



**W.C. HANDY COMMUNITY MIDDLE SCHOOL OF THE PERFORMING ARTS  
FRANKLIN COUNTY  
REGULAR AUDIT  
FOR THE YEARS ENDED JUNE 30, 2005 AND JUNE 30, 2004**



**Auditor of State  
Betty Montgomery**



**W.C. HANDY COMMUNITY MIDDLE SCHOOL OF THE PERFORMING ARTS  
FRANKLIN COUNTY**

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## Auditor of State Betty Montgomery

### INDEPENDENT ACCOUNTANTS' REPORT

W.C. Handy Community Middle School of the Performing Arts  
Franklin County  
585 South Front Street  
Suite 220  
Columbus, Ohio 43215

To the Board of Directors:

We were engaged to audit the accompanying basic financial statements of W.C. Handy Community Middle School of the Performing Arts, Franklin County, Ohio (the School), as of and for the years ended June 30, 2005 and June 30, 2004, as listed in the table of contents. These financial statements are the responsibility of the School's management.

The School did not retain or present for examination sufficient competent evidence to support the activities, balances, and disclosures in the accompanying basic financial statements.

Management has not presented the Notes to the Basic Financial Statements as of and for the year ended June 30, 2005. Accounting principles generally accepted in the United States of America require presenting this component of the basic financial statements. We cannot reasonably determine the amounts and disclosures the Notes to the Basic Financial Statements would present as of and for the year ended June 30, 2005.

Management has not provided a written representation letter, which is required by auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Due to the effects of the matters discussed in the three preceding paragraphs, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on the basic financial statements of the W.C. Handy Community Middle School of the Performing Arts, Franklin County, Ohio as of June 30, 2005 and June 30, 2004 and for the years then ended.

The School discontinued operations on October 4, 2004. However, additional financial transactions associated with operations occurred through June 30, 2005 and financial statements are presented through the fiscal year end.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 31, 2006, on our consideration of the School's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing.

Management has not presented Management's Discussion and Analysis as of and for the year ended June 30, 2005. The Governmental Accounting Standards Board requires presenting this component of the basic financial statements. We cannot reasonably determine the amounts and disclosures Management's Discussion and Analysis would present as of and for the year ended June 30, 2005.

Management's Discussion and Analysis presented as of and for the year ended June 30, 2004 is not a required part of the basic financial statements, but is supplementary information the Governmental Accounting Standards Board 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.



**Betty Montgomery**  
Auditor of State

March 31, 2006

**W.C. HANDY COMMUNITY MIDDLE SCHOOL OF THE PERFORMING ARTS  
FRANKLIN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
UNAUDITED**

Our discussion and analysis of W.C. Handy Community Middle School, Inc.'s (WCHCMS) financial performance provides an overall review of the financial activities for the fiscal year ended June 30, 2004 (FY 04). The intent of this discussion and analysis is to look at WCHCMS'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 WCHCMS's financial performance. Please note that WC Handy discontinued operations on October 4, 2004 (FY 05). During fiscal year 2004, WCHCMS's lease with New Covenant Baptist Church was not renewed. Negotiations for a new building were not successful and the school was forced to close. The basic financial statements presented later in this report will show comparative final statements for fiscal years 2004 and 2005.

The Management's Discussion and Analysis (MD&A) is an element of the reporting model adopted by the Governmental Accounting Standard Board (GASB). In their statement No. 34 basic financial statements – and management's discussion and analysis – for state and local government issued June 1999. Certain comparative information between the current year and the prior year is required to be presented in the MD&A.

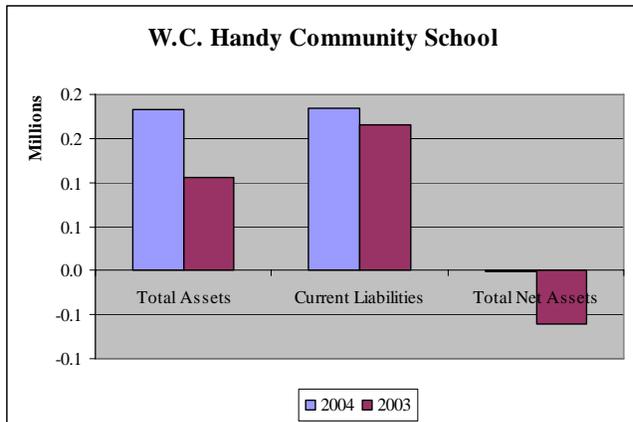
**Financial Highlights**

Key financial highlights for 2004 are as follows:

- Total net assets increased \$59,201 in 2004.
- Total revenue increased from \$1,217,388 in FY03 to \$1,247,964 in FY04.
- Similarly, total program expenses decreased from \$1,254,715 in FY03 to \$1,188,763 in FY04.
- Current liabilities Increased \$18,302 with current assets increasing \$78,585 in 2004.
- WCHCMS has no long term debt in fiscal year 2004.

**Using this Financial Report**

This annual report consists of a series of financial statements. These statements are organized so the reader can understand the financial position of WCHCMS. Enterprise accounting uses a flow of economical resources measurement focus. With this measurement focus all assets and all liabilities are included on the statement of net assets. The Statement of Net Assets represents the basic statement of position for WCHCMS. The Statement of Revenues, Expenses, and Changes in Net Assets presents increases (e.g. revenues) and decreases (e.g. expenses) in net total assets. The Statement of Cash Flows reflects how WCHCMS finances and meets its cash flow needs. Finally, the notes to the basic financial statements provide additional information that is essential to a full understanding of the data provided on the basic financial statements.



