated:	Balance			Balance
	<u>06/30/07</u>	<u>Additions</u>	<u>Deletions</u>	<u>6/30/2008</u>
Computers & Equipment	\$ -	\$ 60,842	\$ -	\$ 60,842
Total Capital Assets Being Depreciated	-	60,842	-	60,842
 Less Accumulated Depreciation:				
Computer & Equipment	-	(12,168)	-	(12,168)
Total Accumulated Depreciation	-	(12,168)	-	(12,168)
 Total Capital Assets Being Depreciated				
Net	<u>\$ -</u>	<u>\$ 48,674</u>	<u>\$ -</u>	<u>\$ 48,674</u>

5. RISK MANAGEMENT

A. Insurance Coverage

TCS is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. For the year ended 2007, TCS contracted with the Hartford Casualty Insurance Company to have the following insurance coverage:

Commercial General Liability per occurrence	\$1,000,000
Commercial General Liability aggregate	2,000,000
Umbrella Liability per occurrence	
(\$10,000 self-insured retention)	2,000,000

The amount of settlements did not exceed insurance coverage for fiscal year 200

**THE CHARLES SCHOOL AT OHIO DOMINICAN UNIVERSITY
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2008
(Continued)**

6. DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

TCS has contracted with TGS to provide employee services and to pay those employees. However, these contract services do not relieve TCS of the obligation for remitting pension contributions. The retirement systems consider the School as the employer of record and the School ultimately responsible for remitting retirement contributions to each of the systems notes below: (See Note 14)

The Graham School, on behalf of TCS, contributes to the School Employees Retirement System of Ohio (SERS), a cost sharing multiple-employer defined benefit pension administered by the School Employees Retirement Board. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to 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 financial report that includes financial statements and required supplementary information. The report may be obtained by contacting SERS, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746 or by calling toll free (800) 878-5853. It is also posted on SERS' website, www.ohsers.org, under Forms and Publications.

For the fiscal year ended June 30, 2008, plan members are required to contribute 10 percent of their annual covered salary and TCS was required to contribute an actuarially determined rate. The current rate is 14 percent of annual covered payroll. A portion of TCS's contribution is used to fund pension obligations with the remainder being used to fund health care benefits: for fiscal year 2008, 9.16 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended by the SERS Retirement Board, up to statutory maximum amount of 10 percent for plan members and 14 percent for employers. TCS's required contribution for pension obligation to SERS for fiscal years June 30, 2008, was \$0 as all employees were reported under The Graham School. For 2008, TCS contributed all of its required contribution.

B. State Teachers Retirement Systems (STRS)

The Graham School, on behalf of TCS, participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing multiple-employer public employee retirement system. STRS Ohio provides retirement and disability benefits to members, and death and survivor benefits to beneficiaries. Benefits are established by Chapter 3307 of the Ohio Revised Code. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 East Broad Street, Columbus, Ohio, 43215-3371 or by calling (614) 227-4090, or by visiting the STRS of Ohio web site at www.strsohio.org.

**THE CHARLES SCHOOL AT OHIO DOMINICAN UNIVERSITY
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2008
(Continued)**

6. DEFINED BENEFIT PENSION PLANS (Continued)

B. State Teachers Retirement Systems (STRS) (Continued)

New members have a choice of three retirement plan options, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5% of earned compensation into an investment account. Investment decisions are made by members. A member is eligible to receive a retirement benefit at age 50 and termination of employment.

The Combined Plan offers features of the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB plan.

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

For the fiscal year ended June 30, 2008, members were required to contribute 10 percent of their annual covered salary and TCS is required to contribute 14%; 13% 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. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

TCS's required contribution for pension obligation to SERS for fiscal years June 30, 2008, was \$0 as all employees were reported under The Graham School. For 2008, TCS contributed all of its required contribution.

7. POSTEMPLOYMENT BENEFITS

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

The STRS Ohio Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. All benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS Ohio is included in the employer contribution rate, currently 14% of covered payroll. For the fiscal year ended June 30, 2008, the STRS Ohio Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Reserve Fund. For TCS, this amount equaled to \$8,140 during fiscal year 2008.

**THE CHARLES SCHOOL AT OHIO DOMINICAN UNIVERSITY
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2008
(Continued)**

7. POSTEMPLOYMENT BENEFITS (Continued)

For SERS, coverage is made available to service retirees with ten or more fiscal years of qualifying service credit, and to disability and survivor benefit recipients. All retirees and beneficiaries are required to pay a portion of their premium for health care. The portion is based on years of service, Medicare eligibility, and retirement status. Premiums may be reduced for retirees whose household income falls below the poverty level.

