



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

SINGLE AUDIT

FOR THE YEAR ENDED JUNE 30, 2011



Dave Yost • Auditor of State

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

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INDEPENDENT ACCOUNTANTS' REPORT

ScholARTS Preparatory and Career Center for Children
Franklin County
907 East Lexington Avenue
Columbus, Ohio 43209

To the Board of Directors:

We have audited the accompanying basic financial statements of ScholARTS Preparatory and Career Center for Children, Franklin County, Ohio, (the School) as of and for the year ended June 30, 2011, as listed in the table of contents. These financial statements are the responsibility of the School's management. Our responsibility is to express opinions 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 the ScholARTS Preparatory and Career Center for Children, Franklin County, Ohio, as of June 30, 2011, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 15 to the financial statements, The School has suffered recurring losses from operations and has a net asset deficiency. Note 15 describes Management's plans regarding these matters. 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 May 14, 2012, 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 School's basic financial statements taken as a whole. The federal awards receipt 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 receipt and expenditure 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

May 14, 2012

ScholARTS Preparatory and Career Center for Children
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2011
(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, 2011. 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 in 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 2011 are as follows:

- Total net assets of the School increased by \$4,991.
- Total assets increased \$152,811, which represents a 501 percent increase from the prior year due to an increase in cash balance and intergovernmental receivables.
- Overall, the School's total revenue increased \$1,132,607 or 35 percent due to an increase in enrollment resulting in additional state and federal funding. Expenses increased \$913,779 or 27 percent as a result of increased costs associated with the increased enrollment.

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 presentations are the same.

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

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

The statement of revenues, expenses and changes in net assets reports the changes in net assets. This change in net assets is important because it tells the reader that, for the School as a whole, the financial position of the School has improved or diminished. The causes of this change may be the result of many factors, some financial, some not.

ScholARTS Preparatory and Career Center for Children
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2011
(Unaudited)

Table 1 provides a summary of the School's net assets for fiscal year 2011 compared with fiscal year 2010.

Table 1 Net Assets		
	2011	2010
Assets		
Current and other assets	\$178,150	\$23,009
Capital assets, net	5,146	7,476
Total assets	183,296	30,485
Liabilities		
Current and other liabilities	400,813	252,993
Total liabilities	400,813	252,993
Net assets		
Invested in capital assets	5,146	7,476
Restricted	45,813	0
Unrestricted (deficit)	(268,476)	(229,984)
Total net assets	(\$217,517)	(\$222,508)

The School's total net assets increased by \$4,991 during fiscal year 2011.

Total assets increased \$152,811. The increase can be attributed to the significant increases in funding related to enrollment, which resulted in increased cash and intergovernmental receivable balances.

Liabilities increased by \$147,820 during the fiscal year. The increase was due primarily to an increase in accounts payable associated with placement contracts. The School has a credit line payable outstanding at the end of fiscal year for \$47,227, which is \$25,273 lower than at prior year-end.

ScholARTS Preparatory and Career Center for Children
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2011
(Unaudited)

Table 2 shows the changes in net assets for fiscal year 2011 and fiscal year 2010, as well as a listing of revenues and expenses.

Table 2
Change in Net Assets

	2011	2010
Operating revenues:		
Foundation payments	\$3,106,586	\$2,620,158
Other operating revenues	39,988	10,404
Nonoperating revenues:		
State grants	6,594	5,000
Federal grants	1,186,465	571,724
Other nonoperating revenues	260	0
Total revenues	<u>4,339,893</u>	<u>3,207,286</u>
Operating expenses:		
Salaries and wages	542,574	394,870
Fringe benefits	107,495	141,108
Purchased services	3,509,292	2,776,975
Materials and supplies	132,369	30,543
Depreciation	2,330	9,464
Miscellaneous	36,566	68,163
Nonoperating expenses:		
Interest and fiscal charges	4,276	0
Total expenses	<u>4,334,902</u>	<u>3,421,123</u>
Change in net assets	4,991	(213,837)
Net assets (deficit), beginning of year	<u>(222,508)</u>	<u>(8,671)</u>
Net assets (deficit), end of year	<u>(\$217,517)</u>	<u>(\$222,508)</u>

Total revenue for the School increased \$1,132,607 in fiscal year 2011 compared with fiscal year 2010. The School participated in the federal grant stimulus program, which resulted in additional revenues for the federal grants. The School saw the student population rise from 155 to 181 which resulted in a significant increase in foundation and federal grant revenue.

