



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

SINGLE AND FINAL AUDIT

**FOR THE FISCAL YEAR ENDED JUNE 30, 2012
AND THE PERIOD OF JULY 1, 2012 TO FEBRUARY 28, 2013**



Dave Yost • Auditor of State

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

TABLE OF CONTENTS

TITLE	PAGE
Independent Accountants' Report.....	1
Management's Discussion and Analysis.....	5
Statement of Net Assets	9
Statement of Revenues, Expenses and Changes in Net Assets.....	10
Statement of Cash Flows.....	11
Notes to the Basic Financial Statements	13
Schedule of Federal Awards Expenditures.....	25
Independent Accountants' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required By <i>Government Auditing Standards</i>	27
Independent Accountants' Report on Compliance with Requirements Applicable to Each Major Federal Program and on Internal Control Over Compliance Required By OMB Circular A-133.....	29
Schedule of Findings.....	31
Schedule of Prior Audit Findings.....	45
Corrective Action Plan.....	47
Independent Accountants' Report on Applying Agreed-Upon Procedures.....	49

THIS PAGE INTENTIONALLY LEFT BLANK



Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT

ScholARTS Preparatory and Career Center for Children
Franklin County
c/o Kids Count of Dayton
6500 Poe Avenue, Suite 140
Dayton, Ohio 45414-2568

To the Sponsor:

Report on the Financial Statements

We were engaged to audit the accompanying financial statements of ScholARTS Preparatory and Career Center for Children, Franklin County, Ohio (the School), as of and for the year ended June 30, 2012 and the period of July 1, 2012 to February 28, 2013, and the related notes to the financial statements, which collectively comprise the School's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for preparing and fairly presenting these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes designing, implementing, and maintaining internal control relevant to preparing and fairly presenting financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to opine on these financial statements based on conducting the audit in accordance with auditing standards generally accepted in the United States of America and the financial audit standards in the Comptroller General of the United States' *Government Auditing Standards*.

Because of the matters described in the *Basis for Disclaimer of Opinion* paragraph; however, we were not able to obtain sufficient appropriate audit evidence to support an audit opinion.

Basis for Disclaimer of Opinion

Management did not provide the Auditor of State a complete list of receivables to be collected or liabilities owed to the School's vendors for the year ended June 30, 2012. As a result, we were unable to obtain sufficient evidential matter supporting 100% of the accounts receivable, accounts payable, intergovernmental payable, net assets, revenues and expenses reported on the financial statements for the year ended June 30, 2012.

Ohio Admin. Code § 117-2-03(B) requires the School to prepare its annual financial report in accordance with accounting principles generally accepted in the United States of America (GAAP). The School failed to prepare or file financial statements with the Auditor of State for the period July 1, 2012 to February 28, 2013.

Government Accounting Standards Board (GASB) Statement 34, paragraphs 91 and 113 provide the minimum requirements for external financial reporting, which include the Management Discussion and Analysis (MD&A), the financial statements including the Statement of Net Position, the Statement of Revenues, Expenses, and Changes in Net Position, and the Statement of Cash Flows, and the Notes to the Financial Statements.

Management has not provided the Auditor of State certain written representations required by Auditing Standard Section AU-C Section 580, including but not limited to, management's responsibility for preparing the financial statements in conformity with the School's accounting basis, the availability of original financial records and related data, the completeness and availability of all minutes of the legislative or other bodies and committee meetings; management's responsibility of the School's compliance with laws and regulations; the identification and disclosure to the Auditor of State of all laws, regulations, and provisions of contracts and grant agreements directly and materially affecting the determination of financial statement amounts and; the presence or absence of fraud involving management or employees with significant roles in internal control; compliance with laws, regulations, and provisions of contracts and grant agreements, including budget laws, compliance with any debt covenants, the identification of all federal assistance programs, and compliance with federal grant requirements.

Disclaimer Opinion

Due to the significance of the matters discussed in the *Basis for Disclaimer of Opinion* paragraph, we were unable to obtain sufficient appropriate audit evidence to support an audit opinion. Accordingly, we do not express an opinion on financial activity of the School for the year ended June 30, 2012 and for the period July 1, 2012 to February 28, 2013.

Emphasis of Matter

The school ceased operations on February 28, 2013. We did not modify our opinion regarding this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require this presentation to include *Management's discussion and analysis*, listed in the table of contents, to supplement the June 30, 2012 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 applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, consisting of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries to the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not opine or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to opine or provide any other assurance.

Supplementary and Other Information

The Schedule of Federal Awards Expenditures presents additional analysis as required by the U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations and is also not a required part of the financial statements.

The schedule is management's responsibility, and derives from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. We subjected this schedule to the auditing procedures we applied to the basic financial statements. We were unable to agree the schedule to the underlying accounting records or other records used to prepare the basic financial statements. As a result, we express no opinion or any other assurance on the schedule.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 5, 2016, 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. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School's internal control over financial reporting and compliance.

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

Dave Yost
Auditor of State
Columbus, Ohio

December 5, 2016

THIS PAGE INTENTIONALLY LEFT BLANK

ScholARTS Preparatory and Career Center for Children

Management's Discussion and Analysis For the Fiscal Year Ended June 30, 2012 (Unaudited)

The discussion and analysis of ScholARTS Preparatory and Career Center for Children's (the School) financial performance provides an overall review of the financial activities for the fiscal year ended June 30, 2012. 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 statement and notes to the basic financial statements to enhance their understanding of the School's financial performance.

The management's discussion and analysis (MD&A) is an element of the reporting model adopted by the Governmental Accounting Standard Board (GASB) in their statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, issued in June, 1999. Certain comparative information between the current year and the prior year is required to be present and is presented in the MD&A.

Financial Highlights

Key financial highlights for the fiscal year 2012 are as follows:

- Total net assets of the School increased by \$210,468.
- Total assets increased \$157,903, which represents an 86 percent increase from the prior year due to an increase in intergovernmental receivables.
- Overall, the School's total operating revenue increased \$319,861 or 10 percent due to an increase in enrollment resulting in additional state funding. Operating expenses decreased \$277,144 or 6 percent as a result of decreased costs associated with purchased services.

Using this Financial Report

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

Statement of Net Assets and Statement of Revenues, Expenses and Changes in Net Assets

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

The statement of revenues, expenses and changes in net assets reports the changes in net assets. This change in net assets is important because it tells the reader that, for the School as a whole, the financial position of the School has improved or diminished. The causes of this change may be the result of many factors, some financial, some not.

ScholARTS Preparatory and Career Center for Children

*Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2012
(Unaudited)*

Table 1 provides a summary of the School's net assets for fiscal year 2012 compared with fiscal year 2011.

Table 1
Net Assets

	2012	2011
Assets		
Current and other assets	\$337,992	\$178,150
Capital assets, net	3,207	5,146
Total assets	341,199	183,296
Liabilities		
Current and other liabilities	348,248	400,813
Total liabilities	348,248	400,813
Net assets		
Invested in capital assets	3,207	5,146
Restricted	0	45,813
Unrestricted (deficit)	(10,256)	(268,476)
Total net assets	(\$7,049)	(\$217,517)

The School's total net assets increased by \$210,468 during fiscal year 2012.

Total assets increased \$157,903. The increase can be attributed to the significant increases in intergovernmental receivable balances due mainly to timing of reimbursement requests.

Liabilities decreased by \$52,565 during the fiscal year. The decrease was due primarily to a decrease in intergovernmental payables due to an overpayment in retirement expenses in fiscal year 2012 resulting in a credit balance with the State Teachers Retirement System. The School has a credit line payable outstanding at the end of fiscal year for \$96,978, which is \$49,751 higher than at prior year-end.

ScholARTS Preparatory and Career Center for Children

Management's Discussion and Analysis

For the Fiscal Year Ended June 30, 2012

(Unaudited)

Table 2 shows the changes in net assets for fiscal year 2012 and fiscal year 2011, as well as a listing of revenues and expenses.

Table 2
Change in Net Assets

	2012	2011
Operating revenues:		
Foundation payments	\$3,386,146	\$3,106,586
Other operating revenues	80,289	39,988
Nonoperating revenues:		
State grants	1,638	6,594
Federal grants	799,601	1,186,465
Other nonoperating revenues	0	260
Total revenues	<u>4,267,674</u>	<u>4,339,893</u>
Operating expenses:		
Salaries and wages	588,145	542,574
Fringe benefits	359,240	107,495
Purchased services	3,032,740	3,509,292
Materials and supplies	26,630	132,369
Depreciation	1,939	2,330
Miscellaneous	44,788	36,566
Nonoperating expenses:		
Interest and fiscal charges	3,724	4,276
Total expenses	<u>4,057,206</u>	<u>4,334,902</u>
Change in net assets	210,468	4,991
Net assets (deficit), beginning of year	<u>(217,517)</u>	<u>(222,508)</u>
Net assets (deficit), end of year	<u>(\$7,049)</u>	<u>(\$217,517)</u>

Total revenue for the School decreased \$72,219 in fiscal year 2012 compared with fiscal year 2011. The School participated in the federal grant stimulus program in the prior year, which resulted in additional revenues for the federal grants for that fiscal year. The School saw the student population rise from 181 to 184 which resulted in a small increase in foundation revenue.

