



Dave Yost • Auditor of State

**STAMBAUGH CHARTER ACADEMY
MAHONING COUNTY**

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Dave Yost • Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

Stambaugh Charter Academy
Mahoning County
2420 Donald Avenue
Youngstown, OH 44509

To the Board of Directors:

We have audited the accompanying financial statements of Stambaugh Charter Academy, Mahoning County, Ohio (the "Academy"), as of and for the year ended June 30, 2010, which collectively comprise the Academy's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Academy's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the contract service fees incurred by the Academy which totaled \$5,811,657 as indicated in Note 9. Other auditors audited those amounts. They have furnished their report thereon to us and we base our opinion, insofar as it relates to the amounts included for Note 9, on the report of the other auditors.

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. The other auditors audited the contract service fees amount, which totaled \$5,811,657, in accordance with auditing standards generally accepted in the United States of America and not in accordance with *Government Auditing Standards*. 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 and the report of other auditors provides a reasonable basis for our opinions.

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of Stambaugh Charter Academy, Mahoning County, Ohio, as of June 30, 2010 and the respective changes in financial position and 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 March 31, 2011, on our consideration of the Academy's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require this presentation to include *Management's Discussion and Analysis*, as listed in the table of contents, to supplement the basic financial statements. Although this information is not part of the basic financial statements, the Governmental Accounting Standards Board considers it essential for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any other assurance.

We conducted our audit to opine on the financial statements that collectively comprise the Academy's basic financial statements taken as a whole. The Federal Awards Receipt and Expenditure schedule provides additional information required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. The Federal Awards Receipt and Expenditure Schedule is management's responsibility, and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. This schedule was subject to the auditing procedures we applied to the basic financial statements. We also applied certain additional procedures, including comparing and reconciling this information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, in accordance with auditing standards generally accepted in the United States of America. In our opinion, this information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



Dave Yost
Auditor of State

March 31, 2011

STAMBAUGH CHARTER ACADEMY

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2010 (UNAUDITED)

The discussion and analysis of Stambaugh Charter Academy's (the "Academy") financial performance provides an overall review of the Academy's financial activities for the year ended June 30, 2010. The intent of this discussion and analysis is to look at the Academy's financial performance as a whole; readers should also review the financial statements and notes to the financial statements to enhance their understanding of the Academy'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 Financial Statements – and Management's Discussion and Analysis – for State and Local Government issued June, 1999.

Financial Highlights

For the year ended June 30, 2010, total assets were \$776,158, total liabilities were \$663,770, and total net assets were \$112,388.

Using this Financial Report

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

Reporting the Academy as a Whole

One of the most important questions asked about the Academy is, "As a whole, what is the Academy's financial condition as a result of the year's activities?" The Statement of Net Assets and the Statement of Revenues, Expenses and Changes in Net Assets, which appear first in the Academy's financial statements, report information on the Academy as a whole and its activities in a way that helps you answer this question. We prepare these statements to include all assets and liabilities, using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when the cash is received or paid.

These two statements report the Academy's net assets – the difference between assets and liabilities, as reported in the Statement of Net Assets – as one way to measure the Academy's financial health or financial position. Over time, increases or decreases in the Academy's net assets – as reported in the Statement of Net Assets – are indicators of whether its financial health is improving or deteriorating. The relationship between revenues and expenses is the Academy's operating results. However, the Academy's goal is to provide services to our students, not to generate profits as commercial entities do. One must consider many other non-financial factors, such as the quality of the education provided and the safety of the school, to assess the overall health of the Academy.

STAMBAUGH CHARTER ACADEMY

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED) FOR THE YEAR ENDED JUNE 30, 2010 (UNAUDITED)

The Statement of Net Assets and the Statement of Revenues, Expenses and Changes in Net Assets report the activities for the Academy, which encompass all the Academy's services, including instruction, support services, community services, and food services. Unrestricted state aid and state and federal grants finance most of these activities. The Academy has entered into a management agreement (the "agreement") with National Heritage Academies, Inc. ("NHA") which requires NHA to provide administration, strategic planning and all labor, materials, equipment, and supervision necessary for the provision of educational services to students. As part of the consideration received under the agreement, NHA also provides the facility in which the Academy operates. Under the terms of the agreement, NHA receives as remuneration for its services an amount equal to the total revenue received by the Academy from all revenue sources.