**W.C. HANDY COMMUNITY MIDDLE SCHOOL OF THE PERFORMING ARTS  
FRANKLIN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
UNAUDITED  
(Continued)**

The view of WCHCMS as a whole looks at all financial transactions and asks the question, "How did we do financially during 2004?" The Statement of Net Assets and the Statement of Revenues, Expenses and Changes in Net Assets answer this question. These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting used by most private-sector companies. The basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid. These two statements report WCHCMS's net assets and changes in those assets. This change in net assets is important because it tells the reader that, for WCHCMS as a whole, the financial position of WCHCMS has improved or diminished. The cause of this may be the result of many factors, some financial, some not. Non-financial factors include current laws in Ohio restricting revenue growth, facility conditions, required educational programs, and other factors.

**Reporting WCHCMS's Financial Statements**

WCHCMS's major revenue source is the State Basic Aid Foundation. Additional sources of revenue come from federal entitlement programs and miscellaneous state grants.

WCHCMS's activities focus on how money flows into and out of the school and the balances left at year-end available for spending in future periods. WCHCMS reports its financial data using an accounting method called full accrual, which measures all financial assets. The financial statements provide a detailed snap-shot view of WCHCMS's general operations and the basic services it provides. This information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs.

**Financial Analysis**

WCHCMS is not required to present government-wide financial statements as WCHCMS is engaged in only business-type activities. Therefore no condensed financial information derived from government-wide financial statements is included in the discussion and analysis.

Table 1 provides a summary of WCHCMS's net assets for 2004 compared to 2003. Total net assets increased by \$59,201. Cash and other current assets increased by \$77,503 in 2004. Two factors contribute to these increases. First, WCHCMS received additional net revenue from the grants for operations. Also, the school reduced its expenditures significantly from FY 03 to FY 04 based on budget cuts made.

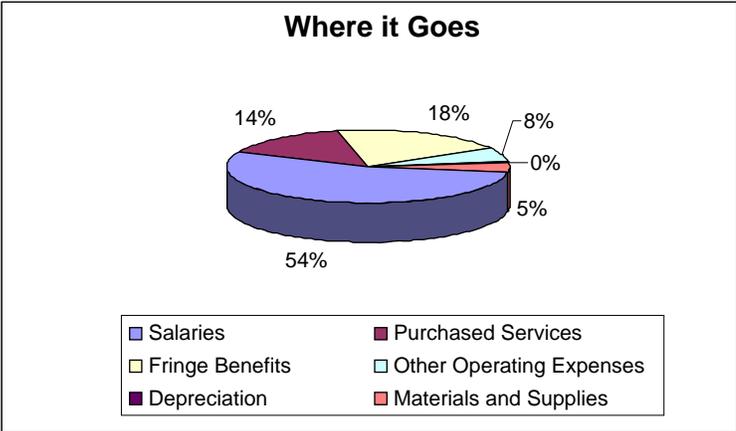
	2004	2003
<u>Assets:</u>		
Cash and Other Current Assets	\$179,839	\$101,254
Capital Assets, Net	3,148	4,230
<b>Total Assets</b>	<b>182,987</b>	<b>105,484</b>
<u>Liabilities:</u>		
Current Liabilities	184,306	151,004
Long Term Liabilities	0	15,000
<b>Total Liabilities</b>	<b>184,306</b>	<b>166,004</b>
<u>Net Assets:</u>		
Invested in Capital Assets	3,148	4,230
Unrestricted	-4,467	-64,750
<b>Total Net Assets</b>	<b>(\$1,319)</b>	<b>(\$60,520)</b>

	2004	2003
<u>Operating Revenues</u>		
Foundation	910,798	972,979
Operating Grants	283,308	216,265
Other Operating Revenue	53,835	27,288
<u>Non-Operating Revenues</u>		
Other Non-Operating	0	856
<b>Total Revenues</b>	<b>1,247,941</b>	<b>1,217,388</b>
<u>Operating Expenses</u>		
Salaries	641,764	675,023
Fringe Benefits	219,373	187,245
Purchased Services	171,695	252,348
Materials and Supplies	53,731	81,798
Depreciation	1,082	1,277
Other Operating Expenses	101,035	57,024
<u>Non-Operating Expenses</u>		
Interest & Fees related to Debt	60	0
<b>Total Expenses</b>	<b>1,188,740</b>	<b>1,254,715</b>
<b>Total Increase in Net Assets</b>	<b>\$59,201</b>	<b>(\$37,327)</b>

**W.C. HANDY COMMUNITY MIDDLE SCHOOL OF THE PERFORMING ARTS  
FRANKLIN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
UNAUDITED  
(Continued)**

The revenue generated by a community school is almost entirely dependent on per-pupil allotment given by the State foundation and from federal entitlement programs. Foundation payments made up 68% of revenues for WCHCMS in fiscal year 2004. Grant revenues increased \$67,043 due to the additional eligible funding that was received in 2004. Table 2 shows Changes in Net Assets for the past 2 years. Enrollment has decreased over the past 2 years but we were able to see some funding increases due to the increase in the per-pupil spending formula from ODE and eligibility for grants. In FY 03 the per pupil amount was \$4,949 compared to \$5,058 in FY 04.



**Capital Assets and Debt Administration**

**Capital Assets**

At the end of fiscal 2004, WCHCMS has \$3,148 in net capital assets. The majority of the capital assets are the furniture of the school.

**Debt**

At June 30, 2004 WCHCMS had \$184,306 in total liabilities. This amount represents current liabilities. The current liabilities represent accounts payable, a \$75,000 line of credit from fifth third bank, and intergovernmental payables due within one year.

**Current Financial Related Activities**

WCHCMS discontinued operations in October of 2004 (FY 05). During fiscal year 2004, the school's lease with New Covenant Baptist Church was not renewed. Negotiations for a new building were not successful and the school was forced to close. The basic financial statements presented later in this report will show comparative final statements for fiscal years 2004 and 2005. The school has paid all of its operating liabilities and refunded \$93,486 to the Ohio Department of Education.

**Contacting WCHCMS's Financial Management**

This financial report is designed to provide all stakeholders with a general overview of WCHCMS's finances. Questions concerning any of the information in this report or requests for additional information should be directed to John Parmis-Treasurer, c/o Parmis and Company 585 S. Front Street, Columbus, OH 43215.

