Par Excellence Academy

Licking County

Regular Audit

July 1, 2005 through June 30, 2006

Fiscal Year Audited Under GAGAS: 2006


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Mary Taylor, CPA
Auditor of State

Board of Trustees
Par Excellence Academy
96 Maholm Street
Newark, Ohio 43055

We have reviewed the *Independent Auditor's Report* of the Par Excellence Academy, Licking County, prepared by Balestra, Harr & Scherer, CPAs, Inc., for the audit period July 1, 2005 through June 30, 2006. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

Mary Taylor

Mary Taylor, CPA
Auditor of State

October 2, 2007

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**Par Excellence Academy**
*Table of Contents*
*For the Fiscal Year Ended June 30, 2006*


| Title | Page |
|---|---|
| Independent Auditor's Report | 1 |
| Management's Discussion and Analysis | 3 |
| Financial Statements: | |
| Statement of Net Assets | 7 |
| Statement of Revenues, Expenses and Changes in Net Assets | 8 |
| Statement of Cash Flows | 9 |
| Notes to the Basic Financial Statements | 10 |
| Report on Internal Control Over Financial Report and on Compliance and Other Matters Based On an Audit of Financial Statements in Accordance with *Government Auditing Standards* | 18 |
| Schedule of Findings | 20 |

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**Independent Auditor's Report**

Par Excellence Academy
96 Maholm Street
Newark, Ohio 43055

We have audited the financial statements of the business-type activities of the Par Excellence Academy (the Academy), as of and for the year ended June 30, 2006, which comprise the Academy's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Academy'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 *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about 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 the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that 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 business type activities of the Academy, as of June 30, 2006, and the respective changes in financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 31, 2007, on our consideration of the Academy's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis on pages 3 through 6 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Balestra, Harr & Scherer

Balestra, Harr & Scherer, CPAs, Inc.

August 31, 2007

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**PAR EXCELLENCE ACADEMY**
**LICKING COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2006

The discussion and analysis of the Par Excellence Academy's (the "Academy") financial performance provides an overall review of the Academy's financial activities for the year ended June 30, 2006. The intent of this discussion and analysis is to look at the Academy's financial performance as a whole; readers should also review the notes to the basic financial statements and financial statements to enhance their understanding of the Academy's financial performance.

The Management's Discussion and Analysis (the "MD&A") is an element of the new reporting model adopted by the Governmental Accounting Standards Board (GASB) in their Statement No. 34 "Basic Financial Statement and Management's Discussion and Analysis - for State and Local Governments" issued in June of 1999. Certain comparative information between the current fiscal year and the prior fiscal year is required to be presented in the MD&A. However, because this is the first fiscal year of financial reporting for the Digital Academy and the first fiscal year of adoption of the new reporting model, comparative prior fiscal year information does not exist. Subsequent reports will include the comparative information.

**Financial Highlights**

Key financial highlights for 2006 are as follows:

- In total, net assets were ($62,827) at June 30, 2006.

- The Academy had operating revenues of $238,967, operating expenses of $396,951, non-operating revenues of $101,815, and non-operating expenses of $6,658 for fiscal year 2006. Total change in net assets for the fiscal year was a decrease of $62,827.

**Using these Basic Financial Statements**

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand the Academy's financial activities. The *Statement of Net Assets* and *Statement of Revenues, Expenses and Changes in Net Assets* provide information about the activities of the Academy, including all short-term and long-term financial resources and obligations.

**Reporting the Academy's Financial Activities**

***Statement of Net Assets, Statement of Revenues, Expenses, and Changes in Net Assets and the Statement of Cash Flows***

These documents look at all financial transactions and asks the question, "How did we do financially during 2006?" The Statement of Net Assets and the Statement of Revenues, Expenses and Changes in Net Assets answer this question. These statements include *all assets, liabilities, revenues and expenses* using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This 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 the Academy's *net assets* and changes in those assets. This change in net assets is important because it tells the reader that, for the Academy as a whole, the *financial position* of the Academy has improved or diminished. The causes of this change may be the result of many factors, some financial, some not. These statements can be found on pages 7 and 8 of this report.

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

The table below provides a summary of the Academy's net assets for fiscal year 2006. Since this is the first year that the Academy has prepared financial statements, comparison with prior year is not available. A comparative analysis will be provided in future years when prior year information is available.