The table below provides a summary of the Academy's net assets for the years ended June 30:

	2010	2009
Assets:		
Current assets	\$ 731,584	\$ 375,875
Capital assets, net of accumulated depreciation	<u>44,574</u>	<u>69,221</u>
Total assets	776,158	445,096
Liabilities—current	<u>663,770</u>	<u>311,456</u>
Net assets:		
Invested in capital assets	44,574	69,221
Unrestricted	<u>67,814</u>	<u>64,419</u>
Total net assets	<u>\$ 112,388</u>	<u>\$ 133,640</u>

The unrestricted net assets represent the accumulated results of the Academy's operations to date. These assets can be used to finance day to day operations without constraints, such as legislative or legal requirements. The results of the current year operations for the Academy as a whole are reported in the Statement of Revenues, Expenses and Changes in Net Assets, which shows the change in net assets.

STAMBAUGH CHARTER ACADEMY

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED) FOR THE YEAR ENDED JUNE 30, 2010 (UNAUDITED)

Statement of Revenues, Expenses and Changes in Net Assets

The table below shows the changes in net assets as well as a listing of revenues and expenses for the fiscal years ended June 30:

	2010	2009
Operating revenues:		
Foundation payments	\$ 4,002,902	\$ 4,039,145
Food services	4,878	8,934
Other revenues	<u>8,122</u>	<u>4,687</u>
Total operating revenues	<u>4,015,902</u>	<u>4,052,766</u>
Operating expenses:		
Contracted service fee	5,811,657	5,120,558
Depreciation	<u>24,647</u>	<u>24,647</u>
Total operating expenses	<u>5,836,304</u>	<u>5,145,205</u>
Operating loss	(1,820,402)	(1,092,439)
Nonoperating revenues:		
Federal grants	1,785,740	840,113
State grants	13,410	17,962
Private sources—NHA	<u>-</u>	<u>234,956</u>
Total nonoperating revenues	<u>1,799,150</u>	<u>1,093,031</u>
Change in net assets	<u>\$ (21,252)</u>	<u>\$ 592</u>

As reported in the Statement of Revenues, Expenses and Changes in Net Assets, the cost of business activities was \$5,836,304. These activities were primarily funded by the Academy's state aid (based on student count) and governments and organizations that subsidized certain programs with grants. Revenues—Private sources—NHA represent a credit granted by NHA for the excess of Academy expenses over public revenues available.

The Academy experienced a decrease in net assets of \$21,252 in 2010. Under the terms of the agreement with NHA, NHA provides a spending account to the Board of Directors for discretionary expenditures. The primary reason for the change in net assets is the timing of these discretionary expenditures.

STAMBAUGH CHARTER ACADEMY

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED) FOR THE YEAR ENDED JUNE 30, 2010 (UNAUDITED)

Capital Assets

At June 30, 2010, the Academy had \$44,574 invested in capital assets with purchases through the Charter School Grants, primarily other equipment. Capital assets are substantially provided as part of the agreement with NHA.

General Economic Factors

The Academy depends on legislative and governmental support to fund its operations. Based on information currently available, no significant changes are expected to occur in the nature of the funding or operations of the Academy in 2011.

Contacting the Academy's Financial Management

The financial report is designed to provide users of the report with a general overview of the Academy's finances and to demonstrate the Academy's accountability for the money it receives. If you have questions about this report, contact the Chief Financial Officer of National Heritage Academies, Inc., 3850 Broadmoor SE, Ste. 201, Grand Rapids, MI 49512.

STAMBAUGH CHARTER ACADEMY

STATEMENT OF NET ASSETS JUNE 30, 2010

CURRENT ASSETS:

Cash	\$ 74,672
Intergovernmental receivable	<u>656,912</u>
Total current assets	<u>731,584</u>

NON-CURRENT ASSETS:

Capital assets	128,794
Less: accumulated depreciation	<u>(84,220)</u>
Total non-current assets	<u>44,574</u>

Total assets 776,158

LIABILITIES:

Deferred revenue	180
Due to National Heritage Academies, Inc.	<u>663,590</u>

Total liabilities 663,770

NET ASSETS:

Invested in capital assets	44,574
Unrestricted	<u>67,814</u>
Total net assets	<u>\$ 112,388</u>

See notes to financial statements.

