



**SCHOLARTS PREPARATORY AND CAREER CENTER FOR CHILDREN
FRANKLIN COUNTY**

SINGLE AUDIT

FOR THE YEAR ENDED JUNE 30, 2010



Dave Yost • Auditor of State

**SCHOLARTS PREPARATORY AND CAREER CENTER FOR CHILDREN
FRANKLIN COUNTY**

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Dave Yost • Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

ScholARTS Preparatory and Career Center for Children
Franklin County
P.O. Box 360895
Columbus, Ohio 43236

To the Board of Directors:

We have audited the accompanying basic financial statements of the ScholARTS Preparatory and Career Center for Children, Franklin County, Ohio, (the School) as of and for the year ended June 30, 2010, as listed in the table of contents. These financial statements are the responsibility of the School's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of ScholARTS Preparatory and Career Center for Children, Franklin County, Ohio, as of June 30, 2010, and the changes in financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements have been prepared assuming that the School will continue as a going concern. As discussed in Note 16 to the financial statements, the School has suffered recurring losses from operations (\$790,561) and has a net asset deficiency (\$222,508) that raise substantial doubt about its ability to continue as a going concern. Note 16 describes management's plan regarding these issues. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 22, 2011, 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. 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.

Accounting principles generally accepted in the United States of America require this presentation to include *Management's discussion and analysis*, as listed in the table of contents, to supplement the basic financial statements. Although this information is not part of the basic financial statements, the Governmental Accounting Standards Board considers it essential for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any other assurance.

We conducted our audit to opine on the financial statements that collectively comprise the District's basic financial statements taken as a whole. The federal awards receipts and expenditure schedule provides additional information required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. The federal awards receipts and expenditures schedule is management's responsibility, and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. This schedule was subject to the auditing procedures we applied to the basic financial statements. We also applied certain additional procedures, including comparing and reconciling this information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, in accordance with auditing standards generally accepted in the United States of America. In our opinion, this information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



Dave Yost
Auditor of State

April 22, 2011

**SCHOLARTS PREPARATORY AND CAREER CENTER FOR CHILDREN
FRANKLIN COUNTY**

**MANAGEMENTS DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2010
(Unaudited)**

The discussion and analysis of ScholARTS Preparatory and Career Center for Children's (the School) financial performance provides an overall review of the financial activities for the fiscal year ended June 30, 2010. The intent of this discussion and analysis is to look at the School's financial performance as a whole; readers should also review the basic financial statement and notes to the basic financial statements to enhance their understanding of the School's financial performance.

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 Governments*, issued June, 1999. Certain comparative information between the current year and the prior year is required to be present and is presented in the MD&A.

Financial Highlights

Key financial highlights for the fiscal year 2010 are as follows:

- Total net assets of the School decreased by \$213,837 mainly because of overpayments from the Ohio Department of Education of federal grants of \$88,192 and the School having \$72,500 payable on a line of credit.
- Total assets decreased \$76,474, which represents a 71 percent decrease from the prior year due to the reduction in the School's cash reserves.
- Overall, the School's total revenue was only 92% of the prior year primarily resulting from reduced foundation revenues although the School did receive additional federal and state grant revenue associated with the stimulus programs.

Using this Financial Report

This financial report contains the basic financial statements of the School, as well as the Management's Discussion and Analysis and notes to the basic financial statement. The basic financial statements include a statement of net assets, statement of revenues, expenses and changes in net assets, and a statement of cash flows. As the School reports its operations using enterprise fund accounting, all financial transactions and accounts are reported as one activity, therefore the entity wide and the fund presentation information is the same.

Statement of Net Assets

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

This statement reports the School's net assets, however, in evaluating the overall position and financial viability of the School, non-financial information such as the condition of the School building and potential changes in the laws governing charter schools in the State of Ohio will also need to be evaluated.

**SCHOLARTS PREPARATORY AND CAREER CENTER FOR CHILDREN
FRANKLIN COUNTY**

**MANAGEMENTS DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2010
(Unaudited)**

Table 1 provides a summary of the School's net assets for fiscal year 2010 compared with fiscal year 2009.

(Table 1)
Net Assets

	2010	2009
Assets		
Current and other assets	\$23,009	\$92,214
Capital Assets, Net	7,476	14,745
Total Assets	<u>30,485</u>	<u>106,959</u>
Liabilities		
Current Liabilities	252,993	115,630
Total Liabilities	<u>252,993</u>	<u>115,630</u>
Net Assets		
Invested in Capital Assets	7,476	14,745
Unrestricted	(229,984)	(23,416)
Total Net Assets	<u>(\$222,508)</u>	<u>(\$8,671)</u>

The School's total net assets decreased by \$213,837 during fiscal year 2010. The decrease can be attributed to the significant increase in current liabilities. The School has a credit line payable outstanding at the end of fiscal year for \$72,500. The Ohio Department of Education and three federal grants overpaid the School during the fiscal year and those amounts will be refunded or fiscal year 2011 grant distributions will be reduced. That amount was \$88,912 for the fiscal year.

As shown in Table 1 above, total current assets of the School decreased by \$69,205 from those reported at June 30, 2009. The decrease mainly resulted from the School operating expenses exceeding the revenue sources reducing cash by \$73,957 during the fiscal year.

**SCHOLARTS PREPARATORY AND CAREER CENTER FOR CHILDREN
FRANKLIN COUNTY**

**MANAGEMENTS DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2010
(Unaudited)**

Table 2 shows the changes in net assets for fiscal year 2010 and fiscal year 2009, as well as a listing of revenues and expenses.