**Net Assets**

| | 2006 |
|---|---|
| **Assets** | |
| Current assets | $ 52,280 |
| Capital assets, net | 14,247 |
| Total assets | 66,527 |
| **Liabilities** | |
| Current liabilities | 128,931 |
| Non-current liabilities | 423 |
| Total liabilities | 129,354 |
| **Net Assets** | |
| Invested in capital assets | 14,247 |
| Restricted | 3,714 |
| Unrestricted | (80,788) |
| Total net assets | $ (62,827) |

Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2006, the Academy's net assets totaled ($62,827).

At year-end, capital assets represented 21.42% of total assets. Capital assets consisted of computers and other equipment. There is no debt related to these capital assets. Capital assets are used to provide services to the students and are not available for future spending.

The table below shows the changes in net assets for fiscal year 2006. Since this is the first year that the Academy has prepared financial statements, comparison with prior year is not available. A comparative analysis will be provided in future years when prior year information is available.

**PAR EXCELLENCE ACADEMY**
**LICKING COUNTY, OHIO**

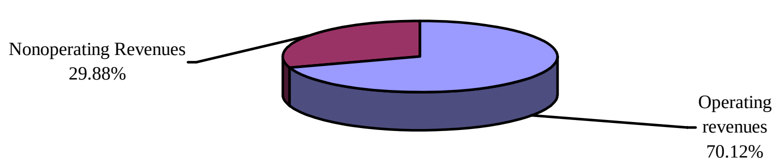
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2006

## Change in Net Assets

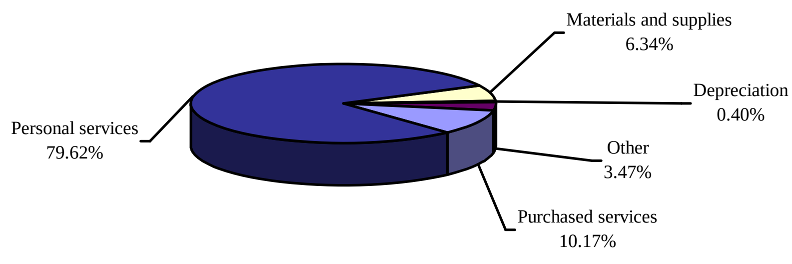
| | 2006 |
|---|---|
| **Operating Revenues:** | |
| State foundation | $ 238,967 |
| Total operating revenue | 238,967 |
| **Operating Expenses:** | |
| Personal services | 316,047 |
| Purchased services | 40,357 |
| Materials and supplies | 25,185 |
| Depreciation | 1,583 |
| Other | 13,779 |
| Total operating expenses | 396,951 |
| **Non-operating Revenues/(Expenses):** | |
| Federal and State grants | 50,000 |
| Miscellaneous | 51,815 |
| Interest expense | (6,658) |
| Total non-operating revenues/(expenses) | 95,157 |
| Change in net assets | $ (62,827) |

The charts below illustrate the revenues and expenses for the Academy during fiscal 2006.

**2006 Revenues**




**2006 Expenses**



## Capital Assets

At June 30, 2006, the Academy had $14,247 invested in computers and equipment. See Note 6 to the basic financial statements for more detail on capital assets.

## Debt Administration

At June 30, 2006, the Academy had $77,486 loans payable outstanding, and the balance is due within one year.

## Current Financial Related Activities

The Academy is sponsored by Newark City School District. The Academy is reliant upon State Foundation monies and State and Federal Grants to offer quality, educational services to students.

In order to continually provide learning opportunities to the Academy's students, the Academy will apply resources and to best meet the needs of its students. It is the intent of the Academy to apply for other State and Federal funds that are made available to finance its operations.

## Contacting the Academy's Financial Management

This financial report is designed to provide our clients and creditors with a general overview of the Academy's finances and to show the Academy's accountability for the money it receives. If you have questions about this report or need additional financial information contact Hueston Lauderman, Treasurer, Par Excellence Academy, 96 Maholm Street, Newark, Ohio 43055.