STAMBAUGH CHARTER ACADEMY

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS YEAR ENDED JUNE 30, 2010

OPERATING REVENUES:

Foundation payments	\$ 4,002,902
Food services	4,878
Other revenues	<u>8,122</u>

Total operating revenues 4,015,902

OPERATING EXPENSES:

Contracted service fee	5,811,657
Depreciation	<u>24,647</u>

Total operating expenses 5,836,304

OPERATING LOSS (1,820,402)

NONOPERATING REVENUES:

Federal grants	1,785,740
State grants	<u>13,410</u>

Total nonoperating revenue 1,799,150

CHANGE IN NET ASSETS (21,252)

NET ASSETS—Beginning of year 133,640

NET ASSETS—End of year \$ 112,388

See notes to financial statements.

STAMBAUGH CHARTER ACADEMY

STATEMENT OF CASH FLOWS YEAR ENDED JUNE 30, 2010

CASH FLOWS FROM OPERATING ACTIVITIES:

Cash received from State of Ohio	\$ 4,002,902
Cash received from food services	5,058
Cash received from other operating revenue	8,122
Cash paid on behalf of the Academy for goods and services	<u>(5,459,523)</u>

Net cash used for operating activities (1,443,441)

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:

Federal grants received	1,433,426
State grants received	<u>13,410</u>

Net cash provided by noncapital financing activities 1,446,836

NET INCREASE IN CASH 3,395

CASH—Beginning of year 71,277

CASH—End of year \$ 74,672

RECONCILIATION OF OPERATING LOSS TO NET CASH USED FOR OPERATING ACTIVITIES:

Operating Loss	\$ (1,820,402)
Depreciation	24,647
Changes in Assets and Liabilities—	
Increase in Due to National Heritage Academies, Inc	352,134
Increase in deferred revenue	<u>180</u>

NET CASH USED FOR OPERATING ACTIVITIES \$ (1,443,441)

See notes to financial statements.

STAMBAUGH CHARTER ACADEMY

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2010

1. NATURE OF OPERATIONS

Stambaugh Charter Academy (the “Academy”) is an Ohio Public School Academy which provides education based on rigorous teaching methods, parental involvement, student responsibility, and basic moral values. The Academy operates under an approved charter received from the Buckeye Community Hope Foundation (“Buckeye” or the “Sponsor”), which is responsible for oversight of the Academy’s operations. The charter expires on June 30, 2014 and is subject to renewal. Management believes the charter will be renewed in the ordinary course of business. The Academy provides education to students in kindergarten through the eighth grade, at no cost to the parent. Enrollment is open to all appropriately aged children without regard to gender, ethnic background, disability, and/or religious affiliation.

The Academy was established and is operated as a non-profit corporation under Chapter 1702 of the Ohio Revised Code and believes itself to be exempt from taxation under Internal Revenue Code Section 115(1) because its income is derived from the exercise of an essential governmental function and accrues to the State of Ohio. Donations to the Academy qualify as a charitable deduction under Internal Revenue Code Section 170(c)(1).

The Academy’s primary source of revenue is provided by the State of Ohio and consists of an amount per student multiplied by weighted average student counts. The state revenue is recognized ratably over the school year and was funded through payments from July through June for each fiscal year.

The Academy operates under the direction of a Board of Directors (the “Board”). The Board is responsible for carrying out the provisions of the contract with the Sponsor 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 has entered into a management agreement (the “agreement”) with National Heritage Academies, Inc. (“NHA”) which requires NHA to provide administration, strategic planning and all labor, materials, equipment, and supervision necessary for the provision of educational services to students. As part of the consideration received under the agreement, NHA also provides the facility in which the Academy operates. The facility lease term is from July 1st to June 30th and is renewable on a year to year basis. The agreement will continue until termination of the charter contract, inclusive of any charter contract renewals, unless at least 90 days written notice of intent to terminate or renegotiate is given by either the Academy or NHA.

Under the terms of the agreement, NHA receives as remuneration for its services an amount equal to the total revenue received by the Academy from all revenue sources. NHA provides a spending account to the Board for discretionary expenses on an annual basis. Revenues—private sources—National Heritage Academies, Inc. represent a contribution granted by NHA for the excess of Academy expenses over public revenues available.

