



**Mary Taylor, CPA**  
Auditor of State



EDUCATIONAL ACADEMY AT LINDEN  
FRANKLIN COUNTY

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# Mary Taylor, CPA

Auditor of State

## INDEPENDENT ACCOUNTANTS' REPORT

Educational Academy at Linden  
Franklin County  
1111 Windsor Avenue  
Columbus, Ohio 43211

To the Board of Trustees:

We have audited the accompanying basic financial statements of the Educational Academy at Linden, Franklin County, Ohio, (the Academy) as of and for the year ended June 30, 2008, 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 the Educational Academy at Linden, Franklin County, Ohio, as of June 30, 2008, and the changes in its financial position and its cash flows 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 February 20, 2009, on our consideration of the Academy's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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

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

**Mary Taylor, CPA**  
Auditor of State

February 20, 2009

**EDUCATIONAL ACADEMY AT LINDEN  
FRANKLIN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2008  
(UNAUDITED)**

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The discussion and analysis of Educational Academy at Linden (the School) financial performance provides an overall review of the financial activities for the fiscal year ended June 30, 2008. 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 the 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 Governments*, issued in June 1999. Certain comparative information between the current year and the prior year is required to be presented, and is presented in the MD&A.

### **Financial Highlights**

Key financial highlights for the Educational Academy at Linden during fiscal year 2008 are as follows:

- Total net assets of the School grew to \$86,155 during fiscal year 2008.
- Total assets were \$167,949 at the end of fiscal year 2008.
- Total liabilities were \$81,794 at the end of fiscal year 2008.
- The School's operating loss for fiscal year 2008 was \$240,260. However, after all revenues and expenditures are considered, the change in net assets for the School was a positive \$69,512.

### **Using this Financial Report**

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

**EDUCATIONAL ACADEMY AT LINDEN  
FRANKLIN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2008  
(UNAUDITED)**

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*Statement of Net Assets*

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

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

Table 1 provides a summary of the School's net assets for fiscal year 2008. This was the School's first year of operations, as such, there is no information to compare in the Table.

Table 1  
Net Assets

|                            | <u>2008</u>             |
|----------------------------|-------------------------|
| Assets:                    |                         |
| Current assets             | \$ 87,331               |
| Capital assets, net        | <u>80,618</u>           |
| Total Assets               | <u>167,949</u>          |
| Liabilities                |                         |
| Current liabilities        | 81,794                  |
| Net Assets:                |                         |
| Invested in capital assets | 80,618                  |
| Restricted                 | 3,027                   |
| Unrestricted               | <u>2,510</u>            |
| Total Net Assets           | <u><u>\$ 86,155</u></u> |

The total assets of the School improved by \$69,512, which represents a 418 percent increase, from total assets reported at July 1, 2007, \$16,643. The cash and cash equivalents at the end of fiscal year 2008 were \$85,855. (Details provided on Note 3 of this report.)

Capital assets, net of accumulated depreciation, increased to \$80,618 during the current fiscal year. (Note: Educational Academy at Linden retained the ownership of all assets purchased with federal consolidated and competitive grant funds.)



**EDUCATIONAL ACADEMY AT LINDEN  
FRANKLIN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2008  
(UNAUDITED)**

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Total liabilities of the School increased to \$81,794 during the 2008 fiscal year.

The total net assets reported for fiscal year 2008 increased to \$86,155. Net assets invested in capital assets, were \$80,618, restricted net assets were \$3,027, and unrestricted net assets were \$2,510 as of June 30, 2008.

Table 2 shows the changes in net assets for the fiscal year ended June 30, 2008. Total revenue was \$501,290 for fiscal year 2008, including \$191,518 in State Foundation payments, \$100 in donation, \$3,000 in state subsidies and \$306,672 in federal subsidies.

Expenses reported for fiscal year 2008 were \$431,778, including \$323,340 in purchased services payments.