**PAR EXCELLENCE ACADEMY**
**LICKING COUNTY, OHIO**

STATEMENT OF NET ASSETS
JUNE 30, 2006

| | |
|---|---|
| **Assets:** | |
| Current Assets: | |
| Cash and cash equivalents | $ 45,303 |
| Intergovernmental receivable | 6,977 |
| Total current assets | 52,280 |
| Non-Current Assets: | |
| Capital assets, net | 14,247 |
| Total assets | 66,527 |
| **Liabilities:** | |
| Current liabilities: | |
| Accounts payable | 1,914 |
| Accrued wages and benefits | 37,860 |
| Pension obligation payable | 10,625 |
| Intergovernmental payable | 1,046 |
| Loan payable | 77,486 |
| Total current liabilities | 128,931 |
| Non-Current Liabilities: | |
| Long-term liabilities: | |
| Compensated absences | 423 |
| Total liabilities | 129,354 |
| **Net Assets:** | |
| Invested in capital assets | 14,247 |
| Restricted for: | |
| State funded programs | 3,714 |
| Unrestricted | (80,788) |
| Total net assets | $ (62,827) |

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**PAR EXCELLENCE ACADEMY**
**LICKING COUNTY, OHIO**

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

| | |
|---|---|
| **Operating revenues:** | |
| State foundation. . . . . . . . . . . . . . . . | $ 238,967 |
| Total revenue . . . . . . . . . . . . . . . . . | 238,967 |
| **Operating expenses:** | |
| Personal services. . . . . . . . . . . . . . . . | 316,047 |
| Purchased services. . . . . . . . . . . . . . . | 40,357 |
| Materials and supplies . . . . . . . . . . . . . | 25,185 |
| Other operating expenses . . . . . . . . . . . | 13,779 |
| Depreciation . . . . . . . . . . . . . . . . . . | 1,583 |
| Total expenses . . . . . . . . . . . . . . . . . | 396,951 |
| Operating loss . . . . . . . . . . . . . . . . . | (157,984) |
| **Non-operating revenues/(expenses):** | |
| State grants. . . . . . . . . . . . . . . . . . . | 50,000 |
| Miscellaneous . . . . . . . . . . . . . . . . . | 51,815 |
| Interest expense . . . . . . . . . . . . . . . . | (6,658) |
| Total other non-operating revenues/(expenses). | 95,157 |
| Change in net assets . . . . . . . . . . . . . . | (62,827) |
| **Net assets at beginning of year . . . . . . .** | - |
| **Net assets at end of year. . . . . . . . . . .** | $ (62,827) |

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**PAR EXCELLENCE ACADEMY**
**LICKING COUNTY, OHIO**

STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

| | | |
|---|---|---|
| **Cash flows from operating activities:** | | |
| Cash received from foundation | $ | 238,967 |
| Cash payments for personal services | | (266,093) |
| Cash payments for purchased services | | (39,749) |
| Cash payments to suppliers for goods and supplies | | (24,418) |
| Cash payments for other expenses | | (13,240) |
| Net cash used in operating activities | | (104,533) |
| **Cash flows from noncapital financing activities:** | | |
| State grants | | 43,023 |
| Miscellaneous receipts | | 51,815 |
| Net cash provided by noncapital financing activities | | 94,838 |
| **Cash flows from capital and related financing activities:** | | |
| Loan issuance | | 86,437 |
| Loan principal retirement | | (8,951) |
| Loan interest expense | | (6,658) |
| Acquisition of capital assets | | (15,830) |
| Net cash provided by capital and related financing activities | | 54,998 |
| Net increase in cash and cash equivalents | | 45,303 |
| **Cash and cash equivalents at beginning of year** | | - |
| **Cash and cash equivalents at end of year** | $ | 45,303 |
| **Reconciliation of operating loss to net cash used in operating activities:** | | |
| Operating loss | $ | (157,984) |
| Adjustments: | | |
| Depreciation | | 1,583 |
| Changes in assets and liabilities: | | |
| Increase in accounts payable | | 1,914 |
| Increase in accrued wages and benefits | | 37,860 |
| Increase in intergovernmental payable | | 1,046 |
| Increase in compensated absences payable | | 423 |
| Increase in pension obligation payable | | 10,625 |
| Net cash used in operating activities | $ | (104,533) |