**TABLE 2
CHANGE IN NET ASSETS**

	2010	2009
Operating Revenues:		
Sales	\$0	\$102,989
Foundation payments	2,620,158	3,106,296
Other operating revenues	10,404	34,373
Non Operating Revenues		
State grants	5,000	1,200
Federal grants	571,724	253,639
Total Revenue	3,207,286	3,498,497
Operating Expenses:		
Salaries and Wages	394,870	672,843
Fringe Benefits	141,108	161,329
Purchased Services	2,776,975	2,542,679
Materials and Supplies	30,543	63,179
Depreciation	9,464	13,517
Miscellaneous	68,163	55,728
Total Expenses	3,421,123	3,509,275
Changes in net assets	(213,837)	(\$10,778)
Net assets, beginning of year	(8,671)	2,107
Net assets, end of year	(\$222,508)	(\$8,671)

Total revenue for the School decreased \$291,211 in fiscal year 2010 compared with fiscal year 2009. The School participated in the federal grant stimulus program, which resulted in additional revenues for the federal grants. The School saw the student population drop from 216 to 155 which resulted in a significant drop in foundation revenue.

Total expenses of the School reported for the fiscal year were \$88,152 less than the previous fiscal year. Payroll and related benefit costs decreased by \$298,194 over fiscal year 2009 as the School reduced staff with the lower number of students. The Schools most significant expenses still rests in the contracts with Baybrook and Associates and Brookwood Community Learning Center (see Note 12C) and are accounted for in the purchased services line item.

**SCHOLARTS PREPARATORY AND CAREER CENTER FOR CHILDREN
FRANKLIN COUNTY**

**MANAGEMENTS DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2010
(Unaudited)**

Budgetary

Unlike other public schools located in the State of Ohio, community schools are not required to follow the budgetary provisions set forth in the Ohio Revised Code Chapter 5705, unless specifically provided in the School's contract with the Sponsor. The contract between the School and its Sponsor does prescribe an annual budget requirement in addition to preparing a five-year forecast, which is to be updated annually.

Capital Assets

At June 30, 2010, the capital assets of the School consisted of \$73,923 of furniture, fixtures, equipment and computers offset by \$66,447 in accumulated depreciation resulted in net capital assets of \$7,476.

See Note 5 of the notes to the basic financial statements for additional information on the School's capital assets.

Debt

At June 30, 2010, the School had one line of credit with Huntington Bank totaling \$72,500. For more information on the School's debt refer to Note 11 of the notes to the financial statements.

Current Financial Issues

The future financial stability of the School is not without challenges.

The most significant challenge is the state economy. The School does not receive any funds from taxes. The primary source of funding is the state foundation program. An economic slowdown in the state could result in budgetary cuts to education, which would have a negative impact on the School.

Contacting the School

This financial report is designed to provide a general overview of the finances of the ScholARTS Preparatory and Career Center for Children and to show the School's accountability for the monies it receives to all vested and interested parties, as well as meeting the annual reporting requirements of the State of Ohio. Any questions about the information contained within this report or requests for additional financial information should be directed to: Dr. Cheryl Parchia of the ScholARTS Preparatory and Career Center for Children, PO Box 360895, Columbus, Ohio 43215 or email at dr.ctp@scholarts.org.

**SCHOLARTS PREPARATORY AND CAREER CENTER FOR CHILDREN
FRANKLIN COUNTY**

**STATEMENT OF NET ASSETS
JUNE 30, 2010**

Assets:

Current assets:

Cash	\$	5,485
Intergovernmental receivable		17,524
Total current assets		<u>23,009</u>

Noncurrent assets:

Capital assets, net depreciation		7,476
Total noncurrent assets		<u>7,476</u>

Total Assets 30,485

Liabilities:

Current liabilities

Accounts payable	40,296
Accrued wages and benefits	44,558
Intergovernmental payable	95,639
Line of credit payable	72,500
Total current liabilities	<u>252,993</u>

Total Liabilities 252,993

Net Assets:

Invested in capital assets, net of related debt	7,476
Unrestricted	<u>(229,984)</u>

Total net assets \$ (222,508)

See accompanying notes to the basic financial statements

**SCHOLARTS PREPARATORY AND CAREER CENTER FOR CHILDREN
FRANKLIN COUNTY**

**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
YEAR ENDED JUNE 30, 2010**

Operating Revenues:	
State foundation	\$ 2,620,158
Other operating revenues	<u>10,404</u>
Total operating revenues	<u>2,630,562</u>
Operating Expenses:	
Salaries and wages	394,870
Fringe benefits	141,108
Purchased services	2,776,975
Materials and supplies	30,543
Depreciation	9,464
Other expenses	<u>68,163</u>
Total operating expenses	<u>3,421,123</u>
Operating loss	(790,561)
Nonoperating revenues:	
Federal grants	571,724
State grants	<u>5,000</u>
Total nonoperating revenues	<u>576,724</u>
Change in net assets	(213,837)
Net assets, Beginning of year (Deficit)	<u>(8,671)</u>
Net assets, End of year (Deficit)	<u><u>\$ (222,508)</u></u>

