



Dave Yost • Auditor of State

**LORAIN PREPARATORY ACADEMY
LORAIN COUNTY**

TABLE OF CONTENTS

TITLE	PAGE
Independent Accountants' Report.....	1
Management's Discussion and Analysis.....	3
Basic Financial Statements:	
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
Independent Accountants' Report On Internal Control Over Financial Reporting and On Compliance and Other Matters Required by <i>Government Auditing Standards</i>	25

THIS PAGE INTENTIONALLY LEFT BLANK



Dave Yost • Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

Lorain Preparatory Academy
Lorain County
3038 Leavitt Road
Lorain, Ohio 4405

To the Board of Directors:

We have audited the accompanying basic financial statements of Lorain Preparatory Academy, Lorain County, Ohio, (the Academy), as of and for the year ended June 30, 2011, as listed in the table of contents. These financial statements are the responsibility of the Academy's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Lorain Preparatory Academy, Lorain County, Ohio, as of June 30, 2011, and the changes in financial position and cash flows, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements have been prepared assuming that the Academy will continue as a going concern. As discussed in Note 17 to the financial statements, the Academy has suffered recurring losses from operations (\$537,687) and has a net asset deficiency (\$1,098,195) that raise substantial doubt about its ability to continue as a going concern. Note 17 describes management's plan regarding these issues. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 10, 2012, on our consideration of the Academy's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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

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

Dave Yost
Auditor of State

February 10, 2012

**LORAIN PREPARATORY ACADEMY
LORAIN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
UNAUDITED**

The discussion and analysis of the Lorain Preparatory Academy (the "Academy") financial performance provides an overall review of the Academy's financial activities for the fiscal year ended June 30, 2011. The intent of this discussion and analysis is to look at the Academy's financial performance as a whole. Readers should also review the financial statements and notes to the financial statements to enhance their understanding of the Academy's financial performance.

Financial Highlights

- Net assets decreased \$177,455.
- Operating expenses accounted for \$1,466,938 of the total expenses of \$1,488,362.
- Operating revenues accounted for \$929,251 of the total funding of \$1,310,907.
- The Academy had an operating loss of \$537,687 and \$381,656 of the operating loss was alleviated by non-operating federal grants. The Academy was able to utilize most of the federal grant allocations for fiscal year 2011.

Overview of the Financial Statements

The financial report consists of three parts the management discussion and analysis, the basic financial statements, and the notes to the financial statements. These statements are organized so the reader can understand the financial position of the Academy. Enterprise accounting uses a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities are included on the statement of net assets. The statement of net assets represents the statement of position of the Academy. The statement of revenues, expenses, and changes in net assets presents increases (e.g., revenues) and decreases (e.g., expenses) in net total assets. The statement of cash flows reflects how the Academy finances and meets its cash flow needs. Finally, the notes to the basic financial statements provide additional information that is essential to a full understanding of the data provided on the basic financial statements.

Financial Analysis of the Academy as a Whole

The Academy is not required to present government-wide financial statements as the Academy is engaged in only business-type activities. Therefore, no condensed financial information derived from governmental-wide financial statements is included in the discussion and analysis.

The following tables represent a summary the Academy's condensed financial information for 2011 derived from the statement of net assets and the statement of revenues, expenses and changes in net assets.

**LORAIN PREPARATORY ACADEMY
LORAIN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
UNAUDITED**

Table 1 provides a summary of the Academy's net assets for 2011 as compared to 2010:

Table 1
Net Assets

	<u>2011</u>	<u>2010</u>	<u>Change</u>
Assets:			
Current Assets	\$ 24,691	\$ 43,128	\$ (18,437)
Capital Assets	69,124	85,432	(16,308)
Total Assets	<u>93,815</u>	<u>128,560</u>	<u>(34,745)</u>
Liabilities:			
Current Liabilities	1,099,043	861,541	(237,502)
Long-term Liabilities	92,968	187,760	94,792
Total Liabilities	<u>1,192,011</u>	<u>1,049,301</u>	<u>(142,710)</u>
Net Assets:			
Invested in Capital Assets, Net of Related Debt	43,443	40,555	2,888
Restricted for Other Purposes	447	-	447
Unrestricted	<u>(1,142,085)</u>	<u>(961,295)</u>	<u>(180,790)</u>
Total Net Assets	<u>\$ (1,098,195)</u>	<u>\$ (920,740)</u>	<u>\$ (177,455)</u>

