



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

REGULAR AUDIT

FOR THE YEAR ENDED JUNE 30, 2007



Mary Taylor, CPA
Auditor of State

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

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Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

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

To the Board of Directors:

We have audited the accompanying basic financial statements of the ScholARTS Preparatory and Career Center for Children, Franklin County, Ohio (the School), as of and for the year ended June 30, 2007, as listed in the table of contents. These financial statements are the responsibility of the School's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of ScholARTS Preparatory and Career Center for Children, Franklin County, Ohio, as of June 30, 2007, 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.

The School is experiencing certain financial difficulties. Those difficulties and management's plans are discussed in Note 15.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 19, 2008, 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.

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

A handwritten signature in cursive script that reads "Mary Taylor".

Mary Taylor, CPA
Auditor of State

February 19, 2008

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
UNAUDITED**

Our discussion and analysis of the ScholArts Preparatory and Career Center for Children's (the School) financial performance provides an overall review of the School's financial activities for the fiscal year ended June 30, 2007. 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 statements 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 Standards Board (GASB) in their Statement No. 34 Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Government issued June 1999. Certain comparative information between the current year and the prior year is required to be presented in the MD&A.

Financial Highlights

- Total net assets at fiscal year end 2007 were \$(26,731) compared with \$(78,411) reported in 2006. This represents an increase of 65.9% from the prior year.
- In fiscal year 2007, total revenues increased by \$150,997 and total expenses increased \$103,878 over those reported in the prior year. School enrollment has increased from the prior year resulting in an increase in foundation receipts and intergovernmental subsidies as well as an increase in the expenditures related to providing services to students.
- Total assets for fiscal year 2007 were \$41,187, a 44.1% decrease over the prior year, primarily due to a decrease in intergovernmental receivables at year end.
- Total liabilities for fiscal year 2007 were \$67,918, a 55.3% decrease from the prior year.

Using this Financial Report

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

One of the most important questions asked about the School's finances is, "Is the School better off or worse off as a result of the year's activities?" The Statement of Net Assets and the Statement of Revenues, Expenses and Changes in Net Assets report information about the School as a whole and about its activities in a manner that helps to answer this question. These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting used by private sector corporations. All of the current year's revenues and expenses are taken into consideration regardless of when cash is received or paid.

These two statements report the School's net assets and changes in them. The change in net assets provides the reader a tool to assist in determining whether the School's financial health is improving or deteriorating. The reader will need to consider other nonfinancial factors such as state revenue, student enrollment growth, and facility conditions in arriving at their conclusion regarding the overall health of the School. These two statements can be found on pages 7 and 8 of this report.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
UNAUDITED
(Continued)**

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

A comparative analysis of fiscal year 2007 and 2006 follows:

Net Assets

| | <u>2007</u> | <u>2006</u> |
|-------------------------------|---------------------------|---------------------------|
| Current Assets | \$ 6,100 | \$ 26,699 |
| Security Deposit | 7,917 | 7,917 |
| Capital Assets, Net | <u>27,170</u> | <u>39,109</u> |
| Total Assets | 41,187 | 73,725 |
| | | |
| Current Liabilities | <u>67,918</u> | <u>152,136</u> |
| Total Liabilities | 67,918 | 152,136 |
| | | |
| Net Assets: | | |
| Invested in Capital | | |
| Assets, net of debt | 27,170 | 39,109 |
| Restricted for Other Purposes | | 6,012 |
| Unrestricted | <u>(53,901)</u> | <u>(123,532)</u> |
| Total Net Assets | <u>\$ (26,731)</u> | <u>\$ (78,411)</u> |

At June 30, 2007 Capital Assets represented 65.9% of total assets. Capital assets consisted of furniture and computer equipment. There is no debt related to these assets. Capital assets are used to provide services to the students and are not available for future spending.