STAMBAUGH CHARTER ACADEMY

NOTES TO FINANCIAL STATEMENTS (CONTINUED) YEAR ENDED JUNE 30, 2010

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Academy have been prepared in conformity with accounting principles generally accepted in the United States of America (“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 Academy 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 Academy does not apply FASB statements or interpretations issued after November 30, 1989. The more significant of the Academy’s accounting policies are described below.

A. Basis of Presentation

The Academy’s basic financial statements consist of a Statement of Net Assets, a Statement of Revenues, Expenses, and Changes in Net Assets, and a Statement of Cash Flows. Enterprise fund reporting focuses on the determination of the change in net assets, financial position, and cash flows.

B. 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 Statement of Revenues, Expenses and Changes in Net Assets presents increases (i.e., revenues) and decreases (i.e., expenses) in net total assets. The Statement of Cash Flows provides information about how the Academy finances and meets the cash flow needs of its enterprises activities.

C. Basis of Accounting

Basis of Accounting determines when transactions are recorded in the financial records and reported on the financial statements. The Academy’s financial statements are prepared using the accrual basis of accounting.

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place.

Non-exchange transactions, in which the Academy receives value without directly giving equal value in return, include grants, entitlements, and donations. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching purpose, and expenditure requirements, in which the resources are provided to the Academy on a reimbursement basis.

Expenses are recognized at the time they are incurred.

STAMBAUGH CHARTER ACADEMY

NOTES TO FINANCIAL STATEMENTS (CONTINUED) YEAR ENDED JUNE 30, 2010

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Budgetary Process

The contract between the School and its Sponsor prescribes an annual budget requirement in addition to preparing a 5-year forecast, which is to be updated on an annual basis. Chapter 5705.391(A) of the Ohio Revised Code also requires the School to prepare a 5-year forecast, update it annually, and submit it to the Superintendent of Public Instruction at the Ohio Department of Education.

E. Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

F. Cash Deposits

For cash management, all cash received by the Chief Financial Officer is pooled in a non-interest bearing central bank account. Total cash for the Academy is presented as "Cash" on the accompanying Statement of Net Assets. Cash as of June 30, 2010, represents bank deposits, which are covered by federal depository insurance.

G. Capital Assets

Capital assets, which include other equipment, are reported in the government-wide financial statements at historical cost. Capital assets are defined as other equipment purchased through the Charter School Grant with an estimated useful life in excess of one year and assets purchased by the Academy with an initial cost of more than \$5,000 and an estimated useful life in excess of one year.

Other equipment is depreciated using the straight-line method over useful lives of 3-10 years.

H. Current Liabilities

Due to National Heritage Academies, Inc.—this amount consists of payments due to NHA for management services rendered in fiscal year 2010.

STAMBAUGH CHARTER ACADEMY

NOTES TO FINANCIAL STATEMENTS (CONTINUED) YEAR ENDED JUNE 30, 2010

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

I. Operating Revenues and Expenses

Intergovernmental Revenues—the Academy 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 have been met.

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

The amount of these grants is directly related to the number of students enrolled in the Academy. The Ohio Department of Education conducts reviews of enrollment data and full-time equivalency calculations made by the Academy. These reviews are conducted to ensure the schools and centers are reporting accurate student enrollment data to the State, upon which State foundation funding is calculated. This review resulted in an overpayment to the Academy in the amount of \$6,889.

The grants and entitlements received by the Academy are recognized as non-operating revenues in the accounting period in which eligibility requirements have been met. Federal and State grant revenue for fiscal year 2010 was \$1,799,150.

J. Net Assets

Net assets represent the difference between assets and liabilities. Net assets are reported as restricted when there are limitations imposed on their use either through constitutional provisions or enabling legislation adopted through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. At fiscal year end June 30, 2010, the Academy had no restricted net assets.

STAMBAUGH CHARTER ACADEMY

NOTES TO FINANCIAL STATEMENTS (CONTINUED) YEAR ENDED JUNE 30, 2010

3. RECEIVABLES

Receivables at June 30, 2010, consisted of intergovernmental grants. All receivables are considered collectible in full and will be received within one year.