Results of fiscal year 2011 indicate an ending net asset balance of (\$1,098,195), a decrease of \$177,455 over fiscal year 2010. Enrollment at the end of fiscal 2011 was 141 students as compared to 166 at the end of fiscal 2010. Enrollment as of November 2011 was 117. The enrollment capacity for the facility is 200. The goal is to grow enrollment to be closer to the capacity of the facility at which point the school would generate surpluses on an annual basis sufficient to eliminate accumulated deficits. The initial losses are typical for a new Academy which may not typically achieve positive net assets until the third or fourth year of operations due to significant start-up costs.

**LORAIN PREPARATORY ACADEMY
LORAIN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
UNAUDITED
(Continued)**

Table 2 reflects the changes in net assets for the fiscal year 2011 as compared to 2010:

Table 2
Change in Net Assets

	2011	2010	Change
Operating Revenues:			
Community School Foundation	\$ 927,290	\$ 1,109,025	\$ (181,735)
Charge for Services	1,682	544	1,138
Miscellaneous	279	1,893	(1,614)
Total Operating Revenues	<u>929,251</u>	<u>1,111,462</u>	<u>(182,211)</u>
Operating Expenses:			
Building	139,050	129,000	10,050
Purchased Services	1,268,981	1,577,242	(308,261)
Depreciation	16,308	16,052	256
General Supplies	23,003	56,827	(33,824)
Other Operating Expenses	19,596	19,278	318
Total Operating Expenses	<u>1,466,938</u>	<u>1,798,399</u>	<u>(331,461)</u>
Operating Loss	<u>(537,687)</u>	<u>(686,937)</u>	<u>149,250</u>
Nonoperating Revenues and Expenses:			
Federal and State Restricted Grants	381,656	434,801	(53,145)
Interest Expense	(21,424)	(89,516)	68,092
Net Nonoperating Revenues and Expenses	<u>360,232</u>	<u>345,285</u>	<u>14,947</u>
Change in Net Assets	(177,455)	(341,652)	164,197
Net Assets (Deficit) Beginning of Year	<u>(920,740)</u>	<u>(579,088)</u>	<u>(341,652)</u>
Net Assets (Deficit) End of Year	<u>\$ (1,098,195)</u>	<u>\$ (920,740)</u>	<u>\$ (177,455)</u>

At the onset of planning for the opening of the Academy, management and the board carefully calculated the costs and risks associated with offering a high quality educational program that would be competitive with the educational programs available at the traditional public schools and weighed those costs and risks against the enhanced educational opportunities that would be available to students. Based on that analysis, the board and its management made the decision to make an investment in the future of the children of this community, not based on a plan that was expected to generate economic profits, but rather on a plan that is economically sustainable and that would generate dividends to the community in the form of enhanced opportunities for children and families. Resources for the necessary programs came from delaying payment on invoices from the Academy's management company for certain rent, management services, other operating expenses and invoices for payroll of the Academy's staff.

**LORAIN PREPARATORY ACADEMY
LORAIN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
UNAUDITED
(Continued)**

Budget

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 Chapter 5705, unless specifically provided by the Academy's contract with its sponsor. The contract between the Academy and its sponsor, St. Aloysius Orphanage, does not prescribe a budgetary process for the Academy.

Capital Assets and Debt Administration

Capital Assets

At the end of FY 2011, the Academy had \$69,124 invested in capital assets (net of accumulated depreciation) for computers, furniture and equipment. The following table shows fiscal year 2011 compared to 2010:

Capital Assets at June 30 (Net of Depreciation)

	2011	2010	Change
Furniture & Equipment	\$50,817	\$54,612	(\$3,795)
Computer Technology	18,307	30,820	(12,513)
Net Capital Assets	\$69,124	\$85,432	(\$16,308)

The increase primarily represents acquisitions of classroom technology equipment purchased during the school year offset by the annual depreciation charge. There were no asset disposals during the year. For further information regarding the Academy's capital assets, refer to Note 6 of the basic financial statements.