Total expenses of the School reported for the fiscal year were \$277,696 less than the previous fiscal year. Payroll and related benefit costs increased by \$297,316 over fiscal year 2011 due to overpayments for retirement benefits. The School's most significant expenses still rest in the contracts with Brookwood Community Learning Center and Baybrook and Associates (see notes 12C and 12D) and are accounted for in the purchased services line item.

Budgetary

Unlike other public schools located in the State of Ohio, community schools are not required to follow the budgetary provisions set forth in the Ohio Revised Code Chapter 5705, unless specifically provided in the School's contract with the Sponsor. The contract between the School and its Sponsor does prescribe an annual budget requirement in addition to preparing a five-year forecast, which is to be updated annually.

ScholARTS Preparatory and Career Center for Children

Management's Discussion and Analysis

For the Fiscal Year Ended June 30, 2012

(Unaudited)

Capital Assets

At June 30, 2012, the capital assets of the School consisted of \$73,923 of furniture, fixtures, equipment and computers offset by \$70,716 in accumulated depreciation resulted in net capital assets of \$3,207.

See note 5 of the notes to the basic financial statements for additional information on the School's capital assets.

Debt

At June 30, 2012, the School had one line of credit with Huntington Bank with an outstanding balance of \$96,978. For more information on the School's debt, refer to note 11 of the notes to the basic financial statements.

Current Financial Issues

The School ceased operations on February 28, 2013.

Contacting the School

This financial report is designed to provide a general overview of the finances of the ScholARTS Preparatory and Career Center for Children and to show the School's accountability for the monies it receives to all vested and interested parties, as well as meeting the annual reporting requirements of the State of Ohio.

ScholARTS Preparatory and Career Center for Children
Statement of Net Assets
June 30, 2012

Assets

Current assets:

Cash	\$30,313
Intergovernmental receivable	307,679
Total current assets	<u>337,992</u>

Noncurrent assets:

Capital assets, net	3,207
Total noncurrent assets	<u>3,207</u>

Total assets	<u>341,199</u>
--------------	----------------

Liabilities

Current liabilities:

Accounts payable	216,297
Accrued wages	22,372
Intergovernmental payable	12,601
Line of credit payable	96,978
Total current liabilities	<u>348,248</u>

Total liabilities	<u>348,248</u>
-------------------	----------------

Net assets

Invested in capital assets	3,207
Restricted for:	
Unrestricted	<u>(10,256)</u>

Total net assets	<u><u>(\$7,049)</u></u>
------------------	-------------------------

See the accompanying notes to the basic financial statements.

ScholARTS Preparatory and Career Center for Children
Statement of Revenues, Expenses and Changes in Net Assets
For the Fiscal Year Ended June 30, 2012

Operating revenues	
State foundation	\$3,386,146
Other operating revenues	<u>80,289</u>
Total operating revenues	3,466,435
Operating expenses	
Salaries and wages	588,145
Fringe benefits	359,240
Purchased services	3,032,740
Materials and supplies	26,630
Depreciation	1,939
Other expenses	<u>44,788</u>
Total expenses	<u>4,053,482</u>
Operating loss	(587,047)
Nonoperating revenues (expenses)	
Federal grants	799,601
State grants	1,638
Interest and fiscal charges	<u>(3,724)</u>
Total nonoperating revenues (expenses)	<u>797,515</u>
Net change in net assets	210,468
Net assets (deficit), beginning of year	<u>(217,517)</u>
Net assets (deficit), end of year	<u><u>(\$7,049)</u></u>

See the accompanying notes to the basic financial statements.

ScholARTS Preparatory and Career Center for Children

Statement of Cash Flows

For the Fiscal Year Ended June 30, 2012

Cash flows from operating activities

Cash received from State of Ohio - Foundation	\$3,399,760
Cash received from other operating revenues	80,289
Cash payments for personal services	(1,064,383)
Cash payments for contract services	(3,143,576)
Cash payments for materials and supplies	(26,630)
Net cash used by operating activities	<u>(754,540)</u>

Cash flows from noncapital financing activities:

Cash received from line of credit draws	73,877
Cash received from state and federal grants	649,246
Cash payments for line of credit principal repayments	(24,126)
Cash payments for line of credit interest	(3,724)
Net cash provided by noncapital financing activities	<u>695,273</u>

Net increase in cash and cash equivalents	(59,267)
Cash, beginning of year	<u>89,580</u>
Cash, end of year	<u><u>\$30,313</u></u>

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

Operating loss	(\$587,047)
Adjustments to reconcile operating loss to net cash used by operating activities:	
Depreciation	1,939
Change in assets and liabilities:	
Increase in intergovernmental receivable	(67,116)
Decrease in accounts payable	(66,048)
Decrease in accrued wages	(17,755)
Decrease in intergovernmental payable	<u>(18,513)</u>
Net cash used by operating activities	<u><u>(\$754,540)</u></u>

See accompanying notes to the basic financial statements

THIS PAGE INTENTIONALLY LEFT BLANK

ScholARTS Preparatory and Career Center for Children

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012*

Note 1 - Description of the School and Reporting Entity

The ScholARTS Preparatory and Career Center for Children (the "School") is a state nonprofit corporation established pursuant to Code Chapters 3314 and 1702. The School is an approved tax exempt organization under section 501(c)(3) of the Internal Revenue Code exclusively for educational purposes. Management is not aware of any course of action or series of events, which could adversely affect the School's tax exempt status. The School's mission is for children to increase academic achievement, develop a community of scholars using the arts, and expose young children to a variety of options through an age-appropriate literacy based career center. The School, which is part of the state's education program, is independent of any school district and is nonsectarian in its programs, admissions policies, employment practices, and all other operations. The School may sue and be sued, acquire facilities as needed, and contract for any necessary services for the operation of the School.

The School was originally approved for operation under contract with the Lucas County Educational Service Center effective for the 2004-2005 school year. However, effective September 26, 2006, the School changed sponsors to Kids Count of Dayton, Inc. (the Sponsor) under an agreement expiring June 30, 2012. That contract has been renewed on an annual basis. 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. This contract has been extended through June 30, 2013.

The School operates under the direction of a five member Board of Directors (the Board). The Board is responsible for carrying out the provisions of the contract with the Sponsor which includes, but is not limited to, state mandated provisions regarding student population, curriculum, academic goals, performance standards, admission standards, and qualifications of teachers. The Board controls the School's instructional/support facility staffed by 9 certificated full time teaching personnel and 2 classified staff member who provide educational services to 184 students.

Note 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 on or before November 30, 1989, provided that they do not conflict with or contradict GASB pronouncements; however the School has elected not to follow any FASB statements or interpretations issued after November 30, 1989. The more significant of the School's accounting policies are described below.

A. Basis of Presentation

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

B. Measurement Focus and Basis of Accounting

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

ScholARTS Preparatory and Career Center for Children

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012*

Note 2 - Summary of Significant Accounting Policies (Continued)

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

C. Budgetary Process

Unlike other public schools located in the State of Ohio, community schools are not required to follow budgetary provisions set forth in the Ohio Revised Code Section 5705, unless specifically provided in the School's contract with the Sponsor. The contract between the School and its Sponsor does prescribe an annual budget requirement in addition to preparing a five-year forecast, which is to be updated annually.

D. Cash

The School contracts with an outside consultant for treasurer's duties. This consultant accounts for all monies received by the School. All cash received by the School is pooled and maintained in a separate account in the School's name.

E. Estimates

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

F. Capital Assets And Depreciation

Capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market value as of the date received. The School maintains a capitalization threshold of \$1,000. The School does not have any infrastructure. Improvements are capitalized, the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are expensed.

Depreciation of furniture, fixtures, equipment and computers is computed using the straight-line method over estimated useful lives of five years. Improvements to capital are depreciated over the remaining useful lives of the related capital assets.

G. Intergovernmental Revenues

The School currently participates in the State Foundation Program. The foundation funding is recognized as operating revenues in the accounting period in which they are earned, essentially the same as the fiscal year.

The School also participates in various federal and state grant programs through the Ohio Department of Education. The programs the School participated in during fiscal year 2012 included the National School Lunch and Breakfast Programs, Special Education, Title I, Safe and Drug-Free Schools, Enhancing Education through Technology, Improving Teacher Quality, Education Jobs, Race to the Top, and the School Improvement Program. Grants and entitlements received under these programs are recognized as non-operating revenues in the accounting period in which all eligibility requirements have been met.

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

ScholARTS Preparatory and Career Center for Children

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2012

Note 2 - Summary of Significant Accounting Policies (Continued)

Amounts awarded under the above named programs for the 2012 fiscal year totaled \$4,187,385.

H. Operating and Nonoperating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the School's primary mission. For the School, operating revenues include foundation payments received from the State of Ohio and other operating items. Operating expenses are necessary costs incurred to support the School's primary mission, including depreciation.

Nonoperating revenues and expenses are those that are not generated directly from the School's primary mission. Various state and federal grants and interest expense comprise the nonoperating revenues and expenses of the School.

I. Accrued Liabilities Payable

The School has recognized certain liabilities on its statement of net assets relating to expenses, which are due but unpaid as of June 30, 2012, including:

Accrued wages payable – salary payments made after year-end that were for services rendered in fiscal year 2012. Teaching personnel are paid in 24 equal installments, ending with the last pay period in August, for services rendered during the previous school year. Therefore, a liability has been recognized at June 30, 2012 for all salary payments made to teaching personnel during the months of July and August 2012.