A summary of the principal items of receivables follows:

<u>Grants</u>	<u>Amounts</u>
Title I	\$ 205,276
Title I - ARRA	231,136
Title IIA	27,012
Title IID	4,947
Title V	630
IDEA Part B	35,057
IDEA Part B - ARRA	110,090
Title I School Improvement	28,159
National School Lunch and Breakfast	<u>14,605</u>
Total intergovernmental receivables	<u>\$ 656,912</u>

4. CAPITAL ASSETS

Capital asset activity of the Academy's governmental activities was as follows:

	<u>Beginning</u>			<u>Ending</u>
	<u>Balance</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance</u>
Governmental activities:				
Other equipment	\$ 128,794	\$ -	\$ -	\$ 128,794
Total capital assets at historical cost	128,794	-	-	128,794
Less: accumulated depreciation				
Other equipment	(59,573)	(24,647)	-	(84,220)
Total accumulated depreciation	(59,573)	(24,647)	-	(84,220)
Total governmental activities capital assets, net	<u>\$ 69,221</u>	<u>\$ (24,647)</u>	<u>\$ -</u>	<u>\$ 44,574</u>

STAMBAUGH CHARTER ACADEMY

NOTES TO FINANCIAL STATEMENTS (CONTINUED) YEAR ENDED JUNE 30, 2010

5. DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System—NHA, on behalf of certain employees at the Academy, contributes to the School Employees Retirement System (“SERS”), a cost-sharing multiple-employer defined benefit 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 43215-3476.

Plan members are required to contribute 10 percent of their annual covered salary and NHA is required to contribute at an actuarially determined rate. The current NHA rate is 14 percent of annual covered payroll. A portion of NHA’s contribution is used to fund pension obligations with the remainder being used to fund health care benefits. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS’ Retirement Board. NHA’s required contributions for pension obligations to SERS for the fiscal years ended June 30, 2010, 2009 and 2008 were \$44,440, \$46,346 and \$32,506, respectively; and 100 percent was contributed for each fiscal year.

B. State Teachers Retirement System—NHA, on behalf of teachers at the Academy, participates in the State Teachers Retirement System of Ohio (“STRS Ohio”), a cost-sharing, multiple-employer public employee retirement system. 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 East Broad St., Columbus, Ohio 43215-3371 or by calling (614) 227-4090.

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 member contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. DC and Combined Plan members will transfer to the DB Plan during their fifth year of membership unless they permanently select the DC or Combined Plan. 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 dies before retirement benefits begin, the member’s designated beneficiary is entitled to receive the member’s account balance.

STAMBAUGH CHARTER ACADEMY

NOTES TO FINANCIAL STATEMENTS (CONTINUED) YEAR ENDED JUNE 30, 2010

5. DEFINED BENEFIT PENSION PLANS (CONTINUED)

Plan members are required to contribute 10 percent of their annual covered salaries. NHA was required to contribute 14 percent. 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. NHA's required contributions for pension obligations for the fiscal years ended June 30, 2010, 2009 and 2008 were \$194,479, \$160,664 and \$145,174, respectively; 100 percent was contributed for each fiscal year. Contributions to the DC and Combined Plans for fiscal year 2010 were \$4,602 made by NHA and \$3,287 made by plan members.

6. POST-EMPLOYMENT BENEFITS

The Academy provides comprehensive health care benefits to retired teachers and their dependents through STRS Ohio and to retired, non-certified employees and their dependents through SERS. Benefits include hospitalization, physicians' fees, prescription drugs, and partial reimbursement of monthly Medicare premiums. All benefit recipients and sponsored dependents are eligible for health care coverage. Benefit provisions and the obligations to contribute are established by the Systems based on authority granted by state statute. Both systems are on a pay-as-you-go basis.

All STRS Ohio benefit recipients and sponsored dependents are eligible for health care coverage. The STRS Ohio Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. All benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS Ohio funds is included in the employer contribution rate, currently 14 percent of covered payroll. The Retirement Board allocates employer contributions to the Health Care Stabilization Fund from which health care benefits are paid. For the fiscal year ended June 30, 2010, the STRS Ohio Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. The Academy's contributions for health care for the fiscal years ended June 30, 2010, 2009 and 2008 were \$13,891, \$11,476 and \$10,370, respectively; 100 percent was contributed for each fiscal year.

STRS Ohio pays health care benefits from the Health Care Reserve Fund. At June 30, 2009 (the latest information available) the balance in the Fund was \$2.7 billion. For the year ended June 30, 2009, net health care costs paid by STRS Ohio were approximately \$332.7 million and STRS Ohio had 129,659 eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten or more years of qualifying service credit and to disability and survivor benefit recipients. All members must pay a portion of their premium for health care. The portion is based on years of service, Medicare eligibility, and retirement status. A safety net is in place for retirees whose household income falls below federal poverty levels. Premiums are reduced by 50 percent for those who apply.