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2008, employer contributions to fund health care benefits were 3.42 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 the 2008 fiscal year, the School paid \$17,689 to fund health care benefits, including the surcharge.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of the projected claims less premium contributions for the next fiscal year. Expenses for health care for the fiscal year ended June 30, 2008, were \$158,751,207. At June 30, 2008, SERS had net assets available for payment of health care benefits of \$295.6 million. SERS has approximately 59,492 participants eligible to receive benefits.

8. CONTINGENCIES

A. Grants

TCS receives 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 operating fund. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of TCS at June 30, 2008.

B. Full-Time Equivalency Reviews

The Ohio Department of Education conducts reviews of enrollment data and full-time equivalency (FTE) calculations made by TCS. These reviews are conducted to ensure TCS is reporting accurate student enrollment data to the State, upon which state foundation funding is calculated. A review has been conducted for the 2007-2008 school year and the conclusion of this review resulted in state funding for TCS being adjusted by an increase of \$3,508. This adjustment for FTE does not have a material effect on the financial statements presented and is not included.

**THE CHARLES SCHOOL AT OHIO DOMINICAN UNIVERSITY
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2008
(Continued)**

9. OPERATING LEASES – LESSEE DISCLOSURE

TCS entered into an operating lease commencing February 2008 for a term of 60 months for a copier. The copier is owned by Modern Office Methods. The term will be extended automatically for successive 12 month terms unless written notice is given 30 days before the end of any term.

The following is a schedule of the future minimum payments required under the operating lease as of June 30, 2008.

<i>Fiscal Year</i>	<i>Copier</i>
2009	\$ 8,786
2010	8,786
2011	8,786
2012	8,786
2013	<u>7,322</u>
Total	\$ 42,466

TCS leased its facilities from The Tabernacle Baptist Church from August 15, 2007 through June 30, 2008. The lease provides TCS with two (2) options to extend the term of the lease for an additional period of one (1) year. The lease agreement between TCS and Tabernacle Baptist church provides for lease payments of \$3,000 not to exceed \$4,000 in any given month based on student enrollment of 75 students.

10. SHORT- TERM DEBT

At June 30, 2008, the following table represents TCS's short-term debt issuances:

	<u>Principal Outstanding 6/30/2007</u>	<u>Additions</u>	<u>Reductions</u>	<u>Principal Outstanding 6/30/2008</u>
Line of Credit	\$ 5,000	\$ 112,000	\$ -	\$ 117,000

On November 13, 2006, TCS entered into an open end promissory note for a line of credit with Charles E. Graham (Payee) in the amount of \$150,000 to be repaid with interest at a rate of 8%, in order to counteract the startup costs for the School. The entire unpaid principal balance together with accrued interest shall be due and payable upon the demand of the payee. No amortization schedule exists for the repayment of the line of credit. On August 20, 2007, the note was amended to increase the line of credit amount to \$250,000. At June 30, 2008, TCS had an outstanding principal balance of \$117,000 that has been recorded as line of credit payable.

11. RELATED PARTY TRANSACTION

As listed above, board member Charles E. Graham holds the line of credit for the school. Terms and balances are listed above in note 10. This transaction is in violation of TCS's sponsor agreement with Educational Service Center of Central Ohio.

**THE CHARLES SCHOOL AT OHIO DOMINICAN UNIVERSITY
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2008
(Continued)**

12. TAX EXEMPT STATUS

TCS was approved under § 501(c)(3) of the Internal Revenue Code as a tax-exempt organization. Management is not aware of any course of action or series of events that might adversely affect the School's tax exempt status.

13. SPONSOR

TCS was approved for operation under a contract with the Educational Service Center of Central Ohio (the sponsor) for a period of one year commencing July 1, 2007. A new one year contract was approved commencing July 1, 2008. The Sponsor is responsible for evaluating the performance of TCS and has the authority to deny renewal of the contract at its expiration or terminate the contract prior to its expiration. The school pays the Sponsor 1.5% of all foundation monies received from the state. Total fees billed for fiscal year 2008 were \$6,308.

14. AGREEMENT WITH THE GRAHAM SCHOOL

Effective July 1, 2007, the TCS entered into a two year Services Agreement (Agreement) with The Graham School (TGS). The Agreement's term runs through June 30, 2009. Substantially all functions of The Charles School have been contracted to The Graham School (TGS). TGS is responsible and accountable to the School's Board of Directors for the administration and day-to-day operations. TCS and TGS had common board members throughout fiscal year 2008. Per the contract, TGS receives up to 95 percent all federal, state, and local grants received by TCS, along with 100% of all private grants. During fiscal year 2008, TCS paid \$732,488 in fees due for services rendered relative to TCS, and had payables to TGS at June 30, 2008 totaling \$12,221. TGS will be responsible for all costs incurred in providing the educational program at the School, which include but are not limited to, salaries and benefits of all personnel, curriculum materials, textbooks and consultant services, except those expenses clearly and exclusively the expense of TCS, in which case TCS will pay directly.