Table 2  
Change in Net Assets

|                               | <u>2008</u>             |
|-------------------------------|-------------------------|
| Operating Revenues:           |                         |
| Foundation payments           | \$ 191,518              |
| Non Operating Revenues:       |                         |
| Donations                     | 100                     |
| State Subsidies               | 3,000                   |
| Federal Subsidies             | <u>306,672</u>          |
| Total Revenues                | <u>501,290</u>          |
| Operating Expenses:           |                         |
| Salaries & Wages              | 6,386                   |
| Fringe benefits               | 1,065                   |
| Purchased services            | 323,340                 |
| Materials and supplies        | 76,735                  |
| Depreciation                  | 20,154                  |
| Other expenses                | <u>4,098</u>            |
| Total Expenses                | <u>431,778</u>          |
| Change in Net Assets          | 69,512                  |
| Net Assets, beginning of year | <u>16,643</u>           |
| Net Assets, end of year       | <u><u>\$ 86,155</u></u> |

**EDUCATIONAL ACADEMY AT LINDEN  
FRANKLIN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2008  
(UNAUDITED)**

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**Capital Assets**

At the end of fiscal year 2008, the School had \$80,618 invested in furniture, fixtures and equipment. There was a total of \$84,129 in purchases which met the School's capitalization threshold. See Note 5 of the basic financial statements for additional details.

**Debt**

At June 30, 2008, the School had no outstanding debt.

**Budgetary**

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

**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.

**Contacting the School**

This financial report is designed to provide a general overview of the finances of the Educational Academy at Linden and to show the School's accountability for the monies it receives to all vested and interested parties, as well as meeting the annual reporting requirements of the State of Ohio. Any questions about the information contained within this report or requests for additional financial information should be directed to the Treasurer of Educational Academy at Linden, 1111 Windsor Avenue, Columbus, Ohio 43211.

EDUCATIONAL ACADEMY AT LINDEN  
FRANKLIN COUNTY

STATEMENT OF NET ASSETS  
JUNE 30, 2008

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ASSETS

CURRENT ASSETS

|                           |               |
|---------------------------|---------------|
| Cash and cash equivalents | \$ 85,855     |
| Accounts receivable       | 1,476         |
| Total current assets      | <u>87,331</u> |

NON-CURRENT ASSETS

|  |               |
|--|---------------|
| Capital assets (Net of accumulated depreciation) | <u>80,618</u> |
|--|---------------|

TOTAL ASSETS

167,949

LIABILITIES

CURRENT LIABILITIES

|                   |        |
|-------------------|--------|
| Accounts payable  | 40,931 |
| Contracts payable | 40,863 |

TOTAL LIABILITIES

81,794

NET ASSETS

|                            |              |
|----------------------------|--------------|
| Invested in capital assets | 80,618       |
| Restricted                 | 3,027        |
| Unrestricted               | <u>2,510</u> |

TOTAL NET ASSETS

\$ 86,155

See accompanying notes to the financial statements.

EDUCATIONAL ACADEMY AT LINDEN  
FRANKLIN COUNTY

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

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OPERATING REVENUES:

Foundation payments \$ 191,518

OPERATING EXPENSES

Salaries & wages 6,386

Fringe benefits 1,065

Purchased services 323,340

Materials and supplies 76,735

Depreciation 20,154

Other expenses 4,098

Total operating expenses 431,778

Operating loss (240,260)

NON-OPERATING REVENUES

Donations 100

State subsidies 3,000

Federal subsidies 306,672

Total non-operating revenues 309,772

Changes in net assets 69,512

Net assets at beginning of year 16,643

Net assets at end of year \$ 86,155

See accompanying notes to the financial statements.

**EDUCATIONAL ACADEMY AT LINDEN  
FRANKLIN COUNTY**

**STATEMENT OF CASH FLOWS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

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**INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS**

**Cash flows from operating activities:**

|  |                  |
|--|------------------|
| Cash from Foundation Payments            | \$ 191,518       |
| Cash payments for personal services      | (7,451)          |
| Cash payments for contract services      | (302,757)        |
| Cash payments for supplies and materials | (57,863)         |
| Cash payments for miscellaneous          | (4,098)          |
|  | <u>(180,651)</u> |
| Net cash used for operating activities   | <u>(180,651)</u> |

**Cash flows from noncapital financing activities:**

|  |                |
|--|----------------|
| Cash from donations                                  | 100            |
| Cash from federal and state subsidies                | 309,672        |
|  | <u>309,772</u> |
| Net cash provided by noncapital financing activities | <u>309,772</u> |