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**W. C. HANDY COMMUNITY MIDDLE SCHOOL OF THE PERFORMING ARTS  
FRANKLIN COUNTY**

**STATEMENT OF NET ASSETS  
AS OF JUNE 30, 2005 AND 2004**

<b>Assets</b>	<b>2005</b>	<b>2004</b>
<i>Current Assets:</i>		
Cash and Cash Equivalents	\$ 106,131	\$ 105,456
Receivables:		
Intergovernmental	-	74,383
Total Current Assets	<u>106,131</u>	<u>179,839</u>
<i>Noncurrent Assets:</i>		
<i>Capital Assets:</i>		
Depreciable Capital Assets, net	-	3,148
Total Noncurrent Assets	<u>-</u>	<u>3,148</u>
Total Assets	<u>106,131</u>	<u>182,987</u>
<b>Liabilities</b>		
<i>Current Liabilities:</i>		
Accounts Payable	-	16,287
Accrued Wages and Benefits	-	93,019
Intergovernmental Payable	184,209	-
Notes Payable	-	75,000
Total Current Liabilities	<u>184,209</u>	<u>184,306</u>
Total Liabilities	<u>184,209</u>	<u>184,306</u>
<b>Net Assets</b>		
Invested In Capital Assets, Net of Related Debt	-	3,148
Unrestricted	<u>(78,078)</u>	<u>(4,467)</u>
Total Net Assets	<u>\$ (78,078)</u>	<u>\$ (1,319)</u>

See accompanying notes to the basic financial statements

**W. C. HANDY COMMUNITY MIDDLE SCHOOL OF THE PERFORMING ARTS  
FRANKLIN COUNTY**

**STATEMENT OF REVENUES,  
EXPENSES AND CHANGES IN NET ASSETS  
FOR THE FISCAL YEARS ENDED JUNE 30, 2005 & 2004**

	<b>2005</b>	<b>2004</b>
<b>Operating Revenues</b>		
Foundation	\$ -	\$ 910,798
Operating Grants	-	283,308
Miscellaneous	3,341	53,835
Total Operating Revenues	<u>3,341</u>	<u>1,247,941</u>
<b>Operating Expenses</b>		
Salaries	-	641,764
Fringe Benefits	14,132	219,373
Purchased Services	25,927	171,695
Materials and Supplies	33,494	53,731
Depreciation	-	1,082
Other	1,352	101,035
Total Operating Expenses	<u>74,905</u>	<u>1,188,680</u>
Operating Income (Loss)	<u>(71,564)</u>	<u>59,261</u>
<b>Non-Operating Revenues (Expenses)</b>		
Interest Income	-	23
Interest Expense	(2,047)	(83)
Loss on Sale of Assets	(3,148)	-
Total Non-Operating Revenues (Expenses)	<u>(5,195)</u>	<u>(60)</u>
<b>Change in Net Assets</b>	(76,759)	59,201
Net Assets Beginning of Year	<u>(1,319)</u>	<u>(60,520)</u>
Net Assets End of Year	<u>\$ (78,078)</u>	<u>\$ (1,319)</u>

See accompanying notes to the basic financial statements

**W. C. HANDY COMMUNITY MIDDLE SCHOOL OF THE PERFORMING ARTS  
FRANKLIN COUNTY**

**STATEMENT OF CASH FLOWS  
FOR THE FISCAL YEARS ENDED JUNE ENDED JUNE 30, 2005 & 2004**

	<u>2005</u>	<u>2004</u>
<b>Cash Flows from Operating Activities</b>		
Cash Received from State	\$ 195,050	\$ 836,416
Operating Grants Received	63,559	283,308
Other Cash Receipts	3,341	53,835
Cash Payments to Employees for Services	(93,019)	(635,206)
Cash Payments for Employee Benefits	(14,132)	(230,807)
Cash Payments for Goods and Services	(75,725)	(263,794)
Other Cash Payments	(1,352)	(98,254)
Net Cash Provided by (Used in) Operating Activities	<u>77,722</u>	<u>(54,502)</u>
<b>Cash Flows from Capital and Related Financing Activities</b>		
Proceeds of Notes	-	75,000
Interest Income	-	23
Interest Paid-Notes Payable	(2,047)	(83)
Principal Payments-Notes Payable	(75,000)	(15,000)
Net Cash Provided by (Used in) Financing Activities	<u>(77,047)</u>	<u>59,940</u>
Net Increase (Decrease) in Cash and Cash Equivalents	675	5,438
Cash and Cash Equivalents Beginning of Year	<u>105,456</u>	<u>100,018</u>
Cash and Cash Equivalents End of Year	<u>\$ 106,131</u>	<u>\$ 105,456</u>
<b>Reconciliation of Operating Gain (Loss) to Net Cash Provided by (Used in) Operating Activities</b>		
Operating Gain (Loss)	\$ (71,564)	\$ 59,261
Adjustments:		
Depreciation	-	1,082
(Increase) Decrease in Assets:		
Accounts Receivable	-	71
Intergovernmental Receivable	74,383	(74,383)
Prepays	-	1,165
Increase (Decrease) in Liabilities:		
Accounts Payable	(16,287)	(36,822)
Accrued Wages	(93,019)	6,558
Compensated Absences	-	-
Intergovernmental Payable	184,209	(11,434)
Net Cash Provided by (Used in) Operating Activities	<u>\$ 77,722</u>	<u>\$ (54,502)</u>

See accompanying notes to the basic financial statements

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**W.C. HANDY COMMUNITY MIDDLE SCHOOL OF THE PERFORMING ARTS  
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

**1. DESCRIPTION OF THE ENTITY**

W.C. Handy Community Middle School (the School) is a nonprofit corporation established pursuant to Ohio Revised Code Chapters 3314 and 1702. The school is an approved tax-exempt organization under Section 501(c) (3) of the Internal Revenue Code. 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 School's mission is to build a community of scholars and stimulate academic achievement through an arts-based curriculum. By operating a school that provides a comprehensive educational experience for the students, the School's vision is to provide a model public community school that looks and behaves like a private school. The School teaches values based learning opportunities to encourage positive life skills. The School, which is part of the State's education program, is independent of any school district and is non secretarial in its programs, admission policies, employment practices, and all other operations. The School may acquire facilities as needed and contract for any services necessary for the operation of the School.

