

**THE OHIO ACHIEVEMENT CHARTER SCHOOLS, INC.
FRANKLIN COUNTY**

(DBA MILLENNIUM COMMUNITY SCHOOL)

Single Audit

For the Fiscal Year Ended June 30, 2005



**Auditor of State
Betty Montgomery**

Board of Trustees
Ohio Achievement Charter Schools, Inc.
1850 Bostwick Rd.
Columbus, OH 43227

We have reviewed the *Independent Auditor's Report* of the Ohio Achievement Charter Schools, Inc., Franklin County, prepared by Kennedy, Cottrell & Associates, LLC, for the audit period July 1, 2004 through June 30, 2005. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The Ohio Achievement Charter Schools, Inc. is responsible for compliance with these laws and regulations.

A handwritten signature in cursive script that reads "Betty Montgomery".

BETTY MONTGOMERY
Auditor of State

September 20, 2006

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THE OHIO ACHIEVEMENT CHARTER SCHOOLS, INC.
FRANKLIN COUNTY

TABLE OF CONTENTS

JUNE 30, 2005

	<u>Page</u>
Independent Auditor's Report	1
Management's Discussion & Analysis	3
Basic Financial Statements	
Statement of Net Assets.....	7
Statement of Revenues, Expenses, and Changes in Fund Net Assets.....	8
Statement of Cash Flows	9
Notes to the Basic Financial Statements	10
Schedule of Receipts and Expenditures of Federal Awards	22
Notes to the Schedule of Receipts and Expenditures of Federal Awards.....	23
Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With <i>Government Auditing Standards</i>	24
Independent Auditors' Report on Compliance With Requirements Applicable to Major Federal Programs and Internal Control Over Compliance in Accordance With OMB Circular A-133	26
Schedule of Findings and Questioned Costs.....	28
Summary Schedule of Prior Audit Findings.....	35



INDEPENDENT AUDITOR'S REPORT

The Ohio Achievement Charter Schools, Inc.
DBA Millennium Community School
1850 Bostwick Road
Columbus, Ohio 43227

To the Board of Trustees:

We have audited the accompanying basic financial statements of the Ohio Achievement Charter Schools, Inc., Franklin County, Ohio (the School), as of and for the year ended June 30, 2005, as listed in the table of contents. These financial statements are the responsibility of the School's management. Our responsibility is to express opinions on these financial statements based on our audit.

Except as disclosed in the following paragraph, 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 *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about 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.

We were unable to obtain sufficient competent evidential matter supporting the School's Sales Revenue reported in the basic financial statements.

In our opinion, except for the effects of such adjustments, if any, as might have been determined necessary had we been able to examine evidence regarding the School's Sales Revenue, the financial statements referred to above present fairly, in all material respects, the financial position of the Ohio Achievement Charter Schools, Inc., Franklin County, Ohio, as of June 30, 2005, and the changes in its financial position and its cash flows, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 14, 2006, 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. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The management's discussion and analysis is not a required part of the basic financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America. We applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion on it.

We conducted our audit to form opinions on the financial statements that collectively comprise the School's basic financial statements. The accompanying schedule of receipts and expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Kennedy, Cottrell + Associates LLC

Kennedy, Cottrell + Associates LLC
Columbus, Ohio
July 14, 2006

**THE OHIO ACHIEVEMENT CHARTER SCHOOLS, INC
FRANKLIN COUNTY**

MANAGEMENT'S DISCUSSION & ANALYSIS

FOR THE FISCAL YEAR ENDED JUNE 30, 2005

Our discussion and analysis of the Ohio Achievement Charter School's (School's) financial performance provides an overall review of the School's financial activities for the fiscal year ended June 30, 2005. 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 new 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

- In total, net assets increased \$435,130 which represents a 42.1% increase from 2004.
- Total revenues for fiscal year 2005 were \$5,337,200, a decrease of 1.1% over 2004.
- Total expenses for fiscal year 2005 were \$4,902,070, a decrease of 4.7% over 2004.

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 Fund 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.

**THE OHIO ACHIEVEMENT CHARTER SCHOOLS, INC
FRANKLIN COUNTY**

MANAGEMENT'S DISCUSSION & ANALYSIS

FOR THE FISCAL YEAR ENDED JUNE 30, 2005

A comparative analysis of fiscal year 2005 and 2004 follows:

	<u>2005</u>	<u>2004</u>
Current Assets	\$ 719,847	\$ 599,299
Capital Assets, Net	<u>1,410,573</u>	<u>1,430,884</u>
Total Assets	2,130,420	2,030,183
Current Liabilities	669,695	648,726
Long Term Liabilities	<u>309,123</u>	<u>346,951</u>
Total Liabilities	978,818	995,657
Net Assets:		
Invested in Capital Assets, net of debt	1,246,854	952,973
Unrestricted	<u>222,802</u>	<u>81,553</u>
Total Net Assets	<u>\$1,469,656</u>	<u>\$1,034,526</u>

The largest portion of the School's net assets (84.8%) reflects its investment in capital assets less any related debt used to acquire those assets that is still outstanding. The School uses capital assets to provide services; consequently, these assets are not available for future spending. Although the School's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Net Assets of the School have increased \$435,130 and unrestricted net assets reflect a healthy positive balance of \$222,802. The increase in net assets is primarily the result of a reduction in expenditures over the prior year as a result of a decrease in enrollment and associated costs.

**THE OHIO ACHIEVEMENT CHARTER SCHOOLS, INC
FRANKLIN COUNTY**

MANAGEMENT'S DISCUSSION & ANALYSIS

FOR THE FISCAL YEAR ENDED JUNE 30, 2005

Changes in Net Assets

	<u>2005</u>	<u>2004</u>
Operating Revenues:		
Sales	\$ 62,561	\$ 44,266
Foundation payments	4,304,838	4,355,531
Other Operating Revenues	30,490	61,497
Non-Operating Revenues:		
Investment Earnings	14,635	5,051
State subsidies	33,590	21,716
Federal subsidies	<u>891,086</u>	<u>906,555</u>
Total Revenues	5,337,200	5,394,616
Operating Expenses:		
Salaries & Wages	2,264,322	2,436,580
Fringe Benefits	951,255	928,076
Purchased Services	1,268,892	1,374,886
Materials & Supplies	165,481	176,405
Depreciation	91,565	73,463
Miscellaneous	110,477	103,404
Non-Operating Expenses:		
Interest expense	<u>50,078</u>	<u>53,085</u>
Total Expenses	<u>4,902,070</u>	<u>5,145,899</u>
Change in Net Assets	<u>\$ 435,130</u>	<u>\$ 248,717</u>

A decline in enrollment of approximately 7% from 2004 to 2005 resulted in reduced state and federal support as well as reduced instructional costs. The reduction of approximately 8% in salary related costs is the main contributor to the increase in net assets for the year.