Debt

At June 30, 2011, the Academy had \$25,682 of capital lease obligations for computer, furniture and equipment outstanding. Of that amount, \$16,770 is due within one year. In addition, in July 2009, the Academy executed a \$300,000 promissory note to Mosaica Education, Inc., a related party (see Note 15), to reimburse Mosaica for costs incurred during the organizational and development (start-up) stage of the Academy. The remaining principal balance at June 30, 2011 is \$187,836. Of this amount, \$92,934 is due within one year. The following outstanding table summarizes the Academy's debt outstanding as of June 30, 2011.

	2011	2010	Change
Capital Lease - Furniture	\$19,346	\$36,620	(\$17,274)
Capital Lease - Computers	\$6,336	\$8,257	(\$1,921)
Start-up Promissory Note	187,836	233,614	(45,778)
Total	\$213,518	\$278,491	(\$64,973)

For further information regarding the Academy's debt, refer to Note 13 to the basic financial statements.

**LORAIN PREPARATORY ACADEMY
LORAIN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
UNAUDITED
(Continued)**

Economic Factors

Management is not currently aware of any facts, decisions or conditions that have occurred that are expected to have a significant effect on the financial position or results of operations.

Operations

Lorain Preparatory Academy is a public school established pursuant to Ohio Revised Code Chapter 3314. The Academy offers education for Ohio children in third through eighth grade. The Academy is independent of any school district and is nonsectarian in its programs, admission policies, employment practices, and all other operations. The Academy may lease or acquire facilities as needed and contract for any services necessary for the operation of the Academy.

Requests for Information

This financial report is designed to provide our citizens, taxpayers, investors and creditors with a general overview of the academy's finances and to show the Academy's accountability for the money it receives. If you have any questions concerning this report, please contact Brenda Neff, Treasurer for Lorain Preparatory Academy, 3333 Chippewa Drive, Columbus, Ohio 43204.

THIS PAGE INTENTIONALLY LEFT BLANK

**LORAIN PREPARATORY ACADEMY
LORAIN COUNTY**

**STATEMENT OF NET ASSETS
JUNE 30, 2011**

Assets:

Current assets:

Cash and Cash Equivalents	\$	2,725
Intergovernmental Receivable		15,926
Prepaid Expense		6,040
Total current assets		<u>24,691</u>

Noncurrent assets:

Capital Assets, net of Accumulated Depreciation		69,124
Total noncurrent assets		<u>69,124</u>

Total assets		<u>93,815</u>
---------------------	--	---------------

Liabilities:

Current liabilities:

Accounts Payable, Trade		39,626
Accounts Payable, Related Party		913,968
Accrued Interest		166
Deferred Revenue		2,269
Current Portion of Long-term Debt		143,014
Total current liabilities		<u>1,099,043</u>

Noncurrent liabilities:

Noncurrent Portion of Long-term Debt		92,968
Total noncurrent liabilities		<u>92,968</u>

Total liabilities		1,192,011
--------------------------	--	-----------

Net Assets

Invested in Capital Assets, Net of Related Debt		43,443
Restricted		447
Unrestricted Net Assets		(1,142,085)
Total Net Assets		<u>\$ (1,098,195)</u>

See Accompanying Notes to the Basic Financial Statements

**LORAIN PREPARATORY ACADEMY
LORAIN COUNTY**

**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

Operating Revenues:	
Community School Foundation	\$ 927,290
Charge for Services	1,682
Miscellaneous	279
Total Operating Revenues	<u>929,251</u>
Operating Expenses:	
Building	139,050
Purchased Services	1,268,981
Depreciation	16,308
General Supplies	23,003
Other Operating Expenses	19,596
Total Operating Expenses	<u>1,466,938</u>
Operating Loss	<u>(537,687)</u>
Nonoperating Revenues and Expenses:	
Federal and State Restricted Grants	381,656
Interest Expense	(21,424)
Net Nonoperating Revenues and Expenses	<u>360,232</u>
Change in Net Assets	(177,455)
Net Assets Beginning of Year	<u>(920,740)</u>
Net Assets End of Year	<u>\$ (1,098,195)</u>