The School was approved for operation under a contract with the Ohio State Board of Education (the Sponsor) for a period of five years effective for the 2001-2002 academic school year. The Sponsor is responsible for evaluating the performance of the School and has the authority to deny renewal of the contract at its expiration or terminate the contract prior to its expiration.

The School operates under the direction of a five-member 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. The Governing Board controls the School's one instructional/support facility staffed by 12 non-certified and 12 certificated full time teaching personnel who provide services to 185 students.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements of the School have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to a governmental nonprofit organization. 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. Following are the more significant of the School's accounting policies.

**A. Basis of Presentation**

The School's basic financial statements consist of net assets; statement of revenues, expenses, and changes in net assets; and a statement of cash flows.

The School uses a single enterprise presentation for its financial records. Enterprise reporting focuses on the determination of operating income, changes in net assets, financial position, and cash flows.

**W.C. HANDY COMMUNITY MIDDLE SCHOOL OF THE PERFORMING ARTS  
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
(Continued)**

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

**B. Measurement Focus/Basis of Accounting**

The enterprise activity is accounted for using a flow of economic resources measurement focus. All assets and liabilities associated with the operation of the School are included on the statement of net assets. The statement of revenues, expenses, and changes in net assets presents increases (e.g. revenues) and decreases (e.g. expenses) in total net assets. The statement of cash flows reflects how the School finances meet its cash flow needs.

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. The School's financial statements are prepared using the accrual basis of accounting. Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. Revenue resulting from nonexchange transactions, in which the School receives value without directly giving equal value in return, such as grants and entitlements, are recognized in the period in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the period when the resources are required to be used or the period when use is first permitted, matching requirements, in which the 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. Expenses are recognized at the time they are incurred.

**C. Budgetary Process**

Unlike other public schools located in the State of Ohio, community schools are not required to follow budgetary provisions set forth in Ohio Revised Code Chapter 5705, unless specifically provided in the School's contract with its Sponsor. The contract between the School and its Sponsor does prescribe an annual budget requirement.

**D. Cash and Cash Equivalents**

All cash received by the School is pooled in a central bank account. The School did not have any investments during fiscal year 2004.

**E. Capital Assets and Depreciation**

All capitalized 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 value on the date received. The School maintains a capitalization threshold of five hundred dollars. The School does not possess any infrastructure.

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 capitalized, interest incurred during the construction of capital assets is also capitalized. The School did not capitalize interest during the year.

**W.C. HANDY COMMUNITY MIDDLE SCHOOL OF THE PERFORMING ARTS  
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
(Continued)**

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

**E. Capital Assets and Depreciation (Continued)**

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

**F. Intergovernmental Revenues (Non-Exchange Transactions)**

The School currently participates in the State Foundation Program, and the State Special Education Program. Revenues from these programs are recognized as operating revenues (foundation payments and special education) in the accounting period in which they are earned and become measurable.

Grants and entitlements are recognized as non-operating revenues in the accounting period in which all eligibility requirements have been met.

Grants and entitlements are recognized as non-operating revenues in the accounting period in which all eligibility requirements have been met. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year use is first permitted, matching requirements, in which the School must provide local resources to be used for a specified purpose, and expenditures requirements, in which the resources are provided to the School on a reimbursement basis.

Amounts awarded under state and federal grants and entitlements for the 2004 school year totaled \$283,308.

**G. Prepaid Items**

Payments made to vendor for services that will benefit periods beyond June 30, 2004, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of purchase and the expense is reported in the year in which the services are consumed. There were no prepaid items at June 30, 2004.

**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 the school or through external restrictions imposed by creditors grantors or laws or regulations of other governments. The School presently has no restricted net assets.

**W.C. HANDY COMMUNITY MIDDLE SCHOOL OF THE PERFORMING ARTS  
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
(Continued)**

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

**I. Operating Revenues and Expenses**

Operating revenues are those that are generated directly from the primary activity of the School. Operating expenses are necessary costs incurred to provide the service that is the primary activity of the School. All revenues and expenses not meeting this definition are reported as non-operational.

**J. Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates

**3. CASH AND CASH EQUIVALENTS**

At June 30, 2004, the carrying amount of the School's deposits was \$105,456 and the bank balance was \$107,488. Of the available bank balance, \$100,000 was covered by federal depository insurance and \$7,482 was uninsured and uncollateralized. The School held no investments at June 30, 2004.

**4. RECEIVABLES**

Receivables at June 30, 2004, consisted of intergovernmental receivables arising from grants, entitlements and shared revenues. All receivables are considered collectible in full. A summary of the principal items of receivables follows:

<u>Receivables</u>	<u>Amount</u>
Disadvantaged Pupil Impact Aid	\$ 12,827
Food Service	5,470
Title II-A	6,676
Title I	49,410
Total Receivables	<u>\$ 74,383</u>

**5. CAPITAL ASSETS**

A summary of the Schools capital asset activity at June 30, 2004 follows:

	<u>Balance 6/30/2003</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 6/30/2004</u>
Capital Assets:				
Furniture and Equipment	6,271	-	-	6,271
Accumulated Depreciation:				
Furniture and Equipment	2,041	1,082	-	3,123
Total Capital Assets Net	<u>4,230</u>	<u>(1,082)</u>	-	<u>3,148</u>

**W.C. HANDY COMMUNITY MIDDLE SCHOOL OF THE PERFORMING ARTS  
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
(Continued)**

**6. RISK MANAGEMENT**

**A. Property and Liability**

The School is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees, and natural disasters. For fiscal year 2004, the School contracted with Colonial Insurance and United National Insurance Companies for its insurance coverage as follows:

General liability	\$ 2,000,000
Educators Professional Liability	1,000,000
Excess Liability	4,000,000

Both the general and the excess liability have a \$5,000 deductible per claim. The School owns no real estate, but leases a facility located at 3400 Kohr Boulevard, Columbus, Ohio.

