



**Auditor of State
Betty Montgomery**

**W. C. HANDY COMMUNITY MIDDLE SCHOOL OF THE PERFORMING ARTS
FRANKLIN COUNTY**

TABLE OF CONTENTS

TITLE	PAGE
Independent Accountants' Report.....	1
Balance Sheet.....	3
Statement of Revenues, Expenses and Changes in Accumulated Deficit.....	4
Statement of Cash Flows.....	5
Notes to the Financial Statements.....	7
Independent Accountants' Report on Compliance and on Internal Control Required by <i>Government Auditing Standards</i>	17
Schedule of Prior Audit Finding.....	19

THIS PAGE INTENTIONALLY LEFT BLANK



Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

W.C. Handy Community Middle School of the Performing Arts
Franklin County
3400 Kohr Blvd
Columbus, Ohio 43224

To the Board of Trustees:

We have audited the accompanying Balance Sheet of the W.C. Handy Community Middle School of the Performing Arts, Franklin County, Ohio, (the School) as of and for the year ended June 30, 2003, and the related Statement of Revenues, Expenses, and Changes in Accumulated Deficit, and the Statement of Cash Flows for the year then ended as listed in the table of contents. These financial statements are the responsibility of the School's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the W.C. Handy Community Middle School of the Performing Arts, Franklin County, Ohio, as of June 30, 2003, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As shown in the financial statements, the School has incurred an operating loss in the amount of \$254,448, has a net loss of \$37,327, and an accumulated deficit of \$60,520, as of June 30, 2003. Subsequently, the School has not opened for the 2004-05 school year. This is discussed fully in Note 15 of the financial statements.

35 N. Fourth St. / Second Floor / Columbus, OH 43215
Telephone: (614) 466-3402 (800) 443-9275 Fax: (614) 728-7199
www.auditor.state.oh.us

In accordance with *Government Auditing Standards*, we have also issued our report dated August 27, 2004 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 grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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

Betty Montgomery
Auditor of State

August 27, 2004

**W.C. HANDY COMMUNITY MIDDLE SCHOOL FOR THE PERFORMING ARTS
FRANKLIN COUNTY**

**BALANCE SHEET
AS OF JUNE 30, 2003**

ASSETS

Current Assets

Cash and cash equivalents	\$ 100,018
Accounts Receivable	71
Prepaid Items	1,165
Total Current Assets	<u>101,254</u>

Non Current Assets

Furniture and Equipment, Net	4,230
------------------------------	-------

Total Assets

105,484

LIABILITIES AND EQUITY

Current Liabilities

Accounts Payable	53,109
Accrued Wages & Benefits	86,461
Intergovernmental Payable	11,434
Debt Payable	15,000
Total Liabilities	<u>166,004</u>

Equity

Accumulated Deficit	(60,520)
Total Equity	<u>(60,520)</u>

Total Liabilities and Equity

\$ 105,484

The accompanying notes to the financial statements are an integral part of this statement.

**W.C HANDY COMMUNITY MIDDLE SCHOOL FOR THE PERFORMING ARTS
FRANKLIN COUNTY**

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES
IN ACCUMULATED DEFICIT
FOR THE YEAR ENDED JUNE 30, 2003**

Operating Revenues	
Foundation Payments	\$ 879,864
Disadvantage Pupil Impact Aid	93,115
Food Service	7,881
Other Operating	19,407
Total Operating Revenues	<u>1,000,267</u>
Operating Expenses	
Salaries	675,023
Fringe Benefits	187,245
Purchased Services	252,348
Materials and Supplies	81,798
Depreciation	1,277
Other Operating Expenses	<u>57,024</u>
Total Operating Expenses	<u>1,254,715</u>
Operating Loss	(254,448)
Non-Operating Revenues	
Federal Restricted Grant in Aid	62,915
Federal Unrestricted Grant in Aid	150,000
State Restricted Grant in Aid	3,350
Interest Income	856
Total Non-Operating Revenues	<u>217,121</u>
Net Loss	(37,327)
Accumulated Deficit Beginning Balance	<u>(23,193)</u>
Accumulated Deficit at End of Year	<u><u>\$ (60,520)</u></u>

The accompanying notes to the financial statements are an integral part of this statement.