Total expenses of the School reported for the fiscal year were \$913,779 more than the previous fiscal year. Payroll and related benefit costs increased by \$114,091 over fiscal year 2010 as the School increased staffing levels to service the increased number of students. The School's most significant expenses still rest in the contracts with Brookwood Community Learning Center and Baybrook and Associates (see notes 12C and 12D) and are accounted for in the purchased services line item.

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.

ScholARTS Preparatory and Career Center for Children
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2011
(Unaudited)

Capital Assets

At June 30, 2011, the capital assets of the School consisted of \$73,923 of furniture, fixtures, equipment and computers offset by \$68,777 in accumulated depreciation resulted in net capital assets of \$5,146.

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

Debt

At June 30, 2011, the School had one line of credit with Huntington Bank with an outstanding balance of \$47,227. For more information on the School's debt, refer to note 11 of the notes to the basic 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 43236 or email at dr.ctp@scholarts.org.

ScholARTS Preparatory and Career Center for Children
Statement of Net Assets
June 30, 2011

Assets

Current assets:

Cash	\$89,580
Intergovernmental receivable	88,570
Total current assets	<u>178,150</u>

Noncurrent assets:

Capital assets, net	5,146
Total noncurrent assets	<u>5,146</u>

Total assets	<u>183,296</u>
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Liabilities

Current liabilities:

Accounts payable	282,345
Accrued wages	40,127
Intergovernmental payable	31,114
Line of credit payable	47,227
Total current liabilities	<u>400,813</u>

Total liabilities	<u>400,813</u>
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Net assets

Invested in capital assets	5,146
Restricted for:	
Other purposes	45,813
Unrestricted	<u>(268,476)</u>

Total net assets	<u><u>(\$217,517)</u></u>
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See the accompanying notes to the basic financial statements.

ScholARTS Preparatory and Career Center for Children
Statement of Revenues, Expenses and Changes in Net Assets
For the Fiscal Year Ended June 30, 2011

Operating revenues	
State foundation	\$3,106,586
Other operating revenues	<u>39,988</u>
Total operating revenues	3,146,574
Operating expenses	
Salaries and wages	542,574
Fringe benefits	107,495
Purchased services	3,509,292
Materials and supplies	132,369
Depreciation	2,330
Other expenses	<u>36,566</u>
Total expenses	<u>4,330,626</u>
Operating loss	(1,184,052)
Nonoperating revenues (expenses)	
Federal grants	1,186,465
State grants	6,594
Other nonoperating revenues	260
Interest and fiscal charges	<u>(4,276)</u>
Total nonoperating revenues (expenses)	<u>1,189,043</u>
Net change in net assets	4,991
Net assets (deficit), beginning of year	<u>(222,508)</u>
Net assets (deficit), end of year	<u><u>(\$217,517)</u></u>

See the accompanying notes to the basic financial statements.

ScholARTS Preparatory and Career Center for Children

Statement of Cash Flows

For the Fiscal Year Ended June 30, 2011

Cash flows from operating activities

Cash received from State of Ohio - Foundation	\$3,092,972
Cash received from other operating revenues	42,444
Cash payments for personal services	(719,025)
Cash payments for contract services	(3,303,809)
Cash payments for materials and supplies	(132,369)
Net cash used by operating activities	<u>(1,019,787)</u>

Cash flows from noncapital financing activities:

Cash received from line of credit draws	42,227
Cash received from other nonoperating revenues	260
Cash received from state and federal grants	1,133,171
Cash payments for line of credit principal repayments	(67,500)
Cash payments for line of credit interest	(4,276)
Net cash provided by noncapital financing activities	<u>1,103,882</u>

Net increase in cash and cash equivalents	84,095
Cash, beginning of year	5,485
Cash, end of year	<u><u>\$89,580</u></u>

Reconciliation of operating loss to net cash used by operating activities:

Operating loss	(\$1,184,052)
Adjustments to reconcile operating loss to net cash used by operating activities:	
Depreciation	2,330
Change in assets and liabilities:	
Increase in intergovernmental receivable	(11,158)
Increase in accounts payable	242,049
Decrease in accrued wages	(4,431)
Decrease in intergovernmental payable	(64,525)

Net cash used by operating activities	<u><u>(\$1,019,787)</u></u>
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See accompanying notes to the basic financial statements

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ScholARTS Preparatory and Career Center for Children

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2011

Note 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, 2011. 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. This contract has been extended through June 30, 2012.

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 9 certificated full time teaching personnel and 2 classified staff member who provide educational services to 181 students.