See accompanying notes to the basic financial statements

**SCHOLARTS PREPARATORY AND CAREER CENTER FOR CHILDREN
FRANKLIN COUNTY**

**STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2010**

Cash flows from operating activities:	
Cash received from State of Ohio - Foundation	\$ 2,620,158
Cash received from other operating revenues	10,404
Cash payments for personal services	(567,017)
Cash payments for contract services	(2,802,264)
Cash payments for supplies and materials	(68,163)
Net cash used by operating activities	<u>(806,882)</u>
 Cash flows from noncapital financing activities:	
Cash received from line of credit draws	72,500
Cash received from state and federal grants	670,363
Net cash received by noncapital financing activities	<u>742,863</u>
 Cash flows from capital and related financing activities:	
Acquisition of Capital Assets	(2,195)
Net cash used by capital and related financing activities	<u>(2,195)</u>
Net decrease in cash and cash equivalents	(66,214)
Cash and Cash Equivalents at beginning of year	71,699
Cash and Cash Equivalents at end of year	<u><u>\$ 5,485</u></u>
 Reconciliation of operating loss to net cash used by operating activities:	
Operating loss	\$ (790,561)
Adjustments to reconcile operating loss to net cash used by operating activities:	
Depreciation	9,464
Change in assets and liabilities:	
Decrease in Intergovernmental receivable	(2,456)
Increase in Accounts payable	5,254
Decrease in Accrued wages and benefits	(4,426)
Decreass in Intergovernmental payable	(24,157)
Net cash used by operating activities	<u><u>\$ (806,882)</u></u>

See accompanying notes to the basic financial statements

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**SCHOLARTS PREPARATORY AND CAREER CENTER FOR CHILDREN
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2010**

1. Description of the School and Reporting Entity:

The ScholARTS Preparatory and Career Center for Children (the "School") is a state nonprofit corporation established pursuant to Code Chapters 3314 and 1702. The School is an approved tax-exempt organization under section 501(c)(3) of the Internal Revenue Code exclusively for educational purposes. Management is not aware of any course of action or series of events, which could adversely affect the School's tax exempt status. The School's mission is for children to increase academic achievement develop a community of scholars using the arts, and expose young children to a variety of options through an age-appropriate literacy based career center. The School, which is part of the State's education program, is independent of any school district and is nonsectarian in its programs, admissions policies, employment practices, and all other operations. The School may sue and be sued, acquire facilities as needed, and contract for any necessary services for the operation of the School.

The School was originally approved for operation under contract with the Lucas County Educational Service Center effective for the 2004-2005 school year. However, effective September 26, 2006, the School changed sponsors to Kids Count of Dayton, Inc. (the Sponsor) under an agreement expiring June 30, 2009. That contract has been renewed on an annual basis. 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 Board of Directors (the Board). The Board is responsible for carrying out the provisions of the contract with the Sponsor which includes but is not limited to, state mandated provisions regarding student population, curriculum, academic goals, performance standards, admission standards, and qualifications of teachers. The Board controls the School's instructional/support facility staffed by 7 certificated full time teaching personnel and 3 classified staff member who provide educational services to 155 students.

2. Summary of Significant Accounting Policies:

The financial statement of the School have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental nonprofit organizations. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The School also applies Financial Accounting Standards (FASB) statements and interpretations on or before November 30, 1989, provided that they do not conflict with or contradict GASB pronouncements; however the School has elected not to follow any FASB statements or interpretations after November 30, 1989. The more significant of the School's accounting policies are described below.

A. Basis of Presentation

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

**SCHOLARTS PREPARATORY AND CAREER CENTER FOR CHILDREN
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2010
(Continued)**

2. Summary of Significant Accounting Policies (Continued)

B. Measurement Focus And Basis Of Accounting

The accounting and financial reporting treatment applied to a fund is determined by its 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 difference between total assets and liabilities are defined as net assets. The statement of revenues, expenses and changes in net assets 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 the Ohio Rev. Code Section 5705, unless specifically provided in the Schools contract with the sponsor. The contract between the School and its Sponsor does prescribe an annual budget requirement in addition to preparing a five-year forecast, which is to be updated annually.

D. Cash

The School's fiscal agent, All About Learning, Inc. accounts for all monies received by the School. All cash received by the fiscal agent is pooled and maintained in a separate account in the School's name.

E. Estimates

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

F. Capital Assets And Depreciation

Capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market value as of the date received. The School maintains a capitalization threshold of \$1,000. The School 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 the asset's life are expensed.

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

**SCHOLARTS PREPARATORY AND CAREER CENTER FOR CHILDREN
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2010
(Continued)**

2. Summary of Significant Accounting Policies (Continued)

G. Intergovernmental revenues

The School currently participates in the State Foundation Program. The foundation funding is recognized as operating revenues in the accounting period in which they are earned, essentially the same as the fiscal year.

The School also participates in various federal and state grant programs through the Ohio Department of Education. The programs the School participated in during fiscal year 2010 included the National School Lunch and Breakfast Program, the State Special Education Program, State Fiscal Stabilization Fund, Title I, Safe and Drug-Free Schools, Enhancing Education through Technology Program, Improving Teacher Quality, and the Innovative Education Program. Grants and entitlements received under these programs 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 the expense requirements, in which resources are provided to the School on a reimbursement basis.

Amounts awarded under the above named programs for the 2010 fiscal year totaled \$3,196,882.

H. Operating and non-operating revenues and expenses

Operating revenues are those revenues that are generated directly to the School's primary mission. For the School, operating revenues include foundation payments received from the State of Ohio and certain charges to students recorded as tuition and fees. Operating expenses are necessary costs incurred to support the School's primary mission, including depreciation.

Non-operating revenues and expenses are those that are not generated directly by the School's primary mission. Various state and federal grants and interest expense comprise the non-operating revenues and expenses of the School.

I. Accrued liabilities payable

The School has recognized certain liabilities on its statement of net assets relating to expenses, which are due but unpaid as of June 30, 2010, including:

Wages Payable – salary payments made after year-end that were for services rendered in fiscal year 2010. Teaching personnel are paid in 24 equal installments, ending with the last pay period in August, for services rendered during the previous school year. Therefore, a liability has been recognized at June 30, 2010 for all salary payments made to teaching personnel during the months of July and August 2010.

Intergovernmental payable – payment for the employer's share of the retirement contribution (\$5,995), associated with services rendered during fiscal year 2010, but were not paid until the subsequent fiscal year is the major expense in this category.