Intergovernmental payable – payment for the employer's share of retirement contributions, associated with services rendered during fiscal year 2012, but were not paid until the subsequent fiscal year is the major expense in this category.

J. Economic Dependency

The School received approximately 99 percent of its operating revenue from the Ohio Department of Education. Due to the significance of this revenue source, the School is considered to be economically dependent on the State of Ohio Department of Education.

K. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets consist of capital assets, net of accumulated depreciation. Net assets are reported as restricted when they are limitations imposed on their use through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. The School applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

As of June 30, 2012, none of the School's restricted net assets were restricted by enabling legislation.

Note 3 - Deposits and Investments

The School does not have a policy addressing custodial credit risk for its deposits. At June 30, 2012, the carrying amount of the School's deposits was \$30,313 and the bank balance was \$44,585, the entire balance of which was covered by federal depository insurance.

ScholARTS Preparatory and Career Center for Children

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2012

Note 4 - Intergovernmental Receivables

All receivables are considered collectibles in full due to the stable condition of state programs and the fiscal year guarantee of federal funds. Intergovernmental receivables of the School at June 30, 2012 consisted of \$69,353 for Title I, \$55,811 for Special Education, \$4,566 for Race to the Top, and \$97,219 for the School Improvement program.

Note 5 - Capital Assets

A summary of the School's capital assets at June 30, 2012, follows:

	Beginning Balance	Additions	Deletions	Ending Balances
Capital assets being depreciated:				
Furniture, Fixtures and Equipment	\$70,561	\$0	\$0	\$70,561
Computers	3,362	0	0	3,362
Total Capital Assets	73,923	0	0	73,923
Less: accumulated depreciation on:				
Furniture, Fixtures and Equipment	(65,415)	(1,939)	0	(67,354)
Computers	(3,362)	(0)	0	(3,362)
Total Depreciation	(68,777)	(1,939)	0	(70,716)
Capital Assets, Net	\$5,146	(\$1,939)	\$0	\$3,207

Note 6 - Risk Management

Property and liability – The School is exposed to various risks of loss related to torts; theft of, damage to, of destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2012, the School contracted with the Western World Insurance Company for property and general liability insurance. There is no deductible on either coverage.

Professional liability is protected by Western World Insurance with a \$1,000,000 single occurrence limit and \$1,000,000 aggregate with no deductible.

There has been no significant reduction in coverage in relation to the prior fiscal year. Settled claims have not exceeded commercial coverage in any of the last three fiscal years.

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.

ScholARTS Preparatory and Career Center for Children

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012*

Note 7 - Defined Benefits Pension Plans

A. School Employees Retirement System

Plan Description

The School contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing multiple-employer defined benefit pension plan. SERS provides retirement, disability, and survivor benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by state statute per 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 can be obtained on SERS' website at www.ohsers.org under Employers/Audit Resources.

Funding Policy

Plan members are required to contribute 10 percent of their annual covered salary and the School is required to contribute 14 percent of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS' Retirement Board. The Retirement Board acting with the advice of the actuary, allocates the employer contribution rate among four of the funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund) of the state. For the fiscal year ending June 30, 2012, the allocation to pension and death benefits is 12.70 percent. The remaining 1.30 percent of the 14 percent employer contribution rate is allocated to the Health Care and Medicare B Funds. The School's contributions to SERS for the fiscal years ended June 30, 2012, 2011, and 2010 were \$209,015, \$72,561, and \$4,556, respectively, which equaled the required contributions each year.

B. State Teachers Retirement System

State Teachers Retirement System of Ohio (STRS Ohio) is a cost-sharing, multiple-employer public employee retirement plan.

STRS Ohio is a statewide retirement plan for licensed teachers and other faculty members employed in the public schools of Ohio or any school, community school, college, university, institution or other agency controlled, managed and supported, in whole or in part, by the state or any political subdivision thereof.

Plan Options – New members have a choice of three retirement plans. In addition to the Defined Benefit (DB) Plan, new members are offered a Defined Contribution (DC) Plan and a Combined Plan. The DC Plan allows members to allocate all their member contributions and employer contributions equal to 10.5 percent of earned compensation among various investment choices. The Combined Plan offers features of the DC Plan and the DB Plan. In the Combined Plan, member contributions are allocated to investment choices by the member, and employer contributions are used to fund a defined benefit payment at a reduced level from the regular DB Plan. Contributions into the DC Plan and the Combined Plan are credited to member accounts as employers submit their payroll information to STRS Ohio, generally on a biweekly basis. 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.

ScholARTS Preparatory and Career Center for Children

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012*

Note 7 - Defined Benefits Pension Plan (Continued)

DB Plan Benefits – Plan benefits are established under Chapter 3307 of the Revised Code. Any member may retire who has (i) five years of service credit and attained age 60; (ii) 25 years of service credit and attained age 55; or (iii) 30 years of service credit regardless of age. The annual retirement allowance; payable for life, is the greater of the “formula benefit” or the “money-purchase benefit” calculation. Under the “formula benefit,” the retirement allowance is based on years of credited service and final average salary, which is the average of the member’s three highest salary years. The annual allowance is calculated by using a base percentage of 2.2 percent multiplied by the total number of years of service credit (including Ohio-valued purchased credit) times the final average salary. The 31st year of earned Ohio service credit is calculated at 2.5 percent. An additional one-tenth of a percent is added to the calculation for every year of earned Ohio service over 31 years (2.6 percent for 32 years, 2.7 percent for 33 years and so on) until 100 percent of final average salary is reached. For members with 35 or more years of Ohio contributing service, the first 30 years will be calculated at 2.5 percent instead of 2.2 percent. Under the “money-purchase benefit” calculation, a member’s lifetime contributions plus interest at specified rates are matched by an equal amount from other STRS Ohio funds. This total is then divided by an actuarially determined annuity factor to determine the maximum annual retirement allowance.

DC Plan Benefits – Benefits are established under Sections 3307.80 to 3307.89 of the Revised Code. For members who select the DC Plan, all member contributions and employer contributions at a rate of 10.5 percent are placed in an investment account. The member determines how to allocate the member and employer money among various investment choices. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump-sum withdrawal. Employer contributions into members’ accounts are vested after the first anniversary of the first day of paid service. 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.

Combined Plan Benefits – Member contributions are allocated by the member, and employer contributions are used to fund a defined benefit payment. A member’s defined benefit is determined by multiplying 1 percent of the member’s final average salary by the member’s years of service credit. The defined benefit portion of the Combined Plan payment is payable to a member on or after age 60. The defined contribution portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50.

A retiree of STRS Ohio or another Ohio public retirement system is eligible for reemployment as a teacher following the elapse of two months from the date of retirement. Contributions are made by the reemployed member and employer during the reemployment. Upon termination of reemployment or age 65, whichever comes later, the retiree is eligible for an annuity benefit or equivalent lump-sum payment in addition to the original retirement allowance. A reemployed retiree may alternatively receive a refund of only member contributions with interest before age 65, once employment is terminated.

Benefits are increased annually by 3 percent of the original base amount for DB Plan participants.

The DB and Combined Plans offer access to health care coverage to eligible retirees who participated in the plans and their eligible dependents. Coverage under the current program includes hospitalization, physicians’ fees, prescription drugs and partial reimbursement of monthly Medicare Part B premiums. By Ohio law, health care benefits are not guaranteed.

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. A death benefit of \$1,000 is payable to the beneficiary of each deceased retired member who participated in the DB Plan. Death benefit coverage of up to \$2,000 can be purchased by participants in the DB, DC or Combined Plans. Various other benefits are available to members’ beneficiaries.

ScholARTS Preparatory and Career Center for Children

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012*

Note 7 - Defined Benefits Pension Plan (Continued)

Chapter 3307 of the Revised Code provides statutory authority for member and employer contributions. 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.

The School's required contributions to STRS Ohio for the fiscal years ended June 30, 2012, 2011, and 2010 were \$123,463, \$99,075, and \$51,682, respectively; which equaled the required contributions each year.

STRS Ohio issues a stand-alone financial report. Additional information or copies of STRS Ohio's 2011 Comprehensive Annual Financial Report can be requested by writing to STRS Ohio, 275 E. Board St., Columbus, Ohio 43215-3771, by calling toll-free 1-888-227-7877, or by visiting the STRS Ohio website at www.strsoh.org.

Note 8 - Postemployment Benefits

A. School Employees Retirement System

Postemployment Benefits

In addition to a cost-sharing multiple-employer defined benefit pension plan, the School Employees Retirement System of Ohio (SERS) administers two postemployment benefit plans.

Medicare Part B Plan

The Medicare Part B plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries as set forth in Ohio Revised Code (ORC) 3309.69. Qualified benefit recipients who pay Medicare Part B premiums may apply for and receive a monthly reimbursement from SERS. The reimbursement amount is limited by statute to the lesser of the January 1, 1999 Medicare Part B premium or the current premium. The Medicare Part B monthly premium for calendar year 2011 was \$99.90 for most participants, but could be as high as \$319.70 per month depending on their income. SERS' reimbursement to retirees was \$45.50.