Note 2 - Summary of Significant Accounting Policies

The financial statements of the School have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to 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 Board (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 issued 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.

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 presents increases (i.e., revenues) and decreases (i.e., expenses) in total net 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.

ScholARTS Preparatory and Career Center for Children

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2011

Note 2 - Summary of Significant Accounting Policies (Continued)

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 Revised Code Section 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.

D. Cash

The School contracts with an outside consultant for treasurer's duties. This consultant accounts for all monies received by the School. All cash received by the School 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, fixtures, 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.

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 2011 included the National School Lunch and Breakfast Programs, Special Education, State Fiscal Stabilization Fund, Title I, Safe and Drug-Free Schools, Enhancing Education through Technology, Improving Teacher Quality, Education Jobs, Race to the Top, and the School Improvement 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 when use is first permitted; matching requirements, in which the School must provide local resources to be used for a specified purpose; and expense requirements, in which resources are provided to the School on a reimbursement basis.

ScholARTS Preparatory and Career Center for Children

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2011

Note 2 - Summary of Significant Accounting Policies (Continued)

Amounts awarded under the above named programs for the 2011 fiscal year totaled \$4,299,645.

H. Operating and Nonoperating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the School's primary mission. For the School, operating revenues include foundation payments received from the State of Ohio and other operating items. Operating expenses are necessary costs incurred to support the School's primary mission, including depreciation.

Nonoperating revenues and expenses are those that are not generated directly from the School's primary mission. Various state and federal grants and interest expense comprise the nonoperating 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, 2011, including:

Accrued wages payable – salary payments made after year-end that were for services rendered in fiscal year 2011. 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, 2011 for all salary payments made to teaching personnel during the months of July and August 2011.

Intergovernmental payable – payment for the employer's share of retirement contributions, associated with services rendered during fiscal year 2011, but were not paid until the subsequent fiscal year is the major expense in this category.

J. Economic Dependency

The School received approximately 99 percent 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. Net assets are reported as restricted when they 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.

As of June 30, 2011, none of the School's restricted net assets were restricted by enabling legislation.

Note 3 - Deposits and Investments

The School does not have a policy addressing custodial credit risk for its deposits. At June 30, 2011, the carrying amount of the School's deposits was \$89,580 and the bank balance was \$95,912, the entire balance of which was covered by federal depository insurance.

ScholARTS Preparatory and Career Center for Children

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2011

Note 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, 2011 consisted of \$11,297 for federal breakfast and lunch reimbursements, \$13,614 from the state foundation for the close out of the fiscal year 2011 program, \$13,159 for the Education Jobs program, \$500 for the Race to the Top program, and \$50,000 for the School Improvement program.

Note 5 - Capital Assets

A summary of the School's capital assets at June 30, 2011, follows:

	Beginning Balance	Additions	Deletions	Ending Balances
Capital assets being depreciated:				
Furniture, Fixtures and Equipment	\$70,561	\$0	\$0	\$70,561
Computers	3,362	0	0	3,362
Total Capital Assets	<u>73,923</u>	<u>0</u>	<u>0</u>	<u>73,923</u>
Less: accumulated depreciation on:				
Furniture, Fixtures and Equipment	(63,476)	(1,939)	0	(65,415)
Computers	(2,971)	(391)	0	(3,362)
Total Depreciation	<u>(66,447)</u>	<u>(2,330)</u>	<u>0</u>	<u>(68,777)</u>
Capital Assets, Net	<u>\$7,476</u>	<u>(\$2,330)</u>	<u>\$0</u>	<u>\$5,146</u>

Note 6 - Risk Management

Property and liability – The School is exposed to various risks of loss related to torts; theft of, damage to, of destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2011, the School contracted with the Western World Insurance Company for property and general liability insurance. There is no deductible on either coverage.

Professional liability is protected by Western World Insurance with a \$1,000,000 single occurrence limit and \$1,000,000 aggregate with no 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.

ScholARTS Preparatory and Career Center for Children

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2011

Note 7 - Defined Benefits Pension Plans

A. School Employees Retirement System

Plan Description

The School contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing multiple-employer defined benefit pension plan. SERS provides retirement, disability, and survivor benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by state statute per Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report can be obtained on SERS' website at www.ohsers.org under Employers/Audit Resources.