**Cash flows from capital and related financing activities:**

|  |                 |
|--|-----------------|
| Payments for capital acquisitions                          | (43,266)        |
|  | <u>(43,266)</u> |
| Net cash used for capital and related financing activities | <u>(43,266)</u> |

NET INCREASE IN CASH AND CASH EQUIVALENTS 85,855

CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR -

CASH AND CASH EQUIVALENTS, END OF YEAR \$ 85,855

**Reconciliation of operating loss to net cash used for operating activities**

|   |               |
|---|---------------|
| Operating loss  | (240,260)     |
| Adjustments to Reconcile Operating Loss to Net Cash Used for<br>Operating Activities: |               |
| Depreciation  | 20,154        |
| Changes in assets and liabilities:  |               |
| Increase in accounts receivable   | (1,476)       |
| Increase in contracts payable   | 40,931        |
| Total Adjustments   | <u>59,609</u> |
| Net cash used for operating activities  | \$ (180,651)  |

**Schedule of Noncash Capital Activities:**

The School had outstanding liabilities of \$40,863 for certain capital assets.

See accompanying notes to the financial statements.

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**EDUCATIONAL ACADEMY AT LINDEN  
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

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**1. Description of the School and Reporting Entity**

Educational Academy at Linden (the School), is a nonprofit corporation established pursuant to Ohio Revised Code Chapters 3314 and 1702. The School, which is part of the State's education program, is independent of any school district and is non sectarian in its programs, admission policies, employment practices, and all other operations. The School may sue and be sued, acquire facilities as needed, and contract for any services necessary for the operation of the School.

The School was approved for operation under a contract with the St. Aloysius Orphanage during the fiscal year ended June 30, 2007, and renews annually every June 30<sup>th</sup> unless cancelled by either party with 90 days notice.

The School is required to operate under the direction of a Governing Board consisting of at least five members. The Governing 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.

On May 28, 2007, the School and Educational Solutions Co. entered into a full-performance management contract. Under this contract, Educational Solutions Co. is obligated to manage and operate the School. Educational Solutions Co. is an Ohio non-profit corporation that was established and is operated for educational purposes to support Ohio community schools. It was granted federal tax exemption under IRS Section 501(c)(3), and it is classified as a public charity under IRS Section 509(a)(3), a supporting organization. In addition to the School, Educational Solutions Co. currently supports three other Ohio community schools. Each of its supported schools are members of Educational Solutions Co., as such term is defined by Ohio Revised Cod Chapter 1702. As members of Educational Solutions Co., the schools, under Educational Solutions Co.'s Code of Regulations, elect a majority of the Board of Directors of Educational Solutions Co. As a result of this relationship, Educational Solutions Co. is "operated, supervised, or controlled by" its supported schools, as such term is defined by Regs. Section 1.509(a)-4(g), and Educational Solutions Co. is a Type I supporting organization. As a result of this relationship, Educational Solutions Co. is responsive to the needs and demands of its supported schools and is an integral part of their operations.

**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 School has elected not to apply FASB statements and interpretations issued after November 30, 1989. The more significant of the School's accounting policies are described below.

**EDUCATIONAL ACADEMY AT LINDEN  
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2008  
(Continued)**

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**2. Summary of Significant Accounting Policies (Continued)**

**A. Basis of Presentation**

Enterprise accounting is used to account for operations that are financed and operated in a manner similar to private business enterprises where the intent is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges or where it has been decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

**B. Measurement Focus and Basis of Accounting**

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. Enterprise accounting uses a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities are included on the statement of net assets. The difference between total assets and liabilities are defined as net assets. The statement of revenues, expenses and changes in net assets present increases (i.e., revenues) and decreases (i.e., expenses) in net total assets.

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made.

The accrual basis of accounting is utilized for reporting purposes. Revenues are recognized when they are earned, and expenses are recognized when they are incurred.

**C. Budgetary Process**

Unlike other public schools located in the state of Ohio, community schools are not required to follow budgetary provisions set forth in Ohio Rev. Code Section 5705, unless specifically provided in the Schools 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 on an annual basis.

**D. Cash and Cash Equivalents**

All monies received by the School are maintained in a demand deposit account. The School had no investments during fiscal year 2008.

**E. Capital Assets**

Capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the fiscal year. Donated capital assets are recorded at their fair market values as of the date received. The School does not possess any infrastructure. The School capitalizes all capital assets, regardless of cost. 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.