Net Assets of the School increased by \$51,680. Current liabilities decreased \$84,218 over the prior year which was mainly due to an overpayment of State foundation monies in 2006 that was paid back in 2007. Total assets decreased by \$32,538. Current assets decreased by \$20,599 which was primarily due to a decrease in intergovernmental receivables at year end.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
UNAUDITED
(Continued)**

Changes in Net Assets

| | 2007 | 2006 |
|-----------------------------|-----------------------|-----------------------|
| Operating Revenues: | | |
| Sales | \$ 122 | \$ 369 |
| Foundation payments | 620,191 | 545,362 |
| Other Operating Revenues | 100 | 8,972 |
| Non-Operating Revenues: | | |
| Investment Earnings | - | 38 |
| State subsidies | 40,405 | 155,130 |
| Federal subsidies | <u>240,343</u> | <u>37,593</u> |
| Total Revenues | <u>901,161</u> | <u>750,164</u> |
| | | |
| Operating Expenses: | | |
| Salaries & Wages | 281,553 | 385,660 |
| Fringe Benefits | 83,013 | 74,069 |
| Purchased Services | 387,877 | 249,798 |
| Materials & Supplies | 74,743 | 3,323 |
| Depreciation | 11,558 | 10,950 |
| Miscellaneous | <u>10,737</u> | <u>21,803</u> |
| Total Expenses | <u>849,481</u> | <u>745,603</u> |
| | | |
| Change in Net Assets | \$ 51,680 | \$ 4,561 |

The School's increase in revenue and expenses is a result of increased participation in various federal grant programs and state foundation payments related to an increase in enrollment. State Foundation payments are the primary support for the School, representing 68.8% of total revenues for fiscal year 2007. Salaries and Purchased Services accounted for 33.1% and 45.7% of total expenses for 2007, respectively.

Capital Assets

The School has \$27,170 invested in capital assets net of depreciation. Significant additions to the School's capital assets for the 2007 fiscal year were the purchase of computer equipment and a recording system for the School. Detailed information regarding capital asset activity is included in the notes to the basic financial statements (Note 5).

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
UNAUDITED
(Continued)**

Current Financial Issues

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

The first 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.

The second challenge facing the School is the future of state funding. On October 4, 2004, a suit was filed in the US District Court, Southern District of Ohio, Western Division, which challenges the funding of charter schools under Equal Protection, Due Process, and claims violation of a right to vote on the bodies administering public schools. The case is pending. The School is unable to determine what effect, if any, this decision will have on future funding from the State.

Contacting the School's Financial Management

This financial report is designed to provide our citizen's, taxpayers, investors and creditors with a general overview of the School's finances and to show the School's accountability for the money it receives. If you have questions about this report or need additional information contact Dr. Cheryl Parchia of the ScholARTS Preparatory and Career Center for Children, PO Box 360895, Columbus, Ohio 43216 or email at dr.ctp@scolarts.org.

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

**STATEMENT OF NET ASSETS
AS OF JUNE 30, 2007**

Assets

Current Assets

| | |
|---------------------------|--------------|
| Cash and Cash Equivalents | \$ 723 |
| Receivable - Federal | 5,377 |
| Total Current Assets | <u>6,100</u> |

Non-Current Assets

| | |
|---|------------------|
| Security deposits | 7,917 |
| Capital assets (Net of Accumulated Depreciation) | <u>27,170</u> |
| Total Assets | <u>\$ 41,187</u> |

Liabilities

Current Liabilities

| | |
|---------------------------|---------------|
| Accounts Payable | \$ 27,647 |
| Accrued Wages & Benefits | 25,286 |
| Intergovernmental Payable | 14,985 |
| Total Current Liabilities | <u>67,918</u> |
| Total Liabilities | <u>67,918</u> |

Net Assets

| | |
|----------------------------|--------------------|
| Invested in Capital Assets | 27,170 |
| Unrestricted | (53,901) |
| Total Net Assets | <u>\$ (26,731)</u> |

The accompanying Notes are an integral part of the Financial Statements

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

**STATEMENT OF REVENUES, EXPENSES,
AND CHANGES IN NET ASSETS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

| | |
|---|--------------------|
| Operating Revenues | |
| Sales | \$ 122 |
| Foundation Payments | 620,191 |
| Other Operating Revenues | 100 |
| Total Operating Revenues | <u>620,413</u> |
| Operating Expenses | |
| Salaries & Wages | 281,553 |
| Fringe Benefits | 83,013 |
| Purchased Services | 387,877 |
| Materials & Supplies | 74,743 |
| Depreciation | 11,558 |
| Miscellaneous | 10,737 |
| Total Operating Expenses | <u>849,481</u> |
| Operating Loss | (229,068) |
| Non-Operating Revenues | |
| State subsidies | 40,405 |
| Federal subsidies | 240,343 |
| Total Non-Operating Revenues and (Expenses) | <u>280,748</u> |
| Net Gain | 51,680 |
| Net Assets Beginning of Year | (78,411) |
| Net Assets End of Year | <u>\$ (26,731)</u> |