**W. C. HANDY COMMUNITY MIDDLE SCHOOL FOR THE PERFORMING ARTS
FRANKLIN COUNTY**

**STATEMENT OF CASH FLOWS
FOR THE YEAR END JUNE 30, 2003**

Increase in Cash and Cash Equivalents

Cash Flows from Operating Activities

Cash from State of Ohio	\$ 949,148
Cash from Food Service	7,881
Cash for Material & Fees	(10)
Cash from Miscellaneous	19,417
Cash payments to Suppliers for Goods and Services	(685,575)
Cash payments made for Employees Services	(262,080)
Cash payments for Employee Benefits	(186,240)
Net Cash from Operating Activities	<u>(157,459)</u>

Cash Flows from Noncapital Financing Activities

Grants Received from State and Federal Subsidies	<u>227,046</u>
Net Cash Provided by Noncapital Financing Activities	<u>227,046</u>

Cash Flows from Capital and Related Financing Activities

Payments for Capital Asset Acquisition	<u>2,447</u>
Net Cash Provided by Financing Activities	<u>2,447</u>

Cash Inflows from Investing Activities

	<u>856</u>
Net Cash Provided by Investing Activities	<u>856</u>

Net Increase in Cash and Cash Equivalents

72,890

Cash and Cash Equivalents at Beginning of Year

27,128

Cash and Cash Equivalents at End of Year

\$ 100,018

Reconciliation of Operating Loss to Net Cash (Used for) Operating Activities

Operating Loss	(254,448)
----------------	-----------

Adjustments to Reconcile Operating Loss to Net Cash (Used for) Operating Activities

Depreciation	1,277
Changes in Assets and Liabilities	
Decrease in Accounts Receivable	990
Decrease in Intergovernmental Receivable	60,291
Increase in Accounts Payable	36,631
Increase in Wages Payable	9,432
Decrease in Intergovernmental Payable	(11,632)
Total Adjustments	<u>95,712</u>

Net Cash Used for Operating Activities

\$ (157,459)

The accompanying notes to the financial statements are an integral part of this statement

THIS PAGE INTENTIONALLY LEFT BLANK

**W.C. HANDY COMMUNITY MIDDLE SCHOOL FOR THE PERFORMING ARTS
FRANKLIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2003**

1. DESCRIPTION OF THE ENTITY

W.C. Handy Community Middle School (the School) is a nonprofit corporation established pursuant to Ohio Revised Code Chapters 3314 and 1702. The School is an approved tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code. Management is not aware of any course of action or series of events that have occurred that might adversely affect the School's tax-exempt status.

The School's mission is to build a community of scholars and stimulate academic achievement through an arts-based curriculum. By operating a school that provides a comprehensive educational experience for the students, the School's vision is to provide a model public community school that looks and behaves like a private school. The school teaches values based learning opportunities to encourage positive life skills. The School, which is part of the State's education program, is independent of any school district and is non secretarial in its programs, admission policies, employment practices, and all other operations. The School may acquire facilities as needed and contract for any services necessary for the operation of the school.

The School was approved for operation under a contract with the Ohio State Board of Education (the Sponsor) for a period of five years effective for the 2001-2002 academic school year. The Sponsor is responsible for evaluating the performance of the School and has the authority to deny renewal of the contract at its expiration or terminate the contract prior to its expiration.

The School operates under the direction of a five-member Governing Board. The Governing Board is responsible for carrying out the provisions of the contract which include, but are not limited to, state-mandated provisions regarding student population, curriculum, academic goals, performance standards, admission standards, and qualifications of teachers. The Governing Board controls the School's one instructional/support facility staffed by 12 non certified and 12 certificated full time teaching personnel who provide services to 165 students.

The School has entered into a service agreement with the Lucas County Educational Service Center, Lucas County, Ohio to provide certain financial and accounting services and the Treasurer of Lucas County ESC serves as the Chief Financial Officer of the School . This agreement was terminated on June 13, 2003. (See Note 9)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the School have been prepared in conformity with generally accepted accounting principles as applied to a governmental nonprofit organization. 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 statements and interpretations issued on or before November 30, 1989, provided they do not conflict with or contradict GASB pronouncements. The School does not apply FASB Statements or Interpretations issued after November 30, 1989. The more significant of the School's accounting policies are described below.