See Accompanying Notes to the Basic Financial Statements

**LORAIN PREPARATORY ACADEMY
LORAIN COUNTY**

**STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

CASH FLOWS FROM OPERATING ACTIVITIES

Foundation Receipts	\$ 947,547
Charge for Services	1,683
Other Operating Receipts	279
Cash Payments to Suppliers for Goods and Services	<u>(1,239,898)</u>
Net Cash Used for Operating Activities	<u>(290,389)</u>

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

Federal and State Grant Receipts	364,691
Notes Payable Principal Payments	(45,747)
Notes Payable Interest Payments	(8,376)
Short-term Financing Payments	-
Net Cash Provided by Noncapital Financing Activities	<u>310,568</u>

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Capital Lease Principal Payments	(19,195)
Capital Lease Interest Retirement	<u>(2,824)</u>
Net Cash Used for Capital and Related Financing Activities	<u>(22,019)</u>

Net decrease in Cash and Cash Equivalents	(1,840)
Cash and Cash Equivalents - Beginning of the Year	4,565
Cash and Cash Equivalents - Ending of the Year	<u>\$ 2,725</u>

Reconciliation of Operating Loss to Net Cash Used for Operating Activities

Operating Loss	<u>(537,687)</u>
----------------	------------------

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

Depreciation	16,308
Changes in assets and liabilities:	
Increase in Receivables	18,347
Decrease in Prepaid Expense	(2,773)
Increase in Accounts Payable, Trade	(11,530)
Decrease in Accounts Payable, Related Party	224,677
Decrease in Deferred Revenue	2,269
Net Cash Used for Operating Activities	<u><u>\$ (290,389)</u></u>

See Accompanying Notes to the Basic Financial Statements

THIS PAGE INTENTIONALLY LEFT BLANK

**LORAIN PREPARATORY ACADEMY
LORAIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2011**

Note 1 – Description of the School

The Lorain Preparatory Academy (the “Academy”) is a nonprofit corporation established pursuant to Ohio Revised Code Chapter 3314. The Academy offers education for Ohio children in grades 3-8. The Academy is independent of any school district and is nonsectarian in its programs, admission policies, employment practices, and all other operations. The Academy may lease or acquire facilities as needed and contract for any services necessary for the operation of the Academy.

The Academy was approved for operation under a contract with the St. Aloysius Orphanage (the Sponsor) for a period of five academic years commencing after July 1, 2005 and ending June 30, 2011. This contract was extended for an additional five academic years. The Sponsor is responsible for evaluating the performance of the Academy and has the authority to deny renewal of the contract at its expiration or terminate the contract prior to its expiration.

The Academy operates under the direction of a Governing Board that consists of five individuals who are not owners or employees, or immediate relatives or owners or employees of any for-profit firm that operate or manage the Academy for the Governing Board. The Board is responsible for carrying out the provisions of the contract that include, but are not limited to, state-mandated provisions regarding student population, curriculum, academic goals, performance standards, admission standards, and qualifications of teachers. The Academy’s Governing Board also serves as the Board for the Academy of Arts and Science.

The Academy contracts with Mosaica Education, Inc., for management services including management of personnel and human resources, the program of instruction, technology, marketing, data management, purchasing, strategic planning, public relations, financial reporting, recruiting, compliance issues, budgets, contracts, and equipment and facilities. See Note 15.

Note 2 - Summary of Significant Accounting Policies

The financial statements of the Academy have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The Academy also applies Financial Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989, provided they do not conflict with or contradict GASB pronouncements. The entity has elected not to apply FASB pronouncements and interpretations issued after November 30, 1989. The more significant of the Academy’s accounting policies are described below.

A. Basis of Presentation

The Academy’s basic financial statements consist of a statement of net assets; a statement of revenues, expenses, and changes in net assets; and a statement of cash flows. The Academy uses a single enterprise presentation for its financial records. Enterprise reporting focuses on the determination of operating income, changes in net assets, financial position, and cash flows.

B. Measurement Focus

The enterprise activity is accounted for using a flow of economic resources measurement focus. All assets and liabilities associated with the operation of the Academy are included on the statement of net assets. The statement of revenues, expenses, and changes in net assets presents increases (e.g. revenues) and decreases (e.g. expenses) in total net assets. The statement of cash flows reflects how the Academy finances meet its cash flow needs.