**SCHOLARTS PREPARATORY AND CAREER CENTER FOR CHILDREN
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2010
(Continued)**

2. Summary of Significant Accounting Policies (Continued)

J. Economic Dependency

The School received approximately 99% of its operating revenue from the Ohio Department of Education. Due to the significance of this revenue source, the School is considered to be economically dependent on the State of Ohio Department of Education.

K. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets consist of capital assets, net of accumulated depreciation less any outstanding capital related debt. 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 School applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

3. Deposits and Investments

The School does not have a policy addressing custodial credit risk for its deposits. At June 30, 2010, the carrying amount of the School's deposits was \$5,485 and the bank balance was \$17,833, the entire balance of which was covered by federal depository insurance.

4. Intergovernmental Receivables

All receivables are considered collectibles in full due to the stable condition of State programs, and the fiscal year guarantee of federal funds. Intergovernmental receivables of the School at June 30, 2010 consisted for \$2,456 retirement refunds for overpayment during fiscal year 2010 and \$15,068 for Federal Breakfast and Lunch reimbursement.

5. Capital Assets

A summary of the School's capital assets at June 30, 2010, follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balances</u>
Capital assets being depreciated:				
Furniture, Fixtures and Equipment	\$68,366	\$2,195	\$0	\$70,561
Computers	3,362	0	0	3,362
Total Capital Assets	<u>71,728</u>	<u>2,195</u>	<u>0</u>	<u>73,923</u>
Less: accumulated depreciation on:				
Furniture, Fixtures and Equipment	(54,684)	(8,792)	0	(63,476)
Computers	(2,299)	(672)	0	(2,971)
Total Depreciation	<u>(56,983)</u>	<u>(9,464)</u>	<u>0</u>	<u>(66,447)</u>
Capital assets, net	<u>\$14,745</u>	<u>(\$7,269)</u>	<u>\$0</u>	<u>\$7,476</u>

**SCHOLARTS PREPARATORY AND CAREER CENTER FOR CHILDREN
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2010
(Continued)**

6. Risk Management

Property and liability – The School is exposed to various risks of loss related to torts; theft or damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2010, the School contracted with the Western World Insurance Company for property and general liability insurance. There is a \$250 deductible on both coverages.

Professional liability is protected by Western World Insurance with a \$1,000,000 single occurrence limit and \$1,000,000 aggregate with a \$250 deductible.

There has been no significant reduction in coverage in relation to the prior fiscal year. Settled claims have not exceeded commercial coverage in any of the last three fiscal years.

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 annual total gross payroll by a factor determined by the State.

7. Defined Benefits Pension Plan

A. School Employee Retirement System

Plan Description - The School District contributes to the School Employees Retirement System (SERS), a cost-sharing multiple employer 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.

Funding Policy - Plan members are required to contribute 10 percent of their annual covered salary and the School District is required to contribute at an actuarially determined rate. The current School District rate is 14 percent of annual covered payroll. A portion of the School District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2010, 12.74 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to a statutory maximum amount of 10 percent for plan members and 14 percent for employers. Chapter 3309 of the Ohio Revised Code provides statutory authority for member and employer contributions. The School District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2010, 2009, and 2008 were \$4,556, \$14,946, and \$13,237 respectively; 100 percent has been contributed for fiscal year 2010 and 100 percent for fiscal years 2009 and 2008.

**SCHOLARTS PREPARATORY AND CAREER CENTER FOR CHILDREN
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2010
(Continued)**

7. Defined Benefits Pension Plan (Continued)

B. State Teachers Retirement System

Plan Description - The School District participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple employer public employee retirement plan. 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 43215-3771, by calling (888) 227-7877, or by visiting the STRS Ohio Web site at www.strsoh.org.

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 a member's lifetime contributions and earned interest matched by STRS Ohio funds divided by 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 member may elect to receive a lifetime monthly annuity or a lump sum withdrawal.

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. The DB portion of the Combined Plan payment is payable to a member on or after age 60; the DC portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50. 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 of the DC Plan dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

Funding Policy - For the fiscal year ended June 30, 2010, plan members were required to contribute 10 percent of their annual covered salaries. The School District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal year 2010, the portion used to fund pension obligations was also 13 percent. 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.

The School District's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2010, 2009, and 2008 were \$51,682, \$52,750, and \$32,872 respectively; 90 percent has been contributed for fiscal year 2010 and 100 percent for fiscal years 2009 and 2008. Contributions to the Combined Plans for fiscal year 2010 were \$5,367 made by the School District and \$3,833 made by the plan members. Nothing was contributed to the defined contribution plan.

**SCHOLARTS PREPARATORY AND CAREER CENTER FOR CHILDREN
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2010
(Continued)**

8. Postemployment Benefits

A. School Employee Retirement System

Plan Description – The School District participates in two cost-sharing multiple employer defined benefit OPEB plans administered by the School Employees Retirement System for non-certificated retirees and their beneficiaries, a Health Care Plan and a Medicare Part B Plan. The Health Care Plan includes hospitalization and physicians' fees through several types of plans including HMO's, PPO's and traditional indemnity plans as well as a prescription drug program. The Medicare Part B Plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries up to a statutory limit. Benefit provisions and the obligations to contribute are established by the System based on authority granted by State statute. The financial reports of both Plans are included in the SERS Comprehensive Annual Financial Report which is available by contacting SERS at 300 East Broad St., Suite 100, Columbus, Ohio 43215-3746.

Funding Policy – State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 401h. For 2010, 0.45 percent of covered payroll was allocated to health care. In addition, employers pay a surcharge for employees earning less than an actuarially determined amount; for 2010, this amount was \$0.

