

**PAR EXCELLENCE ACADEMY
(A COMPONENT UNIT OF NEWARK CITY SCHOOL DISTRICT)
LICKING COUNTY, OHIO**

**BASIC FINANCIAL STATEMENTS
For The Fiscal Year Ended June 30, 2012**

Par Excellence Academy
(A Component Unit of Newark City School District)
LICKING COUNTY, OHIO

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INDEPENDENT ACCOUNTANTS' REPORT

Par Excellence Academy
Licking County
96 Malcolm Street
Newark, OH 43055

To the Board of Directors:

We have audited the accompanying basic financial statements of the Par Excellence Academy, Licking County, (the Academy), a component unit of the Newark City School District, as of and for the year ended June 30, 2012, as listed in the table of contents. These financial statements are the responsibility of the Academy's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in 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 financial position of Par Excellence Academy, as of June 30, 2012, 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 17, 2012, on our consideration of the Academy's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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.



Kennedy Cottrell Richards LLC
December 17, 2012

**PAR EXCELLENCE ACADEMY
(A COMPONENT UNIT OF NEWARK CITY SCHOOL DISTRICT)
LICKING COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2012
(UNAUDITED)**

The management's discussion and analysis of the Par Excellence Academy's (the "Academy") financial performance provides an overall review of the Academy's financial activities for the year ended June 30, 2012. The intent of this discussion and analysis is to look at the Academy's financial performance as a whole; readers should also review the notes to the basic financial statements and financial statements to enhance their understanding of the Academy's financial performance.

Financial Highlights

Key financial highlights for 2012 are as follows:

- In total, net assets were \$604,641 at June 30, 2012.
- The Academy had operating revenues of \$979,520, operating expenses of \$1,004,066, non-operating revenues of \$175,106 and non-operating expenses of \$5,990 for fiscal year 2012. Total change in net assets for the fiscal year was an increase of \$144,570.

Using the Basic Financial Statements

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so that the reader can understand the Academy's financial activities. The statement of net assets and statement of revenues, expenses and changes in net assets provide information about the activities of the Academy, including all short-term and long-term financial resources and obligations.

Reporting the Academy's Financial Activities

These documents look at all financial transactions and ask the question, "How did we do financially during 2012?" The statement of net assets and statement of revenues, expenses and changes in net assets answer this question. These statements include all assets, liabilities, revenues and expenses using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting will take into account all of the current year's revenues and expenses regardless of when cash is received or paid.

These two statements report the Academy's net assets and changes in those assets. This change in net assets is important because it tells the reader that, for the Academy as a whole, the financial position of the Academy has improved or diminished. The causes of this change may be the result of many factors, some financial, some not. These statements can be found on pages 7 and 8 of this report.

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

**PAR EXCELLENCE ACADEMY
(A COMPONENT UNIT OF NEWARK CITY SCHOOL DISTRICT)
LICKING COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2012
(UNAUDITED)

The table below provides a summary of the Academy's net assets for fiscal year 2012 and 2011.

	2012	2011
<u>Assets</u>		
Current assets	\$ 573,404	\$ 538,414
Capital assets, net	173,013	35,539
Total assets	746,417	573,953
<u>Liabilities</u>		
Current liabilities	120,361	113,882
Non-current liabilities	21,415	-
Total liabilities	141,776	113,882
<u>Net Assets</u>		
Invested in capital assets, net of related debt	122,109	35,539
Restricted	2,071	59,300
Unrestricted	480,461	365,232
Total net assets	\$ 604,641	\$ 460,071

Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2012, the Academy's net assets totaled \$604,641.

At year-end, capital assets represented 23.19% of total assets. Capital assets consisted of land, buildings, computers and other equipment. Capital assets, net of related debt to acquire the assets at June 30, 2012, were \$122,109. These capital assets are used to provide services to the students and are not available for future spending. Although the Academy's investment in capital assets is reported net of related debt, the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities.

A portion of the Academy's net assets, \$2,071, represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net assets of \$480,461 may be used to meet the Academy's ongoing obligations to students and creditors.

**PAR EXCELLENCE ACADEMY
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LICKING COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2012
(UNAUDITED)

The table below shows the changes in net assets for fiscal year 2012 and 2011.