**LORAIN PREPARATORY ACADEMY
LORAIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2011
(Continued)**

Note 2 - Summary of Significant Accounting Policies (Continued)

C. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. The Academy's financial statements are prepared using the accrual basis of accounting. Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. Revenue resulting from nonexchange transactions, in which Academy receives value without directly giving equal value in return, such as grants and entitlements, are recognized in the period in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the period when the resources are required to be used or the period when use is first permitted, matching requirements, in which the Academy must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the Academy on a reimbursement basis. Expenses are recognized at the time they are incurred.

D. Budgetary Process

Unlike other public schools located in the State of Ohio, community schools are not required to follow budgetary provision set forth in the Ohio Revised Code Chapter 5705, unless specifically provided by the Academy's contract with its sponsor. The contract between the Academy and its sponsor, the St. Aloysius Orphanage, does not prescribe a budgetary process for the Academy.

E. Cash and Cash Equivalents

Cash received by the Academy is reflected as "Cash and Cash Equivalents" on the statement of net assets. The Academy had no investments during the fiscal year ended June 30, 2011.

F. Prepaid Items

The Academy records payments made to vendors for services that will benefit periods beyond June 30, 2011, 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.

G. Capital Assets

The Academy's capital assets during fiscal year 2011 consisted of computers, furniture and other equipment. All capital assets are capitalized at cost and updated for additions and retirements during the fiscal year. Donated capital assets are recorded at their fair market values as of the date received. The Academy maintains a capitalization threshold of one thousand five hundred dollars. The Academy 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 an asset's life are not capitalized.

**LORAIN PREPARATORY ACADEMY
LORAIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2011
(Continued)**

Note 2 - Summary of Significant Accounting Policies (Continued)

G. Capital Assets (Continued)

All capital assets are depreciated over their remaining useful lives. Depreciation is computed using the straight-line method over the following useful lives:

<u>Description</u>	<u>Useful Lives</u>
Furniture and Equipment	5-20 years
Computer Technology	5 years

H. Net Assets

Net assets represent the difference between assets and liabilities. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Academy or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. The Academy applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net assets are available. As of June 30, 2011, there were \$447 net assets restricted for unspent grant funds.

The statement of net assets reports \$43,443 invested in capital assets net of related debt.

I. Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the Academy. Operating expenses are necessary costs incurred to provide the service that is the primary activity of the Academy. All revenues and expenses not meeting this definition are reported as non-operating.

J. Estimates

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

K. Economic Dependency

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

Note 3 – Changes in Accounting Principles

There were no changes in accounting principles implemented during 2011 that would have a material effect on the financial statements.

**LORAIN PREPARATORY ACADEMY
LORAIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2011
(Continued)**

Note 4 - Deposits

Custodial credit risk is the risk that, in the event of a bank failure, the Academy's deposits may not be returned. The Academy does not have a deposit policy for custodial credit risk. At June 30, 2011, the bank balance of Academy's deposits was \$14,880. The bank balance was covered by federal depository insurance. There are no significant statutory restrictions regarding the deposit and investment of funds by the nonprofit corporation.

Note 5 – Receivables

At June 30, 2011, the Academy had intergovernmental receivables in the amount of \$15,926. The receivables are expected to be collected within one year.

Grant	Amount
Title I A	\$10,595
IDEA	4,840
Title II D	491
Total Intergovernmental Receivables	\$15,926

Note 6 – Capital Assets

The capital asset activity for the fiscal year ended June 30, 2011, was as follows:

	Balance July 1, 2010	Additions (Deletions)	Depreciation Expense	Balance June 30, 2011
Depreciable Capital Assets				
Furniture & Equipment	\$64,897	0	0	\$64,897
Computer Technology	73,192	0	0	\$73,192
Less Accumulated Depreciation				
Furniture & Equipment	(11,288)	0	(2,792)	(\$14,080)
Computer Technology	(41,369)	0	(13,516)	(\$54,885)
Capital Assets, Net	\$85,432	\$0	(\$16,308)	\$69,124