**B. Worker's Compensation**

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

**C. Employees Medical, Dental and Vision Benefits**

The School has contracted through United Healthcare to provide employee medical, dental, vision, life, and disability insurance to its full time employees who work 25 or more hours per week. The School pays a portion of the monthly premiums for all selected coverage (medical, dental, vision, life, and/or disability).

**7. DEFINED BENEFIT PENSION PLANS**

**A. School Employees Retirement System**

The School contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing multiple employer public employee retirement system administered by the School Employees Retirement Board. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by 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 may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3476 or by calling (614) 222-5853.

For fiscal year ending June 30, 2004 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 rate is 14 percent of annual covered payroll. A portion of the School's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for the fiscal year 2004, 9.09 percent of annual covered salary was the portion to fund pension obligations. For fiscal year 2003, 8.17 percent was used to fund pension obligations.

**W.C. HANDY COMMUNITY MIDDLE SCHOOL OF THE PERFORMING ARTS  
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
(Continued)**

**7. DEFINED BENEFIT PENSION PLANS (Continued)**

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

The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board.

The School's required contribution for pension obligation to SERS for the fiscal years ended June 30, 2004, 2003 and 2002 were \$34,524, \$17,736 and \$10,348, respectively; 100 percent has been contributed for all fiscal years.

**B. State Teachers Retirement System**

The School contributes to 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 survivors 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 E. Broad St., Columbus, OH 43215 or by calling (614) 227-4090 or by visiting the STRS website at [www.strsohio.org](http://www.strsohio.org).

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 percent 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. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan. Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one time irrevocable decision to transfer their account balances from the existing DB Plan into the DC Plan or the Combined Plan. This option expired on December 31, 2001.

A DB or Combined Plan member with five or more years credited service that 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.

**W.C. HANDY COMMUNITY MIDDLE SCHOOL OF THE PERFORMING ARTS  
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
(Continued)**

**7. DEFINED BENEFIT PENSION PLANS (Continued)**

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

For the fiscal year ended June 30, 2004, plan members were required to contribute 9.3 percent of their annual covered salaries. The School was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by the STRS Board, 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.

The School's required contributions for pension obligations for the fiscal years ended June 30, 2004, 2003, and 2002 were \$32,182, \$39,326, and \$26,371, respectively; 100 percent has been contributed for all fiscal years.

**8. POSTEMPLOYMENT BENEFITS**

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

The STRS 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 percent of covered payroll. For fiscal year ended June 30, 2004, the STRS Ohio Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Reserve Fund. For the School this amount equaled to \$2,344 during fiscal year 2004. STRS pays health care benefits from the Health Care Stabilization Fund. At June 30, 2004, the balance in the fund was 3.1 billion. For the fiscal year ended June 30, net health care costs paid by STRS were \$268,739,000 and STRS had 111,853 eligible benefit recipients.

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. Members retiring on or after August 1, 1989, with less than twenty-five years of service credit must pay a portion of their premium for health care. Effective January 1, 2004 all retirees and beneficiaries are required to pay a portion of their health care premium, the portion is based on years of service and Medicare eligibility and retirement status. A safety net is in place for retirees whose household income falls below federal poverty levels. Premiums are reduced by 50 percent for those who apply. 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, 2004, employer contributions to fund health care benefits were 4.91 percent of covered payroll.

**W.C. HANDY COMMUNITY MIDDLE SCHOOL OF THE PERFORMING ARTS  
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
(Continued)**

**8. POSTEMPLOYMENT BENEFITS (Continued)**

In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2004, the minimum pay was established at \$25,400. For the School, the amount contributed to fund health care benefits, including the surcharge, during the 2004 fiscal year equaled \$11,515. The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund.

The target level for the health care reserve is 150 percent of annual health care expenses. Expenses for health care at June 30, 2004 were \$223,443,805 and the target level was \$335.2 million. At June 30, 2004, SERS had net assets available for payment of health care benefits of \$300.8 million and SERS had approximately 62,000 participants receiving health care benefits.

**9. LINE OF CREDIT**

During fiscal year 2004, the School repaid an outstanding line-of-credit agreement with Fifth Third Bank from the previous year for \$15,000. Also during 2004, the School entered into a new line-of-credit agreement with Fifth Third Bank for a period of one year in the amount of \$75,000. The purpose of the line-of-credit was to provide working capital in the event of timing gaps experienced in awaiting state funding. The line-of-credit had an interest rate of 6% and was secured by all tangible assets of the School. At June 30, 2004, there was an unpaid balance of \$75,000.

**10. CONTINGENCIES**

**A. Grants**

The School received financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the School. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the School at June 30, 2004.

**B. Ohio Department of Education Enrollment Review**

The Ohio Department of Education (ODE) conducts reviews of enrollment data and full time equivalency (FTE) calculations made by the School. These reviews are conducted to ensure the School is reporting accurate student enrollment data to the State, upon which state foundation funding is calculated. According to the review for fiscal year 2004 the school was underpaid \$62,020. This amount was not collected, due to the School closing operations and receiving funding for the 2005 school year, when the School did not open. Therefore, no receivable or revenue was recorded to the financial statements for this amount.