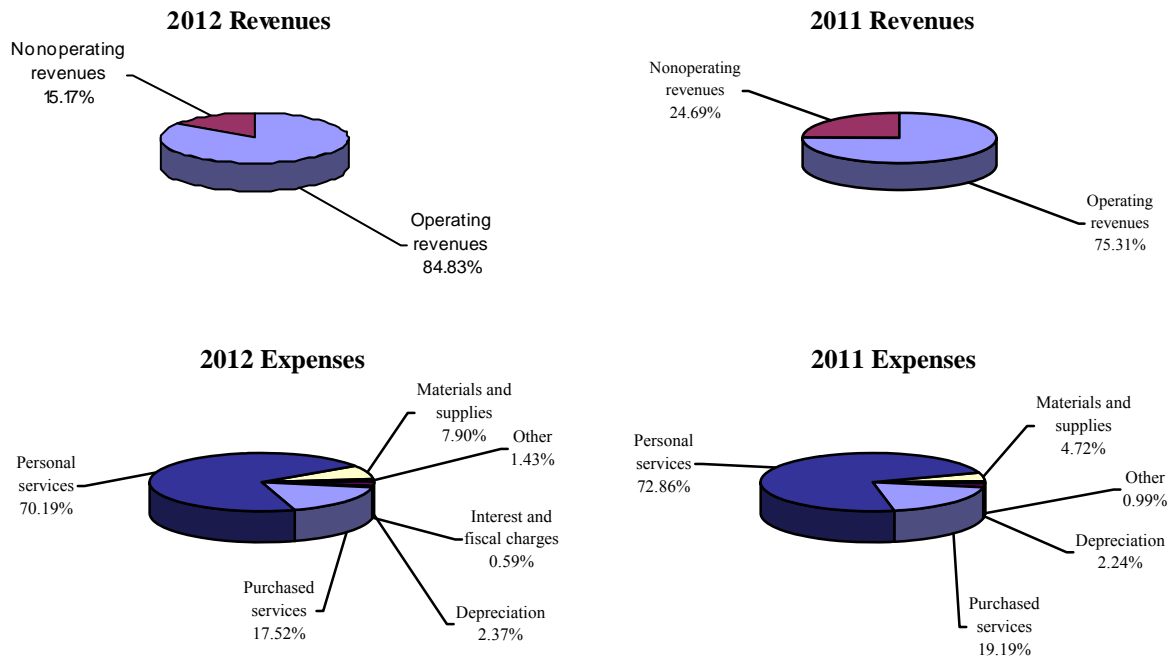
	Change in Net Assets	
	<u>2012</u>	<u>2011</u>
<u>Operating Revenues:</u>		
State foundation	\$ 979,520	\$ 816,542
Total operating revenue	<u>979,520</u>	<u>816,542</u>
<u>Operating Expenses:</u>		
Personal services	708,963	719,042
Purchased services	176,932	189,410
Materials and supplies	79,783	46,552
Other	14,447	9,725
Depreciation	<u>23,941</u>	<u>22,100</u>
Total operating expenses	<u>1,004,066</u>	<u>986,829</u>
<u>Non-operating Revenues (Expenses):</u>		
Grants and subsidies	92,648	249,959
Interest revenue	260	-
Miscellaneous	28,198	14,265
Interest and fiscal charges	(5,990)	-
Contributions and donations	<u>54,000</u>	<u>3,500</u>
Total non-operating revenues (expenses)	<u>169,116</u>	<u>267,724</u>
Change in net assets	144,570	97,437
Net assets at beginning of year	<u>460,071</u>	<u>362,634</u>
Net assets at end of year	<u>\$ 604,641</u>	<u>\$ 460,071</u>

The Academy's foundation revenue increased \$162,978, or 19.96%, from fiscal year 2011. This increase is primarily due to the change in funding from fiscal stabilization (federal grant) in 2011 to foundation in 2012 and an increase in special education funding in 2012 due to the number of student's in IEP's. Operating expenses increased \$17,237, or 1.75%, primarily due to increases in the area of materials and supplies. Grants and subsidies decreased \$157,311, or 62.93%, due to a decrease in Federal grant funding during fiscal year 2012. Contributions and donations increased primarily due to a \$50,000 donation in the purchase the Maholm Elementary building. The Academy also had non-operating expenses of \$5,990 during fiscal year 2012 due to interest and fiscal charges from a loan received to finance the purchase of the Maholm Elementary building.