The Retirement Board, acting with the advice of the actuary, allocates a portion of the current employer contribution rate to the Medicare B Fund. For fiscal year 2012, the actuarially required allocation is 0.75 percent. The School's contributions for the fiscal years ended June 30, 2012, 2011 and 2010 were \$12,343, \$4,669, and \$272, respectively, which equaled the required contributions each year.

Health Care Plan

ORC 3309.375 and 3309.69 permit SERS to offer health care benefits to eligible retirees and beneficiaries. SERS' Retirement Board reserves the right to change or discontinue any health plan or program. SERS offers several types of health plans from various vendors, including HMOs, PPOs, Medicare Advantage, and traditional indemnity plans. A prescription drug program is also available to those who elect health coverage. SERS employs two third-party administrators and a pharmacy benefit manager to manage the self-insurance and prescription drug plans, respectively.

The ORC provides the statutory authority to fund SERS' postemployment benefits through employer contributions. Active members do not make contributions to the postemployment benefit plans.

ScholARTS Preparatory and Career Center for Children

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012*

Note 8 - Postemployment Benefits (Continued)

The Health Care Fund was established under, and is administered in accordance with Internal Revenue Code Section 105(e). Each year after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer 14 percent contribution to the Health Care Fund. For the year ended June 30, 2012, the health care allocation is 0.55 percent. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. State law provides that no employer shall pay a health care surcharge of greater than 2 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the total statewide SERS-covered payroll for the health care surcharge. For fiscal year 2012, the minimum compensation level was established at \$35,800. The surcharge, added to the unallocated portion of the 14 percent employer contribution rate is the total amount assigned to the Health Care Fund. The School's contributions assigned to health care for the years ended June 30, 2012, 2011, and 2010 were \$9,052, \$10,820, and \$161, respectively.

The SERS Retirement Board establishes the rules for the premiums paid by the retirees for health care coverage for themselves and their dependents or for their surviving beneficiaries. Premiums vary depending on the plan selected, qualified years of services, Medicare eligibility, and retirement status.

The financial reports of SERS' Health Care and Medicare B plans are included in its Comprehensive Annual Financial Report. The report can be obtained on SERS' website at www.ohsers.org under Employers/Audit Resources.

B. State Teachers Retirement System

Plan Description

STRS Ohio administers a pension plan that is comprised of: a Defined Benefit Plan; a self-directed Defined Contribution Plan, and a Combined Plan that is a hybrid of the Defined Benefit Plan and the Defined Contribution Plan.

Ohio law authorizes STRS Ohio to offer a cost-sharing, multiple-employer health care plan. STRS Ohio provides access to health care coverage to eligible retirees who participated in the Defined Benefit or Combined Plans. Coverage under the current program includes hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare Part B premiums.

Pursuant to Chapter 3307 of the Revised Code, the Retirement Board has discretionary authority over how much, if any, of the associated health care costs will be absorbed by STRS Ohio. All benefit recipients, for the most recent year, pay a portion of the health care costs in the form of a monthly premium.

STRS Ohio issues a stand-alone financial report. Interested parties can view the most recent Comprehensive Annual Financial Report by visiting www.strsoh.org or by requesting a copy by calling toll-free 1-88-227-7877.

Funding Policy

Under Ohio law, funding for post-employment health care may be deducted from employer contributions. Of the 14 percent employer contribution rate, 1 percent of covered payroll was allocated to post-employment health care for the fiscal years ended June 30, 2012, 2011, and 2010. The 14 percent employer contribution rate is the maximum rate established under Ohio law. The School's contributions for health care for the fiscal years ended June 30, 2012, 2011, and 2010 were \$9,497, \$7,621, and \$3,976, respectively, which equaled the required contributions each year.

ScholARTS Preparatory and Career Center for Children

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2012

Note 9 - Other Employee Benefits

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

Note 10 - Operating Leases

Facility

On July 25, 2011, the School entered into an operating lease for the period of August 1, 2011 to June 30, 2012 with the Jerome H. Ross Family Life & Community Center for use of the School's facility. This lease requires monthly lease payments of \$12,000. Payments for this operating lease totaled \$144,000 for the fiscal year ended June 30, 2012. On May 7, 2012, this lease was extended until June 30, 2013.

Copier

In July 2010, the School entered into a lease with Blue Technologies for a copier for a term of 60 months and an monthly payment of \$180. The School's management performed an analysis of the terms of the copier and determined it did not meet the criteria of a capital lease.

Note 11 - Debt

The School has a line of credit from Huntington Bank that was issued during 2010, in the amount of \$100,000, and is due on demand. The monthly interest on this promissory note is variable and is secured by operating revenues. At June 30, 2011, the balance on the line of credit was \$47,227. During fiscal year 2012, the School made draws totaling \$73,877 and repayments totaling \$24,126 on the line of credit, for an ending balance of \$96,978.

Note 12 - Contracts

A. Sponsorship Contract

The School was originally approved for operation under contract with the Lucas County Educational Service Center effective for 2004-2005 school year. However, effective September 26, 2006, the School changed sponsors to Kids Count of Dayton, Inc., the current Sponsor. As part of this contract, the Sponsor is entitled to a maximum of 3 percent of all revenues. The total amount paid for fiscal year 2012 was \$94,573.

B. Treasurer's Consulting Contract

The sponsorship contract states that the School shall have a designated fiscal officer who shall meet all requirements as set forth by law including:

- Maintain the financial records of the School in the same manner as are financial records of school districts, pursuant to rules of the Auditor of State.
- Comply with the policies and procedures regarding internal financial control of the School.
- Comply with the requirements and procedures for financial audits by the Auditor of State.

The School entered in a contract with an outside consultant for fiscal services including school treasurer services, payroll services, and capital asset services. Total payments to this consultant were \$30,000 for the fiscal year ended June 30, 2012.

ScholARTS Preparatory and Career Center for Children

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012*

Note 12 – Contracts (Continued)

C. Placement Contract

The School entered into a placement contract with the Brookwood Community Learning Center (Brookwood) to provide for educational services to certain students in order to assist the School and in meeting the educational needs and to provide the necessary services of the student's Individual Educational Plan. The total amount paid to Brookwood under the placement contract was \$1,419,980.

D. Local Education Agency Contract

The term local education agency means a public board of education or other public authority legally constituted within a state to either provide administrative control or direction of, or perform a service function for public schools serving individuals ages 0 to 21 in a state, city, county, township, school district, or other political subdivision including a combination of school districts or counties recognized in a state as an administrative agency for its public schools. An LEA may provide, or employ professionals who provide, services to children included in the Individuals with Disabilities Education Act (IDEA). Such services may include, but are not limited to, such medical services as physical, occupational, and speech therapy. The School entered into a contract with Baybrook and Associates, LLC for these services. The total amount paid under this contract for fiscal year 2012 was \$728,763.

Note 13 – Contingencies

A. Grants

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

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

B. State Funding

The Ohio Department of Education conducts reviews of enrollment data and FTE calculations made by the School. These reviews are conducted to ensure the schools are reporting accurate student enrollment data to the state, upon which state foundation funding is calculated. The results of this review could result in state funding being adjusted. The Ohio Department of Education completed its review of the School's enrollment data for fiscal year 2012 which resulted in an amount due to ODE of \$4,730, which has been recorded as an intergovernmental payable within the financial statements.

ScholARTS Preparatory and Career Center for Children

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2012

Note 14 - Other Purchased Services

During the fiscal year ended June 30, 2012, other purchased services rendered by various vendors were as follows:

Professional and technical services	\$2,866,694
Property services	158,698
Transportation	260
Meeting and travel	5,700
Communications	<u>1,388</u>
Total	<u>\$3,032,740</u>

Note 15 – Closure of School

The School ceased operations on February 28, 2013.

THIS PAGE INTENTIONALLY LEFT BLANK

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

**SCHEDULE OF FEDERAL AWARDS EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2012**

FEDERAL GRANTOR Pass Through Grantor Program / Cluster Title	Federal CFDA Number	Expenditures
U.S. DEPARTMENT OF AGRICULTURE Passed Through Ohio Department of Education		
Nutrition Cluster:		
Federal School Lunch Program	10.555	\$ 100,848
Total U.S. Department of Agriculture		<u>100,848</u>
U.S. DEPARTMENT OF EDUCATION Passed Through Ohio Department of Education		
Title I Grants to Local Educational Agencies	84.010	99,560
Special Education Grants to States	84.027	23,682
ARRA School Improvement Grants to States	84.388	457,903
Education Jobs Fund	84.410	18,227
Technology Literacy Challenge Fund Grant	84.318	1,364
Improving Teacher Quality State Grants	84.367	5,396
ARRA Race to the Top	84.395	6,500
Total U.S. Department of Education		<u>612,632</u>
Total Federal Awards Expenditures		<u>\$ 713,480</u>

The accompanying notes are an integral part of this schedule.