Capital Assets

The School has \$1,666,240 invested in capital assets net of depreciation. The most significant addition to the School's capital assets for the 2005 fiscal year was the replacement a portion of the school's roof, valued at \$154,905 on the books. Detailed information regarding capital asset activity is included in Note 5 to the basic financial statements.

**THE OHIO ACHIEVEMENT CHARTER SCHOOLS, INC
FRANKLIN COUNTY**

MANAGEMENT'S DISCUSSION & ANALYSIS

FOR THE FISCAL YEAR ENDED JUNE 30, 2005

Debt

At June 30, 2005, the School had a balance of \$238,876 on a long-term note payable and \$180,510 of outstanding capital lease obligations. During the year, the School entered into new capital lease agreements totaling \$83,250. Note 10 to the basic financial statements summarizes the School's long-term liabilities.

Budget

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 Chapter 5705, unless specifically provided in the Community School's contract with its Sponsor. The contract between the School and its Sponsor does not prescribe a budgetary process for the School. The School has developed a five-year projection that is reviewed periodically by the Board of Trustees.

Restrictions and Other Limitations

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 September 6, 2001 the Ohio Supreme Court found the Ohio School Funding system to be constitutional pending some modifications by the legislature. The District is unable to determine what effect, if any, this decision will have on future funding from the State.

The final challenge is the existence of the school in the future. An ongoing lawsuit filed in Franklin County Common Pleas Court on May 14, 2001, alleging that Ohio's Community (i.e., Charter) Schools program violates the state constitution and state laws. On April 21, 2003 the court dismissed the counts containing constitutional claims and stayed the other counts pending appeal of the constitutional issues. The plaintiffs appealed to the Court of Appeals, the issues have been briefed, and the case was set for oral argument on November 18th, 2003. The case remains at the Court of Appeals at this time. The effect of this suit, if any, on the School is not presently determinable.

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 Graham's accountability for the money it receives. If you have questions about this report or need additional information contact the Treasurer of the Millennium Community School, 1850 Bostwick Road, Columbus, Ohio 43227.

**THE OHIO ACHIEVEMENT CHARTER SCHOOLS, INC
FRANKLIN COUNTY**

STATEMENT OF NET ASSETS

AS OF JUNE 30, 2005

Current Assets	
Cash and Investments	\$ 714,772
Receivable - Accounts	170
Receivable - Federal	67,292
Total Current Assets	<u>782,234</u>
Non-Current Assets	
Fixed assets (Net of Accumulated Depreciation)	<u>1,666,240</u>
Total Assets	<u><u>2,448,474</u></u>
Liabilities	
Current Liabilities	
Accounts Payable	19,888
Accrued Wages & Benefits	380,585
Compensated Absences	14,821
Payable to State Pension Systems	144,138
Capital Leases Payable	61,230
Note Payable	49,033
Total Current Liabilities	<u>669,695</u>
Long-Term Liabilities	
Capital Leases Payable	119,280
Note Payable	189,843
Total Long-Term Liabilities	<u>309,123</u>
Total Liabilities	<u>978,818</u>
Net Assets	
Invested in Capital Assets, Net of related Debt	1,246,854
Unrestricted	222,802
Total Net Assets	<u><u>\$ 1,469,656</u></u>

The accompanying notes are an integral part of the financial statements

**THE OHIO ACHIEVEMENT CHARTER SCHOOLS, INC
FRANKLIN COUNTY**

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

Operating Revenues	
Sales	\$ 62,561
Foundation Payments	4,304,838
Other Operating Revenues	<u>30,490</u>
Total Operating Revenues	<u>4,397,889</u>
Operating Expenses	
Salaries & Wages	2,264,322
Fringe Benefits	951,255
Purchased Services	1,268,892
Materials & Supplies	165,481
Depreciation	91,565
Miscellaneous	<u>110,477</u>
Total Operating Expenses	<u>4,851,992</u>
Operating Loss	(454,103)
Non-Operating Revenues and (Expenses)	
Interest Earnings	14,635
State subsidies	33,590
Federal subsidies	891,086
Interest Expense	<u>(50,078)</u>
Total Non-Operating Revenues and (Expenses)	<u>889,233</u>
Net Income	435,130
Net Assets Beginning of Year, as restated	<u>1,034,526</u>
Net Assets End of Year	<u><u>\$ 1,469,656</u></u>