Active employee members do not contribute to the Health Care Plan. Retirees and their beneficiaries are required to pay a health care premium that varies depending on the plan selected, the number of qualified years of service, Medicare eligibility and retirement status.

The School District's contributions for health care for the fiscal years ended June 30, 2010, 2009, and 2008 were \$161 and \$18,322, and \$5,778 respectively; 100 percent has been contributed for fiscal year 2010 and 100 percent for fiscal years 2009 and 2008.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For 2010, this actuarially required allocation was 0.76 percent of covered payroll. The School District's contributions for Medicare Part B for the fiscal year ended June 30, 2010, 2009 and 2008 were \$272, \$2,153 and \$900, 100 percent has been contributed for fiscal year 2010 with 100% for fiscal year 2009 and 2008.

B. State Teachers Retirement System

Plan Description – The School District contributes to the cost sharing multiple employer defined benefit Health Plan administered by the State Teachers Retirement System of Ohio (STRS Ohio) for eligible retirees who participated in the defined benefit or combined pension plans offered by STRS Ohio. Benefits include hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare Part B premiums. The Plan is included in the report of STRS Ohio which may be obtained by visiting www.strsoh.org or by calling (888) 227-7877.

**SCHOLARTS PREPARATORY AND CAREER CENTER FOR CHILDREN
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2010
(Continued)**

8. Postemployment Benefits (Continued)

B. State Teachers Retirement System (Continued)

Funding Policy – Ohio law authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For 2010, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. The School District's contributions for health care for the fiscal years ended June 30, 2010, 2009, and 2008 were \$3,976, \$3,768, and \$2,529 respectively; 90 percent has been contributed for fiscal year 2010 and 100 percent for fiscal years 2009 and 2008.

9. Other Employee Benefits

The School has contracted with a private carrier to provide employee medical, dental, and vision insurance to its employees. The School pays the full amount of the monthly premiums for all selected coverages (medical, dental and life).

10. Operating Leases

On August 1, 2008, the School entered into an operating lease for the period September 1, 2008 to June 15, 2009 with Community Arts Project, Inc. for use of the School's facility. The School moved during the year and continued leasing two facilities: one with King Arts Complex and York Mason Building. Total payments for operating leases totaled \$96,027 for the fiscal year ended June 30, 2010.

11. Debt

The School has a line of credit from Huntington Bank that was issued during 2010, in the amount of \$100,000, and is due on demand. The monthly interest on this promissory note is variable and is secured by operating revenues. The School made several draws on the line of credit during the year and end fiscal year 2010 with a balance of \$72,500. The School made no payments on the amount drawn during the year.

12. Contracts

A. Sponsorship Contract

The School was originally approved for operation under contract with the Lucas County Educational Service Center effective for 2004-2005 school year. However, effective September 26, 2006, the School changed sponsors to Kids Count Dayton, Inc. the current Sponsor. As part of this contract, the Sponsor is entitled to a maximum of 3% of all revenues. Total amount paid for fiscal year 2010 was \$73,872.

**SCHOLARTS PREPARATORY AND CAREER CENTER FOR CHILDREN
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2010
(Continued)**

12. Contracts (Continued)

B. Fiscal Agent Contract

The sponsorship contract states that the School shall have a designated fiscal officer who shall meet all requirements as set forth by law including:

Maintain the financial records of the School in the same manner as are financial records of school districts, pursuant to rules of the Auditor of State.

Comply with the policies and procedures regarding internal financial control of the School.

Comply with the requirements and procedures for financial audits by the Auditor of State.

The School entered in a contract with All About Learning, Inc. for fiscal services including school treasurer services, payroll services, and capital asset services. Total payment to All About Learning, Inc. were \$34,500 for the fiscal year ended June 30, 2010.

C. Placement Contract

The School entered into a Placement Contract with Brookwood Community Learning Center (Brookwood) to provide for educational services to certain students in order to assist the School and in meeting the educational needs and to provide the necessary services of the student's Individual Educational Plan. The total amount paid to Brookwood under the Placement Contract was \$1,579,515.

D. Local Agency Education Contract

The term local education agency means a public board of education or other public authority legally constituted within a State to either provide administrative control or direction of, or perform a service function for public schools serving individuals ages 0 - 21 in a state, city, county, township, school district, or other political subdivision including a combination of school districts or counties recognized in a State as an administrative agency for its public schools. An LEA may provide, or employ professional who provide, services to children included in the Individuals with Disabilities Education Act (IDEA), such services may include, but are not limited to, such medical services as physical, occupational, and speech therapy. The School entered into a contract with Baybrook and Associates, LLC for these services. The total amount paid under this contract for fiscal year 2010 was \$556,393.

13. Contingencies

A. Grants

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

**SCHOLARTS PREPARATORY AND CAREER CENTER FOR CHILDREN
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2010
(Continued)**

13. Contingencies (Continued)

B. State Funding

The Ohio Department of Education conducts reviews of enrollment data and FTE calculations made by the School. These reviews are conducted to ensure the schools are reporting accurate student enrollment data to the State, upon which state foundation funding is calculated. The results of this review could result in state funding being adjusted. The Ohio Department of Education completed its review of the School's enrollment data for fiscal year 2010 which did not result in any adjustment to the funding received.

14. Other Purchased Services

During the fiscal year ended June 30, 2010, other purchased services rendered by various vendors were as follows:

Professional and technical services	\$2,479,874
Property Services	134,086
Transportation	24,610
Contracted Craft or Trade Service	102,768
Meeting and travel	8,595
Communications	27,042
	<u>\$2,776,975</u>

15. Related Party Transactions

Dr. Cheryl Parchia, is the Founder and CEO of the School.