THIS PAGE INTENTIONALLY LEFT BLANK



Dave Yost • Auditor of State

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

ScholARTS Preparatory and Career Center for Children
Franklin County
c/o Kids Count of Dayton
6500 Poe Avenue, Suite 140
Dayton, Ohio 45414-2568

To the Sponsor:

We were engaged to audit the financial statements of ScholARTS Preparatory and Career Center for Children, Franklin County, Ohio, (the School) as of and for the year ended June 30, 2012 and the period of July 1, 2012 to February 28, 2013, and the related notes to the financial statements and have issued our report thereon dated December 5, 2016. We disclaimed our opinion as management did not provide the Auditor of State complete list of receivables to be collected and liabilities owed to the School's vendors for the year ended June 30, 2012. As a result, we were unable to obtain sufficient evidential matter supporting 100% of the accounts receivable, accounts payable, intergovernmental payable, net assets, receipts, and expenses reported on the financial statements for the year ended June 30, 2012. Also, we did not opine on the financial statements for the period July 1, 2012 to February 28, 2013, because the School failed to prepare or file financial statements with the Auditor of State for the period July 1, 2012 to February 28, 2013. We also disclaimed our opinion as management has not provided the Auditor of State certain written representations required by Auditing Standard Section AU-C Section 580. Our report indicated that because the School lacked sufficient evidential matter to support the Schedule of Federal Awards Expenditures, we did not express an opinion on the Schedule of Federal Awards Expenditures. We also noted that the school ceased operations on February 28, 2013.

Internal Control Over Financial Reporting

As part of our engagement, we considered the School's internal control over financial reporting (internal control) to determine the audit procedures appropriate in the circumstances to the extent necessary to support our opinions on the financial statements, but not to the extent necessary to opine on the effectiveness of the School's internal control. Accordingly, we have not opined on it.

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 a reasonable possibility that internal control will not prevent or detect and timely correct a material misstatement of the School's financial statements. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all internal control deficiencies that might be material weaknesses or significant deficiencies. Therefore, unidentified material weaknesses or significant deficiencies may exist. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs that we consider material weaknesses. We consider findings 2013-004 through 2013-006 to be material weaknesses.

Compliance and Other Matters

As part of reasonably assuring whether the School's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, opining 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 instances of noncompliance or other matters we must report under *Government Auditing Standards* which are described in the accompanying schedule of findings and questioned costs as items 2013-001 through 2013-008.

Purpose of this Report

This report only describes the scope of our internal control and compliance testing and our testing results, and does not opine on the effectiveness of the School's internal control or on compliance. This report is an integral part of an audit performed under *Government Auditing Standards* in considering the School's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Dave Yost
Auditor of State
Columbus, Ohio

December 5, 2016



Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO MAJOR FEDERAL PROGRAMS AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

ScholARTS Preparatory and Career Center for Children
Franklin County
C/O Kids Count of Dayton
6500 Poe Avenue, Suite 140
Dayton, Ohio 45414-2568

To the Sponsor:

Report on Compliance for Each Major Federal Program

We were engaged to audit the ScholARTS Preparatory and Career Center for Children's (the School) compliance with the applicable 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 the School's major federal programs for the year ended June 30, 2012. As described in the *Summary of Auditor's Results* in the accompanying schedule of findings and questioned costs the School's major federal programs could not be identified.

Management's Responsibility

The District's Management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to its major federal programs.

Auditor's Responsibility

Our responsibility is to opine on the School's compliance for each of the School's major federal programs based on our audit of the applicable compliance requirements referred to above. Our compliance audit followed auditing standards generally accepted in the United States of America; the standards for 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*. Because of the matter described in the *Basis for Disclaimer of Opinion* paragraph, we were unable to obtain sufficient appropriate evidence to opine on the School's major Federal programs as noted in the following section.

Basis for Disclaimer of Opinion

As described in finding 2013-009 we were unable to agree the Schedule of Federal Awards Expenditures to the underlying accounting records or other records used to prepare the basic financial statements. We were also unable to obtain written representations from management. Also, we were unable to obtain sufficient documentation supporting the School's compliance with the types of compliance requirements the U.S. Office of Management and Budget (OMB) *Circular A-133, Compliance Supplement* requires, nor were we able to satisfy ourselves as to the School's compliance with these requirements by other auditing procedures.

Disclaimer of Opinion

Because of the matters described in the preceding paragraph, the scope of our work was insufficient to enable us to express, and we do not express, an opinion on the School's compliance with the compliance requirements applicable to the School's major Federal programs.

Report on Internal Control Over Compliance

The School's management is responsible for establishing and maintaining effective internal control over compliance with the applicable compliance requirements referred to above. In planning and performing our compliance audit, we considered the School's internal control over compliance with the applicable requirements that could directly and materially affect a major federal program, to determine our auditing procedures appropriate for opining on each major federal program's compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not to the extent needed to opine on the effectiveness of internal control over compliance. Accordingly, we have not opined on the effectiveness of the District's internal control over compliance.

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 material weaknesses or significant deficiencies. Therefore, we cannot assure we have identified all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. However, as discussed below, we identified deficiencies in internal control over compliance that we consider to be a material weakness.

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's applicable 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. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with federal program's applicable compliance requirement that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2013-009 to be a material weakness.

This report only describes the scope of our internal control over compliance tests and the results of this testing based on OMB Circular A-133 requirements. Accordingly, this report is not suitable for any other purpose.



Dave Yost
Auditor of State
Columbus, Ohio

December 5, 2016

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

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 § .505
FISCAL YEAR ENDED JUNE 30, 2012
AND THE PERIOD JULY 1, 2012 THROUGH FEBRUARY 28, 2013**

1. SUMMARY OF AUDITOR'S RESULTS
--

<i>(d)(1)(i)</i>	Type of Financial Statement Opinion	Disclaimer
<i>(d)(1)(ii)</i>	Were there any material control weaknesses reported at the financial statement level (GAGAS)?	Yes
<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)?	Yes
<i>(d)(1)(iv)</i>	Were there any material internal control weaknesses reported for major federal programs?	Yes
<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	Disclaimer
<i>(d)(1)(vi)</i>	Are there any reportable findings under § .510(a)?	Yes
<i>(d)(1)(vii)</i>	Major Programs (list):	Unknown
<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

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

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 § .505
FISCAL YEAR ENDED JUNE 30, 2012
AND THE PERIOD JULY 1, 2012 THROUGH FEBRUARY 28, 2013
(CONTINUED)**

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

FINDING NUMBER 2013-001

Noncompliance - Community School Closeout Procedure Assurances

Ohio Rev. Code § 3314.015 (E) states that the Ohio Department of Education (ODE) shall adopt procedures for use by a community school governing authority and sponsor when the school permanently closes and ceases operation, which shall include at least procedures for data reporting to the department, handling of student records, distribution of assets in accordance with Ohio Revised Code § 3314.074 of the revised code, and other matters related to ceasing operation of the school.

ODE has adopted the "Community School Closing Procedure Assurances", which governs the reporting of closed community schools in regards to Ohio Revised Code § 3314.015 (E). The procedure states that sponsors must provide and execute a plan for an orderly wrap-up of a community school's affairs upon a permanent closure of a community school. The sponsor and a representative of the governing board are required to complete and sign the Assurance to ODE Form. The role of the sponsor in this process is to assure that the governing authority of the community school has taken required actions to properly address closing issues and/or to take those actions itself if the governing authority is no longer able or functioning.

Also, the Community School Sponsorship agreement between ScholARTS Preparatory and Career for Children and Kids Count of Dayton, the sponsor, states in Article I, Section 1.7(e), that "The Sponsor shall carry out the responsibilities established by law, including establish and/or require a plan of action to be undertaken if the School experiences financial difficulties or closes before the end of the school year.

On March 28, 2013, the sponsor filed a motion for appointment of receiver with the Franklin County Ohio Clerk of Courts of Common Pleas. A receiver was appointed on April 29, 2014, but once the receiver had established that there were insufficient funds to fund the receivership, the receiver filed notice of insufficient funds and request to terminate receivership on October 1, 2014. As of the date of our opinion, the School and the Sponsor did not complete the Community School Closing Procedures.

These matters will be referred to the Ohio Department of Education.

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

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 § .505
FISCAL YEAR ENDED JUNE 30, 2012
AND THE PERIOD JULY 1, 2012 THROUGH FEBRUARY 28, 2013
(CONTINUED)**

2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (CONTINUED)

FINDING NUMBER 2013-002

Noncompliance – Withholdings of Payroll Taxes

26 U.S.C. § 3402 and **26 U.S.C. § 3402** requires an employer to deduct and withhold federal income tax and Medicare tax from the compensation of all employees. Additionally, **26 C.F.R. § 1.6041-2** provides that wages, as defined in section 3401 are to be reported on Form W-2.

In fiscal year 2012 and the period ending February 28, 2013, the School's Board of Directors was approved to receive a board stipend for each board meeting attended. The School did not withhold any deductions from their pay or stipends, as required. Also, no evidence was found that the School filed W-2 or 1099 Forms for the six Board of Directors members.

Also, from January 2012 through April 2012, the School owed \$14,822 of federal income tax, and \$4,604 of Medicare (employee and employer portions) that were not remitted immediately to the IRS. These withheld monies were subsequently used for other operating expenditures. These amounts were paid to the IRS on July 20, 2012.

These matters will be referred to the Internal Revenue Service.

FINDING NUMBER 2013-003

Noncompliance - Contract for Special Education Services

Ohio Rev. Code § 3314.022 states the governing authority of any community school may contract with the governing authority of another community school, the board of education of a school district, the governing board of an educational service center, a county DD board, or the administrative authority of a nonpublic school for provision of services for any disabled student enrolled at the school.

