



Mary Taylor, CPA  
Auditor of State



**STAMBAUGH CHARTER ACADEMY  
MAHONING COUNTY**

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# Mary Taylor, CPA

## Auditor of State

### INDEPENDENT ACCOUNTANTS' REPORT

Stambaugh Charter Academy  
Mahoning County  
2420 Donald Avenue  
Youngstown, OH 44509

To the Board of Directors:

We have audited the accompanying basic financial statements of the Stambaugh Charter Academy, Mahoning County, Ohio (the "Academy"), as of and for the period December 14, 2004 through June 30, 2007, 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 did not audit the contract service fees incurred by the Academy which totaled \$3,732,312 as indicated in Note 9. Other auditors audited these amounts and have furnished their report thereon to us and we base our opinion, insofar as it relates to the amounts included for Note 9, on the report of the other auditors.

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

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of the Stambaugh Charter Academy, Mahoning County, Ohio, as of June 30, 2007, and the changes in its financial position and its cash flows for the period December 14, 2004 through June 30, 2007 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 January 27, 2009, on our consideration of the Academy's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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

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

**Mary Taylor, CPA**  
Auditor of State

January 27, 2009

# **STAMBAUGH CHARTER ACADEMY**

## **MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE PERIOD FROM DECEMBER 14, 2004 (DATE OF INCORPORATION) THROUGH JUNE 30, 2007 (UNAUDITED)**

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The discussion and analysis of Stambaugh Charter Academy's (the "Academy") financial performance provides an overall review of the Academy's financial activities for the period from December 14, 2004 (date of incorporation) through June 30, 2007. The intent of this discussion and analysis is to look at the Academy's financial performance as a whole; readers should also review the basic financial statements and notes to the basic financial statements to enhance their understanding of the Academy's financial performance.

The Management's Discussion and Analysis ("MD&A") is an element of the reporting model adopted by the Governmental Accounting Standards Board ("GASB") in their Statement No. 34 Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Government issued June, 1999.

### **Financial Highlights**

For the period ended June 30, 2007, total assets were \$277,352, total liabilities were \$186,619, and total net assets were \$90,733.

### **Using this Financial Report**

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

### **Reporting the Academy as a Whole**

One of the most important questions asked about the Academy is, "As a whole, what is the Academy's financial condition as a result of the period's activities?" The Statement of Net Assets and the Statement of Revenues, Expenses and Changes in Net Assets, which appear first in the Academy's financial statements, report information on the Academy as a whole and its activities in a way that helps you answer this question. We prepare these statements to include all assets and liabilities, using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current period's revenues and expenses are taken into account regardless of when the cash is received or paid.

These two statements report the Academy's net assets – the difference between assets and liabilities, as reported in the Statement of Net Assets – as one way to measure the Academy's financial health or financial position. Over time, increases or decreases in the Academy's net assets – as reported in the Statement of Net Assets – are indicators of whether its financial health is improving or deteriorating. The relationship between revenues and expenses is the Academy's operating results. However, the Academy's goal is to provide services to our students, not to generate profits as commercial entities do. One must consider many other non-financial factors, such as the quality of the education provided and the safety of the school, to assess the overall health of the Academy.

# STAMBAUGH CHARTER ACADEMY

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED) FOR THE PERIOD FROM DECEMBER 14, 2004 (DATE OF INCORPORATION) THROUGH JUNE 30, 2007 (UNAUDITED)

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The Statement of Net Assets and the Statement of Revenues, Expenses and Changes in Net Assets report the activities for the Academy, which encompass all the Academy's services, including instruction, support services, community services, and food services. Unrestricted state aid and state and federal grants finance most of these activities. The Academy has entered into a management agreement (the "agreement") with National Heritage Academies, Inc. ("NHA") which requires NHA to provide administration, strategic planning and all labor, materials, equipment, and supervision necessary for the provision of educational services to students. As part of the consideration received under the agreement, NHA also provides the facility in which the Academy operates. Under the terms of the agreement, NHA receives as remuneration for its services an amount equal to the total revenue received by the Academy from all revenue sources.

The table below provides a summary of the Academy's net assets for the period ended June 30, 2007. Since this is the first period 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:

	<b>2007</b>
Assets:	
Current assets	\$ 201,875
Capital assets, net of accumulated depreciation	<u>75,477</u>
Total assets	277,352
Liabilities—current	<u>186,619</u>
Net assets:	
Invested in capital assets	75,477
Unrestricted	<u>15,256</u>
Total net assets	<u>\$ 90,733</u>

The unrestricted net assets represent the accumulated results of the Academy's operations to date. These assets can be used to finance day to day operations without constraints, such as legislative or legal requirements. The results of the current period of operations for the Academy as a whole are reported in the Statement of Revenues, Expenses and Changes in Net Assets, which shows the change in net assets.