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**PAR EXCELLENCE ACADEMY**
**LICKING COUNTY, OHIO**

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

## NOTE 1 - DESCRIPTION OF THE SCHOOL

The Par Excellence Academy, Licking County, Ohio (the “Academy”) is a nonprofit corporation established pursuant to Ohio Revised Code Chapters 3314 and 1702, to maintain and provide an Academy exclusively for any educational, literary, scientific and related teaching service, that qualifies as an exempt organization under Section 501(c)(3) of the Internal Revenue Code. Management is not aware of any course of action or series of events that have occurred that might adversely affect the Academy’s tax exempt status. The Academy’s objective is to deliver a unique opportunity for students who show a strong interest or talent in the visual arts which can be delivered to students in grades Kindergarten through 3rd grade. It is to be operated in cooperation with the public schools to provide an appreciation of the visual arts through studies of its history, theory and design. The Academy, which is part of the state’s education program, is nonsectarian in its programs, admissions policies, employment practices, and all other operations. The Academy may acquire facilities as needed and contract for any services necessary for the operation of the school.

The Academy was approved for operation under a contract with the Newark City School District (the “Sponsor”) for a period of five academic years commencing after July 1, 2005. The Sponsor is responsible for evaluating the performance of the Academy and has the authority to deny renewal of the contract at its expiration or terminate the contract prior to its expiration. The Academy is considered a component unit of the Newark City School District for reporting purposes, in accordance with Governmental Accounting Standards Board (GASB) Statement No. 14.

The Academy operates under the direction of a self-appointed five-member Board of Trustees. The Board is responsible for carrying out the provisions of the contract, which include, but are not limited to, state-mandated provisions regarding student population, curriculum, academic goals, performance standards, admission standards and qualifications of teachers. The Board controls the Academy’s one instructional/support facility staffed by four non-certified staff members and eight certificated full time teaching personnel who provide services to 51 students.

## NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements (BFS) of the Academy have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The Academy also applies Financial Accounting Standards Board (FASB) Statements and Interpretations issued prior to November 30, 1989, provided those pronouncements do not conflict with or contradict GASB pronouncements. The Academy has the option to also apply FASB Statements and Interpretations issued after November 30, 1989, subject to this same limitation. The Academy has elected not to apply these FASB Interpretations. The Academy's significant accounting policies are described below.

### A. Basis of Presentation

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

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)**

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

**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 (i.e., revenues) and decreases (i.e., expenses) 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 utilized for reporting purposes. Revenues are recognized when they are earned, and expenses are recognized when they are incurred.

**C. Budgetary Process**

Unlike other public schools located in the State of Ohio, community schools are not required to follow budgetary provisions set forth in Ohio Revised Code Section 5705, except House Bill 364, which took effect April 8, 2003, added Ohio Rev. Code Section 3314.03 (11) (d), which states that community schools must comply with Ohio Rev. Code Section 5705.391. This requires each community school to submit to the Ohio Department of Education (ODE) a five year forecast no later than October 31 of each year.

**D. Cash**

All monies received by the Academy are deposited in a demand deposit account.

**E. Net Assets**

Net assets represent the difference between assets and liabilities. Net assets are reported as restricted when there are limitations imposed on their use through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

The Academy applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net assets are available. The Academy has no net assets restricted by enabling legislation.

**F. Intergovernmental Revenue**

The Academy currently participates in the State Foundation Program through the Ohio Department of Education. Revenue from this program is recognized as operating revenue in the accounting period in which all eligibility requirements have been met.

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)**

Grants and entitlements are recognized as non-operating revenues in the accounting period in which all eligibility requirements have been met. Eligibility includes timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted; matching requirements, in which the Academy must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the Academy on a reimbursement basis. State grants for the fiscal year 2006 received by the Academy for the Start-Up Grant was $50,000.

**G. Estimates**

The preparation of financial statements in conformity with GAAP 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.

**H. Compensated Absences Policy**

Sick leave benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the Academy will compensate the employees for the benefits through paid time off. The Academy records a liability for accumulated unused sick leave time when earned by employees.

**I. Capital Assets and Depreciation**

All capital assets are capitalized at cost and updated for additions and reductions during the year. Donated capital assets are recorded at their fair market value on the date donated. The Academy maintains a capitalization threshold of $50. The Academy does not have 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.

All capital assets are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method. Equipment is depreciated over five years.