Mellody Parchia, daughter of Dr. Cheryl Parchia, is the Advertising Specialist and Grant administrator of the School. During fiscal year 2010, Mellody Parchia was paid as an employee \$30,400 for serving in this capacity.

16. Management Plan

The School is having difficulty meeting operational expenses. As of June 30, 2010, the School had a net asset balance of (\$222,508) and a carrying amount of all School deposits were \$5,485. The School had a net loss of \$213,837 during fiscal year 2010. The School's fund balance at April 22, 2011 was \$30,113.

The Chief Executive Officer (CEO) prepared the following management plan to address the School's financial difficulty and academic status. The plan was monitored during fiscal year 2010 and will continue to be monitored in fiscal year 2011.

- The Board will continue to meet bi-monthly and add special meeting as necessary in order to review and revise the budget.
- The CEO and School leadership team operating under Ohio Improvement Plan (OIP) guidelines develop and monitor a rigorous school improvement and professional development plan. This program is currently implemented and shall continue. Quarterly progress reports shall be submitted to the Board using the OIP improvement management monitoring (IMM) tool. Improved ratings will attract more children and increase the enrollment.
- The School will maintain and increase its current enrollment by 100% (from 2009 ADM) by school year (SY) 2011. The school improvement plan and other projects and advertising have been planned and are underway in order to achieve this goal.

**SCHOLARTS PREPARATORY AND CAREER CENTER FOR CHILDREN
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2010
(Continued)**

16. Management Plan (Continued)

- The CEO and school improvement consultants are and will continue aggressively pursuing additional private section, state and federal grants according to the School's eligibility in order to generate new and improve existing resources for the School both programmatic and human.
- The treasurer and CEO shall regularly meet twice weekly to confirm receipt and processing of all requisitions, quotes, purchase orders, and invoices. Prior to submission to the school treasurer all requisitions and purchase orders will require the approval of the CEO and shall include the fund name from which the payment shall be made. In the School's effort to become "paperless", the primary mode of submitting fiscal items to the treasurer will be electronic; however, faxed items may also occur. CEO will approve purchase orders and requisitions electronically and will submit them to the School treasurer via email.
- The treasurer must confirm receipt of all items within 24 hours.
- The treasurer shall respond to the CEO in writing regarding available funds within 72 hours of receipt of quotes/requisitions, etc.
- A school staff assistant will follow up.
- All vendors and staff will be encouraged to scan and submit quotes, requisitions, and invoices via email to the School.
- Software will be specifically adopted for fiscal records and reporting.
- The treasurer will prepare journal entries and corrections regarding any carryover balance as necessary. These entries and corrections will be submitted to the Board of Directors.
- The CEO shall add the treasurer's contract a clause that ensured the expeditious submission of fiscal forecasts and reports per state law and in accordance with the requirements of the School's sponsor.
- A certified public accountant, who has experience in charter school fiscal management will continue to participate in each board meeting.
- This person will be assigned the responsibility of monitoring the treasurer's submissions of all reports and collaborating with the treasurer in order to ensure that all state mandated reports are submitted to the Board for consideration at least 45 days prior to state deadline, and that all state guidelines and requirement are met by the treasurer.
- This person shall report the status of all fiscal reports and/or the treasurer's progress to the Board.
- For SY (2010-2011) the School continues to lease or acquire a facility that will not exceed 20% of the total budget.
- The Board shall plan and implement at least one major fundraiser annually.
- The Board will appoint a development advisory committee to assist in its fundraising efforts.
- The Board will develop and adopt a records retention policy during the 2011 fiscal year.

17. Subsequent event

On December 17, 2011, the School drew an additional \$15,000 against the Huntington Bank line of credit. On July 1, 2011, Michael Ashmore became the new Treasurer for the School.

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**SCHOLIARTS PREPARATORY AND CAREER CENTER FOR CHILDREN
FRANKLIN COUNTY**

**SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2010**

FEDERAL GRANTOR <i>Pass Through Grantor</i> Program Title	Federal CFDA Number	Receipts	Disbursements
<u>United States Department of Agriculture</u> <i>Passed Through Ohio Department of Education</i>			
Nutrition Cluster:			
Federal School Breakfast Program	10.553	\$ 24,103	\$ 24,103
National School Lunch Program	10.555	<u>37,319</u>	<u>37,319</u>
Total U.S. Department of Agriculture-Nutrition Cluster		61,422	61,422
<u>United States Department of Education</u> <i>Passed Through Ohio Department of Education</i>			
Title I Grants to Local Educational Agencies	84.010	135,107	135,107
ARRA - Title I Grants to Local Educational Agencies	84.389	<u>56,722</u>	<u>56,722</u>
Total Title I Cluster		191,829	191,829
Special Education Grants to States (IDEA Part B)	84.027	65,661	65,967
ARRA - Special Education Grants to States (IDEA Part B)	84.391	<u>72,409</u>	<u>72,409</u>
Total Special Education Cluster		138,070	138,376
Title IV - Safe and Drug Free School Communities State Grants	84.186	1,717	1,717
Title II-D Technology Literacy Challenge	84.318	593	593
Title IIA - Improving Teacher Quality State Grants	84.367	3,122	4,752
ARRA - State Fiscal Stabilization Fund Education State Grants	84.394	<u>177,522</u>	<u>177,522</u>
Total United States Department of Education		<u>512,853</u>	<u>514,789</u>
TOTAL FEDERAL AWARDS		<u>\$ 574,275</u>	<u>\$ 576,211</u>

The accompanying notes are an integral part of this schedule.