**LORAIN PREPARATORY ACADEMY
LORAIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2011
(Continued)**

Note 7 – Risk Management

The Academy 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. During fiscal year 2011, the Academy contracted with the Hartford Casualty Insurance Company. The types and amounts of coverage provided are as follows:

Aggregate Limit	2,000,000
Products - Completed Operations Aggregate Limit	2,000,000
Medical Expense Limit - Any One Person/Occurrence	15,000
Damage to Rented Premises - Each Occurrence	500,000
Personal and Advertising Injury	1,000,000
Business Personal Property	1,000,000
Building	1,370,000
Automobile Liability:	
Combined Single Limit	1,000,000
Excess/Umbrella	
Each Occurrence	6,000,000
Aggregate Limit	6,000,000

Settled claims have not exceeded this commercial coverage in any prior years and there have been no significant reductions in insurance coverage during the year.

Note 8 – Purchased Services

For the year ended June 30, 2011, purchased service expenses were for the following services:

Service	Amount
Personnel Services	\$742,510
Building Services	96,030
Food Service	73,923
Student Services	40,713
Staff and Administrative Services	191,983
Professional Services	17,387
Sponsor Fee	27,293
Advertising	3,214
Total:	<u><u>\$1,193,053</u></u>

Note 9 - Defined Benefit Pension Plans

The Academy has contracted with Mosaica Education, Inc. to provide employee services. However, these contracted services do not relieve the Academy of the obligation for remitting pension contributions. The retirement systems consider the School as the Employer-of-Record and the Academy is ultimately responsible for remitting retirement contributions to each of the systems noted below.

**LORAIN PREPARATORY ACADEMY
LORAIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2011
(Continued)**

Note 9 - Defined Benefit Pension Plans (Continued)

A. School Employee Retirement System

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

Funding Policy - Plan members are required to contribute 10 percent of their annual covered salary and the School District is required to contribute at an actuarially determined rate. The current School District rate is 14 percent of annual covered payroll. A portion of the School District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2011, 11.81 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to a statutory maximum amount of 10 percent for plan members and 14 percent for employers. Chapter 3309 of the Ohio Revised Code provides statutory authority for member and employer contributions. The School District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2011, 2010, and 2009 were \$4,921, \$5,503, and \$4,244 respectively; 100 percent has been contributed for fiscal year 2011 and 100 percent for fiscal years 2010 and 2009.

B. State Teachers Retirement System

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

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

**LORAIN PREPARATORY ACADEMY
LORAIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2011
(Continued)**

Note 9 - Defined Benefit Pension Plans (Continued)

B. State Teachers Retirement System (Continued)

The DB portion of the Combined Plan payment is payable to a member on or after age 60; the DC portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50. Benefits are established by Chapter 3307 of the Ohio Revised Code. A DB or Combined Plan member with five or more years credited service who becomes disabled may qualify for a disability benefit. Eligible spouses and dependents of these active members who die before retirement may qualify for survivor benefits. Members in the DC Plan who become disabled are entitled only to their account balance. If a member of the DC Plan dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

Funding Policy - For the fiscal year ended June 30, 2011, plan members were required to contribute 10 percent of their annual covered salaries. The School District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal year 2010, the portion used to fund pension obligations was also 13 percent. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The School District's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2011, 2010, and 2009 were \$65,820, \$72,837, and \$70,895 respectively; 80 percent has been contributed for fiscal year 2011 and 100 percent for fiscal years 2010 and 2009. Contributions to the DC and Combined Plans for fiscal year 2011 were made by the School.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System of Ohio have an option to choose Social Security or the School Retirement System. As of June 30, 2011, none of the members of the Board of Education has elected Social Security. The contribution rate is 6.2 percent of wages.

Note 10 - Postemployment Benefits

A. School Employee Retirement System

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

**LORAIN PREPARATORY ACADEMY
LORAIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2011
(Continued)**

Note 10 - Postemployment Benefits (Continued)

A. School Employee Retirement System (Continued)

Funding Policy – State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 401h. For 2011, 1.43 percent of covered payroll was allocated to health care.