STAMBAUGH CHARTER ACADEMY

NOTES TO FINANCIAL STATEMENTS (CONTINUED) YEAR ENDED JUNE 30, 2010

6. POST-EMPLOYMENT BENEFITS (CONTINUED)

For the year ended June 30, 2010, employer contributions to fund health care benefits were .46 percent of covered payroll. 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 2010, the minimum pay was established at \$35,800. For the Academy, the amounts contributed to fund health care benefits, including the surcharge, for the fiscal years ended June 30, 2010, 2009 and 2008, were \$4,067, \$17,227 and \$12,065, respectively.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provided for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of the annual health care expenses. Expenses for health care for the fiscal year ended June 30, 2009, were approximately \$118.1 million. The target level for the health care fund is 150 percent of the projected claims less premium contributions for the next fiscal year. As of June 30, 2009, the value of the health care fund was \$392.7 million, which is about 235 percent of next year's projected net health care costs of approximately \$160.2 million. On the basis of actuarial projections, the allocated contributions will be less than the total claims in future years and the future reserve amounts will eventually be less than the target of 150 percent of estimated annual net claim costs. SERS has approximately 65,757 participants receiving health care benefits.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For 2010, this actuarially required allocation was 0.76 percent of covered payroll. The Academy's contributions to Medicare Part B for the fiscal years ended June 30, 2010, 2009 and 2008 were \$2,412, \$2,483 and \$1,532 respectively, 100 percent was contributed in each fiscal year.

7. RISK MANAGEMENT

The Academy is exposed to various risks of loss related to general liability. Commercial insurance policies to cover certain risks of loss have been obtained through Indiana Insurance Company. General liability coverage provides \$1,000,000 per occurrence and \$5,000,000 in the aggregate with no deductible. The Indiana Insurance Company also provides umbrella liability coverage of \$1,000,000 per occurrence, as well as, in the aggregate. There have been no significant reductions in insurance coverage during fiscal year 2010, and claims did not exceed coverage during the three fiscal years.

STAMBAUGH CHARTER ACADEMY

NOTES TO FINANCIAL STATEMENTS (CONTINUED) YEAR ENDED JUNE 30, 2010

8. CONTINGENCIES

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 management, any such disallowed claims will not have a material adverse effect on the financial position of the Academy.

9. CONTRACTED SERVICE FEE

NHA incurred the following actual direct and indirect expenses on behalf of the Academy for the year ended June 30, 2010:

Direct Expenses:

Salaries, wages and benefits	\$ 2,324,381
Professional and technical services	190,410
Property services	1,089,283
Travel and training	170,453
Utilities	71,729
Contracted (trade) services	28,827
Purchased services	79,635
Books, periodicals and films	64,756
Food and related supplies	348,930
Supplies	137,793
Insurance and property taxes	32,337
Field trips and student activities	11,648
Equipment lease and purchases	<u>152,115</u>
Total Direct Expenses	4,702,297
Total Indirect Expenses (Overhead)	<u>1,109,360</u>
Total Contracted Service Fee	<u>\$ 5,811,657</u>

NHA charges expenses benefiting more than one school (i.e. indirect overhead expenses) based on key cost drivers. These charges represent indirect cost of services provided in the operation of the Academy. Such services include, but are not limited to facilities management, equipment, operational support services, management and management consulting, board relations, human resources management, training and orientation, financial reporting and compliance, purchasing and procurement, education services, technology support and marketing and communications.

STAMBAUGH CHARTER ACADEMY

NOTES TO FINANCIAL STATEMENTS (CONTINUED) YEAR ENDED JUNE 30, 2010

10. SPONSORSHIP AGREEMENT

The Academy entered into a sponsorship agreement with Buckeye. This agreement provides that Buckeye receives approximately two percent of State Foundation funds received by the Academy from the State of Ohio. This amounted to \$79,635 for the fiscal year ended June 30, 2010.

11. OPERATING LEASE

The Academy has entered into a sub-lease agreement with National Heritage Academies for a facility to house the Academy. The lease term is from July 1, 2009 through June 30, 2010. Annual rental payments required by the lease are \$866,080, payable in twelve monthly payments of \$72,173. This lease is renewable on a year to year basis.