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**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2012
(UNAUDITED)**

The charts below illustrate the revenues and expenses for the Academy during fiscal 2012 and 2011.



Capital Assets

At June 30, 2012, the Academy had \$173,013 (net of accumulated depreciation) invested in land, buildings, computers and equipment. See Note 7 to the basic financial statements for more detail on capital assets.

Debt Administration

At June 30, 2012, the Academy had \$50,904 in a loan payable, \$29,489 is due within one year and \$21,415 is due in greater than one year. See Note 8 to the basic financial statements for more detail on the Academy's outstanding debt.

Current Financial Related Activities

The Academy is sponsored by Newark City School District. The Academy is reliant upon State Foundation monies and State and Federal Grants to offer quality educational services to students. In order to continually provide learning opportunities to the Academy's students, the Academy will apply resources to best meet the needs of its students. It is the intent of the Academy to apply for other State and Federal funds that are made available to finance its operations.

Contacting the Academy's Financial Management

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

BASIC
FINANCIAL STATEMENTS

**PAR EXCELLENCE ACADEMY
(A COMPONENT UNIT OF NEWARK CITY SCHOOL DISTRICT)
LICKING COUNTY, OHIO**

STATEMENT OF NET ASSETS
JUNE 30, 2012

Assets:	
Current assets:	
Cash and cash equivalents	\$ 559,654
Receivables:	
Accounts	1,169
Intergovernmental.	12,581
	573,404
Noncurrent assets:	
Land.	10,000
Depreciable capital assets, net	163,013
	173,013
Total current assets	573,404
Total non-current assets.	173,013
Total assets.	746,417
 Liabilities:	
Current liabilities:	
Accounts payable.	7,392
Accrued wages and benefits	65,688
Compensated absences.	1,627
Pension obligation payable.	13,800
Intergovernmental payable	2,365
Loan payable	29,489
	120,361
Total current liabilities	120,361
Noncurrent liabilities:	
Loan payable	21,415
	21,415
Total non-current liabilities	21,415
Total liabilities	141,776
 Net assets:	
Invested in capital assets, net of related debt	122,109
Restricted for:	
State funded programs.	481
Federally funded programs	416
Other purposes.	1,174
Unrestricted.	480,461
	480,461
Total net assets	\$ 604,641

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**PAR EXCELLENCE ACADEMY
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LICKING COUNTY, OHIO**

STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET ASSETS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

Operating revenues:	
State Foundation	\$ 979,520
Total operating revenues	<u>979,520</u>
Operating expenses:	
Personal services	708,963
Purchased services.	176,932
Materials and supplies	79,783
Other.	14,447
Depreciation	23,941
Total operating expenses.	<u>1,004,066</u>
Operating loss	<u>(24,546)</u>
Non-operating revenues (expenses):	
Grants and subsidies.	92,648
Interest revenue	260
Miscellaneous	28,198
Interest and fiscal charges	(5,990)
Contributions and donations	54,000
Total non-operating revenues (expenses).	<u>169,116</u>
Change in net assets.	144,570
Net assets at beginning of year	<u>460,071</u>
Net assets at end of year.	<u><u>\$ 604,641</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**PAR EXCELLENCE ACADEMY
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STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

Cash flows from operating activities:

Cash received from state foundation	\$ 979,444
Cash payments for personal services	(728,390)
Cash payments for purchased services	(178,199)
Cash payments for materials and supplies	(77,642)
Cash payments for other expenses	(14,622)
Net cash used in operating activities	(19,409)

Cash flows from noncapital financing activities:

Cash received from grants and subsidies	158,603
Cash received contributions and donations	54,000
Cash received from miscellaneous receipts	27,044
Net cash provided by noncapital financing activities	239,647

Cash flows from capital and related financing activities:

Proceeds of loan	137,000
Principal paid on loan	(86,096)
Interest and fiscal charges	(5,990)
Acquisition of capital assets	(150,697)
Net cash used in capital and related financing activities	(105,783)

Cash flows from investing activities:

Interest received	260
Net cash provided by investing activities	260

Net increase in cash and cash equivalents

114,715

Cash and cash equivalents at beginning of year

444,939

Cash and cash equivalents at end of year

\$ 559,654

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

Operating loss	\$ (24,546)
Adjustments:	
Depreciation	23,941
Changes in assets and liabilities:	
Increase in intergovernmental receivable	(76)
Decrease in accounts payable	(1,229)
Decrease in accrued wages and benefits	(7,271)
Decrease in intergovernmental payable	(293)
Decrease in compensated absences payable	(4,947)
Decrease in pension obligation payable	(4,988)
Net cash used in operating activities	\$ (19,409)

Non-cash transactions:

The Academy purchased \$5,603 and \$1,321 in capital assets on account at June 30, 2011 and June 30, 2012, respectively. During fiscal 2012, the Academy purchased \$15,000 in capital assets using a downpayment deposit made in fiscal year 2011.

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**PAR EXCELLENCE ACADEMY
(A COMPONENT UNIT OF NEWARK CITY SCHOOL DISTRICT)
LICKING COUNTY, OHIO**

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

NOTE 1 - DESCRIPTION OF THE ACADEMY

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

The Academy was approved for operation under a contract with the Newark City School District (the “Sponsor”) for a period of one academic year for the period of July 1, 2010 through June 30, 2011. This contract was extended for three more academic years for the period July 1, 2011 through June 30, 2014. The Sponsor is responsible for evaluating the performance of the Academy and has the authority to deny renewal of the contract at its expiration or terminate the contract prior to its expiration. During fiscal year 2012, the Academy paid \$29,102 in sponsorship fees to the Newark City School District. The Academy is considered a component unit of the Newark City School District for reporting purposes, in accordance with Governmental Accounting Standards Board (GASB) Statement No. 14, as amended by GASB Statement No. 39.

The Academy operates under the direction of a self-appointed nine-member Board of Trustees. The Board is responsible for carrying out the provisions of the contract, which include, but are not limited to, State-mandated provisions regarding student population, curriculum, academic goals, performance standards, admission standards and qualifications of teachers. The Board controls the Academy’s one instructional/support facility staffed by 8 non-certified staff members and 12 certificated full time teaching personnel who provide services to 148 students.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Basis of Presentation

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

**PAR EXCELLENCE ACADEMY
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LICKING COUNTY, OHIO**

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

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

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

B. Measurement Focus and Basis of Accounting

Enterprise accounting uses a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities are included on the statement of net assets. Operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in net total assets. Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made. The accrual basis of accounting is utilized for reporting purposes. Revenues are recognized when they are earned and expenses are recognized when they are incurred.

C. Budgetary Process

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

D. Cash

All monies received by the Academy are deposited into demand deposit accounts.

E. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consist of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use through external restrictions imposed by creditors, grantors or laws or regulations of other governments. Amounts restricted for other purposes include amounts restricted for school support and other local sources.

The Academy applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

F. Intergovernmental Revenue

The Academy currently participates in the State Foundation Program, the K12 Connectivity grant, the Ed Jobs Grant, IDEA B grant, the Title I grant, the Title IIA grant, and the Farm to School grant. Revenue from the State Foundation Program is recognized as operating revenue in the accounting period in which all eligibility requirements have been met. Amounts awarded under State Foundation Program for the 2012 school year excluding federal and State grants totaled \$979,520.

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NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

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

Revenues received from the remaining programs are recognized as non-operating revenues in the accompanying financial statements. Grants and entitlements are recognized as non-operating revenues in the accounting period in which all eligibility requirements have been met. Eligibility includes timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted; matching requirements, in which the Academy must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the Academy on a reimbursement basis. State and federal grants revenue for the fiscal year 2012 received was \$92,648.

In addition, the Academy received \$54,000 in local contributions and donations during fiscal year 2012.

G. Estimates

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

H. Compensated Absences

In accordance with the provisions of GASB Statement No. 16, "Accounting for Compensated Absences", a liability for vacation leave is accrued if a) the employees' rights to payment are attributable to services already rendered; and b) it is probable that the employer will compensate the employees for the benefits through paid time off or other means, such as cash payment at termination or retirement. An accrual for earned sick leave is made to the extent that it is probable that the benefits will result in termination (severance) payments. The Academy does not have a policy regarding the payment of unused sick leave for termination (severance) benefits; therefore, a liability is not accrued for unused sick leave at fiscal year-end. The Academy does have a policy that allows employees to carry over or be compensated for unused vacation leave at fiscal year-end; therefore a liability has been recorded for unused vacation leave at fiscal year-end.