**W.C. HANDY COMMUNITY MIDDLE SCHOOL FOR THE PERFORMING ARTS
FRANKLIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2003
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

A. Basis of Presentation

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

B. Measurement Focus/Basis of Accounting

Enterprise accounting uses a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities are included on the balance sheet.

Operating statements present increases (e.g., revenues) and decreases (e.g., expenses) in net total assets. Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements and to the timing of the measurements made.

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

Revenues resulting from exchange transactions are recorded on the accrual basis when the exchange takes place. Non-exchange transactions, in which the School receives value without directly giving equal value in return, include grants and donations. On an accrual basis, revenue from grants and donations is recognized in the fiscal year in which all eligibility requirements have been met.

C. Budgetary Process

Unlike other public schools located in the State of Ohio, community schools are not required to follow budgetary provisions set forth in Ohio Revised Code Chapter 5705, unless specifically provided in the School's contract with its Sponsor. The contract between the School and its Sponsor does prescribe an annual budget requirement.

D. Cash And Cash Equivalents

Until June 13, 2003, all monies received by the School were accounted for by the School's fiscal agent, the Lucas County Educational Service Center. Since June 14, 2003, all cash is received and controlled by the School and is maintained in a single bank account in the School's name. (See Note 3)

E. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2003, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expense is reported in the year in which services are consumed.

**W.C. HANDY COMMUNITY MIDDLE SCHOOL FOR THE PERFORMING ARTS
FRANKLIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2003
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. Fixed Assets And Depreciation

Fixed assets and improvements are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The School maintains a capitalization threshold of five hundred dollars per its contract with the ODE. The School does not possess any infrastructure.

The School does not capitalize interest. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized. Building, vehicles, and equipment are depreciated using the straight-line method over the assets' estimated useful lives. Improvements to fixed assets are depreciated over the remaining useful lives of the related fixed assets. Leasehold improvements are depreciated using the straight-line method over the life of the lease.

Depreciation of furniture and equipment is computed using the straight-line method over an estimated useful life of five years.

G. Intergovernmental Revenues (Non Exchange Transactions)

Revenues of the Foundation and Disadvantaged Pupil Impact Aid (DPIA Program) programs, are recognized as operating revenues in the accounting period in which all eligibility requirements have been met.

Grants and entitlements are recognized as non-operating revenues in the accounting period in which all eligibility requirements have been met.

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

In addition to other programs, the School also participates in the Federal Charter School Grant Program through the Ohio Department of Education. Under this program, the School was awarded \$150,000 during the second year of operation and as part of the second distribution. Revenue received from this program is recognized as non-operating revenue in the accompanying financial statements and used to subsidize the School operations.

Amounts awarded under the above programs for the 2003 school year totaled \$ 1,189,244.

H. Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

I. Compensated Absences

The School does not record a liability for compensated absences. In the past, the School has not paid out accumulated leave balances upon termination of employment and has not carried any balances beyond the school year.

**W.C. HANDY COMMUNITY MIDDLE SCHOOL FOR THE PERFORMING ARTS
FRANKLIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2003
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

J. Accrued Liabilities

Obligations incurred but unpaid by June 30, 2003 are reported as accrued liabilities in the accompanying financial statements

3. CASH AND CASH EQUIVALENTS

At June 30, 2003, the carrying amount of the School's deposits was \$100,018 and the bank balance was \$135,134. Of the available bank balance, \$100,000 was covered by federal depository insurance. The remaining was covered by pooled collateral.

4. RECEIVABLES

Receivables at June 30, 2003, consisted of accounts (e.g. miscellaneous receipts). The receivables are considered collectible.

5. FIXED ASSETS

A summary of the School's fixed assets at June 30, 2003 is summarized in the following table:

Asset Category	
Furniture and Equipment	\$ 6,271
Less: Accumulated Depr	(2,041)
Net Fixed Asset	<u>\$ 4,230</u>

There were no leasehold improvements.