**W.C. HANDY COMMUNITY MIDDLE SCHOOL OF THE PERFORMING ARTS  
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
(Continued)**

**10. CONTINGENCIES (Continued)**

**C. Litigation**

The suit was filed in Franklin County Common Pleas Court on May 14, 2001, alleging that Ohio's Community (i.e., Charter) school's program violates the state Constitution and state laws. On April 21, 2003 the court dismissed the counts containing constitutional claims and stayed the other counts pending appeal of the constitutional issues. The plaintiffs appealed to the Court of Appeals, the issues have been briefed, and the case was heard for oral argument on November 18th, 2003. On August 24, 2004, the Court of Appeals rendered a decision that Community Schools are part of the state public education system and this matter was sent to the Ohio Supreme Court. The Ohio Supreme Court accepted the appeal from the Court of Appeals for review on February 16, 2005. Oral argument occurred November 29, 2005. The effect of this suit, if any on W.C. Handy Community Middle School is not presently determinable.

**11. PURCHASED SERVICES**

For the period July 1, 2003 through June 30, 2004, purchased service expenses were payments for services rendered by various vendors, as follows:

Professional and Technical Services	\$ 31,672
Property Services	120,484
Travel Mileage/Meeting Expense	1,568
Communications	4,368
Contracted Craft or Trade Services	11,188
Transportation Services	<u>2,415</u>
Total Purchased Services	<u>\$171,695</u>

**12. OPERATING LEASES – SPACE AND COST SHARING AGREEMENT**

The School entered into a space and cost sharing agreement with New Covenant Believers Church for use of space on property located at 3400 Kohl Boulevard and to provide for various shared services. The terms of the agreement commenced on August 1, 2002 and terminated June 30, 2003. For 2004, the lease was renewed for another year term. The lease was not renewed after the 2004 school year. Under the space and cost sharing agreement, minimum monthly payments were \$12,500 a month for the months of September 2003 through May 2004. Expenses resulting from this agreement for the fiscal year 2004 totaled to \$112,500.

**13. DEFICIT FUND EQUITY**

For fiscal year 2004, the School had an operating gain of \$59,201 and total net assets of (\$1,319).

**14. SUBSEQUENT EVENT**

W.C. Handy Community Middle School discontinued operations on October 4, 2004 and the Ohio Department of Education rescinded its' contract on November 9, 2004. However, additional financial transactions occurred through the remainder of the fiscal year ending June 30, 2005. During fiscal year 2004, the School's lease with New Covenant Believers Church was not renewed. Negotiations for a new building were not successful and the School was forced to close. On August 11, 2005 the School refunded \$93,486 of funding to the Ohio Department of Education.

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**Auditor of State  
Betty Montgomery**

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

W.C. Handy Community Middle School of the Performing Arts  
Franklin County  
585 South Front Street  
Suite 220  
Columbus, Ohio 43215

To the Board of Directors:

We were engaged to audit the basic financial statements of W.C. Handy Community Middle School of the Performing Arts, Franklin County, Ohio, (the School) as of and for the years ended June 30, 2005 and June 30, 2004, and have issued our report thereon dated March 31, 2006, wherein we disclaimed an opinion due to a lack of sufficient evidential matter, a representation letter, and Notes to the Financial Statements as of and for the year ended June 30, 2005.

**Internal Control Over Financial Reporting**

In planning and performing our engagement, we considered the School's internal control over financial reporting in order to determine our procedures and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the School's ability to record, process, summarize and report financial data consistent with management's assertions in the financial statements. Reportable conditions are described in the accompanying schedule of findings as items 2005-007 through 2005-014.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements may occur and not be timely detected by employees when performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. We consider reportable conditions 2005-007 through 2005-009 listed above 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 2005-001 through 2005-007.

We intend this report solely for the information and use of management and the Board of Directors. It is not intended for anyone other than these specified parties.



**Betty Montgomery**  
Auditor of State

March 31, 2006

**W.C. HANDY COMMUNITY MIDDLE SCHOOL OF THE PERFORMING ARTS  
FRANKLIN COUNTY**

**SCHEDULE OF FINDINGS  
JUNE 30, 2005 AND JUNE 30, 2004**

<b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS</b>
--

<b>Finding Number</b>	<b>2005-001</b>
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**Teacher Certification**

Ohio Rev. Code Section 3314.03(A)(10) requires all community school classroom teachers to be licensed in accordance with Ohio Rev. Code Sections 3319.22 to 3319.31, except that a community school may engage non-certificated persons to teach up to twelve hours per week pursuant to Ohio Rev. Code Section 3319.301. A permit must be issued by the Ohio Department of Education to these "non-certificated" persons in order to teach.

Sixty percent of teachers tested did not have proper teaching certifications retained in their personnel files to document their licensure and at least fifteen percent were not properly certified.

We recommend the School ensure only properly licensed teachers are hired and that documentation of teaching certificates is maintained in personnel files.

<b>Finding Number</b>	<b>2005-002</b>
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**Employee Retirement**

Ohio Rev. Code Section 3314.10(A)(2) states in pertinent part that as applicable, employment under this section is subject to either Chapter 3307. or 3309. of the Revised Code.

Ohio Rev. Code Section 3307.23 states that each teacher, upon becoming employed, shall file a detailed statement of all the teacher's previous service as a teacher and of such other service as comes under this chapter, and shall furnish such other facts as the state teachers retirement board requires for the proper operation of the state teachers retirement system. If a teacher fails to file the required membership record within ninety days after becoming employed, the secretary shall so advise the teacher's employer who shall thereafter withhold all salary payments to such teacher until such record is filed with the state teachers retirement board.

Ohio Rev. Code Section 3309.23(A) states that the following shall be contributors to the school employees retirement system: (1) All employees, as defined in division (B) of Ohio Rev. Code Section 3309.01, which states that any person, not a faculty member, employed in any school or college or other institution wholly controlled and managed, and wholly or partly supported by the state or any political subdivision thereof, the board of trustees, or other managing body of which shall accept the requirements and obligations of this chapter.

Four employees of the School were not noted to be exempt from either the STRS or SERS retirement systems and had no employee or employer withholdings or remittances made on their behalf.

We recommend the School ensure and document how employees meet criteria for exclusion from the respective retirement systems or properly withhold and remit the necessary retirement withholdings on behalf of covered employees.