The accompanying notes are an integral part of the financial statements

**THE OHIO ACHIEVEMENT CHARTER SCHOOLS, INC
FRANKLIN COUNTY**

STATEMENT OF CASH FLOWS

FOR THE FISCAL YEAR ENDED JUNE 30, 2005

Cash Flows from Operating Activities	
Cash received from sales	\$ 62,575
Cash received from Foundation Payments	4,304,838
Cash received from Other Operating Revenues	390,747
Cash payments for personal services	(3,168,614)
Cash payments for contract services	(1,265,761)
Cash payments for supplies and materials	(166,990)
Cash payments for Miscellaneous	(477,158)
Net Cash Provided by/(Used for) Operating Activities	<u>(320,363)</u>
Cash Flows from Noncapital Financing Activities	
Cash from Federal & State Subsidies	<u>910,214</u>
Net Cash Provided by Noncapital Financing Activities	<u>910,214</u>
Cash Flows from Capital and Related Financing Activities	
Payments for Capital Acquisitions	(385,446)
Payments for Interest on Capital Acquisitions	(50,078)
Net Cash Used for Capital and Related Financing Activities	<u>(435,524)</u>
Cash Flows from Investing Activities	
Interest on cash and cash equivalents	<u>14,635</u>
Net cash Provided by investing activities	<u>14,635</u>
Net increase in cash and cash equivalents :	168,962
Cash and cash equivalents at beginning of year	<u>545,810</u>
Cash and cash equivalents at end of year	<u><u>\$ 714,772</u></u>
Reconciliation of Operating Income to Net Cash Provided By (Used for) Operating Activities	
Operating Loss	(454,103)
Adjustments to Reconcile Operating Income to Net Cash Provided by (Used for) Operating Activities	
Depreciation	91,565
Changes in Assets and Liabilities:	
Accounts Receivable	489
Accounts Payable	(4,521)
Accrued Wages and Benefits	(9,637)
Payable to State Pension Systems	57,336
Compensated Absences	(1,492)
Total Adjustments	<u>133,740</u>
Net Cash Provided by/(Used for) Operating Activities	<u><u>\$ (320,363)</u></u>

The accompanying notes are an integral part of the financial statements

**THE OHIO ACHIEVEMENT CHARTER SCHOOLS, INC
FRANKLIN COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2005

1. DESCRIPTION OF THE SCHOOL AND REPORTING ENTITY

Ohio Achievement Charter Schools, Inc. (the School) is a nonprofit corporation established pursuant to Ohio Revised Code Chapters 3314 and 1702 to address the needs of students in kindergarten through fifth grade. 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 approved for operation under contract with the Ohio Department of Education (the Sponsor) for a period of five years commencing July 1, 1999. 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 six member Board of Trustees. The Board is responsible for carrying out the provisions of the contract which include, but are not limited to, state mandated provisions regarding student population, curriculum, academic goals, performance standards, admission standards, and qualifications of teachers. The Board of Trustees control the School's instructional/support facility staffed by 44 non-certified and 36 certificated full time teaching personnel who provide services to 675 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 School has elected not to apply FASB statements and interpretations issued after November 30, 1989 to its enterprise fund. 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, regardless of whether the government intends to fully recover the cost of the good or services provided.

**THE OHIO ACHIEVEMENT CHARTER SCHOOLS, INC
FRANKLIN COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2005

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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 not prescribe a budgetary process for the School.

D. Cash and Investments

All monies received by the School are pooled and deposited in a central bank account. All monies of the School are maintained in this account or temporarily used to purchase short term investments.

The Ohio Revised Code prescribes allowable deposits and investments. During fiscal year 2005, investments were limited to STAR Ohio and repurchase agreements. STAR Ohio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price which is the price the investment could be sold for on June 30, 2005. Repurchase agreements are valued at cost.

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.

**THE OHIO ACHIEVEMENT CHARTER SCHOOLS, INC
FRANKLIN COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2005

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. Fixed Assets and Depreciation

Fixed assets are capitalized at cost and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair values as of the dates received. The School maintains a capitalization threshold of five hundred dollars. 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.

Property, plant and equipment are depreciated using the straight line method over the following estimated useful lives. Improvements to fixed assets are depreciated over the remaining useful lives of the related fixed assets.

<u>Assets</u>	<u>Years</u>
Buildings	50
Building Improvements	20
Vehicles	10
Furniture and Equipment	10
Computer equipment	5

F. Intergovernmental Revenues

The School currently participates in the State Foundation Program, the State Disadvantaged Pupil Impact Aid (DPIA) Program, and the State Special Education Program. Revenues received from these programs are recognized as operating revenues in the accounting period in which all eligibility requirements are met.

Grants and entitlements 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 the resources are provided to the School on a reimbursement basis.

Amounts awarded under the above named programs for 2005 school year totaled \$5,167,127.

G. Operating Revenues and Expenses

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. Operating expenses are the necessary costs incurred to provide the goods or services that are the primary activity of the fund. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

**THE OHIO ACHIEVEMENT CHARTER SCHOOLS, INC
FRANKLIN COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2005

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

H. Compensated Absences

Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the School will compensate the employees for the benefits through paid time off or some other means. The School records a liability for accumulated unused vacation time when earned for all employees.

The School does not have a liability for sick benefits upon termination, therefore no liability is recognized.

I. 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 those estimates.

3. DEPOSITS AND INVESTMENTS

Deposits: The carrying value of the School's deposits totaled (\$37,173), and the bank balance totaled \$31,000, all of which was covered by federal depository insurance.

Investments of the School as of June 30, 2005 were as follows:

<u>Investments</u>	<u>Fair Value</u>	<u>Weighted Average Maturity(Years)</u>
Repurchase Agreement	\$433,967	0.00
STAR Ohio	<u>317,978</u>	0.00
Total Investments	<u>\$751,945</u>	

Interest Rate Risk – The School's investment policy does not limit investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk – The investments in STAR Ohio are rated AAAM by Standard & Poor's. The repurchase agreement is specifically pledged by a single security. The School places no limit on the amount that may be invested in any one issuer.

4. RECEIVABLES

Receivables at June 30, 2005, consisted of accounts receivable of \$170 and intergovernmental receivables (federal grants) of \$67,292. All intergovernmental receivables are considered collectible in full, due to the stable condition of State programs, and the current year guarantee of federal funds.

**THE OHIO ACHIEVEMENT CHARTER SCHOOLS, INC
FRANKLIN COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2005

5. FIXED ASSETS

A summary of the School's fixed assets at June 30, 2005, follows:

	Balance 6/30/2004	Additions	Deletions	Balance 6/30/2005
Capital Assets being depreciated:				
Construction in Progress	\$ 36,606	\$ -	\$ (36,606)	\$ -
Building & Building Improvements	1,354,803	262,969	-	1,617,772
Furniture and Equipment	161,936	88,982	(2,235)	248,683
Computer Equipment	127,329	13,968	(6,057)	135,240
Subtotal	<u>1,680,674</u>	<u>365,919</u>	<u>(44,898)</u>	<u>2,001,695</u>
Accumulated Depreciation:				
Building & Building Improvements	(100,887)	(43,095)	-	(143,982)
Furniture and Equipment	(72,570)	(25,665)	2,235	(96,000)
Computer Equipment	(76,333)	(22,805)	3,665	(95,473)
Subtotal	<u>(249,790)</u>	<u>(91,565)</u>	<u>5,900</u>	<u>(335,455)</u>
Net Capital Assets	<u>\$ 1,430,884</u>	<u>\$ 274,354</u>	<u>\$ (38,998)</u>	<u>\$ 1,666,240</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 2005, the School contracted with Chubb Insurance Group for property and insurance and with Western Heritage for general liability. There is a \$1,000 deductible for both coverages.