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

The School's contributions for health care for the fiscal years ended June 30, 2011, 2010, and 2009 were \$596, \$215, and \$1,937 respectively; 100 percent has been contributed for fiscal year 2011 and 100 percent for fiscal years 2010 and 2009.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For 2011, this actuarially required allocation was 0.76 percent of covered payroll. The School District's contributions for Medicare Part B for the fiscal years ended June 30, 2011, 2010, and 2009 were \$317, \$328, and \$306 respectively; 100 percent has been contributed for fiscal year 2011 and 100 percent for fiscal years 2010 and 2009.

B. State Teachers Retirement System

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

Funding Policy – Ohio law authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For 2011, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. The School District's contributions for health care for the fiscal years ended June 30, 2011, 2010, and 2009 were \$5,063, \$5,603, and \$5,453 respectively; 80 percent has been contributed for fiscal year 2011 and 100 percent for fiscal years 2010 and 2009.

Note 11 - Contingencies

A. Grants

The Academy 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 Academy. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the Academy at June 30, 2011.

**LORAIN PREPARATORY ACADEMY
LORAIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2011
(Continued)**

Note 11 – Contingencies (Continued)

B. Ohio Department of Education Enrollment Review

The Ohio Department of Education (ODE) conducts reviews of enrollment data and full-time equivalency (FTE) calculations made by community schools. These reviews are conducted to ensure the Academy is reporting accurate student enrollment data to the State, upon which state foundation funding is calculated. The conclusion of this review could result in state funding being adjusted. Based on this review for fiscal 2011, it was determined that the Academy was over funded by \$2,269. This over funded amount was reflected as deferred revenue on the statement of net assets. This overpayment will be deducted from future ODE foundation funding.

Note 12 – Building Leases

In September 2007, the Academy entered into an agreement with Lorain-Leavitt Properties, LLC, a wholly owned subsidiary of Mosaica Education, Inc. for the use of the site as a school facility. Mosaica Education, Inc. is a related party, as disclosed in the Footnote 15. The lease agreement terminated on June 30, 2008 and had a base rent of \$1,500 per month. On July 1, 2008, this lease was extended on a month-to-month basis with the same terms. In addition, in July 2008, the Academy entered into a lease agreement with Mosaica Education, Inc. for the use of thirteen modular buildings. The lease has a base rental rate of \$9,250 per month and terminates on June 30, 2015. Commencing on January 1, 2011 and continuing for the remainder of the lease, monthly rent on the modular units shall be \$10,175. The lease assigns the Academy the right to purchase the modulars at the end of the lease at fair market value. Base rent expense for use of the site for fiscal year ended 2011 was \$22,500. Base rent expense for the use of the modular buildings for fiscal year 2011 was \$116,500.

Note 13 – Long-term Debt

The Academy entered into several lease agreements between fiscal year 2006 and fiscal year 2009. The Academy's lease obligations met the criteria of a capital lease as defined by Statement of Financial Accounting Standards No. 13 "Accounting for Leases", which defines a capital lease generally as one which transfers benefits and risk of ownership to the lessee. The leases have been capitalized in the total amount of \$125,099, the present value of the minimum lease payments at the inception of the leases.

In July 2009, the Academy executed a \$300,000 long-term promissory note with Mosaica Education, Inc. (a related party, see Note 15), to reimburse Mosaica for organizational and development costs incurred during the start-up phase of the Academy. The note bears interest at 9% per annum and matures on June 15, 2013.

The following is a schedule of the future long-term minimum debt payments required under the capital leases and promissory note as well as the present value of the future minimum debt payments:

**LORAIN PREPARATORY ACADEMY
LORAIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2011
(Continued)**

Note 13 – Long-term Debt (Continued)

<u>Year Ended June 30,</u>	<u>Capital Leases</u>	<u>Promissory Note</u>	<u>Total</u>
2012	18,111	149,310	167,421
2013	9,144	87,989	97,133
Total future minimum debt payments	<u>27,255</u>	<u>237,299</u>	<u>264,554</u>
Less: amount representing interest	<u>(1,573)</u>	<u>(26,999)</u>	<u>(28,572)</u>
Present value of future minimum debt payments	<u>\$ 25,682</u>	<u>\$ 210,300</u>	<u>\$ 235,982</u>

The Academy was unable to pay \$48,144 in principal payments and \$11,580 in interest payments due in fiscal year 2011. The principal portion of these delinquent amounts is reflected in the current portion of long term debt. The interest portion of these delinquent amounts owed to Mosaica Education, Inc., is reported as related party payables on the Statement of Net Assets. Mosaica Education, Inc. did not charge the Academy the late fees per the note agreements; however these amounts will be subject to the related party payables interest charge on late fees.