The accompanying Notes are an integral part of the Financial Statements

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

**STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

Cash Flows from Operating Activities

| | |
|--|------------------|
| Cash received from sales | \$ 122 |
| Cash received from Foundation Payments | 620,191 |
| Cash received from Other Operating Revenues | 100 |
| Cash payments for personal services | (401,626) |
| Cash payments for contract services | (438,022) |
| Cash payments for supplies and materials | (67,170) |
| Cash payments for Miscellaneous | (10,846) |
| Net Cash Provided By/(Used for) Operating Activities | <u>(297,251)</u> |

Cash Flows from Noncapital Financing Activities

| | |
|---|----------------|
| Cash for loan payment | (1,100) |
| Cash from Federal & State Subsidies | 292,862 |
| Net Cash from Noncapital Financing Activities | <u>291,762</u> |

Cash Flows from Capital and Related Financing Activities

| | |
|--|----------------|
| Payments for Capital Acquisitions | (1,079) |
| Net Cash Used for Capital and Related Financing Activities | <u>(1,079)</u> |

| | |
|--|---------------|
| Net decrease in cash and cash equivalents : | (6,568) |
| Cash and cash equivalents at beginning of year | 7,291 |
| Cash and cash equivalents at end of year | <u>\$ 723</u> |

**Reconciliation of Operating Loss to Net Cash
Provided By (Used for) Operating Activities:**

| | |
|----------------|-----------|
| Operating Loss | (229,068) |
|----------------|-----------|

**Adjustments to Reconcile Operating Loss to Net
Cash Provided by (Used for) Operating Activities:**

| | |
|------------------------------------|-----------------|
| Depreciation | 11,558 |
| Changes in Assets and Liabilities: | |
| Prepaid Items | 1,917 |
| Accounts Payable | 10,795 |
| Accrued Wages and Benefits | (20,124) |
| Intergovernmental payable | (1,533) |
| Ohio Dept. of Education payable | (70,796) |
| Total Adjustments | <u>(68,183)</u> |

| | |
|--|---------------------|
| Net cash provided (used) by operating activities | <u>\$ (297,251)</u> |
|--|---------------------|

The accompanying Notes are an integral part of the Financial Statements

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

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

1. DESCRIPTION OF THE SCHOOL DISTRICT AND REPORTING ENTITY

The ScholArts Preparatory and Career Center for Children (the School) is a nonprofit corporation established pursuant to Ohio Revised 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 necessary 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, 2008. The Sponsor is responsible for evaluating the performance of the School and has the authority to deny renewal of the contract at its expiration or terminate the contract prior to its expiration.

The School operates under the direction of a five member Board of Directors. The Board 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 of Directors controls the School's instructional/support facility staffed by 6 certificated full time teaching personnel, 4 certified part time teaching personnel, and 4 classified staff members who provide services to 92 students.

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 issued on or before November 30, 1989, provided they do not conflict with or contradict GASB pronouncements. 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

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 and decreases in net total assets. The statement of cash flow reflects how the School finances and meets its cash flow needs.

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

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Measurement Focus and Basis of Accounting (Continued)

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 used for reporting purposes. Revenues are recognized when 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 the budgetary provisions set forth in Ohio Revised Code Chapter 5705, unless specifically provided in the School's contract with its 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 and Investments

The School's fiscal agent, Harris Computer Systems, accounts for all monies received by the School. All cash received by the fiscal agent is pooled and maintained in a separate account in the School's name. Monies for the School are maintained in this account or temporarily used to purchase short term investments.

For purposes of the statement of cash flows and for presentation on the balance sheet, investments with a maturity of three months or less at the time they are purchased are considered to be cash equivalents.

E. Prepaid Items

Prepayments represent cash disbursements, which have occurred and are therefore not current expendable resources. These items are reported as fund assets on the Statement of Net Assets, using the allocation method, which amortizes their cost over the periods benefiting from the advance payments.