**W.C. HANDY COMMUNITY MIDDLE SCHOOL OF THE PERFORMING ARTS  
FRANKLIN COUNTY**

**SCHEDULE OF FINDINGS  
JUNE 30, 2005 AND JUNE 30, 2004  
(Continued)**

<b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)</b>
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<b>Finding Number</b>	<b>2005-003</b>
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**Filing of Financial Reports**

Ohio Rev. Code Section 3314.03(A)(8) requires that a community school file its financial reports in the same manner as school districts. Ohio Rev. Code Section 117.38 states that GAAP-basis entities must file annual reports within 150 days of the fiscal year end. Any public office which does not file the report by the required date shall pay a penalty of twenty-five dollars for each day the report remains unfiled, not to exceed \$750.

The School did not file its financial report for the fiscal year ending June 30, 2005. Additionally, the School did not publish notice in a local newspaper stating the financial report was available for public inspection at the office of the chief fiscal officer.

We recommend the School file its annual GAAP-basis financial report with the Auditor of State within 150 days of fiscal year end, as required under this Section.

<b>Finding Number</b>	<b>2005-004</b>
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**Annual Report of Activities**

Ohio Rev. Code Section 3314.03(A)(11)(g) states that the school governing authority will submit within four months after the end of each school year a report of its activities and progress in meeting the goals and standards of divisions (A)(3) and (4) of this section and its financial status to the sponsor, the parents of all students enrolled in the school, and the legislative office of education oversight.

The School did not complete and submit the required report for the 2004 fiscal year. Failing to complete and submit the report results in parties involved being unable to ascertain the current condition and progress of the School.

We recommend the School complete and submit the required report to the sponsor, the parents of all enrolled students, and the Legislative Office of Education Oversight by the required deadline.

<b>Finding Number</b>	<b>2005-005</b>
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**Liability Insurance**

Ohio Rev. Code Section 3314.03(A)(11)(b) states the governing authority of each community school is required to purchase liability insurance, or otherwise provide for the potential liability of the school.

The School was unable to provide evidence that it had obtained the required liability insurance. Failure to obtain liability coverage results in the School being fully exposed to potential loss contingencies.

We recommend the School obtain adequate liability insurance to provide for the potential liability of the School.

**W.C. HANDY COMMUNITY MIDDLE SCHOOL OF THE PERFORMING ARTS  
FRANKLIN COUNTY**

**SCHEDULE OF FINDINGS  
JUNE 30, 2005 AND JUNE 30, 2004  
(Continued)**

<b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)</b>
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<b>Finding Number</b>	<b>2005-006</b>
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**Estimated Budget**

Exhibit 2, Financial Plan, of the contract between the School and its Sponsor requires the School to comply with Section 3314.03(A)(15) of the Ohio Rev. Code which requires an estimated budget and a total estimated per pupil expenditure amount to be completed for each year.

The School did not prepare an estimated budget or estimated per pupil expenditure amount for the 2004 fiscal year. Lack of properly estimated budgets results in an inability of management to monitor and analyze current financial information against a forecast of anticipated results.

We recommend the School prepare the estimated budget and a total estimated per pupil expenditure amount each fiscal year.

<b>Finding Number</b>	<b>2005-007</b>
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**Board Minutes**

Ohio Rev. Code Section 3314.03(A)(11)(d) requires a community school to comply with Sections 121.22 and 149.43 of the Ohio Revised Code.

Ohio Rev. Code Section 121.22(C) states in part that the minutes of a regular or special meeting of any public body shall be promptly prepared, filed, and maintained and shall be open to public inspection. The minutes need only reflect the general subject matter of discussions in executive sessions authorized under division (G) or (J) of this section.

Additionally, Ohio Rev. Code Section 149.43(B)(1) states in part that subject to division (B)(4) of this section, all public records shall be promptly prepared and made available for inspection to any person at all reasonable times during regular business hours.

For several months of the 2004 fiscal year, and for four months of the 2005 fiscal year until the School's closure, no evidence was presented that meetings occurred and no Board minutes were prepared and made available for public review. The lack of minute records results in unenforceable Board transactions occurring that were not the intentions of the Board.

We recommend the Board maintain minute records for all meetings held which should be made readily available to the general public for review.

**W.C. HANDY COMMUNITY MIDDLE SCHOOL OF THE PERFORMING ARTS  
FRANKLIN COUNTY**

**SCHEDULE OF FINDINGS  
JUNE 30, 2005 AND JUNE 30, 2004  
(Continued)**

<b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)</b>
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<b>Finding Number</b>	<b>2005-008</b>
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**Supporting Documentation**

Supporting documentation should be maintained to evidence all decisions reached by management and support all transactions processed by the School.

The School failed to maintain appropriate documentation to support the following:

- 2 months of bank statements for one of the School's bank accounts;
- 72 percent of invoices representing potential accounts payable liabilities;
- 60 percent of invoices for vouchered disbursements tested;
- 37 percent of cancelled checks for vouchered disbursements tested;
- No leave records or timesheets for employee leave taken or time worked;
- 85 percent of employees lacked appropriate payroll withholding and deduction forms;
- 95 percent of employees had no Board authorization for hiring or setting of compensation; and
- 

Lack of supporting documentation could lead to errors, irregularities, and fraud without timely detection by management. It further leads to unsupported financial statements and an inability to achieve proper assertions over reported financial statement amounts.

We recommend the School maintain documentation to evidence all decisions reached by management and all documents supporting transactions entered into and processed by the School.

<b>Finding Number</b>	<b>2005-009</b>
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**Bank Reconciliations**

Monthly bank reconciliations were not properly performed throughout 2004 and 2005. No reconciliations were performed for five of the twelve months of 2004 or for any of 2005. The reconciliations that were performed included unsupported reconciling items, no bank balances, and no comparison between the bank to book balances. The School was properly reconciled upon performance of bank to book reconciliations at fiscal years ended 2005 and 2004.