# STAMBAUGH CHARTER ACADEMY

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED) FOR THE PERIOD FROM DECEMBER 14, 2004 (DATE OF INCORPORATION) THROUGH JUNE 30, 2007 (UNAUDITED)

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### Statement of Revenues, Expenses and Changes in Net Assets

The table below shows the changes in net assets as well as a listing of revenues and expenses for the period from December 14, 2004 (date of incorporation) through June 30, 2007. Since this is the first period 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:

	<b>2007</b>
Operating revenues:	
Foundation payments	\$ 1,504,727
Food services	5,854
Other revenues	<u>1,042</u>
Total operating revenues	<u>1,511,623</u>
Operating expenses:	
Contracted service fee	3,732,312
Depreciation	<u>12,928</u>
Total operating expenses	<u>3,745,240</u>
Operating loss	(2,233,617)
Nonoperating revenues:	
Federal grants	420,143
State grants	55,000
Private sources—NHA	<u>1,849,207</u>
Total nonoperating revenues	<u>2,324,350</u>
Change in net assets	<u>\$ 90,733</u>

As reported in the Statement of Revenues, Expenses and Changes in Net Assets, the cost of business activities was \$3,745,240. These activities were primarily funded by the Academy's state aid (based on student count) and governments and organizations that subsidized certain programs with grants. Revenues—Private sources—NHA represent a credit granted by NHA for the excess of Academy expenses over public revenues available.

The Academy experienced an increase in net assets of \$90,733 in 2007. Under the terms of the agreement with NHA, NHA provides a spending account to the Board of Directors for discretionary expenditures. The primary reason for the change in net assets is the timing of these discretionary expenditures.

# STAMBAUGH CHARTER ACADEMY

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED) FOR THE PERIOD FROM DECEMBER 14, 2004 (DATE OF INCORPORATION) THROUGH JUNE 30, 2007 (UNAUDITED)

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### *Capital Assets*

At June 30, 2007, the Academy had \$75,477 invested in capital assets with purchases through the Charter School Grants, primarily other equipment. Capital assets are substantially provided as part of the agreement with NHA.

### *General Economic Factors*

The Academy depends on legislative and governmental support to fund its operations. Based on information currently available, no significant changes are expected to occur in the nature of the funding or operations of the Academy in 2008.

### *Contacting the Academy's Financial Management*

The financial report is designed to provide users of the report with a general overview of the Academy's finances and to demonstrate the Academy's accountability for the money it receives. If you have questions about this report, contact the Chief Financial Officer of National Heritage Academies, Inc., 3850 Broadmoor SE, Ste 201, Grand Rapids, MI 49512.

# STAMBAUGH CHARTER ACADEMY

## STATEMENT OF NET ASSETS JUNE 30, 2007

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### CURRENT ASSETS:

Cash	\$ 22,114
Intergovernmental receivable	179,761
Total current assets	<u>201,875</u>

### NON-CURRENT ASSETS:

Capital assets	88,405
Less: accumulated depreciation	<u>(12,928)</u>
Total non-current assets	<u>75,477</u>

Total assets	<u>277,352</u>
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### LIABILITIES:

Intergovernmental payable	1,376
Due to National Heritage Academies, Inc.	<u>185,243</u>

Total liabilities	<u>186,619</u>
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### NET ASSETS:

Invested in capital assets	75,477
Unrestricted	15,256
Total net assets	<u>\$ 90,733</u>

See notes to financial statements.

# STAMBAUGH CHARTER ACADEMY

## STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS FOR THE PERIOD FROM DECEMBER 14, 2004 (DATE OF INCORPORATION) THROUGH JUNE 30, 2007

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OPERATING REVENUES:	
Foundation payments	\$ 1,504,727
Food services	5,854
Other revenues	1,042
Total operating revenues	<u>1,511,623</u>
OPERATING EXPENSES:	
Contracted service fee	3,732,312
Depreciation	<u>12,928</u>
Total operating expenses	<u>3,745,240</u>
OPERATING LOSS	<u>(2,233,617)</u>
NONOPERATING REVENUES:	
Federal grants	420,143
State grants	55,000
Private sources—National Heritage Acadmies, Inc.	<u>1,849,207</u>
Total nonoperating revenue	2,324,350
CHANGE IN NET ASSETS	90,733
NET ASSETS—Beginning of year	<u>-</u>
NET ASSETS—End of year	<u>\$ 90,733</u>

See notes to financial statements.