**EDUCATIONAL ACADEMY AT LINDEN  
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2008  
(Continued)**

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**2. Summary of Significant Accounting Policies (Continued)**

**E. Capital Assets (Continued)**

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

| <u>Description</u>                 | <u>Estimate Life</u> |
|------------------------------------|----------------------|
| Furniture, Fixtures, and Equipment | 5 years              |

**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. Intergovernmental Revenues**

The School is a participant in the State Foundation Program. The foundation funding is recognized as operating revenues in the accounting period in which they are earned, essentially the same as the fiscal year. Federal and state grants and entitlements are recognized as non-operating revenues in the accounting period in which all eligibility requirements of the grants have been met.

Intergovernmental revenues associated with the Foundation Program totaled \$191,518 and revenues associated with specific education grants from the state and federal governments totaled \$309,672 during fiscal year 2008.

**H. Operating and Non-Operating Revenues and Expenses**

Operating revenues are those revenues that are generated directly by the School's primary mission. For the School, operating revenues include revenues paid through the State Foundation Program. Operating expenses are necessary costs incurred to support the School's primary mission, including salaries, benefits, purchased services, materials and supplies and depreciation.

Non-operating revenues and expenses are those that are not generated directly by the School's primary mission. Various federal and state grants, interest earnings, if any, and payments made to the School by other instructional entities for use of the School's instructional staff comprise the non-operating revenues of the School. Interest and fiscal charges on outstanding obligations, as well as gain or loss on capital asset disposals, if any, comprise the non-operating expenses.

**EDUCATIONAL ACADEMY AT LINDEN  
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2008  
(Continued)**

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**2. Summary of Significant Accounting Policies (Continued)**

**I. Federal Tax Exemption Status**

The School is a non-profit organization that has been determined by the Internal Revenue Service to be exempt from federal income taxes as a tax-exempt organization under Section 501 (c)(3) of the Internal Revenue Code.

**J. Net Assets**

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets consists of capital assets, net of accumulated depreciation less any outstanding capital related debt. Net assets are reported as restricted when there are limitations imposed on their use through external restrictions imposed by creditors, grantors or laws or regulations of other governments. Restricted net assets of the School at year-end represent unspent federal and state grant resources for specific instructional program. The School applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

**K. Economic Dependency**

The School receives 100% of its operating revenue from the Ohio Department of Education. Due to the significance of this revenue source, the Academy is considered to be economically dependent on the State of Ohio Department of Education.

**3. Deposits**

At June 30, 2008, the carrying amount of the School's deposits was \$85,855. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2008, \$84,517 of the School's bank balance was covered by the Federal Deposit Insurance Corporation.

**4. Intergovernmental Receivables**

All intergovernmental receivables are considered collectible in full due to the stable condition of State programs. There were no receivables at June 30, 2008.

**EDUCATIONAL ACADEMY AT LINDEN  
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2008  
(Continued)**

**5. Capital Assets**

Capital asset activity for the fiscal year ended June 30, 2008 was as follows:

|                           | Balance<br>6/30/07 | Additions        | Deletions   | Balance<br>6/30/08 |
|---------------------------|--------------------|------------------|-------------|--------------------|
| <b>Capital Assets:</b>    |                    |                  |             |                    |
| Furniture and Equipment   | \$16,643           | \$ 84,129        | \$ -        | \$100,772          |
| Total Assets              | <u>\$ 16,643</u>   | <u>\$ 84,129</u> | <u>\$ -</u> | <u>\$ 100,772</u>  |
| <b>Depreciation:</b>      |                    |                  |             |                    |
| Furniture and Equipment   | \$ -               | \$(20,154)       | \$ -        | \$(20,154)         |
| Accumulated Depreciation  | <u>-</u>           | <u>(20,154)</u>  | <u>-</u>    | <u>(20,154)</u>    |
| <b>Net Capital Assets</b> | <u>\$16,643</u>    |                  |             | <u>\$ 80,618</u>   |

**6. Defined Benefit Pension Plans**

**A. School Employees Retirement System**

Plan Description - The School contributes to the School Employees Retirement System (SERS), a cost-sharing multiple employer pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746.