See Note 8 for the Academy's liability for compensated absences at fiscal year-end and Note 11 for further detail on the compensated absences policies.

I. Capital Assets and Depreciation

All capital assets are capitalized at cost and updated for additions and reductions during the year. Donated capital assets are recorded at their fair market value on the date donated. The Academy maintains a capitalization threshold of \$50. The Academy does not have any infrastructure. Improvements are capitalized. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized.

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NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

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

All capital assets, except land, are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

<u>Description</u>	<u>Estimated Lives</u>
Buildings	30 years
Equipment	5 - 20 years

NOTE 3 - CHANGE IN ACCOUNTING PRINCIPLES

For fiscal year 2012, the Academy has implemented GASB Statement No. 57, "OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans", and GASB Statement No. 64, "Derivative Instruments: Application of Hedge Accounting Termination Provisions - an Amendment of GASB Statement No. 53".

GASB Statement No. 57 addresses issues related to the use of the alternative measurement method and the frequency and timing of measurements by employers that participate in agent multiple-employer other postemployment benefit (OPEB) plans. The implementation of GASB Statement No. 57 did not have an effect on the financial statements of the Academy.

GASB Statement No. 64 clarifies the circumstances in which a hedge accounting should continue when a swap counterparty, or a swap counterparty's credit support provider, is replaced. The implementation of GASB Statement No. 64 did not have an effect on the financial statements of the Academy.

NOTE 4 - DEPOSITS

At June 30, 2012, the carrying amount of all Academy deposits was \$559,354. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2012, \$272,051 of the Academy's bank balance of \$572,415 was exposed to custodial risk as discussed below, while \$300,364 was covered by the Federal Deposit Insurance Corporation (FDIC). In addition, the Academy had \$300 in cash on hand

Custodial credit risk is the risk that, in the event of bank failure, the Academy's deposits may not be returned. All deposits are collateralized with eligible securities in amounts equal to at least 105% of the carrying value of the deposits. Such collateral, as permitted by the Ohio Revised Code, is held in single financial institution collateral pools at Federal Reserve Banks, or at member banks of the federal reserve system, in the name of the respective depository bank and pledged as a pool of collateral against all of the public deposits it holds or as specific collateral held at the Federal Reserve Bank in the name of the Academy. The Academy has no deposit policy for custodial credit risk beyond the requirements of State statute. Although the securities were held by the pledging institutions' trust department and all statutory requirements for the deposit of money had been followed, noncompliance with federal requirements could potentially subject the Academy to a successful claim by the FDIC.

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NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

NOTE 5 - RECEIVABLES

Receivables at June 30, 2012 consisted of accounts (billings for user charged services and student fees) and intergovernmental grants. A summary of the principal items of receivables reported on the statement of net assets follows:

Accounts	\$ 1,169
Intergovernmental	<u>12,581</u>
Total	<u>\$ 13,750</u>

Receivables have been disaggregated on the face of the basic financial statements. All receivables are expected to be collected in the subsequent year.

NOTE 6 - PURCHASED SERVICES

For fiscal year ended June 30, 2012, purchased services expenses were as follows:

Professional services	\$ 78,214
Property rental and services	19,151
Travel, mileage and meetings	3,083
Communications	31,401
Utilities	15,981
Other purchased services	<u>29,102</u>
Total purchased services	<u>\$ 176,932</u>

NOTE 7 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2012, was as follows:

	Balance <u>June 30, 2011</u>	<u>Additions</u>	<u>Disposals</u>	Balance <u>June 30, 2012</u>
<i>Capital assets, not being depreciated:</i>				
Land	\$ -	\$ 10,000	\$ -	\$ 10,000
Non-depreciable capital assets	<u>-</u>	<u>10,000</u>	<u>-</u>	<u>10,000</u>
<i>Capital assets, being depreciated:</i>				
Buildings	-	142,000	-	142,000
Equipment	<u>126,260</u>	<u>9,415</u>	<u>-</u>	<u>135,675</u>
Depreciable capital assets	<u>126,260</u>	<u>151,415</u>	<u>-</u>	<u>277,675</u>
<i>Less: accumulated depreciation:</i>				
Buildings	-	(3,944)	-	(3,944)
Equipment	<u>(90,721)</u>	<u>(19,997)</u>	<u>-</u>	<u>(110,718)</u>
Total accumulated depreciation	<u>(90,721)</u>	<u>(23,941)</u>	<u>-</u>	<u>(114,662)</u>
Governmental activities capital assets, net	<u>\$ 35,539</u>	<u>\$ 137,474</u>	<u>\$ -</u>	<u>\$ 173,013</u>

**PAR EXCELLENCE ACADEMY
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NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

NOTE 8 - LONG-TERM OBLIGATIONS

The Academy's long-term obligations during fiscal year 2012 were as follows:

	<u>Balance</u> <u>June 30, 2011</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>June 30, 2012</u>	<u>Due Within</u> <u>One Year</u>
Loan payable	\$ -	\$ 137,000	\$ (86,096)	\$ 50,904	\$ 29,489
Compensated absences	<u>6,574</u>	<u>1,627</u>	<u>(6,574)</u>	<u>1,627</u>	<u>1,627</u>
Total long-term liabilities	<u>\$ 6,574</u>	<u>\$ 138,627</u>	<u>\$ (92,670)</u>	<u>\$ 52,531</u>	<u>\$ 31,116</u>

Loan payable - On September 2, 2011, the Academy obtained a loan from Park National Bank for the purchase of the Maholm Elementary building (96 Maholm Street, Newark, Ohio) that it had previously leased. The loan bears and interest rate of 5.75% and was originally scheduled to mature on September 2, 2016. During fiscal year 2012, the Academy made additional principal payments on the loan. Based upon the additional principal payments made, the following is a schedule of the estimated future debt service requirements under the loan at June 30, 2012:

<u>Fiscal</u> <u>Year Ended</u>	<u>Principal</u>	<u>Loan Payable</u> <u>Interest</u>	<u>Total</u>
2013	\$ 29,489	\$ 2,167	\$ 31,656
2014	<u>21,415</u>	<u>481</u>	<u>21,896</u>
Total	<u>\$ 50,904</u>	<u>\$ 2,648</u>	<u>\$ 53,552</u>

Compensated absences – represents the balance of earned but unused vacation time at fiscal year- end.

NOTE 9 - PENSION PLANS

A. School Employees Retirement System

Plan Description - The Academy contributes to the School Employees Retirement System (SERS), a cost-sharing, multiple-employer defined benefit pension plan. SERS provides retirement, disability, survivor 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. It is also posted on the SERS' Ohio website, www.ohsers.org, under "Employers/Audit Resources".

**PAR EXCELLENCE ACADEMY
(A COMPONENT UNIT OF NEWARK CITY SCHOOL DISTRICT)
LICKING COUNTY, OHIO**

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

NOTE 9 - PENSION PLANS - (Continued)

Funding Policy - Plan members are required to contribute 10 percent of their annual covered salary and the Academy is required to contribute at an actuarially determined rate. The current Academy rate is 14 percent of annual covered payroll. 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 System. For fiscal year ending June 30, 2012, the allocation to pension and death benefits is 12.70%. The remaining 1.30% of the 14% employer contribution rate is allocated to the Health Care and Medicare B Funds. 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 Academy's required contributions for pension obligations and death benefits to SERS for the fiscal years ended June 30, 2012, 2011 and 2010 were \$18,115, \$18,982 and \$17,717, respectively; 84.34 percent has been contributed for fiscal year 2012 and 100 percent for fiscal years 2011 and 2010.

B. State Teachers Retirement System of Ohio

Plan Description - The Academy 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 website at www.strsoh.org, under "Publications".

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.

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LICKING COUNTY, OHIO**

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

NOTE 9 - PENSION PLANS - (Continued)

Funding Policy - For fiscal year 2012, plan members were required to contribute 10 percent of their annual covered salaries. The Academy was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon 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 Academy's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2012, 2011 and 2010 were \$57,610, \$58,616 and \$54,681, respectively; 100 percent has been contributed for fiscal years 2012, 2011 and 2010. Neither the Academy nor plan members made contributions to the DC or Combined Plans for fiscal year 2012.