In fiscal year 2012, the School contracted with Brookwood Presbyterian Church (d.b.a. Brookwood Community Learning Center) for special education services. Brookwood Presbyterian Church (Brookwood) was a not-for-profit church, and as such, was not an eligible entity type to provide these special education services. The School paid Brookwood \$1,550,876 during fiscal year 2012 to provide special education services to approximately 65 full-time equivalent students.

In fiscal year 2012 and for the period July 1, 2012 to February 28, 2013, the School contracted with Baybrook and Associates, LLC (Baybrook), a not-for-profit organization, for special education services, and as such, was not an eligible entity type to provide these special education services. The School paid Baybrook \$871,894 during fiscal year 2012 and \$140,211 during the period July 1, 2012 to February 28, 2013 to provide special education services.

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

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 § .505
FISCAL YEAR ENDED JUNE 30, 2012
AND THE PERIOD JULY 1, 2012 THROUGH FEBRUARY 28, 2013
(CONTINUED)**

2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (CONTINUED)

FINDING NUMBER 2013-003 (continued)

Noncompliance - Contract for Special Education Services (continued)

The School should have contracted with a governing authority of another community school, the board of education of a school district, the governing board of an educational service center, a county DD board, or the administrative authority of a nonpublic school for provision of services for any special education services.

We were unable to determine whether federal funds were used to pay for these contracts because the School failed to provide an auditable schedule of federal award expenditures. No questioned cost will be issued for these amounts. Also see Finding 2013-009.

FINDING NUMBER 2013-004

Material Weakness/Noncompliance - Board Monitoring

The Sponsor Agreement Article II Section 2.1 states "The Governing Authority must hold not less than six (6) meetings per school year and must promptly provide the Sponsor with a copy of all board meeting notices issued to the public.

The Board of Directors should monitor the financial data of the School. Monitoring comprises regular management activities established to oversee whether management's financial objectives are being achieved. Data from such reports may indirectly provide assurance as to the reliability of financial reporting information if it conforms to the users' expectations. Effective monitoring controls should identify unexpected results or exceptions, investigate underlying causes, and take corrective action.

The School only held four meetings during fiscal year 2012. The Board only meeting less than six times per year does not allow the Board to adequately monitor the School's financial activities.

Also, the Board only reviewed the yearly budget and five-year forecast. The Board was not provided the necessary details needed to have effective monitoring controls, such as revenue & expense reports, fund balances, and budget versus actual information.

Also, CEO Cheryl Parchia, in the fiscal year ending February 28, 2013, and Former Treasurer Michael Ashmore, in fiscal year 2012, made loans to the School in the amounts of \$5,800 and \$10,000, respectively, without prior or subsequent approval from the Board. Loans were made to the School to cover payroll and nonpayroll transactions due to cash flow issues at the School. All loaned amounts were repaid to the respective parties during the audit period. The practice of administrators loaning funds to a community school should be strictly avoided, whether or not the community school board approves the transaction.

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

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 § .505
FISCAL YEAR ENDED JUNE 30, 2012
AND THE PERIOD JULY 1, 2012 THROUGH FEBRUARY 28, 2013
(CONTINUED)**

2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (CONTINUED)

FINDING NUMBER 2013-005

Material Weakness/Noncompliance/Finding For Recovery – Foundation Overpayment

Ohio Rev. Code § 3314.08 provides the formula by which community schools are funded. Community Schools receive funding from the state through the per-pupil foundation allocation. Unlike city, local, exempted village and joint vocational school districts, community schools have no tax base from which to draw funds for buildings and investment in infrastructure.

A full-time student is one who attends the entire school day and entire school year; that will result with the student having a Full-Time Equivalence (FTE) of 1.00. Students who attend a community school for less than the entire year will have an FTE equal to the total days/hours attended divided by the number of days/hours in the school year. Community Schools are funded on a per-pupil FTE basis. The School Options Enrollment System (SOES) is the EMIS subsystem that drives funding for community schools. It is a Web application administered by the Ohio Department of Education (ODE) and used by community schools and traditional public schools to enter and review data used to flow funds to community schools. Community school personnel enter data in the SOES system and traditional public school personnel review, verify or challenge that data.

Ohio Rev. Code § 3313.64(J) states that the treasurer of each school district shall, by the fifteenth day of January and July, furnish the superintendent of public instruction a report listing the names of each child in the permanent or legal custody of a government agency or person other than the child's parent and each child who resides in a home, who attended the district's schools during the preceding six calendar months. For each child, the report shall state the duration of attendance of that child, the school district responsible for tuition on behalf of the child, and any other information that the superintendent requires. Upon receipt of this report, the superintendent shall deduct each district's tuition obligations and pay to the district of attendance that amount plus any amount required to be paid by the state.

In addition, **Ohio Rev. Code § 3314.08** requires the board of education of each school district to annually report the number of students entitled to attend school in the district that are actually enrolled in community schools. This section also requires the governing authority of each community school to annually report the number of students enrolled in the community school. For each student, the governing board of the community school must report the city, exempted village, or local school district in which the student is entitled to attend.

Based on these reported numbers, the Ohio Department of Education shall calculate and subtract the appropriate amount of state aid from each school district. The amount subtracted shall be paid to the corresponding community school or to the internet or computer-based community school entitled to receive those funds. When calculating and subtracting the appropriate amount of state aid, the department should take into consideration any enrollment of students in community schools for less than the equivalent of a full school year.

Based on a FTE review for the 2012-2013 school year, the Ohio Department of Education (ODE) indicated that the School over-reported student attendance which resulted in state foundation overpayments. Neither the School nor the former Director has repaid the Ohio Department of Education for the foundation overpayment. ODE has certified the amount of \$477,888.99 to the Ohio Attorney General's Office for collection.

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

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 § .505
FISCAL YEAR ENDED JUNE 30, 2012
AND THE PERIOD JULY 1, 2012 THROUGH FEBRUARY 28, 2013
(CONTINUED)**

2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (CONTINUED)

FINDING NUMBER 2013-005 (CONTINUED)

ODE was able to determine the amount the School was overpaid while the School was open, but with the limited student attendance records that were presented for audit, we were unable to verify or audit the amount that was certified by ODE to the Ohio Attorney General's Office.

The School did not complete an annual financial report for the period July 1, 2012 to February 28, 2013 so the liability was not presented. See also Finding 2013-006.

In accordance with the foregoing facts and pursuant to Ohio Rev. Code Section 117.28, a Finding for Recovery for public monies illegally expended is hereby issued against ScholARTS Preparatory and Career Center for Children in the amount of \$477,888 in favor of the Ohio Department of Education.

These matters will be referred to the Ohio Department of Education.

FINDING NUMBER 2013-006

Material Weakness/Noncompliance - Audit Evidence / Financial Statement Reporting

Ohio Rev. Code § 3314.03(A)(11)(d) requires that each contract entered into between a sponsor and the governing authority of a community school specify that the school will comply with Section 149.43 of the Ohio Revised Code. Ohio Revised Code § 149.43(B) states, in part, that all public records shall be promptly prepared and made available for inspection to a person at all reasonable times during regular business hours. In order to facilitate broader access to public records, public offices shall maintain public records in a manner that they can be made available for inspection in accordance with this division.

Ohio Admin. Code § 117-2-02(A)(4) requires all local public offices maintain an accounting system and accounting records sufficient to enable the public office to identify, assemble, analyze, classify, record and report its transactions, maintain accountability for the related assets (and liabilities, if generally accepted accounting principles apply), document compliance with finance-related legal and contractual requirements and prepare financial statements required by rule 117-2-03 of the Administrative Code.

Ohio Rev. Code § 117.38, provides that each public office shall file a financial report for each fiscal year. The Auditor of State may prescribe forms by rule or may issue guidelines, or both, for such reports. If the Auditor of State has not prescribed a rule regarding the form for the report, the public office shall submit its report on the form utilized by the public office. Ohio Administrative Code § 117-2-03 further clarifies the requirements of Ohio Revised Code § 117.38. Ohio Administrative Code § 117-2-03, states, in part, that all community schools shall file annual financial reports which are prepared using generally accepted accounting principles (GAAP). Also, entities must publish notice in a local newspaper stating the financial report is available for public inspection at the office of the chief fiscal officer.

Sound financial reporting is the responsibility of the School's Treasurer and Board and is essential to ensure the information provided to the readers of the financial statements is complete and accurate.

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

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 § .505
FISCAL YEAR ENDED JUNE 30, 2012
AND THE PERIOD JULY 1, 2012 THROUGH FEBRUARY 28, 2013
(CONTINUED)**

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

FINDING NUMBER 2013-006 (CONTINUED)

After management initially provided records for the audit, there were significant delays in receiving the additional documents for both fiscal year 2013 and 2012. The School failed to provide the complete and accurate records of the following:

Fiscal Year 2012:

- 100% of bank statements and cancelled checks for the general operating account and payroll account
- Invoices and other supporting documents for disbursements.
- Student attendance records
- Schedule of Federal Awards Expenditures (See also Finding 2013-009)
- List of outstanding assets and liabilities

Fiscal Year 2013:

- 100% of bank statements and cancelled checks for the general operating account and payroll account
- Bank reconciliations
- Invoices and other supporting documents for disbursements.
- Accounting ledgers
- Student attendance records
- Schedule of Federal Awards Expenditures (See also Finding 2013-009)

The auditors were able to obtain the bank statements and cancelled checks from the School's financial institution through a subpoena. With the subpoenaed bank statements and cancelled checks, we were able to review expenditures to determine whether they were for a proper public purpose or fraudulent.