**NOTE 3 - DEPOSITS**

At June 30, 2006, the carrying amount of the Academy's deposits was $45,303. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2006, the Academy's bank balance of $52,294 was covered by the Federal Deposit Insurance Corporation.

Custodial credit risk is the risk that, in the event of bank failure, the Academy's deposits may not be returned. All deposits are collateralized with eligible securities in amounts equal to at least 105% 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 Academy.

## NOTE 4 - RECEIVABLES

At June 30, 2006, receivables consisted of operating grants which are considered collectible within one year and presented on the statement of net assets as "intergovernmental receivable" in the amount of $6,977.

## NOTE 5 - PURCHASED SERVICES

For fiscal year ended June 30, 2006, purchased services expenses were as follows:

| | |
|---|---|
| Professional services | $ 9,755 |
| Property rental and services | 6,385 |
| Utilities | 23,267 |
| Training | 338 |
| Postage, advertising and shipping | 612 |
| Total purchased services | $ 40,357 |

## NOTE 6 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2006, was as follows:

| | Balance at June 30, 2005 | Additions | Disposals | Balance at June 30, 2006 |
|---|---|---|---|---|
| Furniture and equipment | $ - | $ 15,830 | $ - | $ 15,830 |
| Less: accumulated depreciation | - | (1,583) | - | (1,583) |
| Capital assets, net | $ - | $ 14,247 | $ - | $ 14,247 |

## NOTE 7 - LONG-TERM OBLIGATIONS

The Academy's long-term obligations during fiscal year 2006 were as follows:

| | Balance at June 30, 2005 | Additions | Reductions | Balance at June 30, 2006 | Due Within One Year |
|---|---|---|---|---|---|
| Loans payable | $ - | $ 86,437 | $ (8,951) | $ 77,486 | $ 77,486 |
| Compensated absences | - | 423 | - | 423 | - |
| Total long-term liabilities | $ - | $ 86,860 | $ (8,951) | $ 77,909 | $ 77,486 |

The Academy obtained a bank loan through a line-of-credit during the year in order to maintain operations. The amount drawn during fiscal year 2006 was $86,437. The Academy repaid $8,951 of these loans and a balance of $77,486 remains outstanding at year-end and is expected to be repaid over the next year.

Compensated absences will be paid from the fund from which the employee's salaries are paid.

## NOTE 8 - OPERATING LEASE-CLASSROOMS

The Academy entered into an agreement with the Newark City School District on August 9, 2005, for premises located at 96 Maholm Street, Newark, Ohio 43055 to use for classrooms. The lease began on August 9, 2005 and ends on July 1, 2008. No lease payments were required to be made during fiscal year 2006.

## NOTE 9 - DEFINED BENEFIT PENSION PLAN

### A. School Employees Retirement System

The Academy contributes to the School Employees Retirement System (SERS), a cost-sharing multiple employer defined benefit pension plan. 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 43215-3746 or by calling (800) 878-5853. It is also posted on SERS' website, www.ohsers.org, under Forms and Publications.

Plan members are required to contribute 10 percent of their annual covered salary and the Academy is required to contribute at an actuarially determined rate. The current Academy rate is 14 percent of annual covered payroll. A portion of the Academy's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2006, 10.58 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2005, 10.57 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2004, 9.09 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, up to statutory maximum amounts, by the SERS' Retirement Board. The Academy's required contributions for pension obligations to SERS for the fiscal year ended June 30, 2006 was $6,392, 76% has been contributed for fiscal year 2005. $1,551 represents the unpaid contribution for fiscal year 2006 and is recorded as a liability within the respective funds.

### B. State Teachers Retirement System

The Academy participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement system. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3371 or by calling (614) 227-4090.

## NOTE 9 - DEFINED BENEFIT PENSION PLAN - (Continued)

New members have a choice of three retirement plans, 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 the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The Combined Plan offers features of both 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. Benefits are established by Chapter 3307 of the Ohio Revised Code.

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, 2006, plan members were required to contribute 10 percent of their annual covered salaries. The Academy was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement 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 Academy's required contributions for pension obligations to the DB plan for the fiscal year ended June 30, 2006, was $22,505, 68% has been contributed for fiscal year 2006. $7,161 represents the unpaid contribution for fiscal year 2006 and is recorded as a liability within the respective funds. No contributions were made to the DC and Combined Plans for fiscal 2006.