# STAMBAUGH CHARTER ACADEMY

## STATEMENT OF CASH FLOWS FOR THE PERIOD FROM DECEMBER 14, 2004 (DATE OF INCORPORATION) THROUGH JUNE 30, 2007

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### CASH FLOWS FROM OPERATING ACTIVITIES:

Cash received from State of Ohio	\$ 1,504,727
Cash received from food services	5,854
Cash received from other operating revenue	1,042
Cash paid on behalf of the Academy for goods and services	<u>(3,547,069)</u>
Net cash used for operating activities	<u>(2,035,446)</u>

### CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:

Purchase of fixed assets	(88,405)
Federal grants received	242,192
State grants received	54,566
Support from private sources—National Heritage Academies, Inc.	<u>1,849,207</u>
Net cash provided by noncapital financing activities	<u>2,057,560</u>

NET INCREASE IN CASH 22,114

CASH—Beginning of year -

CASH—End of year \$ 22,114

### RECONCILIATION OF OPERATING LOSS TO NET CASH USED FOR OPERATING ACTIVITIES:

Operating Loss	\$ (2,233,617)
Depreciation	12,928
Changes in Assets and Liabilities—	
Increase in Due to National Heritage Academies, Inc	<u>185,243</u>

NET CASH USED FOR OPERATING ACTIVITIES \$ (2,035,446)

See notes to financial statements.

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# STAMBAUGH CHARTER ACADEMY

## NOTES TO FINANCIAL STATEMENTS PERIOD FROM DECEMBER 14, 2004 (DATE OF INCORPORATION) THROUGH JUNE 30, 2007

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### 1. NATURE OF OPERATIONS

Stambaugh Charter Academy (the “Academy”) is an Ohio Public School Academy which provides education based on rigorous teaching methods, parental involvement, student responsibility, and basic moral values. The Academy operates under an approved charter received from the Buckeye Community Hope Foundation (“Buckeye” or the “Sponsor”), which is responsible for oversight of the Academy’s operations. The charter expires on June 30, 2009 and is subject to renewal. Management believes the charter will be renewed in the ordinary course of business. The Academy provides education to students in kindergarten through the fifth grade, at no cost to the parent. Enrollment is open to all appropriately aged children without regard to gender, ethnic background, disability, and/or religious affiliation.

The Academy was established and is operated as a non-profit corporation under Chapter 1702 of the Ohio Revised Code and believes itself to be exempt from taxation under Internal Revenue Code Section 115(1) because its income is derived from the exercise of an essential governmental function and accrues to the State of Ohio. Donations to the Academy qualify as a charitable deduction under Internal Revenue Code Section 170(c)(1).

The Academy operates under the direction of a Board of Directors (the “Board”). The Board is responsible for carrying out the provisions of the contract with the Sponsor 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 has entered into a management agreement (the “agreement”) with National Heritage Academies, Inc. (“NHA”) which requires NHA to provide administration, strategic planning and all labor, materials, equipment, and supervision necessary for the provision of educational services to students. As part of the consideration received under the agreement, NHA also provides the facility in which the Academy operates. The facility lease term is from July 1<sup>st</sup> to June 30<sup>th</sup> and is renewable on a year to year basis. The agreement will automatically renew on a year-to-year basis, unless at least 90 days written notice of intent to terminate or renegotiate is given by either the Academy or NHA.

Under the terms of the agreement, NHA receives as remuneration for its services an amount equal to the total revenue received by the Academy from all revenue sources. NHA provides a spending account to the Board for discretionary expenses on an annual basis. Revenues—private sources—National Heritage Academies, Inc. represent a contribution granted by NHA for the excess of Academy expenses over public revenues available.

# STAMBAUGH CHARTER ACADEMY

## NOTES TO FINANCIAL STATEMENTS (CONTINUED) PERIOD FROM DECEMBER 14, 2004 (DATE OF INCORPORATION) THROUGH JUNE 30, 2007

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### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Academy have been prepared in conformity with accounting principles generally accepted in the United States of America (“GAAP”) as applied to governmental nonprofit organizations. The Governmental Accounting Standards Board (“GASB”) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The Academy also applies Financial Accounting Standards Board (“FASB”) statements and interpretations issued on or before November 30, 1989, provided they do not conflict with or contradict GASB pronouncements. The Academy does not apply FASB statements or interpretations issued after November 30, 1989. The more significant of the Academy’s accounting policies are described below.