NOTE 10 - POSTEMPLOYMENT BENEFITS

A. School Employees Retirement System

Plan Description - The Academy participates in two cost-sharing, multiple employer postemployment benefit plans administered by the School Employees Retirement System (SERS) 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, 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 Medicare Part B Plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries as set forth in Section 3309.69 of the Ohio Revised Code. 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 premium for calendar year 2012 was \$99.90 for most participants, but could be as high as \$319.70 per month depending on their income and the SERS' reimbursement to retirees was \$45.50. 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. It is also posted on the SERS' Ohio website, www.ohsers.org, under "Employers/Audit Resources".

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 105(e). For 2012, 0.55 percent of covered payroll was allocated to health care. 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. Statutes provide that no employer shall pay a health care surcharge greater than 2.0 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the statewide SERS-covered payroll for the health care surcharge. For fiscal year 2012, the actuarially determined amount was \$35,800.

**PAR EXCELLENCE ACADEMY
(A COMPONENT UNIT OF NEWARK CITY SCHOOL DISTRICT)
LICKING COUNTY, OHIO**

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

NOTE 10 - POSTEMPLOYMENT BENEFITS - (Continued)

Active members do not contribute to the postemployment benefit plans. The 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 service, Medicare eligibility and retirement status.

The Academy's contributions for health care (including surcharge) for the fiscal years ended June 30, 2012, 2011 and 2010 were \$2,565, \$4,048 and \$2,719, respectively; 84.34 percent has been contributed for fiscal year 2012 and 100 percent for fiscal years 2011 and 2010.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For fiscal year 2012, this actuarially required allocation was 0.75 percent of covered payroll. The Academy's contributions for Medicare Part B for the fiscal years ended June 30, 2012, 2011, and 2010 were \$1,070, \$1,222 and \$1,054, respectively; 84.34 percent has been contributed for fiscal year 2012 and 100 percent for fiscal years 2011 and 2010.

B. State Teachers Retirement System of Ohio

Plan Description - The Academy contributes to the cost sharing, multiple employer defined benefit Health Plan (the "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, under "Publications" or by calling (888) 227-7877.

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 2012, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. The Academy's contributions for health care for the fiscal years ended June 30, 2012, 2011 and 2010 were \$4,432, \$4,509 and \$4,206, respectively; 100 percent has been contributed for fiscal years 2012, 2011 and 2010.

NOTE 11 - COMPENSATED ABSENCES

Employees accumulate sick leave at a rate of 5 days per year. Unused sick leave may accumulate up to 30 days. Some employees accumulate vacation leave at a rate of up to 14 days per year. Unused vacation leave may accumulate up to a maximum of 20 days. A liability for unused vacation leave at June 30 is recorded on the statement of net assets.

**PAR EXCELLENCE ACADEMY
(A COMPONENT UNIT OF NEWARK CITY SCHOOL DISTRICT)
LICKING COUNTY, OHIO**

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

NOTE 12 - RISK MANAGEMENT

A. Property and Liability

The Academy is exposed to various risks of loss related to torts; theft of damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Academy maintains insurance coverage for its building, theft, general liability, contents liability, employee dishonesty, forgery, and computer equipment. The Academy owns the building and land on which it is located at 96 Maholm Street, Newark, Ohio 43055.

Settled claims have not exceeded commercial coverage in the past three years. There was no significant reduction from the prior year.

B. Workers' Compensation

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

NOTE 13 - CONTINGENCIES

A. Grants and ADM

The Auditor of State is currently performing a statewide review of supporting documentation for student attendance data reported to the Ohio Department of Education. The results of this review are still pending and will be reported separately to the Ohio Department of Education at a later date.

The Academy received financial assistance from federal and State agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. This also encompasses the Auditor of State's ongoing review of student attendance data. However, the effect of any such disallowed claims on the overall financial position of the Academy at June 30, 2012, if applicable, cannot be determined at this time.