The Academy subsequently renewed the sub-lease with National Heritage Academies on May 11, 2010 for the period of July 1, 2010 through June 30, 2011 for an annual rental payment of \$895,040, payable in twelve monthly payments of \$74,587.

The Academy did not pay any property taxes related to the facility during fiscal 2010.

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**STAMBAUGH CHARTER ACADEMY
MAHONING COUNTY**

**FEDERAL AWARDS RECEIPT AND EXPENDITURE SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2010**

Federal Grantor/ Pass Through Grantor Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Non-Cash Receipts	Disbursements	Non-Cash Disbursements
U.S. DEPARTMENT OF AGRICULTURE						
<i>Passed Through Ohio Department of Education:</i>						
Nutrition Cluster:						
Non-Cash Assistance (Food Distribution):						
National School Lunch Program	071960 (2009 - 2010)	10.555		\$ 11,577		\$ 11,577
Cash Assistance:						
School Breakfast Program	071960 (2008 - 2009)	10.553	7,833		-	
School Breakfast Program	071960 (2009 - 2010)	10.553	117,400		117,400	
			125,233		117,400	
National School Lunch Program	071960 (2008 - 2009)	10.555	14,043		-	
National School Lunch Program	071960 (2009 - 2010)	10.555	211,745		-	
Cash Assistance Subtotal			225,788		226,350	
Total U.S. Department of Agriculture - Nutrition Cluster			351,021	11,577	343,750	11,577
U.S. DEPARTMENT OF EDUCATION						
<i>Passed Through Ohio Department of Education:</i>						
Special Education Cluster:						
Special Education Grants to States (IDEA Part B)	000855-6BSF-2009	84.027	41,941		-	
	000855-6BSF-2010	84.027	143,362		143,362	
			185,303		143,362	
ARRA IDEA Part B		84.391	15,823		39,204	
Total Special Education Cluster			201,126		182,566	
Grants to Local Educational Agencies (ESEA Title I)	000855-C1S1-2009	84.010	118,708		54,416	
	000855-C1S1-2010	84.010	281,045		327,867	
		84.010	33,102		46,028	
			432,855		428,311	
ARRA Title I Grants to Local Educational Agencies		84.389	126,610		144,424	
Total Grants to Local Educational Agencies			559,465		572,735	
Education Technology State Grants	000855-TJS1-2010	84.318	3,227		5,703	
Total Education Technology State Grants			3,227		5,703	
School Improvement Grants	2009	84.377	28,842		-	
	2010	84.377	140		1,401	
Total School Improvement Grants			28,982		1,401	
Improving Teacher Quality State Grants	000855-TRS1-2009	84.367	4,360		275	
Improving Teacher Quality State Grants	000855-TRS1-2010	84.367	3,060		-	
Total Improving Teacher Quality State Grants			7,420		275	
ARRA State Fiscal Stabilization Fund		84.394	270,670		270,670	
Total ARRA State Fiscal Stabilization Fund			270,670		270,670	
Total U.S. Department of Education			1,070,890		1,033,350	
TOTAL			\$1,421,911	\$11,577	\$1,377,100	\$11,577

The accompanying notes to this schedule are an integral part of this schedule.

**STAMBAUGH CHARTER ACADEMY
MAHONING COUNTY**

**NOTES TO THE FEDERAL AWARDS RECEIPT AND EXPENDITURE SCHEDULE
FISCAL YEAR ENDED JUNE 30, 2010**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

The accompanying Federal Awards Receipt and Expenditure Schedule (the "Schedule") reports Stambaugh Charter Academy's (the "Academy's") federal award programs' receipts and disbursements. The Schedule has been prepared on the cash basis of accounting.

NOTE B - CHILD NUTRITION CLUSTER

The Academy commingles cash receipts from the U.S. Department of Agriculture with similar State grants. When reporting expenditures on this Schedule, the Academy assumes it expends federal monies first.

NOTE C – FOOD DONATION PROGRAM

The Academy reports commodities consumed on the Schedule at the fair value. The Academy allocated donated food commodities to the respective program that benefitted from the use of those donated food commodities.