Note 14 –Tax Exempt Status

In July 2011, the Academy received approval for its tax-exempt status under Section 501(c)(3) of the Internal Revenue Code. The effective date of the exemption is April 2005.

Note 15 – Related Party Transactions/Management Company

The Academy contracts with Mosaica Education, Inc. for a variety of services including management of personnel and human resources, board relations, financial management, marketing, technology services, the program of instruction, purchasing, strategic planning, public relations, financial reporting, recruiting, compliance issues, budgets, contracts, and equipment and facilities. Financial management services include, but are not limited to, financial statement and budget preparation and accounts payable and payroll preparation.

Per the management agreement with the Academy, Mosaica Education is entitled to a management fee that is equivalent to 12.5% of the Academy's revenues. The management fee for fiscal year 2011 was \$163,824.

Also, per the management agreement there are expenses that will be billed to the Academy based on the actual costs incurred on behalf of the Academy by Mosaica Education, Inc. These expenses include rent, salaries of Mosaica Education, Inc employees working at the Academy, and other costs related to providing educational and administration services. The total expenses billed by Mosaica Education Inc. during fiscal year 2011 were \$1,018,874.

At June 30, 2011, the Academy had payables to Mosaica Education, Inc. in the amount of \$913,968. The following is a schedule of payables owed to Mosaica Education, Inc.

**LORAIN PREPARATORY ACADEMY
LORAIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2011
(Continued)**

Note 15 – Related Party Transactions/Management Company (Continued)

	<u>Amount</u>
Payroll	\$553,178
Management Fee	142,753
Rent	84,507
Finance Charges	75,511
Miscellaneous	<u>58,019</u>
Total June 30, 2010	<u><u>\$913,968</u></u>

Note 16 – Sponsor

The Academy was approved for operation under a contract with St. Aloysius Orphanage (the Sponsor) for a period of five academic years commencing July 1, 2005. Subsequent to June 2011, the contract was extended. As part of this contract, the Sponsor is entitled to a percentage of the total state funds. Total amount due and paid for fiscal year 2011 was \$27,293.

Note 17 – Management’s Plan

For fiscal year 2011, the Academy had an operating loss of \$537,687, a decrease in net assets of \$177,455, and a cumulative net asset deficit of \$1,098,195. The Academy’s management is projecting an operating loss and another decrease in net assets for the year ending June 30, 2012 due to lower than expected enrollment. The cash balance as of January 31, 2012 is \$5,197.

Over time, management believes that the anticipated increase in enrollment should allow the school to reduce its operating losses and net asset deficit. The current student capacity is 200 and the current enrollment as of January 2012 is 121. Management plans to continue efforts to increase enrollment through active advertising via print, radio, mailings and through referrals of current parents which may increase enrollment, reduce future deficits and may lead to operating surpluses in future years.

THIS PAGE INTENTIONALLY LEFT BLANK



Dave Yost • Auditor of State

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

Lorain Preparatory Academy
Lorain County
3038 Leavitt Rd.
Lorain, Ohio 44053

To the Board of Directors:

We have audited the basic financial statements of the Lorain Preparatory Academy, Lorain County, Ohio, (the Academy) as of and for the year ended June 30, 2011, and have issued our report thereon dated February 10, 2012, wherein we noted the Academy had deficit net assets and operating losses which raise substantial doubt about its 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 the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

We did note certain matters not requiring inclusion in this report that we reported to the Academy's management in a separate letter dated February 10, 2012.

We intend this report solely for the information and use of management, Audit Committee, Board of Directors, and the St. Aloysius Orphanage. We intend it for no one other than these specified parties.

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

Dave Yost
Auditor of State

February 10, 2012



Dave Yost • Auditor of State

LORAIN PREPARATORY ACADEMY

LORAIN 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
MARCH 27, 2012**