15. PURCHASED SERVICES EXPENSES

For the year ended June 30, 2008, The Graham School incurred the following expenses on behalf of the School.

Expenses	<u>2008</u>
Direct Expenses:	
Salaries & wages	\$ 428,586
Employees' benefits	121,856
Professional & technical services	7,400
Property services	502
Travel	2,823
Communications	1,006
Other supplies	13,033
Indirect Expenses:	
Overhead	176,594
Total Expenses	\$ 751,800

**THE CHARLES SCHOOL AT OHIO DOMINICAN UNIVERSITY
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2008
(Continued)**

15. PURCHASED SERVICES EXPENSES (Continued)

Overhead charges are assigned to the School based on a percentage of full-time equivalent student enrollment. These charges represent the indirect cost of services provided in the operation of the School. Such services include, but are not limited to facilities management, equipment, operational support services, management and management consulting, board relations, human resources management, training and orientation, financial reporting and compliance, purchasing and procurement, education services, technology support and marketing and communications.

16. MANAGEMENT'S PLAN

At June 30, 2008 TCS had ending net assets of \$9,810 with an operating loss of \$530,336. As of April 30, 2009, the School had a cash balance of \$83,902. The School has significant recurring operating losses and loans to cover operating activities. Management has written a corrective action plan (which was accepted by the sponsor) to address these issues. The School plans to increase student enrollment, apply for private grants, and use fundraising efforts to reduce outstanding loans and to cover operating losses.

17. SUBSEQUENT EVENT

TCS signed a lease with Columbus City Schools to rent its Brentnell facility. Terms of the lease are for a period of 120 months commencing on July 1, 2008 and ending on June 30, 2018 at a rate of \$5,216 per month (\$62,592 annually) for the first 5 years. For the remaining years, the lease adjusts itself based upon the lesser of 13.5% or the CPI index.



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*

The Charles School at Ohio Dominican University
Franklin County
1270 Brentnell Ave
Columbus, Ohio 43219

To the Board:

We have audited the financial statements of The Charles School at Ohio Dominican University, Franklin County, Ohio (TCS) as of and for the year ended June 30, 2008, which collectively comprise the School's basic financial statements and have issued our report thereon dated May 14, 2009, wherein we noted the School is experiencing certain financial difficulties. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the School's ability to initiate, authorize, record, process, or report financial data reliably in accordance with its applicable accounting basis, such that there is more than a remote likelihood that the School's internal control will not prevent or detect a more-than-inconsequential financial statement misstatement.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all internal control deficiencies that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider material weaknesses, as defined above.

We noted certain internal control matters that we reported to the TCS's management in a separate letter dated May 14, 2009.

Compliance and Other Matters

As part of reasonably assuring whether the TCS's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed an instance of noncompliance or other matters that we must report under *Government Auditing Standards*, which is described in the accompanying schedule of findings as item 2008-001.

We also noted certain noncompliance or other matters not requiring inclusion in this report that we reported to the School's management in a separate letter dated May 14, 2009.

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

We intend this report solely for the information and use of the audit committee, management, the Board, and the TCS's sponsor, the Educational Service Center of Central Ohio. We intend it for no one other than these specified parties.



Mary Taylor, CPA
Auditor of State

May 14, 2009

THE CHARLES SCHOOL AT OHIO DOMINICAN UNIVERSITY
FRANKLIN COUNTY

SCHEDULE OF FINDINGS
JUNE 30, 2008

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

Finding Number	2008-001
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Sponsorship Agreement – Noncompliance Finding

The Sponsorship agreement with the Educational Service Center of Central Ohio, Exhibit 3, states that none of the members of the board will have contracts with the school.

TCS entered into an open-end promissory note line of credit with Board Member, Charles Graham, for which \$117,000 of the \$250,000 limit was drawn on at June 30, 2008. This loan agreement between The Charles School and Charles Graham is prohibited as per the Sponsorship Agreement.

We recommend the Board approve and permit only contracts not involving the membership of the Board.

Officials' Response: TCS and its Sponsor, the Educational Service Center of Central Ohio, are working towards resolving this Noncompliance finding and expect resolution shortly. TCS further notes that Mr. Graham has not, and will not, collect any interest under this promissory note.



Mary Taylor, CPA
Auditor of State

THE CHARLES SCHOOL AT OHIO DOMINICAN UNIVERSITY
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 11, 2009