#### A. Basis of Presentation

The Academy’s basic financial statements consist of a statement of net assets, a statement of revenues, expenses, and changes in net assets, and a statement of cash flows. Enterprise fund reporting focuses on the determination of the change in net assets, financial position, and cash flows.

#### B. Measurement Focus

Enterprise accounting uses a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities are included on the statement of net assets. The statement of revenues, expenses and changes in net assets presents increases (i.e., revenues) and decreases (i.e., expenses) in net total assets. The statement of cash flows provides information about how the Academy finances and meets the cash flow needs of its enterprises activities.

#### C. Basis of Accounting

Basis of Accounting determines when transactions are recorded in the financial records and reported on the financial statements. The Academy’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.

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

Expenses are recognized at the time they are incurred.



# STAMBAUGH CHARTER ACADEMY

## NOTES TO FINANCIAL STATEMENTS (CONTINUED) PERIOD FROM DECEMBER 14, 2004 (DATE OF INCORPORATION) THROUGH JUNE 30, 2007

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### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (CONTINUED)

#### D. Budgetary Process

The contract between the School and its Sponsor prescribes an annual budget requirement in addition to preparing a 5-year forecast, which is to be updated on an annual basis. Chapter 5705.391(A) of the Ohio Revised Code also requires the School to prepare a 5-year forecast, update it annually, and submit it to the Superintendent of Public Instruction at the Ohio Department of Education.

#### E. Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

#### F. Cash Deposits

For cash management, all cash received by the Chief Financial Officer is pooled in a non-interest bearing central bank account. Total cash for the Academy is presented as “Cash” on the accompanying Statement of Net Assets. Cash as of June 30, 2007, represents bank deposits, which are covered by federal depository insurance.

#### G. Capital Assets

Capital assets, which include other equipment, are reported in the government-wide financial statements at historical cost. Capital assets represent purchases through the Charter School Grant with an estimated useful life in excess of one year. The Academy capitalizes all non-federal grant capital purchases with a cost of \$5,000 or more. All Charter School Grant capital asset purchases are capitalized.

Other equipment is depreciated using the straight-line method over useful lives of 4-10 years.

#### H. Current Liabilities

**Due to National Heritage Academies, Inc.**—this amount consists of payments due to NHA for management services rendered in fiscal year 2007.

# STAMBAUGH CHARTER ACADEMY

## NOTES TO FINANCIAL STATEMENTS (CONTINUED) PERIOD FROM DECEMBER 14, 2004 (DATE OF INCORPORATION) THROUGH JUNE 30, 2007

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### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (CONTINUED)

#### I. Operating Revenues and Expenses

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

Eligibility requirements include timing requirements, which specify the year when resources are required to be used or the fiscal year when use is 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.

The amount of these grants is directly related to the number of students enrolled in the Academy. The Ohio Department of Education conducts reviews of enrollment data and full-time equivalency calculations made by the Academy. These reviews are conducted to ensure the schools and centers are reporting accurate student enrollment data to the State, upon which State foundation funding is calculated. This review resulted in an underpayment to the Academy in the amount of \$1,570.

The Academy also participates in the Federal Charter School Grant Program through the Ohio Department of Education. Money received under this program is recognized as non-operating revenue in the accompanying financial statements, unless it is restricted for capital acquisitions in which case it is recognized as a capital contribution. The remaining grants and entitlements received by the Academy are recognized as non-operating revenues in the accounting period in which eligibility requirements have been met. Federal and State grant review for fiscal year 2007 was \$475,143.

#### J. Net Assets

Net assets represent the difference between assets and liabilities. Net assets are reported as restricted when there are limitations imposed on their use either through constitutional provisions or enabling legislation adopted through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. At fiscal year end June 30, 2007, the Academy had no restricted net assets.

# STAMBAUGH CHARTER ACADEMY

## NOTES TO FINANCIAL STATEMENTS (CONTINUED) PERIOD FROM DECEMBER 14, 2004 (DATE OF INCORPORATION) THROUGH JUNE 30, 2007

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### 3. RECEIVABLES

Receivables at June 30, 2007, consisted of intergovernmental grants. All receivables are considered collectible in full and will be received within one year.