Professional liability is protected by Western Heritage Insurance Company with a \$1,000,000 single occurrence limit and \$2,000,000 aggregate with a \$1,000 deductible. During the past three fiscal years, there were not settlements that exceeded insurance coverage.

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.

**THE OHIO ACHIEVEMENT CHARTER SCHOOLS, INC
FRANKLIN COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2005

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. 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.

Plan members and the School are required to contribute 10 percent and 14 percent respectively, of their annual covered salary. The contribution rates are not determined actuarially, but are established by SERS's Retirement Board within the rates allowed by State statute. The adequacy of the contribution rates is determined annually. The School's required contribution for pension obligations to SERS for the years ending June 30, 2005, 2004 and 2003 were \$163,197, \$153,731 and \$109,704 respectively. The School has contributed \$125,070 for fiscal year 2005, and the remainder due to SERS has been recorded as a payable to State Pension Systems.

B. State Teachers Retirement System

The School contributes to the State Teachers Retirement System of Ohio (STRS), a cost sharing multiple employer public employee retirement system administered by the State Teachers Retirement Board. STRS provides basic retirement benefits, disability, survivor, and health care benefits based on eligible service credit to members and beneficiaries. Benefits are established by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available financial report that includes financial statements and required supplementary information for STRS. The report may be obtained by writing to State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3771.

Plan members and the School are required to contribute 10 percent and 14 percent respectively, of their annual covered salary. Contribution rates are established by STRS, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. The School's required contribution for pension obligations to STRS for the years ending June 30, 2005, 2004 and 2003 were \$274,610, \$241,698 and \$189,961 respectively. The School has contributed \$206,401 for fiscal year 2005, and the remainder due to STRS has been recorded as a payable to State Pension Systems.

**THE OHIO ACHIEVEMENT CHARTER SCHOOLS, INC
FRANKLIN COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2005

8. POSTEMPLOYMENT BENEFITS

The School provides comprehensive health care benefits to retired teachers and their dependents through the State Teachers Retirement System (STRS), 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.

The State Teachers Retirement Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most 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 funds shall be included in the employer contribution rate. The board currently allocates employer contributions equal to 1.0% of covered payroll to the Health Care Reserve Fund from which payments for health care benefits are paid. For the School, this amount equaled 19,615 during fiscal year 2005. For the year ended June 30, 2004, net health care costs paid by STRS were \$268,739,000 and eligible benefit recipients totaled 111,853.

For SERS, coverage is made available to service retirees with ten or more fiscal years of qualifying service credit, disability, and survivor benefit recipients. Members retiring on or after August 1, 1989, with less than twenty-five years of service credit must pay a portion of their premium for health care. The portion is based on years of service up to a maximum of 75 percent of the premium. The Board currently allocates employer contributions equal to 4.91% of covered payroll to fund health care benefits. For the School, this amount equaled \$57,236 during fiscal year 2005. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2004, the minimum pay has been established at \$25,400. For the year ended June 30, 2004, the most recent year available, net health care costs paid by SERS were \$223,443,805, and eligible benefit recipients totaled approximately 62,000.

9. OTHER EMPLOYEE BENEFITS

A. Compensated Absences

The criteria for determining vacation and sick leave components are derived from negotiated agreements and State laws. Classified employees earn 20 days of vacation per year. Accumulated unused vacation time is paid to classified employees upon termination of employment. Teachers and administrators who are not on a twelve-month contract do not earn vacation time. All employees earn sick leave at the rate of one and one fourth days per month.

Sick leave may be accumulated up to 15 days. Upon retirement, no payment is made for accumulated unused sick leave.

B. Insurance Benefits

The School has contracted with a private carrier to provide employee health insurance. The School paid 100% of the monthly premium for fiscal year 2005; the total monthly premium was \$780 for family coverage and \$260 for single coverage.

**THE OHIO ACHIEVEMENT CHARTER SCHOOLS, INC
FRANKLIN COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2005

10. LONG-TERM DEBT

A schedule of changes in long-term debt during the fiscal year follows:

<u>Description</u>	<u>Balance</u> <u>6/30/2004</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>6/30/2005</u>	<u>Due In</u> <u>One Year</u>
Park National Bank Note Payable 6.25%, matures 10/17/2010	\$ 280,886	\$ -	\$ (42,010)	\$238,876	\$ 49,033
Capital Leases Payable	197,024	83,250	(99,764)	180,510	61,230
Total	<u>\$ 477,910</u>	<u>\$ 83,250</u>	<u>\$ (141,774)</u>	<u>\$419,386</u>	<u>\$ 110,263</u>

CAPITALIZED LEASES

During fiscal years ending 2005, 2004 and 2003, the School entered into capitalized leases for office equipment, buildings, food service equipment, telephone system and a tractor. The leases meet the criteria of a capital lease as defined by Statement of Financial Accounting Standards No. 13, "Accounting for Leases," which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee. The capital leases have been recorded at the present value of future minimum lease payments as of the inception dates.

The following is a schedule of the future minimum lease payments required under the capital leases and the present value of the minimum lease payments as of June 30, 2005.

Fiscal Year Ending June 30,	
2006	\$ 83,264
2007	76,993
2008	34,853
2009	21,228
2010	<u>3,538</u>
Total minimum lease payments	219,876
Less: interest	<u>39,366</u>
Present Value of minimum lease payments	<u>\$180,510</u>

NOTE PAYABLE

The Note payable for the school as of June 30, 2005 is as follows:

A promissory note was issued in Fiscal Year 2003 through Park National Bank. The monthly payments are \$5,369.84 (through October 2003) and \$5,352.77 (starting in November 2003) and will conclude in October 2010. The note has a variable interest rate adjusted to the prime rate every October with the current rate being 6.25%. The proceeds from the note were used to pay off the capital lease of the modular buildings with Tatonka, Inc.