Funding Policy

Plan members are required to contribute 10 percent of their annual covered salary and the School is required to contribute 14 percent of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS' Retirement Board. The Retirement Board acting with the advice of the actuary, allocates the employer contribution rate among four of the funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund) of the state. For the fiscal year ending June 30, 2011, the allocation to pension and death benefits is 11.81 percent. The remaining 2.19 percent of the 14 percent employer contribution rate is allocated to the Health Care and Medicare B Funds. The School's contributions to SERS for the fiscal years ended June 30, 2011, 2010, and 2009 were \$72,561, \$4,556, and \$14,946, respectively, which equaled the required contributions each year.

B. State Teachers Retirement System

State Teachers Retirement System of Ohio (STRS Ohio) is a cost-sharing, multiple-employer public employee retirement plan.

STRS Ohio is a statewide retirement plan for licensed teachers and other faculty members employed in the public schools of Ohio or any school, community school, college, university, institution or other agency controlled, managed and supported, in whole or in part, by the state or any political subdivision thereof.

Plan Options – New members have a choice of three retirement plans. In addition to the Defined Benefit (DB) Plan, new members are offered a Defined Contribution (DC) Plan and a Combined Plan. The DC Plan allows members to allocate all their member contributions and employer contributions equal to 10.5 percent of earned compensation among various investment choices. The Combined Plan offers features of the DC Plan and the DB Plan. In the Combined Plan, member contributions are allocated to investment choices by the member, and employer contributions are used to fund a defined benefit payment at a reduced level from the regular DB Plan. Contributions into the DC Plan and the Combined Plan are credited to member accounts as employers submit their payroll information to STRS Ohio, generally on a biweekly basis. 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.

ScholARTS Preparatory and Career Center for Children

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2011

Note 7 - Defined Benefits Pension Plan (Continued)

DB Plan Benefits – Plan benefits are established under Chapter 3307 of the Revised Code. Any member may retire who has (i) five years of service credit and attained age 60; (ii) 25 years of service credit and attained age 55; or (iii) 30 years of service credit regardless of age. The annual retirement allowance; payable for life, is the greater of the “formula benefit” or the “money-purchase benefit” calculation. Under the “formula benefit,” the retirement allowance is based on years of credited service and final average salary, which is the average of the member’s three highest salary years. The annual allowance is calculated by using a base percentage of 2.2 percent multiplied by the total number of years of service credit (including Ohio-valued purchased credit) times the final average salary. The 31st year of earned Ohio service credit is calculated at 2.5 percent. An additional one-tenth of a percent is added to the calculation for every year of earned Ohio service over 31 years (2.6 percent for 32 years, 2.7 percent for 33 years and so on) until 100 percent of final average salary is reached. For members with 35 or more years of Ohio contributing service, the first 30 years will be calculated at 2.5 percent instead of 2.2 percent. Under the “money-purchase benefit” calculation, a member’s lifetime contributions plus interest at specified rates are matched by an equal amount from other STRS Ohio funds. This total is then divided by an actuarially determined annuity factor to determine the maximum annual retirement allowance.

DC Plan Benefits – Benefits are established under Sections 3307.80 to 3307.89 of the Revised Code. For members who select the DC Plan, all member contributions and employer contributions at a rate of 10.5 percent are placed in an investment account. The member determines how to allocate the member and employer money among various investment choices. 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. Employer contributions into members’ accounts are vested after the first anniversary of the first day of paid service. 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.

Combined Plan Benefits – Member contributions are allocated by the member, and employer contributions are used to fund a defined benefit payment. A member’s defined benefit is determined by multiplying 1 percent of the member’s final average salary by the member’s years of service credit. The defined benefit portion of the Combined Plan payment is payable to a member on or after age 60. The defined contribution portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50.

A retiree of STRS Ohio or another Ohio public retirement system is eligible for reemployment as a teacher following the elapse of two months from the date of retirement. Contributions are made by the reemployed member and employer during the reemployment. Upon termination of reemployment or age 65, whichever comes later, the retiree is eligible for an annuity benefit or equivalent lump-sum payment in addition to the original retirement allowance. A reemployed retiree may alternatively receive a refund of only member contributions with interest before age 65, once employment is terminated.

Benefits are increased annually by 3 percent of the original base amount for DB Plan participants.

The DB and Combined Plans offer access to health care coverage to eligible retirees who participated in the plans and their eligible dependents. Coverage under the current program includes hospitalization, physicians’ fees, prescription drugs and partial reimbursement of monthly Medicare Part B premiums. By Ohio law, health care benefits are not guaranteed.