Funding Policy - Plan members are required to contribute 10 percent of their annual covered salary and the School is required to contribute at an actuarially determined rate. The current School rate is 14 percent of annual covered payroll. 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 2008, 9.16 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to a statutory maximum amount of 10 percent for plan members and 14 percent for employers. Chapter 3309 of the Ohio Revised Code provides statutory authority for member and employer contributions. The School's required contributions for pension obligations to SERS for the fiscal year ended June 30, 2008 were \$6,670; 100 percent has been contributed for fiscal year 2008.

**EDUCATIONAL ACADEMY AT LINDEN  
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2008  
(Continued)**

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**6. Defined Benefit Pension Plans (Continued)**

**B. State Teachers Retirement System**

Plan Description - The School participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple employer public employee retirement plan. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3771, by calling (888) 227-7877, or by visiting the STRS Ohio Web site at [www.strsoh.org](http://www.strsoh.org).

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on a member's lifetime contributions and earned interest matched by STRS Ohio funds divided by an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump sum withdrawal. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. The DB portion of the Combined Plan payment is payable to a member on or after age 60; the DC portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50. Benefits are established by Chapter 3307 of the Ohio Revised Code.

A DB or Combined Plan member with five or more years credited service who becomes disabled may qualify for a disability benefit. Eligible spouses and dependents of these active members who die before retirement may qualify for survivor benefits. Members in the DC Plan who become disabled are entitled only to their account balance. If a member of the DC Plan dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

Funding Policy - For the fiscal year ended June 30, 2008, plan members were 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. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The School's required contributions for pension obligations to STRS Ohio for the fiscal year ended June 30, 2008 were \$12,941, 126 percent has been contributed for fiscal year 2008. Contributions to the DC and Combined Plans for fiscal year 2008 were \$17,946 made by the School and \$9,955 made by the plan members.

**EDUCATIONAL ACADEMY AT LINDEN  
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2008  
(Continued)**

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**7. Post-employment Benefits**

**A. School Employees Retirement System**

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

Funding Policy – State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 401h. For 2008, 4.18 percent of covered payroll was allocated to health care.

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

The School's contributions for health care for the fiscal year ended June 30, 2008 were \$3,044; 100 percent has been contributed for fiscal year 2008.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For 2008, this actuarially required allocation was 0.66 percent of covered payroll. The School's contributions for Medicare Part B for the fiscal year ended June 30, 2008 were \$480; 100 percent has been contributed for fiscal year 2008.

**B. State Teachers Retirement System**

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

**EDUCATIONAL ACADEMY AT LINDEN  
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2008  
(Continued)**

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**7. Post-employment Benefits (Continued)**

**B. State Teachers Retirement System (Continued)**

Funding Policy – Ohio law authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For 2008, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. The School's contributions for health care for the fiscal year ended June 30, 2008 were \$996; 100 percent has been contributed for fiscal year 2008.

**8. Restricted Net Assets**

At June 30, 2008 the School reported restricted net assets totaling \$3,027. The nature of the net asset restrictions are as follows:

|   |                |
|---|----------------|
| State specific educational program grants   | \$3,000        |
| Federal specific educational program grants | <u>27</u>      |
| Total                                       | <u>\$3,027</u> |

**9. Contingencies**

**A. Grants**

Amounts received from grantor agencies are subject to audit and adjustment by the grantor. Any disallowed costs may require refunding to the grantor. Amounts, which may be disallowed, if any, are not presently determinable. However, in the opinion of the School, any such disallowed claims will not have a material adverse effect on the financial position of the School at June 30, 2008.

**B. State funding**

The Ohio Department of Education conducts reviews of enrollment data 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 foundation funding is calculated. The results of this review could result in state funding being adjusted. This information was not available as of the date of this report. The School does not anticipate any material adjustments to state funding for fiscal year 2008 as a result of such review.