**THE OHIO ACHIEVEMENT CHARTER SCHOOLS, INC
FRANKLIN COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE PAYABLE (CONTINUED)

The annual requirements to amortize the outstanding note debt as of June 30, 2005, including interest, are as follows:

Fiscal Year Ending June 30,	
2006	\$ 64,201
2007	64,201
2008	64,201
2009	64,201
2010	<u>21,400</u>
Total	\$ 278,204
Less amount representing interest	<u>39,327</u>
Total Note Principal outstanding	<u>\$ 238,877</u>

11. OTHER LEASES

During fiscal year 2000, the School entered into a lease agreement with the Obermiller, LLC for approximately six acres of property and the building located at the School. The initial five-year term of the lease commenced May 1, 2000. An additional five-year term is to commence July 1, 2005. Total rent expense for the fiscal year ended June 30, 2005 was \$126,000. Pursuant to the lease agreement, future minimum required rental payments are as follows:

Fiscal Year Ending June 30,	
2006	\$ 142,000
2007	146,260
2008	150,648
2009	155,167
2010	<u>159,822</u>
Total	<u>\$ 753,897</u>

12. STATE SCHOOL FUNDING DECISION

On December 11, 2002, the Ohio Supreme Court issued its latest opinion regarding the State's school funding plan. The decision reaffirmed earlier decisions that Ohio's current school funding plan is unconstitutional.

The Supreme Court relinquished jurisdiction over the case and directed "...the Ohio General Assembly to enact a school funding scheme that is thorough and efficient...". As of the date of these financial statements, the School is unable to determine what effect, if any, this decision will have on its future State funding and on its financial operations.

**THE OHIO ACHIEVEMENT CHARTER SCHOOLS, INC
FRANKLIN COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2005

13. 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, 2005.

B. Litigation

A suit was filed in Franklin County Common Pleas Court on May 14, 2001, alleging that Ohio's Community (i.e., Charter) Schools program violates the state constitution and state laws. On April 21, 2003 the court dismissed the counts containing constitutional claims and stayed the other counts pending appeal of the constitutional issues. The plaintiffs appealed to the Court of Appeals, the issues have been briefed, and the case is set for oral argument on November 18th, 2003. On August 24, 2004 the Court of Appeals rendered a decision that Community Schools are part of the state education system and this matter was sent to the Ohio Supreme Court. The effect of this suit on the school is not presently determinable.

C. Full-Time Equivalency Reviews

The Ohio Department of Education conducts reviews of enrollment data and full-time equivalency (FTE) calculations made by the School. These reviews are conducted to ensure the School is reporting accurate student enrollment data to the State, upon which state foundation funding is calculated. To date, a review of the fiscal year 2005 has not been conducted.

14. MANAGEMENT CONSULTING CONTRACT

The School entered into a one-year contract on October 1, 2004 with Achievement Education Services, Inc. for management consulting services. Under the contract, Achievement Education Services is required to provide the following services:

- . Superintendent Services
- . Staff Development and Recruiting
- . Program Development
- . Budgeting, Financial Reporting and Audit Preparation
- . Building and Grounds Planning and Maintenance
- . Curriculum Research and Development
- . Marketing and Publicity
- . Testing Program and Analysis
- . Grant Preparation and Management
- . Board Recruitment and Management
- . Personnel Services

For the services listed above, the School is required to pay a fee to Achievement Education Services, Inc. The fee is equal to 7% of the total per pupil allowance received from the State of Ohio. The total expense paid under this contract for fiscal year 2005 totaled \$438,473.

**THE OHIO ACHIEVEMENT CHARTER SCHOOLS, INC
FRANKLIN COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2005

15. PURCHASED SERVICES EXPENSES

For the year ended June 30, 2005, purchased service expenses were payments for services rendered by various vendors as follows:

Professional and Technical Services	\$ 578,570
Property Services	213,193
Travel Mileage/Meeting Expense	19,853
Communications	35,013
Utilities	69,731
Contracted Craft or Trade Services	248,979
Other Purchased Services	103,553
Total Purchased Services	<u>\$1,268,892</u>

16. TAX EXEMPT STATUS

The School was approved under § 501(c)(3) of the Internal Revenue Code as a tax exempt organization on December 7, 1999. Management is not aware of any course of action or series of events that might adversely affect the School's tax exempt status.

17. PRIOR PERIOD RESTATEMENT

Net assets as of June 30, 2004 were increased by \$103,443 due to the following:

- \$36,606 because construction in progress as of June 30, 2004 had not been properly recorded during fiscal year 2004.
- \$66,837 because the healthcare portion of the accrued wages and benefits liability had not been properly recorded during fiscal year 2004.

**THE OHIO ACHIEVEMENT CHARTER SCHOOLS, INC.
FRANKLIN COUNTY**

SCHEDULE OF RECEIPTS AND EXPENDITURES OF FEDERAL AWARDS

FOR THE FISCAL YEAR ENDED JUNE 30, 2005

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	CFDA Number	Pass-Through Entity Identifying Number	Receipts	Expenditures
<u>U.S. DEPARTMENT OF AGRICULTURE</u>				
<i>Passed through Ohio Department of Education:</i>				
Nutrition Cluster:				
School Breakfast Program	10.553	05PU-2004 05PU-2005	\$ 20,179 46,788 <u>66,967</u>	\$ 20,179 46,788 <u>66,967</u>
National School Lunch Program	10.555	LLP4-2004 LLP4-2005	39,602 113,913 <u>153,515</u>	39,602 113,913 <u>153,515</u>
Total U.S. Department of Agriculture			220,482	220,482
<u>U.S. DEPARTMENT OF EDUCATION</u>				
<i>Passed through Ohio Department of Education:</i>				
Title I - Part A	84.010	C1S1-2004 C1S1-2005	30,750 199,879	43,250 198,771
Title I - Part A		C1SK-2005	28,187	27,035
Title I - School Improvement Program			<u>258,816</u>	<u>269,056</u>
Title VI-B - Special Education Grants to States	84.027	6BSF-2004 6BSF-2005	9,462 141,858 <u>151,320</u>	9,462 140,768 <u>150,230</u>
Title IV - Safe and Drug-Free Schools and Communities	84.186	DRS1-2005	6,192	4,335
Title V - Innovative Education Program	84.298	C2S1-2004 C2S1-2005	(1,963) 5,269 <u>3,306</u>	- 3,434 <u>3,434</u>
Title II-D - Education Technology State Grants	84.318	TJS1-2005	2,784	2,676
Title II-A - Improving Teacher Quality	84.367	TRS1-2005	55,069	55,069
<i>Passed through Ohio School Facilities Commission:</i>				
Federal Emergency Repair Project	83.352A	835	178,655	226,013
Total U.S. Department of Education			<u>656,142</u>	<u>710,813</u>
Total Federal Awards Receipts and Expenditures			<u>\$ 876,624</u>	<u>\$ 931,295</u>