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. A death benefit of \$1,000 is payable to the beneficiary of each deceased retired member who participated in the DB Plan. Death benefit coverage of up to \$2,000 can be purchased by participants in the DB, DC or Combined Plans. Various other benefits are available to members’ beneficiaries.

ScholARTS Preparatory and Career Center for Children

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2011

Note 7 - Defined Benefits Pension Plan (Continued)

Chapter 3307 of the Revised Code provides statutory authority for member and employer contributions. 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.

The School's required contributions to STRS Ohio for the fiscal years ended June 30, 2011, 2010, and 2009 were \$99,075, \$51,682, and \$52,750, respectively; 92 percent has been contributed for fiscal year 2011 and 100 percent for fiscal years 2010 and 2009.

STRS Ohio issues a stand-alone financial report. Additional information or copies of STRS Ohio's 2011 Comprehensive Annual Financial Report can be requested by writing to STRS Ohio, 275 E. Board St., Columbus, Ohio 43215-3771, by calling toll-free 1-888-227-7877, or by visiting the STRS Ohio website at www.strsoh.org.

Note 8 - Postemployment Benefits

A. School Employees Retirement System

Postemployment Benefits

In addition to a cost-sharing multiple-employer defined benefit pension plan, the School Employees Retirement System of Ohio (SERS) administers two postemployment benefit plans.

Medicare Part B Plan

The Medicare Part B plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries as set forth in Ohio Revised Code (ORC) 3309.69. Qualified benefit recipients who pay Medicare Part B premiums may apply for and receive a monthly reimbursement from SERS. The reimbursement amount is limited by statute to the lesser of the January 1, 1999 Medicare Part B premium or the current premium. The Medicare Part B monthly premium for calendar year 2011 was \$96.40 for most participants, but could be as high as \$369.10 per month depending on their income. SERS' reimbursement to retirees was \$45.50.

The Retirement Board, acting with the advice of the actuary, allocates a portion of the current employer contribution rate to the Medicare B Fund. For fiscal year 2011, the actuarially required allocation is 0.76 percent. The School's contributions for the fiscal years ended June 30, 2011, 2010 and 2009 were \$4,669, \$272, and \$2,153, respectively, which equaled the required contributions each year.

Health Care Plan

ORC 3309.375 and 3309.69 permit SERS to offer health care benefits to eligible retirees and beneficiaries. SERS' Retirement Board reserves the right to change or discontinue any health plan or program. SERS offers several types of health plans from various vendors, including HMOs, PPOs, Medicare Advantage, and traditional indemnity plans. A prescription drug program is also available to those who elect health coverage. SERS employs two third-party administrators and a pharmacy benefit manager to manage the self-insurance and prescription drug plans, respectively.

The ORC provides the statutory authority to fund SERS' postemployment benefits through employer contributions. Active members do not make contributions to the postemployment benefit plans.

ScholARTS Preparatory and Career Center for Children

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2011

Note 8 - Postemployment Benefits (Continued)

The Health Care Fund was established under, and is administered in accordance with Internal Revenue Code Section 105(e). Each year after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer 14 percent contribution to the Health Care Fund. For the year ended June 30, 2011, the health care allocation is 1.43 percent. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. State law provides that no employer shall pay a health care surcharge of greater than 2 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the total statewide SERS-covered payroll for the health care surcharge. For fiscal year 2011, the minimum compensation level was established at \$35,800. The surcharge, added to the unallocated portion of the 14 percent employer contribution rate is the total amount assigned to the Health Care Fund. The School's contributions assigned to health care for the years ended June 30, 2011, 2010, and 2009 were \$10,820, \$161, and \$18,322, respectively.

The SERS Retirement Board establishes the rules for the premiums paid by the retirees for health care coverage for themselves and their dependents or for their surviving beneficiaries. Premiums vary depending on the plan selected, qualified years of services, Medicare eligibility, and retirement status.

The financial reports of SERS' Health Care and Medicare B plans are included in its Comprehensive Annual Financial Report. The report can be obtained on SERS' website at www.ohsers.org under Employers/Audit Resources.

B. State Teachers Retirement System

Plan Description

STRS Ohio administers a pension plan that is comprised of: a Defined Benefit Plan; a self-directed Defined Contribution Plan, and a Combined Plan that is a hybrid of the Defined Benefit Plan and the Defined Contribution Plan.

Ohio law authorizes STRS Ohio to offer a cost-sharing, multiple-employer health care plan. STRS Ohio provides access to health care coverage to eligible retirees who participated in the Defined Benefit or Combined Plans. Coverage under the current program includes hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare Part B premiums.