**SCHOLARTS PREPARATORY AND CAREER CENTER FOR CHILDREN
FRANKLIN COUNTY**

**NOTES TO THE FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE
FISCAL YEAR ENDED JUNE 30, 2010**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

The accompanying Federal Awards Receipts and Expenditures Schedule (the Schedule) summarizes activity of the Academy's federal award programs. The Schedule has been prepared on the cash basis of accounting.

NOTE B - CHILD NUTRITION CLUSTER

Cash receipts from the U.S. Department of Agriculture are commingled with State grants. It is assumed federal monies are expended first.



Dave Yost • Auditor of State

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

ScholARTS Preparatory and Career Center for Children
Franklin County
PO Box 360895
Columbus, Ohio 43236

To the Board of Directors:

We have audited the financial statements of ScholARTS Preparatory and Career Center for Children, Franklin County, Ohio, (the School) as of and for the year ended June 30, 2010, and have issued our report thereon dated April 22, 2011 wherein we noted matters which raise substantial doubt about the School's ability to continue as a going concern. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or combination of internal control deficiencies resulting in more than a reasonable possibility that a material misstatement of the School's financial statements will not be prevented, or detected and timely corrected.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, 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.

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 no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

ScholARTS Preparatory and Career Center for Children
Franklin County
Independent Accountants' Report On Internal Control Over
Financial Reporting And On Compliance And Other Matters
Required by *Government Auditing Standards*
Page 2

We did note certain matters not requiring inclusion in this report that we reported to the School's management in a separate letter dated April 22, 2010.

We intend this report solely for the information and use of management, the Board of Directors, and Kids Count of Dayton, Inc, the Community School's sponsor, and federal awarding agencies and pass-through entities, and others within the School. We intend it for no one other than these specified parties.

A handwritten signature in black ink that reads "Dave Yost". The signature is written in a cursive style with a large, looping "D" and "Y".

Dave Yost
Auditor of State

April 22, 2011



Dave Yost • Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

ScholARTS Preparatory and Career Center for Children
Franklin County
P.O. Box 360895
Columbus, Ohio 43236

To the Board of Directors:

Compliance

We have audited the compliance of ScholARTS Preparatory and Career Center for Children, Franklin County, Ohio, (the School) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133, Compliance Supplement* that could directly and materially affect each of its major federal programs for the year ended June 30, 2010. The summary of auditor's results section of the accompanying schedule of findings identifies the School's major federal programs. The School's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to each major federal program. Our responsibility is to express an opinion on the School's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits included in the Comptroller General of the United States' *Government Auditing Standards*; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to reasonably assure whether noncompliance occurred with the compliance requirements referred to above that could directly and materially affect a major federal program. An audit includes examining, on a test basis, evidence about the School's compliance with those requirements and performing other procedures we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the School's compliance with those requirements.

In our opinion, the ScholARTS Preparatory and Career Center for Children complied, in all material respects, with the requirements referred to above that could directly and materially affect each of its major federal programs for the year ended June 30, 2010. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements that, while not affecting our opinion on compliance, OMB Circular A-133 requires us to report. The accompanying schedule of findings lists these instances as Findings 2010-01 and 2010-02.

Internal Control Over Compliance

The School's management is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the School's internal control over compliance with requirements that could directly and materially affect a major federal program, to determine our auditing procedures for the purpose of opining on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of opining on the effectiveness of internal control over compliance. Accordingly, we have not opined on the effectiveness of the School's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, when performing their assigned functions, to prevent, or to timely detect and correct, noncompliance with a federal program compliance requirement. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a federal program compliance requirement will not be prevented, or timely detected and corrected.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies, described in the accompanying schedule of findings as items 2010-01 and 2010-02. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a federal program compliance requirement that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

We intend this report solely for the information and use of the, management, the Board of Directors, and Kids Count of Dayton, Inc, the Community School's sponsor, others within the entity, federal awarding agencies, and pass-through entities. It is not intended for anyone other than these specified parties.



Dave Yost
Auditor of State

April 22, 2011

**SCHOLARTS PREPARATORY AND CAREER CENTER FOR CHILDREN
FRANKLIN COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
JUNE 30, 2010**

1. SUMMARY OF AUDITOR'S RESULTS

<i>(d)(1)(i)</i>	Type of Financial Statement Opinion	Unqualified
<i>(d)(1)(ii)</i>	Were there any material control weaknesses reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(ii)</i>	Were there any significant deficiencies in internal control reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(iii)</i>	Was there any reported material noncompliance at the financial statement level (GAGAS)?	No
<i>(d)(1)(iv)</i>	Were there any material internal control weaknesses reported for major federal programs?	No
<i>(d)(1)(iv)</i>	Were there any significant deficiencies in internal control reported for major federal programs?	Yes
<i>(d)(1)(v)</i>	Type of Major Programs' Compliance Opinion	Unqualified
<i>(d)(1)(vi)</i>	Are there any reportable findings under § .510(a)?	Yes
<i>(d)(1)(vii)</i>	Major Programs (list):	CFDA# 84.027 Special Education Grants to States (IDEA Part B) CFDA# 84.391 ARRA - Special Education Grants to States (IDEA Part B) CFDA# 84.394 ARRA - State Fiscal Stabilization Fund
<i>(d)(1)(viii)</i>	Dollar Threshold: Type A/B Programs	Type A: > \$ 300,000 Type B: all others
<i>(d)(1)(ix)</i>	Low Risk Auditee?	No

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

None

**SCHOLARTS PREPARATORY AND CAREER CENTER FOR CHILDREN
FRANKLIN COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
JUNE 30, 2010
(Continued)**

3. FINDINGS FOR FEDERAL AWARDS

1. Separate Accountability

Finding Number	2010-01
CFDA Title and Number	CFDA# 84.394 ARRA - State Fiscal Stabilization Fund
Federal Award Number / Year	2010
Federal Agency	U.S. Department of Education
Pass-Through Agency	Ohio Department of Education

Noncompliance/Significant Deficiency

2 CFR § 176.210 provides that recipients agree to maintain records that identify adequately the source and application of ARRA awards and separately identify to each subrecipient, and document at the time of the sub award and at the time of disbursement of funds, the Federal award number, CFDA number, and the amount of ARRA funds.