The accompanying notes are an integral part of this statement.

**THE OHIO ACHIEVEMENT CHARTER SCHOOLS, INC.
FRANKLIN COUNTY**

NOTES TO THE SCHEDULE OF RECEIPTS AND EXPENDITURES OF FEDERAL AWARDS

FOR THE FISCAL YEAR ENDED JUNE 30, 2005

Note 1. Basis of Presentation

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



INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

The Ohio Achievement Charter Schools, Inc.
DBA Millennium Community School
1850 Bostwick Road
Columbus, Ohio 43227

To the Board of Trustees:

We have audited the basic financial statements of the Ohio Achievement Charter Schools, Inc., Franklin County, Ohio (the School), as of and for the year ended June 30, 2005, and have issued our report thereon dated July 14, 2006. Except as discussed in that report, 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 *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the School's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect School's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. A reportable condition is described in the accompanying schedule of findings as items 2005-001.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe none of the reportable conditions described above is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the School's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on 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 such an opinion. The results of our tests disclosed no instances of noncompliance or other matters required to be reported under *Government Auditing Standards*.

The Ohio Achievement Charter Schools, Inc.
DBA Millennium Community School
Report on Internal Control Over Financial Reporting and on Compliance
and Other Matters Based on an Audit of Financial Statements
Performed in Accordance with *Government Auditing Standards*
Page 2

We also noted certain additional matters that we reported to management of the School in a separate letter dated July 14, 2006.

This report is intended for the information and use of the audit committee, management, Board of Trustees, and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

Kennedy, Cottrell + Associates LLC

Kennedy, Cottrell + Associates
July 14, 2006



**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE
TO MAJOR FEDERAL PROGRAMS AND INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

The Ohio Achievement Charter Schools, Inc.
DBA Millennium Community School
1850 Bostwick Road
Columbus, Ohio 43227

To the Board of Trustees:

Compliance

We have audited the compliance of the Ohio Achievement Charter Schools, Inc., Franklin County, Ohio (the School) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement* that are applicable to its major federal program for the year ended June 30, 2005. The School's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the School's management. Our responsibility is to express an opinion on the School's compliance based on our audit.

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

As discussed in findings 2005-002 and 2005-005 in the accompanying Schedule of Findings and Questioned Costs, we were unable to obtain sufficient documentation supporting the School's compliance with the Eligibility requirements of its Nutrition Cluster and Title I programs, nor were we able to satisfy ourselves as to the School's compliance with those requirements by other auditing procedures.

In our opinion, except for the effects of such noncompliance, if any, as might have been determined had we been able to examine sufficient evidence regarding the School's compliance with the Eligibility requirements of its Nutrition Cluster and Title I programs, the School complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2005.

The results of our auditing procedures also disclosed an instance of noncompliance with those requirements that is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying Schedule of Findings and Questioned Costs as item 2004-006.

Internal Control Over Compliance

The management of the School is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the School's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the School's ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts and grants. Reportable conditions are described in the accompanying schedule of findings and questioned costs as items 2004-002 through 2004-005.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider items 2004-002, 2004-003, and 2004-005 to be material weaknesses.

This report is intended for the information and use of the audit committee, management, Board of Trustees, and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

Kennedy, Cottrell + Associates LLC

Kennedy, Cottrell + Associates
July 14, 2006

**THE OHIO ACHIEVEMENT CHARTER SCHOOLS, INC.
FRANKLIN COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A-133 § .505**

JUNE 30, 2005

1. SUMMARY OF AUDITOR'S RESULTS
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(d)(1)(i)	Type of Financial Statement Opinion	Qualified
(d)(1)(ii)	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(1)(ii)	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	Yes
(d)(1)(iii)	Was there any reported material noncompliance at the financial statement level (GAGAS)?	No
(d)(1)(iv)	Were there any material internal control weakness conditions reported for major federal programs?	Yes
(d)(1)(iv)	Were there any other reportable internal control weakness conditions reported for major federal programs?	Yes
(d)(1)(v)	Type of Major Programs' Compliance Opinion	Qualified
(d)(1)(vi)	Are there any reportable findings under § .510(a) of Circular A-133?	Yes
(d)(1)(vii)	Major Programs (list):	Nutrition Cluster: CFDA 10.553, 10.555 Title I – Grants to Local Educational Agencies CFDA 84.010
(d)(1)(viii)	Dollar Threshold: Type A/B Programs	Type A: > \$300,000 Type B: All others
(d)(1)(ix)	Low Risk Auditee?	No

THE OHIO ACHIEVEMENT CHARTER SCHOOLS, INC.
FRANKLIN COUNTY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A-133 § .505

JUNE 30, 2005

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

Finding Number	2005-001
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REPORTABLE CONDITION: MAINTENANCE OF RECORDS

Adequate supporting documentation should be maintained for all accounting transactions to ensure the validity and nature of each transaction.

During our testing, we noted that the School was unable to provide adequate support documentation such as duplicate receipts, student applications, or classroom rosters for its receipts posted to the sales revenue line item, which mainly consists of its daily lunch receipts, summer school fees, carnival revenues, and student activity receipts. For 2005, sales revenue totaled \$62,575.