Pursuant to Chapter 3307 of the Revised Code, the Retirement Board has discretionary authority over how much, if any, of the associated health care costs will be absorbed by STRS Ohio. All benefit recipients, for the most recent year, pay a portion of the health care costs in the form of a monthly premium.

STRS Ohio issues a stand-alone financial report. Interested parties can view the most recent Comprehensive Annual Financial Report by visiting www.strsoh.org or by requesting a copy by calling toll-free 1-88-227-7877.

Funding Policy

Under Ohio law, funding for post-employment health care may be deducted from employer contributions. Of the 14 percent employer contribution rate, 1 percent of covered payroll was allocated to post-employment health care for the fiscal years ended June 30, 2011, 2010, and 2009. The 14 percent employer contribution rate is the maximum rate established under Ohio law. The School's contributions for health care for the fiscal years ended June 30, 2011, 2010, and 2009 were \$7,621, \$3,976, and \$3,768, respectively; 92 percent has been contributed for fiscal year 2011 and 100 percent for fiscal years 2010 and 2009.

ScholARTS Preparatory and Career Center for Children

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2011

Note 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).

Note 10 - Operating Leases

Facility

On June 6, 2010, the School entered into an operating lease for the period July 1, 2010 to June 30, 2011 with CSPS – Columbus, LLC for use of the School’s facility. Payments for operating leases totaled \$98,000 for the fiscal year ended June 30, 2011. For the 2012 school year, the School moved into another facility.

Copier

In July 2010, the School entered into a lease with Blue Technologies for a copier for a term of 60 months and an monthly payment of \$180. The School’s management performed an analysis of the terms of the copier and determined it did not meet the criteria of a capital lease.

Note 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. At June 30, 2010, the balance on the line of credit was \$72,500. During fiscal year 2011, the School made draws totaling \$42,227 and repayments totaling \$67,500 on the line of credit, for an ending balance of \$47,227.

Note 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 of Dayton, Inc., the current Sponsor. As part of this contract, the Sponsor is entitled to a maximum of 3 percent of all revenues. The total amount paid for fiscal year 2011 was \$86,629.

B. Treasurer’s Consulting 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 an outside consultant for fiscal services including school treasurer services, payroll services, and capital asset services. Total payments to this consultant were \$34,200 for the fiscal year ended June 30, 2011.

ScholARTS Preparatory and Career Center for Children

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011*

Note 12 – Contracts (Continued)

C. Placement Contract

The School entered into a placement contract with the 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 \$1,558,622.

D. Local Education Agency 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 to 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 professionals 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 2011 was \$511,103.

Note 13 – Contingencies

A. 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 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.

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 2011 which resulted in an amount due to the School of \$13,614, which has been recorded as an intergovernmental receivable within the financial statements.

Note 14 - Other Purchased Services

During the fiscal year ended June 30, 2011, other purchased services rendered by various vendors were as follows:

Professional and technical services	\$3,223,452
Property services	247,309
Transportation	700
Contracted craft or trade services	19,035
Meeting and travel	12,987
Communications	5,809
Total	<u>\$3,509,292</u>

ScholARTS Preparatory and Career Center for Children

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2011

Note 15 - Management Plan

The School is having difficulty meeting operational expenses. As of June 30, 2011, the School had a net asset balance of (\$217,517) and a carrying amount of all School deposits were \$89,580. The School had a net gain of \$4,991 during fiscal year 2011. The School's fund balance at April 30, 2012 was \$54,835.

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 2011 and will continue to be monitored in fiscal year 2012-14.

- The Board will continue to meet bi-monthly and add special meetings as necessary in order to review and revise the budget. The treasurer is required to attend all Board meetings.
- 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 2011 ADM) by school year (SY) 2014. The school improvement plan and other projects and advertising have been planned and are underway in order to achieve this goal.
- 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.

ScholARTS Preparatory and Career Center for Children

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2011

Note 15 - Management Plan (Continued)

- A finance professional with experience in 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 (2012-2014) 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.