B. State Foundation Funding

The Ohio Department of Education (ODE) conducts reviews of enrollment data and full-time equivalency (FTE) calculations made by the schools. These reviews are conducted to ensure the schools are reporting accurate student enrollment data to the State, upon which State foundation funding is calculated. The conclusion of the fiscal year 2012 review resulted in a State Foundation receivable of \$76 at June 30, 2012. This amount will be added to the foundation settlements in fiscal years 2013 and has been recorded as an intergovernmental receivable at June 30, 2012.

C. Litigation

The Academy is not involved in any litigation that, in the opinion of management, would have a material effect on the financial statements.

**PAR EXCELLENCE ACADEMY
(A COMPONENT UNIT OF NEWARK CITY SCHOOL DISTRICT)
LICKING COUNTY, OHIO**

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

NOTE 14 - SERVICE AGREEMENT

The Academy entered into a one-year contract on July 20, 2011 with Licking Area Computer Association (LACA) for certain computer, data processing and application services for the fiscal year ended June 30, 2012. Under this contract, the following terms were agreed upon:

1. LACA shall provide fiscal administration services, including access to financial software through OECN, electronic filing of data, user training, software upgrades, disaster recovery, EMIS compliance procedures and providing staff and resources to support the business process.
2. LACA shall provide student administration systems, including access to the Student Information System (SIS), data archival and retrieval support, help desk support, and preprinted forms need for grade cards, schedule cards, grade scans and transcripts.
3. LACA shall provide EMIS system and services, including access to State EMIS software, interface to SIS and OECN financial software, creation and use of custom user defined reports, and district report card assistance.
4. LACA shall provide library services, including access to INFOhio Library Automation software, INFOhio electronic resource support, and INFOhio compliance procedures.
5. LACA shall provide video distance learning services, including coordinating, developing and delivering local professional development activities, daily management and troubleshooting of video network, technical training, and troubleshooting and coordination of specific video related hardware.
6. The fees for the services provided are based on a base fee plus a fee per student which vary per type of service. The total fee is \$64.24 per student.

For fiscal year 2012, \$3,460 was paid to LACA for services related to the service agreement. To obtain LACA's audited June 30, 2012 financial statements; please contact Mr. Jon Bowers, Executive Director, 195 Union St. Suite C-2, Newark, Ohio 43055.

NOTE 15 – RELATED PARTY TRANSACTION

During fiscal year 2012, the Academy purchased the land and building located at 96 Maholm Street, Newark, Ohio from its Sponsor, the Newark City School District, for \$150,000. The Academy incurred \$2,000 in closing costs related to the transaction. Title to the property transferred from the Sponsor to the Academy in fiscal year 2012.

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

Par Excellence Academy
Licking County
96 Malcolm Street
Newark, OH 43055

To the Board of Directors:

We have audited the financial statements of Par Excellence Academy, Licking County, (the Academy), a component unit of the Newark City School District, as of and for the year ending June 30, 2012, and have issued our report thereon dated December 17, 2012. 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 Academy'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 Academy's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the Academy's internal control over financial reporting.

A *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 Academy'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 Academy's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

Independent Accountants' Report on Internal Control
Over Financial Reporting and on Compliance and
Other Matters Required by *Government Auditing Standards*
Page 2

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

Kennedy Cottrell Richards LLC

Kennedy Cottrell Richards LLC
December 17, 2012

Independent Accountants' Report on Applying Agreed-Upon Procedures

Par Excellence Academy
Licking County
96 Malcolm Street
Newark, OH 43055

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 procedure enumerated below, which was agreed to by the Academy, solely to assist the Academy in evaluating whether Par Excellence Academy (the Academy) has updated its anti-harassment policy in accordance with Ohio Rev. Code Section 3313.666. Management is responsible for complying with this requirement. This agreed-upon procedure engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of this procedure is solely the responsibility of the Academy. Consequently; we make no representation regarding the sufficiency of the procedure described below either for the purpose for which this report has been requested or for any other purpose.

1. We noted the Academy did not amend its anti-harassment policy to include violence within a dating relationship within its definition of harassment, intimidation or bullying.

Ohio Rev. Code Section 3313.666 required the Academy to amend its definition by September 28, 2010.

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 management, the Board of Directors, and the Academy's sponsor and is not intended to be and should not be used by anyone other than these specified parties.



Kennedy Cottrell Richards LLC
December 17, 2012