To facilitate accountability and reporting the Ohio Department of Education (ODE) provided guidance that a new fund, fund 532, would be required to account for State Fiscal Stabilization Fund monies.

The School did not use a separate fund to account for State Fiscal Stabilization Fund ARRA receipts and disbursements. The funds were receipted and spent within the School's General Fund. However, the Treasurer was able to provide us with a spreadsheet which reflected expenditures related to the State Fiscal Stabilization Fund grant funding.

Failure to separately account for ARRA awards could result in the payment of unallowable expenditures awards and accrual of interest with ARRA awards.

We recommend the School create a separate fund and special costs center as required by ODE in the School's accounting system to account for the receipts and disbursements of State Fiscal Stabilization Fund ARRA awards.

Official's Response and Corrective Action Plan:

For FY11 State Fiscal Stabilization Funds were recorded in fund 532 with the appropriate special cost center. The new treasurer has documented this fund separately and distinctly from the general fund.

**SCHOLARTS PREPARATORY AND CAREER CENTER FOR CHILDREN
FRANKLIN COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
JUNE 30, 2010
(Continued)**

2. Final Expenditure Report

Finding Number	2010-02
CFDA Title and Number	CFDA# 84.027 Special Education Grants to States (IDEA Part B) CFDA# 84.391 ARRA - Special Education Grants to States (IDEA Part B)
Federal Award Number / Year	2010
Federal Agency	U.S. Department of Education
Pass-Through Agency	Ohio Department of Education

Noncompliance/Significant Deficiency

34 CFR § 80.50 (b) states in part that within 90 days after the expiration or termination of the grant, the grantee must submit all financial, performance, and other reports required as a condition of the grant.

The Ohio Department of Education's (ODE) Consolidated Application Assurances item 6 provides, that Local Education Agency's will make reports to ODE as may be reasonably necessary to enable ODE to perform its duties.

ODE requires the final expenditure report (FER) to be submitted for each project immediately after all financial obligations have been liquidated. The report is due no later than 90 days after the end of the project period, for programs contained in the Comprehensive Continuous Improvement Plan (CCIP). The FER is due not later than 60 days after the end of the project period, for programs applied for using a paper process.

The School did not file a final expenditure report on the ODE's CCIP website for the major federal program Special Education Grant or any other federal grant until January 25, 2011. As of the date of this report the final expenditure report had not been approved by ODE.

Failure to submit the report may result in a temporary suspension of the flow of federal funds.

We recommend that the CEO ensure the FER is submitted for each project within 90 days of the end of the project period.

Official's Response and Corrective Action Plan:

In November 2010, the school refunded a sizable overpayment from the previous school year but the FER was prohibited until payment was received at the Ohio Department of Education (ODE). The school had been erroneously advised that the 2010 overpayment would be deducted from the 2011 allocation and decrease the 2011 allocation. After the school refunded the money and was allowed to submit the 2010 FER to the ODE, it was discovered that the previous treasurer's documentation of federal expenditures was insufficient. A new treasurer has been contracted in FY11 and we do not expect additional difficulties in this area.

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Dave Yost • Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT ON APPLYING AGREED-UPON PROCEDURES

ScholARTS Preparatory and Career Center for Children
Franklin County
PO Box 360895
Columbus, Ohio 43236

To the Board of Directors:

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

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

1. We noted the Board adopted an anti-harassment policy at its meeting on September 30, 2007.
2. We read the policy, noting it included the following requirements from Ohio Rev. Code Section 3313.666(B):
 - (1) A statement prohibiting harassment, intimidation, or bullying of any student on school property or at school-sponsored events;
 - (2) A definition of harassment, intimidation, or bullying that includes the definition in division (A) of Ohio Rev. Code Section 3313.666;
 - (3) A procedure for reporting prohibited incidents;
 - (4) A requirement that school personnel report prohibited incidents of which they are aware to the school principal or other administrator designated by the principal;
 - (5) A procedure for responding to and investigating any reported incident;

3. We read the policy, noting it did not include the following requirements from Ohio Rev. Code Section 3313.666(B):
- (1) A procedure for documenting any prohibited incident that is reported;
 - (2) A strategy for protecting a victim from additional harassment, intimidation, or bullying, and from retaliation following a report;
 - (3) A disciplinary procedure for any student guilty of harassment, intimidation, or bullying, which shall not infringe on any student's rights under the first amendment to the Constitution of the United States;
 - (4) A requirement that parents or guardians of any student involved in a prohibited incident be notified and, to the extent permitted by section 3319.321 of the Revised Code and the "Family Educational Rights and Privacy Act of 1974," 88 Stat. 571, 20 U.S.C. 1232q, as amended, have access to any written reports pertaining to the prohibited incident;
 - (5) A requirement that the district administration semiannually provide the president of the district board a written summary of all reported incidents and post the summary on its web site, if the district has a web site, to the extent permitted by section 3319.321 of the Revised Code and the "Family Educational Rights and Privacy Act of 1974," 88 Stat. 571, 20 U.S.C. 1232q, as amended.

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

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



Dave Yost
Auditor of State

April 22, 2011



Dave Yost • Auditor of State

SCHOLARTS PREPARATORY AND CAREER CENTER FOR CHILDREN

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
JULY 12, 2011**