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

**SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2011**

FEDERAL GRANTOR <i>Pass Through Grantor</i> Program Title	Federal CFDA Number	Receipts	Expenditures
<u>United States Department of Agriculture</u> <i>Passed Through Ohio Department of Education</i>			
Nutrition Cluster:			
Federal School Breakfast Program	10.553	\$ 31,242	\$ 31,242
National School Lunch Program	10.555	47,636	47,636
Total U.S. Department of Agriculture-Nutrition Cluster		<u>78,878</u>	<u>78,878</u>
<u>United States Department of Education</u> <i>Passed Through Ohio Department of Education</i>			
Title I Grants to Local Educational Agencies	84.010	123,982	102,378
Total Title I		<u>123,982</u>	<u>102,378</u>
Special Education Grants to States (IDEA Part B)	84.027	23,682	23,682
Total Special Education		<u>23,682</u>	<u>23,682</u>
ARRA - School Improvement Grants	84.388	450,000	488,950
Education Jobs Fund	84.410	175,658	175,658
Title II-D Technology Literacy Challenge	84.318	413	413
Title IIA - Improving Teacher Quality State Grants	84.367	4,372	4,372
ARRA - Race To The Top	84.395	6,000	6,500
ARRA - State Fiscal Stabilization Fund Education State Grant	84.394	263,592	263,592
Total United States Department of Education		<u>1,047,699</u>	<u>1,065,545</u>
TOTAL FEDERAL AWARDS		<u>\$ 1,126,577</u>	<u>\$ 1,144,423</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, 2011**

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
907 East Lexington Avenue
Columbus, Ohio 43209

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, 2011, and have issued our report thereon dated May 14, 2012, wherein we noted the School is experiencing certain financial difficulties. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the School's internal control over financial reporting as a basis for designing our audit procedures for 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. Therefore, we cannot assure that we have identified all deficiencies, significant deficiencies or material weaknesses. However, as described in the accompanying schedule of findings we identified a certain deficiency in internal control over financial reporting, that we consider a material weakness.

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 a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and timely corrected. We consider finding 2011-01 described in the accompanying schedule of findings to be a material weakness.

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*.

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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

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

We did note certain matters not requiring inclusion in this report that we reported to the School's management in a separate letter dated May 14, 2012.

We intend this report solely for the information and use of management, 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.



Dave Yost
Auditor of State

May 14, 2012



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
907 East Lexington Avenue
Columbus, Ohio 43209

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 directly and materially affect each of the ScholARTS Preparatory and Career Center for Children's major federal programs for the year ended June 30, 2011. 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 opine on the School's compliance based on our audit.

Our compliance audit followed 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*. These 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 these 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 these 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, 2011. 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 2011-02 through 2011-04.

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 the requirements that could directly and materially affect a major federal program, to determine our auditing procedures for the purpose of expressing our opinion 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 Government'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 was not designed to 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 considered to be significant deficiencies, described in the accompanying schedule of findings as items 2011-02 and 2011-03. 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, 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

May 14, 2012

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

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
JUNE 30, 2011**

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)?	Yes
<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# 84.394 ARRA - State Fiscal Stabilization Fund CFDA# 84.388 ARRA - School Improvement
<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**

FINDING NUMBER 2011-01

Material Weakness - Financial Statement Presentation

Sound financial reporting is essential to ensure the information provided to the readers of the financial statements is complete and accurate.

The School did not record \$280,808 in accounts payable and an audit adjustment was required.

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

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
JUNE 30, 2011
(Continued)**

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

FINDING NUMBER 2011-01 - (Continued)

Material Weakness - Financial Statement Presentation (Continued)

The School posted the adjustment to their accounting records and financial statements.ts.

Policies and procedures should be adopted that include a final review of the financial statements and note disclosures to identify and correct errors and omissions. The Board of Directors should review the draft financial report before it's is submitted to the Auditor of State Office.

Officials' Response: The School has contracted with a new treasurer to ensure these errors do not occur in the future.

3. FINDINGS FOR FEDERAL AWARDS

1. Separate Accountability

Finding Number	2011-02
CFDA Title and Number	CFDA# 84.394 ARRA - State Fiscal Stabilization Fund
Federal Award Number / Year	2011
Federal Agency	U.S. Department of Education
Pass-Through Agency	Ohio Department of Education

Noncompliance/Significant Deficiency

2 CFR section 176.210 provides that recipients agree to maintain records that identify adequately the source and application of American Recovery and Reinvestment Act (ARRA) awards and separately identify to each subrecipient, and document at the time of the subaward and disbursement of funds, the Federal award, 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 (SFSF) ARRA disbursements. The funds were receipted into the School's SFSF Fund but disbursements were accounted for 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.

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

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
JUNE 30, 2011
(Continued)**

3. FINDINGS FOR FEDERAL AWARDS - (Continued)

1. Separate Accountability (Continued)

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: The School has contracted with a new treasurer for fiscal year 2013, which begins July 1, 2012. The School CEO will ensure the Fiscal Clerk monitors and track funds to ensure the treasurer has established required funds and that all related activity is posted to the correct fund.