Dave Yost • Auditor of State

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

Stambaugh Charter Academy
Mahoning County
2420 Donald Avenue
Youngstown, OH 44509

To the Board of Directors:

We have audited the financial statements of Stambaugh Charter Academy, Mahoning County (the "Academy"), as of and for the year ended June 30, 2010, which collectively comprise the Academy's basic financial statements and have issued our report thereon dated March 31, 2011. Our report refers to other auditors. 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*. Other auditors audited the contract service fees totaling \$5,811,657 as indicated in Note 9 and described in our opinion on the Academy's financial statements in accordance with auditing standards generally accepted in the United States of America and not in accordance with *Government Auditing Standards* and accordingly this report does not extend to Note 9.

Internal Control Over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or combination of internal control deficiencies resulting in more than a reasonable possibility that a material misstatement of the Academy's financial statements will not be prevented, or detected and timely corrected.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider material weaknesses, as defined above.

Compliance and Other Matters

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

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

A handwritten signature in black ink that reads "Dave Yost". The signature is written in a cursive style with a large, looping "D" and "Y".

Dave Yost
Auditor of State

March 31, 2011



Dave Yost • Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Stambaugh Charter Academy
Mahoning County
2420 Donald Avenue
Youngstown, Ohio 44509

To the Board of Directors:

Compliance

We have audited the compliance of Stambaugh Charter Academy (the "Academy") with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133, Compliance Supplement* that could directly and materially affect each of its major federal programs for the year ended June 30, 2010. The summary of auditor's results section of the accompanying schedule of findings identifies the Academy's major federal programs. The Academy's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to each major federal program. Our responsibility is to express an opinion on the Academy'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 included in the Comptroller General of the United States *Government Auditing Standards*; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to reasonably assure whether noncompliance occurred with the compliance requirements referred to above that could directly and materially affect a major federal program. An audit includes examining, on a test basis, evidence about the Academy's compliance with those requirements and performing other procedures we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Academy's compliance with those requirements.

In our opinion, Stambaugh Charter Academy complied, in all material respects, with the requirements referred to above that could directly and materially affect each of its major federal programs for the year ended June 30, 2010.

Internal Control Over Compliance

The Academy's management is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs.

In planning and performing our audit, we considered the Academy's internal control over compliance with requirements that could directly and materially affect a major federal program, to determine our auditing procedures for the purpose of opining on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of opining on the effectiveness of internal control over compliance. Accordingly, we have not opined on the effectiveness of the Academy's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, when performing their assigned functions, to prevent, or to timely detect and correct, noncompliance with a federal program compliance requirement. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a federal program compliance requirement will not be prevented, or timely detected and corrected.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

We intend this report solely for the information and use of management, the Board of Directors, the Academy's sponsor, others within the entity, federal awarding agencies, and pass-through entities. It is not intended for anyone other than these specified parties.



Dave Yost
Auditor of State

March 31, 2011

**STAMBAUGH CHARTER ACADEMY
MAHONING COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
JUNE 30, 2010**

1. SUMMARY OF AUDITOR'S RESULTS

<i>(d)(1)(i)</i>	Type of Financial Statement Opinion	Unqualified
<i>(d)(1)(ii)</i>	Were there any material control weaknesses reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(ii)</i>	Were there any significant deficiencies in internal control reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(iii)</i>	Was there any reported material noncompliance at the financial statement level (GAGAS)?	No
<i>(d)(1)(iv)</i>	Were there any material internal control weaknesses reported for major federal programs?	No
<i>(d)(1)(iv)</i>	Were there any significant deficiencies in internal control reported for major federal programs?	No
<i>(d)(1)(v)</i>	Type of Major Programs' Compliance Opinion	Unqualified
<i>(d)(1)(vi)</i>	Are there any reportable findings under § .510(a)?	No
<i>(d)(1)(vii)</i>	Major Programs (list):	Grants to Local Educational Agencies (Title I) - CFDA #84.010 Grants to Local Educational Agencies (Title I) - Recovery Act - CFDA #84.389 State Fiscal Stabilization Fund – Recovery Act – CFDA #84.394
<i>(d)(1)(viii)</i>	Dollar Threshold: Type A/B Programs	Type A: > \$ 300,000 Type B: all others
<i>(d)(1)(ix)</i>	Low Risk Auditee?	No

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

None

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None

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STAMBAUGH CHARTER ACADEMY

MAHONING 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 5, 2011**