When cash reconciliations are not properly performed, monthly financial statements may be misstated and management cannot be assured that financial statements reflect the proper financial activities of the School. In addition, fraud could occur and not be detected by management.

We recommend the Treasurer or Fiscal Officer perform monthly bank to book reconciliations. All discrepancies between the amounts on the bank statements and the fund balances on the School's records should be investigated and resolved in a timely manner. In addition, the bank reconciliations, including all supporting documentation, should be reviewed by the Board of Directors in order to assure accuracy and that all errors and/or irregularities are detected in a timely manner.

**W.C. HANDY COMMUNITY MIDDLE SCHOOL OF THE PERFORMING ARTS  
FRANKLIN COUNTY**

**SCHEDULE OF FINDINGS  
JUNE 30, 2005 AND JUNE 30, 2004  
(Continued)**

<b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)</b>
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<b>Finding Number</b>	<b>2005-010</b>
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**Board Monitoring**

Effective monitoring controls over financial operations were not implemented by the School's management. Lack of effective monitoring controls could allow for operational failures and errors to occur without timely detection and appropriate management action.

The Board of Directors should monitor the overall financial operations of the School regularly so that appropriate actions may be taken in response to financial conditions on a timely basis. Such monitoring should include review of resources received, expenditures, invoices received that cannot be paid, etc. Such review and action should take place during meetings of the Board of Directors and should be reflected in the minutes of such meetings.

Monitoring controls should be comprised of regular management and supervisory activities established to oversee whether management's objectives are being achieved, including operational, legal compliance, and financial control objectives. Effective monitoring controls should identify unexpected results or exceptions (including significant compliance exceptions), investigate underlying causes, and take corrective action.

To assist management in detecting potential material financial and or compliance transactions that may affect financial operations, we recommend the School develop and implement monitoring controls. Some of these monitoring controls may consist of, but may not be limited to, the following:

- Regular review of monthly budget and actual figures;
- Regular review of financial report summaries of sufficient detail (monthly detailed revenue, expenditure, and fund balance reports and their respective fluctuations);
- Review of key performance indicators;
- Review of revenues/expenditures with independently accumulated information (budgets, past performance, etc.);
- Review of payable aging reports;
- Review of unusual or significant items, long outstanding items, etc.;
- Monitoring grant expenditures in accordance with grant requirements;
- Ensuring adequate segregation of duties exist; and
- Review of monthly bank reconciliations.

**W.C. HANDY COMMUNITY MIDDLE SCHOOL OF THE PERFORMING ARTS  
FRANKLIN COUNTY**

**SCHEDULE OF FINDINGS  
JUNE 30, 2005 AND JUNE 30, 2004  
(Continued)**

<b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)</b>
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<b>Finding Number</b>	<b>2005-011</b>
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**Audit Committee**

The School should establish an audit committee to serve as a liaison between management and its auditors. The primary functions of such a committee are to monitor and review the School's accounting and financial reporting practices, and to follow up on citations and recommendations made by its auditors.

The audit committee should be actively involved in:

- Meeting with the School's independent auditors before and after each audit;
- Monitoring progress of the financial and compliance audit;
- Evaluating the results of the financial and compliance audit; and
- Ensuring that the internal control and legal compliance issues identified in the audit are promptly and effectively remedied.

In addition, the audit committee should meet regularly (perhaps quarterly) to monitor the School's legal compliance, financial condition, and controls over the safeguarding of assets.

The audit committee can include members of the Board of Directors. However, it can also include representation that is independent from officials or management. For example, the committee could include professionals knowledgeable in the School's financial operations, such as attorneys or bankers.

<b>Finding Number</b>	<b>2005-012</b>
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**Pledged Collateral – Bank Balances**

Policies and procedures should be developed for securing public funds in amounts equal to the funds on deposit at all times.

The School's bank balance exceeded coverage amounts provided by the Federal Deposit Insurance Corporation (FDIC) during the period and documentation did not exist that funds in excess of FDIC coverage were adequately secured. The lack of requiring the depository to provide securities for public monies could result in failure to recover assets.

We recommend the School require its depository to periodically provide documentation of pledged securities for funds that exceed the FDIC coverage.

**W.C. HANDY COMMUNITY MIDDLE SCHOOL OF THE PERFORMING ARTS  
FRANKLIN COUNTY**

**SCHEDULE OF FINDINGS  
JUNE 30, 2005 AND JUNE 30, 2004  
(Continued)**

<b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)</b>
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<b>Finding Number</b>	<b>2005-013</b>
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**SAS 70 User Control Considerations**

The School contracted with a third party administer to process payroll. This agency, Automatic Data Processing, Inc. (ADP), receives a SAS 70 report annually. In this report over their controls, ADP relies on certain user controls at the entity level for the control cycle to function properly. The SAS 70 report specifies these user control considerations that are to be put in place at the entity level.

The School either did not perform or document the performance of the designated control functions required by ADP for the controls over payroll processing to adequately function. The failure of these controls results in a lack of assurance over the payroll processing by ADP for the School.

We recommend the School perform and document all user level control considerations conveyed by the ADP SAS 70 Report.

<b>Finding Number</b>	<b>2005-014</b>
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**Job Descriptions**

To ensure individuals are aware of their responsibilities detailed job descriptions should be documented for all job classifications.

The School did not have job descriptions for any of its personnel.

We recommend the Board ensure that written job descriptions are completed for each position and that they are provided to employees.

Without written job descriptions, personnel do not have a clear communication as to the Board's intentions of the duties to be performed. This could lead to actions that are contrary to the Board's expectations.

We did not receive a response from Management to the findings reported above.





**Auditor of State  
Betty Montgomery**

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P.O. Box 1140  
Columbus, Ohio 43216-1140

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800-282-0370

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**W.C. HANDY COMMUNITY MIDDLE SCHOOL OF THE PERFORMING ARTS**

**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  
MAY 16, 2006**