6. PURCHASED SERVICES

For the period July 1, 2002 through June 30, 2003, purchased service expenses were payments for services rendered by various vendors, as follows:

Professional and Technical Services	\$ 101,398
Property Services	121,648
Travel Mileage/Meeting Expense	3,119
Communications	15,544
Contracted Craft or Trade Services	4,209
Transportation Services	4,567
Other Purchased Services	<u>1,863</u>
Total Purchased Services	<u>\$ 252,348</u>

**W.C. HANDY COMMUNITY MIDDLE SCHOOL FOR THE PERFORMING ARTS
FRANKLIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2003
(Continued)**

7. LINE OF CREDIT

During fiscal year 2003, the school maintained a line-of-credit agreement with Fifth Third Bank for a period of one year in the amount of \$40,000. The purpose of the line-of-credit was to provide working capital in the event of timing gaps experienced in receiving state funding. The line-of-credit had an interest rate of 4% over the prime rate and was secured by all tangible assets of the School. At June 30, 2003, there was an unpaid balance of \$15,000 and a liability is reported in the accompanying financial statements.

8. OPERATING LEASES- Space and Cost Sharing Agreement

The School entered into a space and cost sharing agreement with New Covenant Believers Church (the Church) for exclusive and shared space use at the property located at 3400 Kohl Boulevard. The terms of the agreement was executed on August 1, 2001 and is renewable annually, upon agreement by both parties.

Under the space and cost sharing agreement, minimum monthly payments are \$12,500 for each month of the School operation, usually September through June, of each school year. Also, according to the agreement the equipment of the Church shall be shared by the parties and cost thereof paid based on a cost sharing allocation, as noted in the table following.

Cost Sharing Allocation	
Equipment	Monthly Percentage Allocation
Furniture and Fixtures	\$75 per classroom
Telephone	30%
Photocopier	40%
Postage	.35 per piece
Coffee Machine	40

The shared space allocation is reviewed at least every six months for possible revision based on cost and actual use. The above cost sharing allocation amounts/percentages were in affect through June 30, 2003. Under this space and cost agreement, the School has paid \$121,648 in fiscal 2003. There are neither scheduled rent increases nor holidays provisions in the operating lease.

The School renewed its agreement with New Covenant Believers Church for the 2003-04 school year.

9. FISCAL AGENT- Lucas County Educational Service Center

The sponsor agreement states the Treasurer of the Lucas County Educational Service Center shall serve as the Chief Fiscal Officer of the School. As part of this agreement, the School shall compensate the Lucas County Educational Service Center two percent (2%) of the per pupil allotments paid to the school by the State of Ohio. The total contract payment of \$25,399 was paid in full during the fiscal year.

**W.C. HANDY COMMUNITY MIDDLE SCHOOL FOR THE PERFORMING ARTS
FRANKLIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2003
(Continued)**

9. FISCAL AGENT- Lucas County Educational Service Center (Continued)

The Treasurer shall perform all of the following functions while serving as the Chief Fiscal Officer of the School:

- Maintain custody of all funds received by the School in segregated accounts separate from Lucas County ESC or any other Community School's funds;
- Maintain all books and accounts of the School;
- Maintain all financial records of all state funds of the School and follow State Auditor procedures for receiving and expending state funds;
- Assist the School in meeting all financial reporting requirements established by the Auditor of Ohio;
- Invest funds of the School in the same manner as the funds of Lucas County ESC are invested, but the Treasurer shall not commingle the funds with any of Lucas County ESC or any other community school; and
- Pay obligations incurred by the School within a reasonable amount of time, not more than 14 calendar days after receipt of a properly executed voucher signed by the Chief Administrative Officer of School so long as the proposed expenditure is within the approved budget and funds are available.

The School cancelled its contract with Lucas County Educational Service Center on June 13, 2003.

10. RISK MANAGEMENT

A. Property And Liability

The School is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees, and natural disasters. For fiscal year 2003, the School contracted with Colonial Insurance and United National Insurance Companies for its insurance coverage as follows:

General liability	\$ 2,000,000
Educators Professional Liability	1,000,000
Excess Liability	4,000,000

Both the general and the excess liability have a \$5,000 deductible per claim. The School owns no real estate, but leases a facility located at 3400 Kohr Boulevard, Columbus, Ohio.

B. Worker's Compensation

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

**W.C. HANDY COMMUNITY MIDDLE SCHOOL FOR THE PERFORMING ARTS
FRANKLIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2003
(Continued)**

10. RISK MANAGEMENT (Continued)

C. Employees Medical, Dental and Vision Benefits

The School has contracted through United Healthcare to provide employee medical, dental, vision, life, and disability insurance to its full time employees who work 25 or more hours per week. The School pays 100% of the monthly premiums for all selected coverage (medical, dental, vision, life, and/or disability)

11. DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

The School contributes to the School Employees Retirement System (SERS), a cost-sharing multiple employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code.

SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3476. Plan members are required to contribute 9 percent of their annual covered salary and the School is required to contribute at an actuarially determined rate. The current School rate is 14 percent of annual covered payroll. A portion of the School's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2003, 8.17 percent of annual covered salary was the portion used to fund pension obligation. For fiscal year 2002, 5.46 percent of annual covered salary was the portion used to fund pension obligations.

The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The School's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2003 and 2002, respectively were \$10,348 and \$34,524; 100% has been contributed for fiscal year 2003.

B. State Teachers Retirement System

The School participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost sharing, multiple-employer public employee retirement system. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3371 or by calling (614) 227-4090.

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5% of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment.

**W.C. HANDY COMMUNITY MIDDLE SCHOOL FOR THE PERFORMING ARTS
FRANKLIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2003
(Continued)**

11. DEFINED BENEFIT PENSION PLANS (Continued)

B. State Teachers Retirement System (Continued)

The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan. Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one time irrevocable decision to transfer their account balances from the existing DB Plan into the DC Plan or the Combined Plan. This option expired on December 31, 2001. Benefits are established by Chapter 3307 of the Ohio Revised Code.

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

For the fiscal year ended June 30, 2003, plan members were required to contribute 9.3 percent of their annual covered salaries. The School was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal year 2002, the portion used to fund pension obligations was 9.5 percent. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The School's required contributions for pension obligations to STRS for the years ended June 30, 2003 and 2002, respectively, were \$ 26,371 and \$32,182; 85 percent has been contributed for fiscal year 2003. The unpaid contribution for fiscal year 2003, in the amount of \$4,718 is recorded as a liability.

12. POSTEMPLOYMENT BENEFITS

State Teachers Retirement System of Ohio (STRS Ohio) provides comprehensive healthcare benefits to retirees and their dependents. Coverage includes hospitalization, physicians' fees, prescription drugs, and partial reimbursement of monthly Medicare premiums. All benefit recipients and sponsored dependents are eligible for health care coverage. Pursuant to the Ohio Revised Code (R.C.), the State Teachers Retirement Board (the Board) has discretionary authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. The R.C. grants authority to STRS Ohio to provide health care coverage to benefit recipients, spouses and dependents.

By Ohio law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14 percent of covered payroll.

The Retirement Board allocates employer contributions to the Health Care Reserve Fund from which health care benefits are paid. For fiscal year ended June 30, 2003, the Board allocated employer contributions equal to 1.0 percent of covered payroll to the Health Care Reserve Fund.

The balance in the Health Care Reserve Fund was \$3.011 billion on June 30, 2002. For the School, this amount equaled \$3,710 during the 2003 fiscal year.

**W.C. HANDY COMMUNITY MIDDLE SCHOOL FOR THE PERFORMING ARTS
FRANKLIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2003
(Continued)**

12. POSTEMPLOYMENT BENEFITS (Continued)

For the year ended June 30, 2002, net health care costs paid by STRS Ohio were \$354,697,000. There were 105,300 eligible benefit recipients.

For SERS, the Ohio Revised Code gives the discretionary authority to provide postretirement health care to retirees and their dependents. Coverage is made available to service retirees with ten or more years of qualifying service credit, disability and survivor benefit recipients. Members retiring on or after August 1, 1989 with less than twenty-five years of service credit must pay a portion of their premium for health care. The portion is based on years of service up to a maximum of 75 percent of the premium.

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2003, the allocation rate is 5.83 percent. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit.

For fiscal year 2003, the minimum pay has been established at \$14,500. For the School, the amount to fund health care benefits, including the surcharge, was \$10,797 for fiscal year 2003. The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of annual health care expenses. Expenses for health care at June 30, 2002, were \$204,930,737 and the target level was \$307.4 million. At June 30, 2002, the Retirement System's net assets available for payment of health care benefits of \$303.6 million. The number of benefit recipients currently receiving health care benefits is approximately 50,000.

13. STATE SCHOOL FUNDING DECISION

On December 11, 2003, the Ohio Supreme Court issued its latest opinion regarding the State's school funding plan. The decision reaffirmed earlier decisions that Ohio's current school funding plan is unconstitutional. The Supreme Court relinquished jurisdiction over the case and directed "...the Ohio General Assembly to enact a school-funding scheme that is thorough and efficient...". The School is currently unable to determine what effect, if any, this decision will have on its future State funding and its financial operations

14. CONTINGENCIES

A. Grants

The School received financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the School. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the School at June 30, 2003.