**EDUCATIONAL ACADEMY AT LINDEN  
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2008  
(Continued)**

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**10. Management Agreement**

On May 28, 2007, the School and Educational Solutions Co. entered into a full-performance management contract. Under this contract, Educational Solutions Co. is obligated to manage and operate the School. Educational Solutions Co. is an Ohio non-profit corporation that was established and is operated for educational purposes to support Ohio community schools. It was granted federal tax exemption under IRS Section 501(c)(3), and it is classified as a public charity under IRS Section 509(a)(3), a supporting organization. In addition to the School, Educational Solutions Co. currently supports three other Ohio community schools. Each of its supported schools are members of Educational Solutions Co., as such term is defined by Ohio Revised Cod Chapter 1702. As members of Educational Solutions Co., the schools, under Educational Solutions Co.'s Code of Regulations, elect a majority of the Board of Directors of Educational Solutions Co. As a result of this relationship, Educational Solutions Co. is "operated, supervised, or controlled by" its supported schools, as such term is defined by Regs. Section 1.509(a)-4(g), and Educational Solutions Co. is a Type I supporting organization. As a result of this relationship, Educational Solutions Co. is responsive to the needs and demands of its supported schools and is an integral part of their operations. Additionally the Management Co. is responsible for all financial and reporting matters. Educational Solutions has contracted with Mangan & Associates to provide treasurer and accounting services for each of the four schools managed by Educational Solutions. The School must pay all revenues, excluding the lesser of two percent of the base state per pupil allocation, or \$30,000 annually (i.e. – 98% of all revenues is paid to the Management Co. in order to pay all expenses and obligations of the School). See Note 12.

**11. Other Purchased Services**

During the fiscal year ended June 30, 2008, other purchased service expenses for services rendered by various vendors were as follows:

|                                     |                  |
|-------------------------------------|------------------|
| Professional and Technical Services | \$296,319        |
| Property Services                   | 4,246            |
| Travel Mileage/Meeting Expenses     | 3,585            |
| Communications                      | 17,847           |
| Contract Craft or Trade Services    | <u>1,343</u>     |
| Total Purchased Services            | <u>\$323,340</u> |

EDUCATIONAL ACADEMY AT LINDEN  
FRANKLIN COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2008  
(Continued)

12. **Management Company Expenses / Related Party Transactions**

For the year ended June 30, 2008 Educational Solutions Co. incurred the following expenses on behalf of the School:

|   | For the Year Ending<br><u>June 30, 2008</u> |
|---|---|
| Direct Expenses:  |   |
| Salaries & wages (100 object code)                      | \$ 78,678.79                                |
| Employees' benefits (200 object codes)                  | 30,888.01                                   |
| Professional & technical services (410 object codes)    | 32,150.30                                   |
| Property services (420 object codes)                    | 14,430.17                                   |
| Travel (430 object codes)                               | 581.30                                      |
| Communications (440 object codes)                       | 2,997.75                                    |
| Utilities (450 object codes)                            | 4,246.62                                    |
| Contracted craft or trade services (460 object codes)   | 0.00  |
| Tuition paid to other districts (470 object codes)      | 0.00  |
| Transportation (480 object codes)                       | 240.00                                      |
| Other purchased services (490 object codes)             | 0.00  |
| Books, periodicals & films (520, 530, 540 object codes) | 0.00  |
| Food & related supplies (560 object codes)              | 33.00                                       |
| Other supplies (510, 550, 570, 580, 590 object codes)   | 4,079.19                                    |
| Capital Outlay (600,700 object codes)                   | 29,386.85                                   |
| Interest (820 object codes)                             | 0.00  |
| Judgments (860 object codes)                            | 0.00  |
| Other direct costs (All other object codes)             | <u>3,507.75</u>                             |
| <b>Total Expenses</b>                                   | <b><u>201,219.73</u></b>                    |

The School had outstanding liabilities with their Management Company totaling \$10,921 at June 30, 2008.





# 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*

Educational Academy at Linden  
Franklin County  
1111 Windsor Avenue  
Columbus, Ohio 43211

To the Board of Trustees:

We have audited the basic financial statements of the Educational Academy at Linden, Franklin County, Ohio, (the Academy) as of and for the year ended June 30, 2008, and have issued our report thereon dated February 20, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

### Internal Control Over Financial Reporting

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

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 Academy's ability to initiate, authorize, record, process, or report financial data reliably in accordance with its applicable accounting basis, such that there is more than a remote likelihood that the Academy's internal control will not prevent or detect a more-than-inconsequential financial statement misstatement.

We consider finding 2008-001 described in the accompanying schedule of findings to be a significant deficiency in internal control over financial reporting.

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

Our consideration of 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. We do not believe the significant deficiency described above is a material weakness.

We also noted certain internal control matters that we reported to the Academy's management in a separate letter dated February 20, 2009.