Additionally, of the one hundred forty-five non-payroll disbursements tested, seven of the disbursements were not supported by any type of invoice. For 2005, non-payroll disbursements totaled \$3,191,451.

As a result, the School is unable to ensure that the amounts it collects and disburse for various activities are properly recorded, deposited, and expended for proper purposes. We recommend the School maintain adequate support documentation for all accounting transactions to help ensure that the amounts it collects for these various activities are properly recorded, deposited, and expended for proper purposes.

Officials' Response

The School will require all student payment be made directly to the School Office. The School secretary will issue a receipt to each student paying money. The School will require the use of Sales Project Potential Forms for all School Activities. The School will use pre-numbered tickets for all events charging admission.

The Treasurer will review Lunch receipt and disbursement records on a monthly basis to determine if they are complete and that the supporting documentation agrees with the State CN Reports.

The Treasurer will verify that a copy of the invoice is attached to all payments.

Anticipated Completion Date: August 31, 2006
Responsible Contact Person: Chris Dinovo

**THE OHIO ACHIEVEMENT CHARTER SCHOOLS, INC.
FRANKLIN COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A-133 § .505**

JUNE 30, 2005

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS
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CFDA Title and Number	<u>Nutrition Cluster:</u> School Breakfast Program – CFDA 10.553 National School Lunch Program –CFDA 10.555
Federal Award Number / Year	05PU-2005, 05PU-2004, LLP4-2004, LLP4-2005
Federal Agency	U.S. Department of Agriculture
Pass-Through Agency	Ohio Department of Education
Finding Number	2005-002

Eligibility

7 CFR 245.6 provides that each child receiving free and reduced lunches must annually submit an application to the School. The School must then certify a child’s family income and family size and place him/her within income eligibility standards issued by the Office of Food Nutrition Services. The application must be approved and maintained on file.

7 CFR 245 6a requires that by December 15th of each school year a participating school (school food authority-SFA) must verify the information presented on a sample of the applications that it has approved for free and reduced price meals. The verification sample size is based on the number of approved applications on file on October 31st. SFAs may select the sample by either of two methods specified in the section. Further, the SFA must follow-up on children determined ineligible for free and reduced price meals and change the category of such children determined ineligible.

7 CFR 245.6a, c states that the school verifying applications shall maintain on file for review a description of the verification to be accomplished. The description shall include:

- (1) A summary of the verification efforts including the techniques to be used;
- (2) the total number of applications on file by October 31;
- (3) the percentage or number of applications verified;
- (4) all verified applications must be readily retrievable by the school and include all documents submitted by the household in an effort to confirm eligibility, reproductions of those documents, or annotations made by the determining official which indicate which documents were submitted by the household and the date of submission;
- (5) documentation of any changes in eligibility and the reasons for the changes; and
- (6) all relevant correspondences between the household selected for verification and the school food authority/school.

The School did not maintain any free and reduced lunch applications or proof of eligibility verifications for fiscal year 2005. The questioned cost for not providing proof of eligibility verifications and not properly classifying students per the income eligibility scale for the Nutrition Cluster is \$220,482.

We recommend that the School establish policies and procedures regarding eligibility verification. Those policies and procedures at a minimum should incorporate the requirements of the above noted CFR sections.

**THE OHIO ACHIEVEMENT CHARTER SCHOOLS, INC.
FRANKLIN COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A-133 § .505**

JUNE 30, 2005

Officials' Response and Corrective Action Plan

The Treasurer's Office will maintain a copy of all Free and Reduced Price Lunch applications along with proof of eligibility verifications. The Treasurer will verify that the appropriate number of eligibility verifications have been completed.

Anticipated Completion Date: December 31, 2006

Responsible Contact Person: Chris Dinovo

CFDA Title and Number	Nutrition Cluster: School Breakfast Program – CFDA 10.553 National School Lunch Program –CFDA 10.555
Federal Award Number / Year	05PU-2005, 05PU-2004, LLP4-2004, LLP4-2005
Federal Agency	U.S. Department of Agriculture
Pass-Through Agency	Ohio Department of Education
Finding Number	2005-003

Reporting

7 CFR 210.8(a) provides, in part, that the School Food Authority shall establish internal controls which ensure the accuracy of lunch counts prior to the submission of the monthly Claim for Reimbursement. At a minimum, these internal controls shall include: an on-site review of the lunch counting and claiming system employed by the school; comparisons of daily free, reduced price and paid lunch counts against data which will assist in the identification of lunch counts in excess of the number of free, reduced price and paid lunches served each day to children eligible for such lunches; and a system for following up on those lunch counts which suggest the likelihood of lunch counting problems.

Though the School has written internal control procedures over their lunch counting system, the following procedures were not adhered to due to the School being unable to provide accurate documentation to support the amounts on the monthly Claim for Reimbursement.

- The School did not ensure that the number of free and reduced breakfast/lunches claimed for reimbursement represents an accurate reflection of approved applications and daily attendance.
- The School did not ensure that the monthly Claims for Reimbursement correctly indicated the number of free and reduced applicants as compared to the approved application on file.
- The School did not ensure that the Daily Meal Counts agreed with the amounts reported on the monthly Claims for Reimbursement.

We recommend the School ensure that breakfast and lunch counts reported on the monthly Claims for Reimbursement are adequately supported by the attendance and lunchroom records.

THE OHIO ACHIEVEMENT CHARTER SCHOOLS, INC.
FRANKLIN COUNTY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A-133 § .505

JUNE 30, 2005

Officials' Response and Corrective Action Plan

The Treasurer will review Lunch receipt and disbursement records on a monthly basis to determine if they are complete and that the supporting documentation agrees with the State CN Reports.

Anticipated Completion Date: October 31, 2006
Responsible Contact Person: Chris Dinovo

CFDA Title and Number	Nutrition Cluster: School Breakfast Program – CFDA 10.553 National School Lunch Program –CFDA 10.555
Federal Award Number / Year	05PU-2005, 05PU-2004, LLP4-2004, LLP4-2005
Federal Agency	U.S. Department of Agriculture
Pass-Through Agency	Ohio Department of Education
Finding Number	2005-004

Reporting

The Ohio Department of Education's (ODE) Claims Reimbursement and Reporting System (CRRS) and the CRRS User Manual requires that schools participating in ODE sponsored federal nutrition programs submit meals served and financial data for each month of food service operations. The required financial data includes food service inventory cost and labor and other cost data. The CRRS User Manual provides that such cost information should be provided for the respective claiming period.