### C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by SERS or the STRS have an option to choose Social Security or the SERS/STRS. As of June 30, 2006, certain members of the Board of Trustees have elected to contribute to Social Security. The Academy's liability is 6.2% of wages paid.

## NOTE 10 - POSTEMPLOYMENT BENEFITS

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

**NOTE 10 - POSTEMPLOYMENT BENEFITS - (Continued)**

STRS retirees who participated in the DB or combined plans and their dependents are eligible for health care coverage. The STRS Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. All benefit recipients pay a portion of health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2006, the STRS Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Reserve Fund. For the Academy, this amount equaled $1,731 for fiscal year 2006.

STRS pays health care benefits from the Health Care Stabilization Fund. At June 30, 2005 (the latest information available), the balance in the Health Care Stabilization Fund was $3.3 billion. For the fiscal year ended June 30, 2005 (the latest information available), net health care costs paid by STRS were $254.780 million and STRS had 115,395 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. 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, 2006, employer contributions to fund health care benefits were 3.42 percent of covered payroll, a decrease of 1.13 percent from fiscal year 2005. 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 2006, the minimum pay was established at $35,800. However, the surcharge is capped at 2 percent of each employer's SERS salaries. For the 2006 fiscal year, Academy paid $2,066 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 annual health care expenses. Expenses for health care for the fiscal year ended June 30, 2005 (the latest information available) were $178.221 million. At June 30, 2005 (the latest information available), SERS had net assets available for payment of health care benefits of $267.5 million, which is about 168 percent of next years projected net health care costs of $158.776 million. On the basis of actuarial projections, the allocated contributions will be insufficient in the long term, to provide for a health care reserve equal to at least 150 percent of estimated annual net claim costs. SERS has 58,123 participants currently receiving health care benefits.

**NOTE 11 - COMPENSATED ABSENCES**

Employees accumulate sick leave at a rate of 5 days per year. Unused sick leave may accumulate.

**NOTE 12 - RISK MANAGEMENT**

**A. Property and Liability**

The Academy 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. The Academy maintains insurance coverage for rental/theft, general liability, contents liability.

**NOTE 12 - RISK MANAGEMENT – (Continued)**

The Academy has coverage for employee dishonesty, forgery and alternation coverage and computer equipment.

The Academy owns no real estate, but leases facilities located at 96 Maholm Street, Newark, Ohio 43055.

**B. Workers' Compensation**

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

**NOTE 13 - CONTINGENCIES**

**A. Grants**

The Academy received financial assistance from a state agency in the form of grants. The expenditure 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. However in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the Academy at June 30, 2006.

**B. State Foundation Funding**

The Ohio Department of Education (ODE) conducts reviews of enrollment data and full-time equivalency (FTE) calculations made by the schools. These reviews are conducted to ensure the schools are reporting accurate student enrollment data to the state, upon which state foundation funding is calculated. The Academy was reviewed one time during this initial year of operations and no errors were found in enrollment, withdrawals and attendance.

**C. Litigation**

The Academy is not currently involved in pending litigation.

**NOTE 14 – RELATED PARTY TRANSACTION**

Certain members of the Academy's Board are also board members of the Par Excellence Learning Center, a private school. During fiscal 2006, proceeds in the amount of $36,437 were received by the Academy from a line-of-credit which is actually under the Par Excellence Learning Center's name. This borrowing appears as "Loan Payable" on the statement of net assets. The line-of-credit is maintained at Park National Bank, which employs an Academy Board member whose is also a board member of the Par Excellence Learning Center.

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**Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based On an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards***

Par Excellence Academy
96 Maholm Street
Newark, Ohio 43055

We have audited the accompanying financial statements of the business-type activities of Par Excellence Academy, Licking County, Ohio (the Academy) as of and for the year ended June 30, 2006, which collectively comprise the Academy's basic financial statements and have issued our report thereon dated August 31, 2007. 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 *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the Academy's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Academy's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Academy'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 the normal course of 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 entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

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 deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Academy's basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on 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 such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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

Balestra, Harr & Scherer, CPAs, Inc.

August 31, 2007

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

None.

Mary Taylor, CPA
Auditor of State

**PAR EXCELLENCE ACADEMY**

**LICKING 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**
**OCTOBER 16, 2007**

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