F. 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.

G. Capital Assets and Depreciation

Capital assets are capitalized at cost and updated for additions and retirements during the year. Donated capital assets are recorded at their fair values as of the dates received. The School maintains a capitalization threshold of \$1,000. The School does not possess any infrastructure. Improvements are capitalized, the cost 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.

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

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

G. Capital Assets and Depreciation (Continued)

All recorded capital assets are depreciated using the straight line method over the following estimated useful lives. Improvements to capital assets are depreciated over the remaining useful life of the related capital assets.

| <u>Assets</u> | <u>Years</u> |
|-----------------------------------|--------------|
| Furniture, Fixtures and Equipment | 5 |
| Computers | 5 |

H. Intergovernmental Revenues

The School currently participates in the State Foundation Program. Revenues received from this program are recognized as operating revenues in the accounting period in which all eligibility requirements are met.

The School also participates in various federal and state grant programs through Ohio Department of Education. The programs the School participated in during fiscal year 2007 included the National School Lunch and Breakfast Program, the State Special Education Program, Title I, Safe and Drug-Free Schools, Enhancing Education through Technology Program, Improving Teacher Quality, and the Innovative Education Program. Grants and entitlements received under these programs are recognized as non-operating revenues in the accounting period in which all eligibility requirements have been met.

Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year use is first permitted, matching requirements, in which the School must provide local resources to be used for a specified purpose, and expenditure requirements, in which resources are provided to the School on a reimbursement basis.

Amounts awarded under the above named programs for the 2007 school year totaled \$900,939.

I. Accrued Liabilities Payable

The School has recognized certain liabilities on its balance sheet relating to expenses, which are due but unpaid as of June 30, 2007, including:

Accrued Wages and Benefits – a liability has been recognized at June 30, 2007 for salary payments made after year-end that were for services rendered in fiscal year 2007.

Intergovernmental Payable – payment for the employer's share of the retirement contribution (\$8,401), worker's compensation (\$258), Medicare (\$367), audit fees (\$3,498), and Ohio Dept of Education FTE adjustment (\$2,461) associated with services rendered during fiscal year 2007, but were not paid until the subsequent fiscal year.

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

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

J. 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, 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 and 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.

K. Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activities of the School. For the School, these revenues are primarily the State Foundation program. Operating expenses are necessary costs incurred to provide the good or service that is the primary activity of the School. Revenues and expenses not meeting this definition are reported as non-operating.

L. Security Deposit

The School entered into a lease for the use of the building for the administration and instruction of the School. Based on the lease agreement, a security deposit was required to be paid at the signing of the agreement. The amount, totaling \$7,917, is held by the lessor (See note 10).

3. DEPOSITS

At June 30, 2007, the carrying amount of all School deposits was \$723. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2007, \$14,195 of the School's bank balance was covered by the Federal Deposit Insurance Corporation and was not exposed to custodial credit risk.

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

The School has no deposit policy for custodial credit risk beyond the requirements of State statute. Ohio law requires that deposits be either insured or be protected by eligible securities pledged to and deposited either with the School or a qualified trustee by the financial institution as security for repayment, or by a collateral pool of eligible securities deposited with a qualified trustee and pledged to secure the repayment of all public monies deposited in the financial institution whose market value at all times shall be at least one hundred five percent of the deposits being secured.

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

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Continued)**

4. INTERGOVERNMENTAL RECEIVABLES

All receivables are considered collectible 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, 2007 consisted of the following federal grants in which all grant requirements had been satisfied: Federal Breakfast and Lunch Reimbursement of \$5,377.

5. CAPITAL ASSETS

A summary of the School's capital assets at June 30, 2007, follows:

| | Balance 6/30/2006 | Additions | Deductions | Balance 6/30/2007 |
|--|----------------------|--------------------|-----------------|----------------------|
| Capital Assets Being Depreciated | | | | |
| Furniture, Fixtures, and Equipment | \$ 53,349 | \$ 1,079 | | \$ 54,428 |
| Computers | 4,822 | | 1,460 | 3,362 |
| Total Capital Assets | | | | |
| Being Depreciated | 58,171 | 1,079 | 1,460 | 57,790 |
| Less Accumulated Depreciation: | | | | |
| Furniture, Fixtures, and Equipment | \$ (18,782) | \$ (10,885) | | \$ (29,667) |
| Computers | (280) | (673) | | (953) |
| Total Accumulated Depreciation | (19,062) | (11,558) | - | (30,620) |
| Capital Assets, Net of Accumulated Depreciation | <u>\$ 39,109</u> | <u>\$ (10,479)</u> | <u>\$ 1,460</u> | <u>\$ 27,170</u> |

6. RISK MANAGEMENT

A. Property and Liability

The School 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. For fiscal year 2007, the School contracted with Western World Insurance Company for property and for general liability insurance. There is a \$250 deductible for both coverages.