The School was unable to provide accurate documentation to support any breakfast and lunch counts or amounts collected.

We recommend the School ensure that the financial information reported on the monthly Claims for Reimbursement is adequately supported by the accounting records and that all support documentation is maintained.

Officials' Response and Corrective Action Plan

The Treasurer will review Lunch receipt and disbursement records on a monthly basis to determine if they are complete and that the supporting documentation agrees with the State CN Reports.

Anticipated Completion Date: October 31, 2006
Responsible Contact Person: Chris Dinovo

THE OHIO ACHIEVEMENT CHARTER SCHOOLS, INC.
FRANKLIN COUNTY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A-133 § .505

JUNE 30, 2005

CFDA Title and Number	<u>Title 1</u> Grants to Local Education Agencies - CFDA 84.010
Federal Award Number / Year	C1S1 -2003, C1S1 – 2004
Federal Agency	U.S. Department of Education
Pass-Through Agency	Ohio Department of Education
Finding Number	2005-005

Eligibility

Title I, Section 1113 of Elementary School and Secondary Education Act (ESEA) (20 USC 6313) states that Title I, Part A funds received under this part shall use funds received under this part only in a school attendance area in which the percentage of children from low-income families is at least as high as the percentage of children from low-income families in the local educational agency as a whole.

To identify eligible school attendance areas, the local educational agency shall use the same measure of poverty, which measure shall be the number of children ages 5 through 17 in poverty counted in the most recent census data approved by the Secretary, the number of children eligible for free and reduced priced lunches under the Richard B. Russell National School Lunch Act, the number of children in families receiving assistance under the State program funded under part A of title IV of the Social Security Act, or the number of children eligible to receive medical assistance under the Medicaid program, or a composite of such indicators, with respect to all school attendance areas in the local educational agency.

For fiscal year 2005, the School elected to measure its poverty level by the number of children eligible for free and reduced priced lunches under the Richard B. Russell National School Lunch Act. The School was unable to provide any type of documentation, such as, approved free and reduced lunch applications or accurate lunch counts, to support the amount used to determine the eligibility of the School.

The questioned cost for not being able to provide proof of its eligibility for Title I is \$269,056. We recommend the School maintain all records used to determine eligibility for Title I services.

Officials' Response and Corrective Action Plan

The Treasurer's Office will maintain a copy of all Free and Reduced Price Lunch applications along with proof of eligibility verifications. The Treasurer will verify that the appropriate number of eligibility verifications have been completed.

Anticipated Completion Date: December 31, 2006
Responsible Contact Person: Chris Dinovo

**THE OHIO ACHIEVEMENT CHARTER SCHOOLS, INC.
FRANKLIN COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A-133 § .505**

JUNE 30, 2005

CFDA Title and Number	<u>Title 1</u> Grants to Local Education Agencies - CFDA 84.010
Federal Award Number / Year	C1S1 -2003, C1S1 – 2004
Federal Agency	U.S. Department of Education
Pass-Through Agency	Ohio Department of Education
Finding Number	2005-006

FEDERAL PAYROLL DOCUMENTATION

OMB Circular A-87, Attachment B, Section 8(h)(3), states, in part:

Where employees are expected to work solely on a single Federal award or cost objective, charges for their salaries and wages will be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification. These certifications will be prepared at least semi annually and will be signed by the employee or supervisory official having first hand knowledge of the work performed by the employee.

Furthermore, OMB Circular A-87, Attachment B, Section 8(h)(4), states, in part:

Where employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation....Such documentary support will be required where employees work on:

- (a) More than one Federal award,
- (b) A Federal award and a non Federal award,
- (c) An indirect cost activity and a direct cost activity,
- (d) Two or more indirect activities which are allocated using different allocation bases, or
- (e) An unallowable activity and a direct or indirect cost activity.

The School did not prepare the required semi-annual certifications for those personnel who were paid solely from Title I funds. In addition, the School did not utilize timesheets that documented time devoted to federal grants by personnel who worked on multiple federal and/or non-federal activities

Without such documentation, the risk is increased that salaries and related fringe benefits could be inappropriately charged to a federal grant program. The total payroll charges to Title I grant for fiscal year 2005 were \$227,364.

We recommend the School pre-approve all instructors to be paid with Title I funds to ensure that only employees providing Title I related services are paid with the federal funds. Additionally, the School should assign a supervisory official having first hand knowledge of the work performed by grant employees to prepare semi-annual certifications documenting which employees worked solely on one grant program. Also the School should begin utilizing timesheets that document the distribution of time between multiple federal grant activities.

Officials' Response and Corrective Action Plan

The Treasurer will provide needed time sheets and verification forms for all employees paid with federal funds.

Anticipated Completion Date: September 30, 2006

Responsible Contact Person: Chris Dinovo

**THE OHIO ACHIEVEMENT CHARTER SCHOOLS, INC.
FRANKLIN COUNTY**

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

JUNE 30, 2005

<u>Finding Number</u>	<u>Finding Summary</u>	<u>Fully Corrected?</u>	<u>Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain:</u>
2004-001	Lack of review and authorization of expenditures	Yes	
2004-002	School Breakfast and Lunch Programs - Lack of proof of eligibility verifications and improperly classified students.	No	Not corrected. Reported as finding number 2005-001.
2004-003	Improper reporting of free and reduced priced meal counts and lack of supporting documentation.	No	Not corrected. Reported as finding number 2005-002.
2004-004	Lack of supporting documentation for monthly claim for reimbursement reports.	No	Not corrected. Reported as finding number 2005-003.
2004-005	Lack of proof of eligibility for Title I	No	Not corrected. Reported as finding number 2005-004.
2004-006	Federal funds used to pay non-Title I employees	No	Not corrected. Reported as finding number 2005-005.



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OHIO ACHIEVEMENT CHARTER SCHOOLS, INC.

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
OCTOBER 3, 2006**