A summary of the principal items of receivables follows:

<u>Intergovernmental Receivables</u>	<u>Amounts</u>
Title I	\$60,926
Title IIA	2,915
Title IID	1,092
Charter School Grant	32,221
Charter School Grant - State	434
IDEA, Part B	65,003
School Lunch	<u>17,170</u>
Total Intergovernmental Receivables	<u>\$179,761</u>

### 4. CAPITAL ASSETS

Capital asset activity of the Academy's governmental activities was as follows:

	Beginning Balance	Additions	Disposals	Ending Balance
Governmental activities:				
Other equipment	\$ -	\$ 88,405	\$ -	\$ 88,405
Total capital assets at historical cost	-	88,405	-	88,405
Less: accumulated depreciation				
Other equipment	-	<u>12,928</u>	-	<u>12,928</u>
Total accumulated depreciation	-	<u>12,928</u>	-	<u>12,928</u>
Total governmental activities capital assets, net	<u>\$ -</u>	<u>\$ 75,477</u>	<u>\$ -</u>	<u>\$ 75,477</u>

# STAMBAUGH CHARTER ACADEMY

## NOTES TO FINANCIAL STATEMENTS (CONTINUED) PERIOD FROM DECEMBER 14, 2004 (DATE OF INCORPORATION) THROUGH JUNE 30, 2007

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### 5. DEFINED BENEFIT PENSION PLANS

**A. School Employees Retirement System**—NHA, on behalf of certain employees at 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 43215-3476.

Plan members are required to contribute 10 percent of their annual covered salary and NHA is required to contribute at an actuarially determined rate. The current NHA rate is 14 percent of annual covered payroll. A portion of NHA’s contribution is used to fund pension obligations with the remainder being used to fund health care benefits. 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. NHA’s required contributions for pension obligations to SERS for the period ended June 30, 2007 was \$18,285; and 100 percent was contributed for fiscal year 2007.

**B. State Teachers Retirement System**—NHA, on behalf of teachers at 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 East Broad St., Columbus, Ohio 43215-3371 or by calling (614) 227-4090.

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 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 DB Plan during their fifth year of membership unless they permanently select the DC or Combined Plan. Benefits are established by Chapter 3307 of the Ohio Revised Code.

# STAMBAUGH CHARTER ACADEMY

## NOTES TO FINANCIAL STATEMENTS (CONTINUED) PERIOD FROM DECEMBER 14, 2004 (DATE OF INCORPORATION) THROUGH JUNE 30, 2007

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### 5. DEFINED BENEFIT PENSION PLANS – (CONTINUED)

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.

Plan members are required to contribute 10 percent of their annual covered salaries. NHA was required to contribute 14 percent of which 13 percent was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions. NHA's required contributions for pension obligations for the period ended June 30, 2007 was \$81,145; 100 percent was contributed for fiscal year 2007.

### 6. POST-EMPLOYMENT BENEFITS

The Academy provides comprehensive health care benefits to retired teachers and their dependents through STRS Ohio and to retired, non-certified employees and their dependents through SERS. Benefits include hospitalization, physicians' fees, prescription drugs, and partial reimbursement of monthly Medicare premiums. All benefit recipients and sponsored dependents are eligible for health care coverage. 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.

All STRS Ohio benefit recipients and sponsored dependents are eligible for health care coverage. The STRS Ohio Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. All benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS Ohio funds is included in the employer contribution rate, currently 14 percent of covered payroll. The Retirement Board allocates employer contributions to the Health Care Reserve Fund from which health care benefits are paid. For the fiscal year ended June 30, 2007, the STRS Ohio Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Reserve Fund. For the Academy, this amount equaled \$5,796 for fiscal 2007.

STRS Ohio pays health care benefits from the Health Care Reserve Fund. At June 30, 2006 (the latest information available) the balance in the Fund was \$3.5 billion. For the year ended June 30, 2006 (the latest information available), net health care costs paid by STRS Ohio were approximately \$282.7 million and STRS Ohio had 119,184 eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten or more years of qualifying service credit and to disability and survivor benefit recipients. All members must pay a portion of their premium for health care. The portion is based on years of service, 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.

# STAMBAUGH CHARTER ACADEMY

## NOTES TO FINANCIAL STATEMENTS (CONTINUED) PERIOD FROM DECEMBER 14, 2004 (DATE OF INCORPORATION) THROUGH JUNE 30, 2007

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### 6. POST-EMPLOYMENT BENEFITS – (CONTINUED)

For the period ended June 30, 2007, employer contributions to fund health care benefits were 3.32 percent of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2007, the minimum pay was established at \$35,800. For the Academy, the amount contributed to fund health care benefits, including the surcharge, during the 2007 fiscal year equaled \$6,306.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of the projected claims less premium contributions for the next fiscal year. Expenses for health care at June 30, 2006 (the latest information available), were approximately \$158.7 million. As of June 30, 2006 (the latest information available), SERS had net assets available for payment of health care benefits of \$295.6 million. SERS has 59,492 participants eligible to receive benefits.