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

B. Worker's Compensation

The School pays the State Worker's Compensation System a premium for employee injury coverage. The premium is calculated by multiplying the annual total gross payroll by a factor determined by the State.

7. DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

The School contributes to the School Employees Retirement System of Ohio (SERS), a cost sharing multiple employer public employee retirement system administered by the School Employees Retirement Board. SERS provides basic retirement benefits, disability, survivor, and health care benefits based on eligible service credit to members and beneficiaries. Benefits are established by Chapter 3309 of the Ohio Revised Code.

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

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Continued)**

7. DEFINED BENEFIT PENSION PLANS (Continued)

A. School Employees Retirement System (Continued)

SERS issues a publicly available financial report that includes financial statements and required supplementary information for SERS. The report may be obtained by writing to School Employees Retirement System, 300 East Broad Street, Suite 100 Columbus, Ohio 43215-3476 or by calling (800) 878-5853.

Plan members are required to contribute 10 percent of their annual covered salary and the School is required to contribute at an actuarially determined rate, currently 14%. A portion of the School's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2007, 10.68 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The Academy's required contribution for pension obligations to SERS for the fiscal years ending June 30, 2007, 2006, and 2005 were \$2,291, \$2,251 and \$2,251 respectively. 100% has been contributed for fiscal year 2007, 2006 and 2005. Additionally, the School had a prepaid balance to SERS in the amount of \$16,594 at June 30, 2007, all of which was for pension obligations.

B. State Teachers Retirement System

The School contributes to the State Teachers Retirement System of Ohio (STRS Ohio), a cost sharing multiple employer public employee retirement system administered by the State Teachers Retirement Board. STRS Ohio provides basic retirement benefits, disability, survivor, and health care benefits based on eligible service credit to members and beneficiaries. STRS Ohio issues a stand alone financial report that may be obtained by writing to State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3771, by calling (614) 227-4090, or by visiting the website www.strs.org.

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB Plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on members contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5% of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. DC and Combined Plan members will transfer to the DB plan during their fifth year of membership unless they permanently select the DC or Combined Plan. Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one time irrevocable decision to transfer their account balances from the existing DB Plan into the DC Plan or the Combined Plan. This option expired on December 31, 2001. Benefits are established by Chapter 3307 or 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.

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

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Continued)**

7. DEFINED BENEFIT PENSION PLANS (Continued)

B. State Teachers Retirement System (Continued)

Members in the DC Plan who become disabled are only entitled to their account balance. If a member dies before retirement benefits begin, the members designated beneficiary is entitled to receive the member's account balance.

For the fiscal year ended June 30, 2007, plan members are required to contribute 10 percent of their annual covered salaries. The School was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal year 2006, the portion used to fund pension obligations was also 13 percent. Contribution rates are established by the State Teachers Retirement Board, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The School's required contribution for pension obligations to STRS Ohio for the years ending June 30, 2007, 2006, and 2005 was \$42,753, \$46,062 and \$14,669 respectively. 65.90% has been contributed for fiscal year 2007, and 100% for 2006 and 2005.

8. POSTEMPLOYMENT BENEFITS

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

STRS retirees who participated in the DB or combined plans and their dependents are eligible for health care coverage. The State Teachers Retirement Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. All benefit recipients pay a portion of the health care cost in the form of a monthly premium. By Ohio law, the cost of coverage paid from STRS Ohio funds shall be included in the employer contribution rate. The board currently allocates employer contributions equal to 1% of covered payroll to the Health Care Reserve Fund from which payments for health care benefits are paid. For the School, this amount equaled \$3,054 during fiscal year 2007.

STRS Ohio pays health care benefits from the Health Care Stabilization Fund. At June 30, 2006 (the latest information available) the balance in the Fund was \$3.5 billion. For the year ended June 30, 2006, net health care costs paid by STRS Ohio were \$282,743,000 and eligible benefit recipients totaled 119,184.