#### **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 that we must report under *Government Auditing Standards*.

We noted certain noncompliance or other matters not requiring inclusion in this report that we reported to the Academy's management in a separate letter dated February 20, 2009.

The Academy's response to the finding identified in our audit is described in the accompanying schedule of findings. We did not audit the Academy'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 Trustees, and the St. Aloysius Orphanage. We intend it for no one other than these specified parties.



**Mary Taylor, CPA**  
Auditor of State

February 20, 2009

**EDUCATIONAL ACADEMY AT LINDEN  
FRANKLIN COUNTY**

**SCHEDULE OF FINDINGS  
JUNE 30, 2008**

|  |
|--|
| <b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS<br/>REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS</b> |
|--|

**FINDING NUMBER 2008-001**

**Significant Deficiency**

**Board Monitoring**

It is the responsibility of the Academy's Board to monitor all financial activity of the Academy, as well as the financial activity of the Academy's Management Company (Company), to ensure Academy monies are being spent appropriately as well as assuring that contractual obligations of the Company are being met.

Monitoring comprises of regular management activities established to oversee whether Board's financial objectives are being achieved. Data from financial reports and supporting documentation provided to the Academy from its Company and the Company's contracted Fiscal Agent provides assurance as to the reliability of financial reporting information and performance indicators associated with contracted Company services. Lack of monitoring may lead to errors, irregularities, or misappropriation of assets of the Academy's funds.

There were no approved policies and procedures in place to assure the Academy's Board is monitoring the financial activities of the Academy, or how monies were spent by the Academy's Company for goods and services, including the approval of a cost allocation process for billing services to the Academy and other schools the Company contracts with. Additionally, we found instances where the Management Company's informal cost allocation plan was not consistently followed and salaries to employees did not always match contracts given to us by the Company. Not all reasons for the variances in the cost plan or salaries paid were readily documented or provided to us by the Company.

Also, the Academy did not maintain detailed receipts and expenditure ledgers until February 2008, when they retroactively created ledgers to reflect the receipts and expenditures. Not maintaining detailed ledgers could lead to financial statement misstatements.

The Academy's Board should develop written policies to assure a finance committee or equivalent reviews monthly financial activity, approve a cost allocation plan and ensure expenditures billed to the Academy match contracted services provided by the Company. Any discrepancies or deviations from the approved cost allocation policy/plan should be investigated by the Board.

We also recommend the Academy's Board develop policies and procedures to enhance its controls over recording of financial transactions and financial reporting to help ensure the information accurately reflects the activity of the Academy and thereby increasing the reliability of the financial data throughout the year. We also recommend the Academy Board implement additional procedures over the completeness and accuracy of financial information reported within the annual financial report. Such procedures may include review of the financial statements and related components by a member of management with analytical comparisons of the current year annual report to the prior year reports for obvious errors or omissions.

**EDUCATIONAL ACADEMY AT LINDEN  
FRANKLIN COUNTY**

**SCHEDULE OF FINDINGS  
JUNE 30, 2008  
(Continued)**

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

**FINDING NUMBER 2008-001 (Continued)**

**Significant Deficiency (Continued)**

**Board Monitoring (Continued)**

**Officials' Response:**

The Academy's Board has appointed a Finance Committee to monitor all financial activity of the Academy, as well as financial activity of the Academy's Management Company, to ensure Academy monies are being spent appropriately as well as assuring that contractual obligations of the Company are being met. As a result of the deficiency noted above, the Academy's Finance Committee will be asked to establish a set of approved policies and procedures to assure the Academy's Board is monitoring the financial activities of the Academy and how monies were spent by the Academy's Company for goods and services, including the approval of a standard cost allocation process for billing services to the Academy and other schools managed by the Management Company. In addition, procedures will be established to ensure the approved cost allocation plan is followed and any variances are clearly documented by the Management Company to the Academy's Board.

The Academy's accounting records were maintained for all 12 months of the reporting period. A conversion was necessary in February 2009 to provide a common format for all of the schools managed by the Management Company. As a result, there were no financial statement misstatements for any of the schools management by the Management Company.



**Mary Taylor, CPA**  
Auditor of State

**EDUCATIONAL ACADEMY AT LINDEN**

**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  
MAY 7, 2009**