### 7. RISK MANAGEMENT

The Academy is exposed to various risks of loss related to general liability. Commercial insurance policies to cover certain risks of loss have been obtained through Indiana Insurance Company. General liability coverage provides \$1,000,000 per occurrence and \$5,000,000 in the aggregate with no deductible. The Indiana Insurance Company also provides umbrella liability coverage of \$1,000,000 per occurrence, as well as, in the aggregate. There have been no significant reductions in insurance coverage during fiscal year 2007, and claims did not exceed coverage during the fiscal year.

### 8. CONTINGENCIES

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

# STAMBAUGH CHARTER ACADEMY

## NOTES TO FINANCIAL STATEMENTS (CONTINUED) PERIOD FROM DECEMBER 14, 2004 (DATE OF INCORPORATION) THROUGH JUNE 30, 2007

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### 9. CONTRACTED SERVICE FEE

NHA has informed the Academy that the contracted service fee includes payment for the following:

Salaries, wages and benefits	\$ 1,036,073
Professional and technical services	202,132
Property services	1,054,018
Travel	39,892
Utilities	229,275
Contracted (trade) services	21,955
Purchased services	564,098
Books, periodicals and films	212,052
Food and related supplies	111,214
Supplies	105,621
Insurance and property taxes	52,869
Field trips and student activities	27,334
Equipment lease and purchases	75,779
Total contracted service fee	<u>\$ 3,732,312</u>

### 10. SPONSORSHIP AGREEMENT

The Academy entered into a sponsorship agreement with Buckeye Community Hope Foundation ("Buckeye"). This agreement provides that Buckeye receives approximately two percent of State Foundation funds received by the Academy from the State of Ohio. This amounted to \$30,095 for the period ended June 30, 2007.

### 11. OPERATING LEASE

The Academy has entered into a sub-lease agreement with National Heritage Academies for a facility to house the Academy. The lease term is from July 1, 2006 through June 30, 2007. Annual rental payments required by the lease are \$879,360, payable in twelve monthly payments of \$73,280. This lease is renewable on a year to year basis.

The Academy subsequently renewed the sub-lease with National Heritage Academies on May 10, 2007 for the period of July 1, 2007 through June 30, 2008. Annual rental payments required by the lease were reduced to \$821,280, payable in twelve monthly payments of \$68,440.

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# Mary Taylor, CPA

Auditor of State

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

Stambaugh Charter Academy  
Mahoning County  
2420 Donald Avenue  
Youngstown, OH 44509

To the Board of Directors:

We have audited the basic financial statements of the Stambaugh Charter Academy, Mahoning County, Ohio (the "Academy"), as of and for the period December 14, 2004 through June 30, 2007, and have issued our report thereon dated January 27, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*. Other auditors audited the contract service fees totaling \$3,732,312 as indicated in Note 9 and described in our opinion on the Academy's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that those auditors separately reported.

### 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 audit procedures for expressing our opinions on the financial statements, but not to opine on the effectiveness of the Academy's internal control over financial reporting. Accordingly, we have not opined 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 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 Academy's ability to initiate, authorize, record, process, or report financial data reliably in accordance with its applicable accounting basis, such that there is more than a remote likelihood that the Academy's internal control will not prevent or detect a more-than-inconsequential financial statement misstatement.

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

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

Voinovich Government Center / 242 Federal Plaza W. / Suite 302 / Youngstown, OH 44503-1293

Telephone: (330) 797-9900 (800) 443-9271 Fax: (330) 797-9949

[www.auditor.state.oh.us](http://www.auditor.state.oh.us)

### Compliance and Other Matters

As part of reasonably assuring whether the Academy'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 no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

We did note a certain noncompliance or other matter that we reported to the Academy's management in a separate letter dated January 27, 2009.

We intend this report solely for the information and use of management, the Board of Directors, and the Academy's sponsor. We intend it for no one other than these specified parties.

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

**Mary Taylor, CPA**  
Auditor of State

January 27, 2009



Mary Taylor, CPA  
Auditor of State

**STAMBAUGH CHARTER ACADEMY**

**MAHONING 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  
MARCH 10, 2009**