For SERS, coverage is made available to service retirees with ten or more fiscal years of qualifying credit, and to disability and survivor benefit recipients. All retirees and beneficiaries are required to pay a portion of their health care premium. The portion is based on years of service, Medicare eligibility, and retirement status.

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

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Continued)**

8. POSTEMPLOYMENT BENEFITS (Continued)

After the allocation for basic benefits, the remainder of the employer's 14% contribution is allocated to providing health care benefits. At June 30, 2007, the healthcare allocation was 3.32 percent of covered payroll, compared to 3.42 percent for fiscal year 2006. In addition, SERS levies a surcharge to fund health care benefits equal to 14% of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2007, the minimum pay has been established as \$35,800. However, the surcharge is capped at two percent of each employer's SERS salaries. For the School, the amount contributed to fund health care benefits, including the surcharge, during the 2007 fiscal year equaled \$543. The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of the projected claims less premium contributions for the next year. Expenses for health care at June 30, 2006 (the latest information available) were \$158,751,207. At June 30, 2006, SERS had net assets available for payment of health care benefits of \$295.6 million. SERS had 59,492 participants eligible to receive benefits.

9. OTHER EMPLOYEE BENEFITS

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

10. OPERATING LEASE

On June 30, 2006, the School entered into an operating lease for the for the period July 1, 2006 to June 30, 2007 with Capital South Community Urban Redevelopment Corporation for the use of the School's facility. Payments to Capital South totaled \$143,617 for the fiscal year ended June 30, 2007.

11. FISCAL AGENT

The sponsorship contract states that the School shall have a designated fiscal officer who shall meet all the 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 into a contract with Ace Charter School Services, a division of Harris Software Corp. for fiscal services including school treasurer services, payroll services, and capital asset services. Total payments made to Harris were \$36,934 for the fiscal year ended June 30, 2007.

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

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Continued)**

12. CONTINGENCIES

A. Grants

The School received financial assistance from federal and state agencies in the form of grants. The disbursement 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. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall position of the School at June 30, 2007.

B. Litigation

A suit was filed in the US District Court, Southern District of Ohio, Western Division on October 6, 2004, which challenges the funding of charter schools under Equal Protection, Due Process and claims violation of a right to vote on the bodies administering public schools. The case is pending. The effect of this suit, if any, on the School is not presently determinable.

C. State Funding

The Ohio Department of Education conducts reviews of enrollment date and 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 funding is calculated. The conclusions of this review for fiscal 2007 resulted in a payable due the Ohio Department of Education at June 30, 2007 of \$2,461.

13. PURCHASED SERVICES EXPENSES

For the year ended June 30, 2007, purchased service expenses were payments for services rendered by various vendors as follows:

| | |
|-------------------------------------|--------------|
| Professional and Technical Services | \$ 203,792 |
| Property Services | 150,504 |
| Travel Mileage/Meeting Expense | 75 |
| Communications | 30,448 |
| Contracted Craft or Trade Services | 2,036 |
| Pupil Transportation | <u>1,022</u> |
| Total Purchased Services | \$387,877 |

14. RELATED PARTY TRANSACTIONS

Dr. Cheryl Parchia, Founder and voluntary CEO of the School, is also president of the board of directors. During fiscal year 2007, Dr. Parchia received no compensation for these duties.

Mellody Parchia, daughter of Dr. Cheryl Parchia, is the Advertising Specialist and Grant administrator of the School. During fiscal year 2007, Ms. Parchia was paid as an independent contractor \$60,000 for serving as Advertising Specialist and \$20,000 for serving as Grant Administrator.

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

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Continued)**

15. MANAGEMENT PLAN

The School is having difficulties meeting operational expenses. As of June 30, 2007, the School had a net asset balance of (\$26,731) and the carrying amount of all School deposits was \$723. On September 16, 2005 the Board also assumed the liabilities of ScholARTS Career Center for Children that included a liability of \$77,231 owed to the Ohio Department of Education for the overpayment of foundation monies. This liability was repaid during fiscal year 2007 and is attributable to the June 30, 2007 net asset balance of (\$26,731).

The Chief Executive Officer (CEO) has prepared the following 10 point management plan to address the School's financial difficulty. The plan will be monitored during fiscal 2008.