Our testing of the financial records reflected the following variances to what was reported on the School's fiscal year 2012 financial statements and, where applicable, the School's accounting records. However, adjustments have not been made to the School's financial statements or accounting records due to management not being available to approve the adjustments. In addition, due to the lack of evidential matter as noted above, the list below does not represent all potential variances.

Description	Amount
Various accounts payable amounts that were improperly included and excluded which resulted in an overstatement of accounts payable	\$ 19,678
Unrecorded amount due to the School Employees Retirement System	167,975
Unrecorded amount of overpayments to the State Teachers Retirement System	33,608
Unrecorded amount due to the Ohio Department of Education (ODE) for federal awards that were not spent within the period of availability and for the overstatement of expenditures on the Final Expenditure Report for the FY10, FY11, and FY12 grant periods, as identified an ODE's Subrecipient Monitoring Review Report dated February 22, 2013. We were unable to confirm or audit amounts included in ODE's Monitoring Report due to the lack of underlying supporting documentation presented for audit.	160,814

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

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 § .505
FISCAL YEAR ENDED JUNE 30, 2012
AND THE PERIOD JULY 1, 2012 THROUGH FEBRUARY 28, 2013
(CONTINUED)**

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

FINDING NUMBER 2013-006 (CONTINUED)

The adjustment required for the above known errors is as follows:

Assets	\$ 33,608
Liabilities	309,111
Revenues	33,608
Expenses	309,111

The School did not complete or file an annual financial report for the period July 1, 2012 to February 28, 2013 with the Auditor of State or publish notice in a local newspaper stating the report was available for inspection.

Auditing Standard Section AU-C 580 requires, in part, management to provide written representation to auditors at the conclusion of the engagement regarding management's responsibilities over recording the recording transactions and maintaining the accounting records; for complying with legal requirements; providing the auditors with all reports, records and other documentary evidence; and informing the auditors of other matters that may relate to the procedures this report describes. The Board of Directors and Director were not available to provide written representation.

During the course of our engagement we learned that during the period of July 1, 2012 to February 28, 2013 the School was over paid for student attendance in the amount of \$477,889. The Ohio Department of Education has requested these funds be returned. See Finding 2013-005 for more detail.

Due to the unrecorded adjustments and the inability to determine if other adjustments were necessary as a result of the lack of supportive documentation noted above, we were unable to gain assurances over completeness of the respective net assets/position, assets, liabilities, receipts, and disbursements.

FINDING NUMBER 2013-007

Finding for Recovery - Proper Public Purpose/Unsupported Expenditures

Ohio Rev. Code § 3314.03(A)(11)(d) requires that each contract entered into between a sponsor and the governing authority of a community school shall specify that the school will comply with Section 149.43 of the Ohio Revised Code. Ohio Revised Code § 149.43(B) states, in part, that all public records shall be promptly prepared and made available for inspection to a person at all reasonable times during regular business hours. In order to facilitate broader access to public records, public offices shall maintain public records in a manner that they can be made available for inspection in accordance with this division.

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

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 § .505
FISCAL YEAR ENDED JUNE 30, 2012
AND THE PERIOD JULY 1, 2012 THROUGH FEBRUARY 28, 2013
(CONTINUED)**

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

FINDING NUMBER 2013-007 (CONTINUED)

The School expended public funds that did not have supporting documentation for credit card purchases as noted below. The credit card was issued to Cheryl Parchia, CEO. We were able to substantiate certain flights for board members to attend board meetings.

Date	Vendor	Description of Purchases	Amount	Substantiated Expenses	Finding For Recovery
7/20/2012	Bank of America	Hotels, postage, restaurants, QVC, music store, storage, Columbus Zoo, flights, late fees and interest	\$ 1,536.98	\$290.10	\$1,246.88
9/7/2012	Bank of America	Flights, food, parking, QVC, fed ex, rental car, U-haul moving & storage	1,123.75	-	1,123.75
10/26/2012	Bank of America	Food, Columbus Dispatch, QVC, cell phone, flights, U-haul	3,000.00	-	3,000.00

The School also wrote 10 checks, totaling \$640, to 10 individuals who endorsed the checks over to Cheryl Parchia, CEO. No supporting documentation was maintained to support payment to these individuals. We were unable to locate board approved policies or board approval in the minutes over these transactions. See table below for list of checks.

Check Number	Check Date	Check Amount	Payee
10606	10/10/2012	\$ 40	Cahajoh Martin
10607	10/10/2012	80	Christopher Mason
10608	10/10/2012	40	Danyeal Smith
10609	10/10/2012	120	Diana Bell
10610	10/10/2012	40	Erica Burley
10611	10/10/2012	40	Hiascha Givens
10613	10/10/2012	120	LaShana Lawrence
10615	10/10/2012	40	Norice Chandler
10617	10/10/2012	80	Sarah Schneider
10618	10/10/2012	40	Yolanda S. Boone

Without appropriate documentation it is not possible to determine if the expenditures included items that would not be considered a proper public purpose.

In accordance with the foregoing facts and pursuant to Ohio Rev. Code Section 117.28, a Finding for Recovery for public monies illegally expended is hereby issued against Cheryl Parchia, CEO in the amount of \$6,009 in favor of the Ohio Department of Education.

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

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 § .505
FISCAL YEAR ENDED JUNE 30, 2012
AND THE PERIOD JULY 1, 2012 THROUGH FEBRUARY 28, 2013
(CONTINUED)**

2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (CONTINUED)

FINDING NUMBER 2013-008

Noncompliance – Retirement Systems

Ohio Rev. Code § 3307.01 requires enrollment and participation of teaching employees in the State Teachers Retirement System (STRS); **Ohio Rev. Code § 3309.01** requires the enrollment and participation of most other non-teaching employees in the School Employees Retirement System (SERS). Employees who are exempt from participating in these retirement plans must meet exemption criteria. The School is required to withhold employee retirement contributions and to make matching contributions.

Beginning in fiscal year 2008, the School contracted with Brookwood Community Learning Center (Brookwood) to provide special education services. In the agreed upon contract dated June 15, 2009, the School agreed to provide retirement accounts for Brookwood employees who were serving the Schools' students. Section Five of the contract states, "Brookwood will provide to ScholARTS as required the teaching staff and other support staff retirement payments in the form of checks. ScholARTS' treasurer will forward the check to the retirement authorities using their payment account numbers."

Beginning also in fiscal year 2008, ScholARTS contracted with Highland Community Learning Center (HCLC). The School had a similar agreement with HCLC as they did with Brookwood, and provided retirement accounts for HCLC employees who were serving the School's students.

During fiscal year 2011, the School failed to pay STRS and SERS employee and employer contributions for Brookwood and HCLC staff members, which was discovered in fiscal year 2012. During fiscal year 2012, STRS discovered that multiple Brookwood and HCLC employees that were enrolled in STRS should have been enrolled in SERS.

This resulted in ScholARTS having prepaid balances with STRS and liabilities owed to SERS. For STRS, the School had a \$114,338 prepaid balance on June 30, 2012, which was partially returned to the School during the fiscal period July 1, 2012 to February 28, 2013, and had a prepaid balance of \$34,135 on February 28, 2013. For SERS, ScholARTS had a \$167,975 balance due on June 30, 2012, which was all repaid during the fiscal period July 1, 2012 to February 28, 2013, but incurred another liability of \$2,576 by the time the school closed on February 28, 2013. See Finding Number 2013-006.

These matters will be referred to the State Teachers Retirement System and the Ohio Department of Education.

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

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 § .505
FISCAL YEAR ENDED JUNE 30, 2012
AND THE PERIOD JULY 1, 2012 THROUGH FEBRUARY 28, 2013
(CONTINUED)**

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

Finding Number	2013-009
CFDA Title and Number	Federal School Breakfast – 10.553 National School Lunch Program – 10.555 Title I - Grants to Local Education Agencies – 84.010 Special Education Grants to States – 84.027 Technology Literacy Challenge Fund Grant – 84.318 Improving Teacher Quality State Grants – 84.367 ARRA School Improvement, Grants to States – 84.388 ARRA Race To The Top – 84.395 Education Jobs – 84.410
Federal Award Number / Year	2012
Federal Agency	U.S. Department of Agriculture U.S. Department of Education
Pass-Through Agency	Ohio Department of Education

Federal Noncompliance / Material Weakness / Questioned Cost

OMB Circular No. A-133 § .310(b) states that the auditee shall prepare a schedule of federal awards expenditures for the period covered by the auditee's financial statements.

34 C.F.R. Section 80.20(a) states that a State must expend and account for grant funds in accordance with State laws and procedures for expending and accounting for its own funds. Fiscal control and accounting procedures of the State and of its subgrantees must be sufficient to permit the preparation of reports required by this part and the statutes authorizing the grant and also permit the tracing of funds to a level of expenditures adequate to establish that such funds have not been used in violation of the restrictions and prohibitions of applicable statutes. **34 C.F.R. § 80.20(b)(2)** further states that grantees and subgrantees must maintain records which adequately identify the source and application of funds provided for financially-assisted activities. These records must contain information pertaining to grant or subgrant awards and authorizations, obligations, unobligated balances, assets, liabilities, outlays or expenditures, and income.