2. Final Expenditure Report

Finding Number	2011-03
CFDA Title and Number	CFDA# 84.388 ARRA – School Improvement
Federal Award Number / Year	2011
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 report was due September 30, 2012.

The Academy did not file a final expenditure report on the ODE's CCIP website for the major federal program School Improvement Grant until November 22, 2011.

Failure to submit the report by the due date 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.

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

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
JUNE 30, 2011
(Continued)**

3. FINDINGS FOR FEDERAL AWARDS - (Continued)

2. Final Expenditure Report (Continued)

Official’s Response and Corrective Action Plan: The School has contracted with a new treasurer for fiscal year 2013, which begins July 1, 2012. The School CEO will work with the new treasurer to ensure final expenditure reports are filed by the required date.

3. Timely Filing of A-133 Reporting Package

Finding Number	2011-04
CFDA Title and Number	CFDA# 84.394 ARRA - State Fiscal Stabilization Fund CFDA# 84.388 ARRA – School Improvement
Federal Award Number / Year	2011
Federal Agency	U.S. Department of Education
Pass-Through Agency	Ohio Department of Education

Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, Section .200(b) provides that a non-federal entity that expends \$500,000 or more in a year in federal awards shall have a single audit conducted as discussed in the Circular. Section .105 defines such entities as “auditees”. Section .300(a) states, an auditee shall “Identify, in its accounts, all Federal awards received and expended and the Federal programs under which they were received. Federal programs and award identification shall include, as applicable, the Catalog of Federal Domestic Assistance (CFDA) title and number, award number and year, name of the Federal agency, and name of the pass-through entity.”

Section .300(e) further states, an auditee shall “Ensure that the audits required by this part are properly performed and submitted when due.” Section .320(a) provides that single audits shall be completed and a reporting package submitted to the federal clearinghouse designated by OMB, within the earlier of 30 days after receipt of the auditor’s report(s), or nine months after the end of the audit period, unless a longer period is agreed to in advance by the cognizant or oversight agency for audit.

The School expended in excess of \$500,000 in federal awards during the fiscal year ended June 30, 2011, however, it did not ensure that a single audit was conducted within the time period specified by OMB Circular A-133 Section .320a). Further, no extension was grant and therefore the School failed to meet the filing deadline.

We recommend the School develop procedures to ensure that a single audit is conducted for any fiscal year in which the \$500,000 expenditure threshold is exceeded. If necessary the School's Director/CEO should develop procedures to obtain an extension for the filing deadline for the submission of their A-133 reporting package.

Official’s Response and Corrective Action Plan: The School has contracted with a new treasurer for fiscal year 2013, which begins July 1, 2012. The School CEO will work with the new treasurer to ensure the A-133 reporting package is filed by the required date.

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

**SCHEDULE OF PRIOR AUDIT FINDINGS
OMB CIRCULAR A -133 § .315 (b)
JUNE 30, 2011**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2010-01	Failure to separately account for State Fiscal Stabilization Fund ARRA monies.	No	Reissued - Finding Number 2011-02
2010-02	Failure to file final expenditure report within 90 days of the end of the project period.	No	Reissued – Finding Number 2011-03

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Dave Yost • Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT ON APPLYING AGREED-UPON PROCEDURES

ScholARTS Preparatory and Career Center for Children Board
Franklin County
907 East Lexington Avenue
Columbus, Ohio 43209

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 whether ScholARTS Preparatory and Career Center for Children, Franklin County, Ohio, (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. In our report dated April 22, 2011, we noted the Board adopted an anti-harassment policy on September 30, 2007. However, this policy did not include all matters required by Ohio Rev. Code 3313.666.
2. We inquired with the Board's management regarding the aforementioned policy. They stated they have not amended the September 30, 2007 policy. Therefore, the policy still lacks the following required by Ohio Rev. Code Section 3313.666.
 - (1) A definition of harassment, intimidation, or bullying that includes the definition in division (A) of Ohio Rev. Code Section 3313.666, as amended by House Bill 19 of the 128th General Assembly;
 - (2) A procedure for documenting any prohibited incident that is reported;
 - (3) A strategy for protecting a victim from additional harassment, intimidation, or bullying, and from retaliation following a report;
 - (4) 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;

- (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.
- (6) 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

May 14, 2012



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
JUNE 12, 2012**