- In addition to its bi-monthly meetings the Board will call, as needed, special meetings in order to review and revise the budget.
- The Board will maintain and increase its current enrollment 100% by school year (SY) 2008-9. Multiple projects and advertising have been planned and are underway in order to achieve this goal.
- A certified public accountant, who has experience in charter school fiscal management, has agreed to join the Board in July 2008.
- The Board requires its members to contribute \$5,000 in donations or recruit a minimum of 10 children to the school.
- The Board will prepare a salary schedule and benefits package for new and existing employees that will not exceed 40% of the total budget.
- For SY (2007-2008) the Board has leased a new facility that will not to exceed 20% of the total budget.
- The school plans to pursue additional private sector, state and federal grants according to its eligibility and grant availability in order to generate additional program and human resources for the school.
- The Board plans to hold its first annual fund raiser in SY (2007-2008) and will continue in subsequent years.
- All requisitions and purchase orders will require the approval the CEO and School Administrator.
- The Board will appoint a development advisory committee to assist in its fund raising efforts.



Mary Taylor, CPA

Auditor of State

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

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

To the Board of Directors:

We have audited the 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, 2007, and have issued our report thereon dated February 19, 2008, wherein we noted the school is experiencing 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 expressing our opinion on the financial statements, but not to opine 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 would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a certain deficiency in internal control over financial reporting that we consider a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the School's ability to initiate, authorize, record, process, or report financial data reliably in accordance with its applicable accounting basis, such that there is more than a remote likelihood that the School's internal control will not prevent or detect a more-than-inconsequential financial statement misstatement.

We consider the following deficiency described in the accompanying schedule of findings to be a significant deficiency in internal control over financial reporting: 2007-001.

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

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and accordingly, would not necessarily disclose all significant deficiencies that are also material weaknesses. However, we believe the significant deficiency described above, finding number 2007-001, is also a material weakness.

We also noted certain internal control matters that we reported to the School's management in a separate letter dated February 19, 2008.

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*.

We did note a certain noncompliance or other matter that we reported to the School's management in a separate letter dated February 19, 2008.

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

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



Mary Taylor, CPA
Auditor of State

February 19, 2008

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

**SCHEDULE OF FINDINGS
JUNE 30, 2007**

| |
|--|
| FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS |
|--|

| | |
|-----------------------|-----------------|
| Finding Number | 2007-001 |
|-----------------------|-----------------|

Significant deficiency and material weakness

Service Organization

The School has contracted with ACE Charter School Services (now doing business as Harris School Solutions) for Treasurer and EMIS administration services, including processing accounting transactions on their ACE software, which was developed by ACE and provides a significant accounting function. The School has not established procedures to determine whether the accounting software package has sufficient controls in place and is operating effectively to reduce the risk that financial transactions have not been authorized or completely and accurately processed in accordance with the contract.

We recommend the School assure the completeness and accuracy of their accounting transactions processed by its service organization. Statement of Auditing Standards (SAS) No. 70, as amended prescribes standards for reporting on service organizations. An unqualified Type Two *Report on Policies and Procedures Placed in Operation and Tests of Operating Effectiveness* in accordance with SAS No. 70 should provide the School with reasonable assurance that transactions are completely and accurately processed.

We recommend the School require a Type Two SAS 70 report over the accounting software package developed and utilized by ACE Community School Services. The School should review the SAS 70 report timely. The report should follow American Institute of Certified Public Accountants standards and be performed by a firm registered and in good standing with the Accountancy Board of the respective state. If the service organization refuses to furnish the School with a Type Two SAS 70 report, we recommend the School contract with a service organization that will provide such a report.

Official's Response:

The School was not aware that the ACE Charter School Services used ACE accounting software to process School accounting transactions. The School will adopt the recommendation to require of its new fiscal service provider a Type Two SAS 70 report following AICPA standards by a firm registered and in good standing with the Accountancy Board of Ohio. The Board will pass a resolution requiring this.

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

**SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2007**

| Finding Number | Finding Summary | Fully Corrected? | Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i> |
|----------------|--|------------------|--|
| 2006-001 | Ohio Rev. Code Section 117.38 Annual Report Filing | Yes | N/A |



Mary Taylor, CPA
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
APRIL 17, 2008**