Further, **OMB Circular A-133, Subpart C, § .300** states that the auditee shall:

(a) Identify, in its accounts, all Federal awards received and expended and the Federal programs under which they were received. Federal program and award identification shall include, as applicable, the Catalog of Federal Domestic Assistance (CFDA) title and number, award number and year, name of the Federal Agency, and name of the pass-through entity.

(b) Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs.

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

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 § .505
FISCAL YEAR ENDED JUNE 30, 2012
AND THE PERIOD JULY 1, 2012 THROUGH FEBRUARY 28, 2013
(CONTINUED)**

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS (CONTINUED)
--

FINDING NUMBER 2013-009 (CONTINUED)

(c) Prepare appropriate financial statements, including the schedule of expenditures of Federal awards in accordance with OMB Circular A-133, Section .310.

(e) Further states, an auditee shall "Ensure that the audits required by this part are properly performed and submitted when due." Section .320(a) provides that single audits shall be completed and a reporting package submitted to the federal clearinghouse designated by OMB, within the earlier of 30 days after receipt of the auditor's report(s), or nine months after the end of the audit period, unless a longer period is agreed to in advance by the cognizant or oversight agency for audit.

Also, Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, § .200(b) provides that a non-federal entity that expends \$500,000 or more in a year in federal awards shall have a single audit conducted as discussed in the Circular. Section .105 defines such entities as "auditees".

The Ohio Department of Education (ODE) completed a review of the School to determine whether all federal funds were used in accordance with applicable laws, regulations, and guidance. The review identified errors in reporting the school's Final Expenditure Report for expenses in fiscal year 2012 which resulted in overpayments from ODE to the School. These errors resulted in ODE requesting \$160,814 out of \$647,901 federal receipts provided to the School to be returned.

During our engagement to audit the financial records of the School, we were unable to determine if the School complied with the requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement. The School did not provide documentation to enable a review of the compliance with the circular. The School provided a federal expenditures schedule for audit that did not agree to the accounting ledgers.

The School presented two separate accounting ledgers that did not agree to the reported federal expenditures. Financial records were incomplete and supporting documentation for federal expenditures was lacking or non-existent. See Finding 2013-006 for more detail. As a result of our inability to obtain sufficient documentation supporting the School's compliance with the types of compliance requirements the U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement requires, as well as the inability to satisfy ourselves as to the School's compliance with these requirements through other auditing procedures, we question all of the costs for these programs. Because we were unable to determine federal expenditures for each federal program, federal receipts for fiscal year 2012 will be used as the questioned cost. Total questioned costs for each program are noted below:

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

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 § .505
FISCAL YEAR ENDED JUNE 30, 2012
AND THE PERIOD JULY 1, 2012 THROUGH FEBRUARY 28, 2013
(CONTINUED)**

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS (CONTINUED)

FINDING NUMBER 2012-009 (CONTINUED)

CFDA Title and Number	Compliance Requirements	Questioned Cost Amount
Federal School Breakfast – 10.553	Activities Allowed or Unallowed, Allowable Costs/Cost Principles, Cash Management, Eligibility, Equipment and Real Property Management, Procurement and Suspension and Debarment, Program Income, Reporting, Subrecipient Monitoring, Special Tests and Provisions	\$ 44,140
National School Lunch Program – 10.555	Activities Allowed or Unallowed, Allowable Costs/Cost Principles, Cash Management, Eligibility, Equipment and Real Property Management, Procurement and Suspension and Debarment, Program Income, Reporting, Subrecipient Monitoring, Special Tests and Provisions	82,656
Title I - Grants to Local Education Agencies – 84.010	Activities Allowed or Unallowed, Allowable Costs/Cost Principles, Cash Management, Eligibility, Equipment and Real Property Management, Matching – Level of Effort – Earmarking, Period of Availability of Federal Funds, Procurement and Suspension and Debarment, Reporting, Subrecipient Monitoring, Special Tests and Provisions	70,803
Special Education Grants to States – 84.027	Activities Allowed or Unallowed, Allowable Costs/Cost Principles, Cash Management, Equipment and Real Property Management, Matching – Level of Effort – Earmarking, Period of Availability of Federal Funds, Procurement and Suspension and Debarment, Reporting, Subrecipient Monitoring, Special Tests and Provisions	15,735
Technology Literacy Challenge Fund Grant – 84.318	Activities Allowed or Unallowed, Allowable Costs/Cost Principles, Cash Management, Matching – Level of Effort – Earmarking, Period of Availability of Federal Funds, Procurement and Suspension and Debarment, Reporting, Subrecipient Monitoring, Special Tests and Provisions	985
Improving Teacher Quality State Grants – 84.367	Activities Allowed or Unallowed, Allowable Costs/Cost Principles, Cash Management, Matching – Level of Effort – Earmarking, Period of Availability of Federal Funds, Procurement and Suspension and Debarment, Reporting, Subrecipient Monitoring, Special Tests and Provisions	2,238
ARRA School Improvement, Grants to States – 84.388	Activities Allowed or Unallowed, Allowable Costs/Cost Principles, Cash Management, Matching – Level of Effort – Earmarking, Period of Availability of Federal Funds, Reporting, Special Tests and Provisions	410,683
ARRA Race To The Top – 84.395	Activities Allowed or Unallowed, Allowable Costs/Cost Principles, Cash Management, Davis-Bacon Act, Matching – Level of Effort – Earmarking, Period of Availability of Federal Funds, Reporting	2,434
Education Jobs – 84.410	Activities Allowed or Unallowed, Allowable Costs/Cost Principles, Cash Management, Matching – Level of Effort – Earmarking, Period of Availability of Federal Funds, Reporting, Special Tests and Provisions	18,227
Total		\$ 647,901

SCHOLARTS PREPARATORY AND CAREER CENTER FOR CHILDREN
FRANKLIN COUNTY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 § .505
FISCAL YEAR ENDED JUNE 30, 2012
AND THE PERIOD JULY 1, 2012 THROUGH FEBRUARY 28, 2013
(CONTINUED)

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS (CONTINUED)

FINDING NUMBER 2012-009 (CONTINUED)

In addition, as of the opinion date no evidence was provided that the School had notified the cognizant or oversight agency when it became apparent that an audit report and data collection form would not be available within the prescribed reporting time.

Based off of federal receipts for the period July 1, 2012 to February 28, 2013 plus federal carryover balances from fiscal year 2012, the School had \$321,147 of federal funds available for expenditure for the period July 1, 2012 to February 28, 2013 and was not subject to a Single Audit.

These matters will be referred to the Ohio Department of Education.

We did not receive responses from Officials to the above findings.

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

**SCHEDULE OF PRIOR AUDIT FINDINGS
OMB CIRCULAR A -133 § .315 (b)
FISCAL YEAR ENDED JUNE 30, 2012
AND THE PERIOD JULY 1, 2012 THROUGH FEBRUARY 28, 2013**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2011-01	Failure to record \$280,808 in accounts payable.	No	Reissued - Finding Number 2013-006
2011-02	Failure to separately account for ARRA awards.	No	Reissued – Finding Number 2013-009
2011-03	Failure to accurately report the Final Expenditure Report	No	Reissued – Finding Number 2013-009
2011-04	Failure to timely file the A-133 Reporting Package	No	Reissued – Finding Number 2013-009

THIS PAGE INTENTIONALLY LEFT BLANK

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

**CORRECTIVE ACTION PLAN
OMB CIRCULAR A -133 § .315 (c)
FISCAL YEAR ENDED JUNE 30, 2012
AND THE PERIOD JULY 1, 2012 THROUGH FEBRUARY 28, 2013**

The School declined to submit a corrective action plan.

THIS PAGE INTENTIONALLY LEFT BLANK



Dave Yost • Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT ON APPLYING AGREED-UPON PROCEDURES

ScholARTS Preparatory and Career Center for Children
Franklin County
907 East Lexington Avenue
Columbus, Ohio 43209

To the Board of Directors:

Ohio Rev. Code Section 117.53 states “the auditor of state shall identify whether the school district or community school has adopted an anti-harassment policy in accordance with Section 3313.666 of the Revised Code. This determination shall be recorded in the audit report. The auditor of state shall not prescribe the content or operation of any anti-harassment policy adopted by a school district or community school.”

Accordingly, we have performed the procedures enumerated below, which were agreed to by the Board, solely to assist the Board in evaluating whether ScholARTS Preparatory and Career Center for Children, Franklin County, Ohio, (the School) has adopted an anti-harassment policy in accordance with Ohio Rev. Code Section 3313.666. Management is responsible for complying with this requirement. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of the Board. Consequently; we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

1. In our report dated May 14, 2012, we noted the Board adopted an anti-harassment policy on September 30, 2007. However, this policy did not include all matters required by Ohio Rev. Code 3313.666.
2. The Board amended the policy on March 14, 2012. We read the amended policy, noting it now includes all the requirements listed in Ohio Rev. Code 3313.666.

We were not engaged to and did not conduct an examination, the objective of which would be the expression of an opinion on compliance with the anti-harassment policy. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the Board and School's sponsor, and is not intended to be and should not be used by anyone 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

December 5, 2016



Dave Yost • Auditor of State

SCHOLARTS PREPARATORY AND CAREER CENTER FOR CHILDREN

FRANKLIN COUNTY

CLERK'S CERTIFICATION

This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
DECEMBER 22, 2016**