B. Pending Litigation

A suit was filed in Franklin County Common Pleas Court on May 14, 2001 alleging Ohio's Community (i.e., Charter) Schools program violates the state Constitution and state laws. On April 21, 2003 the court dismissed the counts containing constitutional claims and stayed the other counts pending appeal of the constitutional issues. The plaintiffs appealed to the Court of Appeals, the issues have been briefed, and the oral arguments were heard on November 18th, 2003. The effect of this suit, if any, on the School is not presently determinable.

**W.C. HANDY COMMUNITY MIDDLE SCHOOL FOR THE PERFORMING ARTS
FRANKLIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2003
(Continued)**

14. CONTINGENCIES (Continued)

C. Ohio Department of Education Enrollment Review

The Ohio Department of Education (ODE) conducts reviews of student enrollment data and full time equivalency (FTE) calculations made by the schools. These reviews are conducted to ensure the schools are reporting accurate student enrollment data to the State, upon which state foundation funding is calculated

ODE completed a review of School for the fiscal year 2003 student enrollment data and FTE calculations. The conclusion of this review resulted in School owing ODE \$2,842. This liability is not recorded in the accompanying financial statements due to its immaterial nature.

15. DEFICIT FUND EQUITY

At year end, the School had a deficit fund equity balance (\$60,520), operating loss of (\$254,448) and a net loss of (\$37,327). The Board has agreed to close the School by Board resolution. The School did not open for the 2004-05 school year. The contract between the Sponsor, Ohio Department of Education, and the School has been terminated via this resolution.

The School received advanced foundation payments for enrolled students for the 2004-05 school year. These monies, although not determinable at this time, must be returned to the Department of Education. This liability is not reflected in the accompanying financial statements.

16. RELATED PARTY

The accounting firm of Parns & Company prepared the tax returns for the School. The Board Treasurer, John Parns, is a principle in the firm.

17. SUBSEQUENT EVENTS

The School has entered into a contractual agreement with the Mt. Herman Missionary Baptist Church to provided available space on its property to place module classrooms. It was the School's intention to instruct student in the module classroom. With the closing of the School it is not determinable what, if any, liability exists from this contract and consequently no liability is reflected in the accompanying financial statements.



**Auditor of State
Betty Montgomery**

**INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE AND ON
INTERNAL CONTROL REQUIRED BY *GOVERNMENT AUDITING STANDARDS***

W.C. Handy Community Middle School of the Performing Arts
Franklin County
3400 Kohr Blvd
Columbus, Ohio 43224

To the Board of Trustees:

We have audited the financial statements of W.C. Handy Community Middle School of the Performing Arts, Franklin County, Ohio, (the School) as of and for the year ended June 30, 2003, and have issued our report thereon dated August 27, 2004. In this report we indicated substantial doubt about the School's ability to continue as a going concern. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the School's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the School's internal control over financial reporting to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

35 N. Fourth St. / Second Floor / Columbus, OH 43215
Telephone: (614) 466-3402 (800) 443-9275 Fax: (614) 728-7199
www.auditor.state.oh.us

W.C. Handy Community Middle School of the Performing Arts
Franklin County
Independent Accountants' Report on Compliance and on
Internal Control Required by *Government Auditing Standards*
Page 2

This report is intended solely for the information and use of the finance committee, management, and the Board of Trustees, 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 "Betty Montgomery". The signature is written in a cursive, flowing style.

Betty Montgomery
Auditor of State

August 27, 2004

**W. C. HANDY COMMUNITY MIDDLE SCHOOL FOR THE PERFORMING ARTS
FRANKLIN COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDING
JUNE 30, 2003**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid Explain:
2002-10625-001	Approval from the Executive Director was not made prior to making an expenditure	Corrected	



**Auditor of State
Betty Montgomery**

88 East Broad Street
P.O. Box 1140
Columbus, Ohio 43216-1140

Telephone 614-466-4514
800-282-0370

Facsimile 614-466-4490

W.C. HANDY COMMUNITY MIDDLE SCHOOL FOR THE PERFORMING ARTS

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
NOVEMBER 4, 2004**