FOUNDATION ACADEMY
RICHLAND COUNTY

REGULAR AUDIT

FOR THE YEAR ENDED JUNE 30, 2008

Mary Taylor, CPA
Auditor of State

FOUNDATION ACADEMY
RICHLAND COUNTY

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Mary Taylor, CPA
Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

Foundation Academy
Richland County
75 N. Walnut St.
Mansfield, Ohio 44902

To the Board of Directors:

We have audited the accompanying basic financial statements of the Foundation Academy, Richland County, Ohio (the Academy), as of and for the year ended June 30, 2008, 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 opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Foundation Academy, Richland County, Ohio, as of June 30, 2008, and the changes in its financial position and its cash flow for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 24, 2009, 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.

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www.auditor.state.oh.us

Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information accounting principles generally accepted in the United States of America requires. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measuring and presenting the required supplementary information. However, we did not audit the information and express no opinion on it.

Mary Taylor

Mary Taylor, CPA
Auditor of State

February 24, 2009

The discussion and analysis of the Foundation Academy's (the "Academy") financial performance provides an overall review of the Academy's financial activities for the fiscal year ended June 30, 2008. Readers should also review the basic financial statements and notes to enhance their understanding of the Academy's financial performance.

Highlights

The Academy finished its first year of operations during fiscal year 2008 serving Kindergarten through sixth grade. Enrollment varied during the year but averaged 144 students.

Key highlights for fiscal year 2008 are as follows:

- Net assets increased $193,648.
- Operating revenues accounted for $998,365 of the total revenues of $1,199,822.
- Operating expenses accounted for $999,227 of the total expenses of $1,006,174.
- The Academy had an operating loss of $862.
- Total assets increased $463,125.
- Total liabilities increased $269,477.

Overview of the Financial Statements

The financial report consists of three parts - 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 resource 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 present 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 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 the governmental-wide financial statements is included in the discussion and analysis.

Table 1 provides a summary of Academy's net assets for 2008:

Table 1
Net Assets

	2008
Assets:	
Current Assets	$323,295
Capital Assets	139,830
Total Assets	463,125
Liabilities:	
Current Liabilities	171,878
Long-Term Liabilities	97,599
	269,477
Net Assets:	
Invested in Capital Assets, Net of Related Debt	4,455
Restricted for Other Purposes	278
Unrestricted	188,915
Total Net Assets	$193,648

Total net assets increased $193,648. The increase is the result of total revenues exceeding total expenditures in the Academy's first year of operations. The Academy was able to achieve enough enrollment to be close to the capacity of the facility. The capacity of the facility is estimated to be 190 students. Average enrollment during fiscal 2008 was 144 students. Management is projecting a small surplus in fiscal year 2009.

Based on the analysis that was done at the time the decision was made to open the school, 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 general large 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.

Table 2 reflects the changes in net assets for fiscal year 2008.

Table 2
Change in Net Assets

	2008
Operating Revenues:	
Foundation	$994,459
Charges for Services	3,906
Non-Operating Revenues:	
Federal/State Restricted Grants	201,457
Total Revenues	$1,199,822
Operating Expenses:	
Building	45,200
Purchased Services	766,415
Depreciation	8,304
General Supplies	164,433
Other Operating Expense	14,875
Non-Operating Expenses:	
Interest	6,947
Total Expenses	$1,006,174
Total Increase (Decrease) in Net Assets	$193,648

The fiscal year 2008 surplus is primarily due to the Academy obtaining a low cost facility and achieving enough enrollment to be close to the facility's capacity. Average enrollment in fiscal year 2008 was 144 students. Returning plus new students for fiscal year 2009 is 173 students.

Budgeting

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 Ohio Council of Community Schools, does not prescribe a budgetary process for the Academy.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2008, the Academy had $139,830 invested in capital assets (net of accumulated depreciation) for computers and other equipment as follows:

	2008
Furniture & Equipment	$60,240
Computer Equipment	79,590
Total Capital Assets, Net	$139,830

For further information regarding the Academy's capital assets, refer to Note 6 of the basic financial statements.

Debt

At June 30, 2008, the Academy had $135,375 of capital leases outstanding, of which $37,776 is due within one year. The following table summarizes the Academy's debt outstanding as of June 30, 2008.

Outstanding Debt, at Year End

	Current	Noncurrent	Total Debt
Capital Leases Payable	$37,776	$97,599	$135,375

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

Economic Factors

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

Operations

Foundation Academy is a nonprofit corporation established pursuant to Ohio Revised Code Chapter 1702. The Academy offers education for Ohio children in grades K-6. 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 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 question concerning this report, please contact Robert Schirhart, Treasurer for Foundation Academy, 3333 Chippewa Street, Columbus, Ohio 43204.

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FOUNDATION ACADEMY
RICHLAND COUNTY

STATEMENT OF NET ASSETS
JUNE 30, 2008

Assets:	
Current assets:	
Cash and Cash Equivalents	$ 217,922
Intergovernmental Receivable	98,611
Prepaid Expense	6,762
Total current assets	323,295
Noncurrent assets:	
Capital Assets, net of Accumulated Depreciation	139,830
Total noncurrent assets	139,830
Total assets	$ 463,125
Liabilities:	
Current liabilities:	
Accounts Payable, Trade	$ 79,292
Accounts Payable, Related Party	52,394
Accrued Interest	939
Deferred Revenue	1,477
Current Portion of Long-term Debt	37,776
Total current liabilities	171,878
Noncurrent liabilities:	
Noncurrent Portion of Long-term Debt	97,599
Total noncurrent liabilities	97,599
Total liabilities	269,477
Net Assets	
Invested in Capital Assets, Net of Related Debt	4,455
Restricted Net Assets	278
Unrestricted Net Assets	188,915
Total Net Assets	$ 193,648

See Accompanying Notes to the Basic Financial Statements

FOUNDATION ACADEMY
RICHLAND COUNTY

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NETS ASSETS
FOR THE YEAR ENDED JUNE 30, 2008

Operating Revenues:	
Community School Foundation	$ 994,459
Charge for Services	3,906
Total Operating Revenues	998,365
Operating Expenses:	
Building	45,200
Purchased Services	766,415
Depreciation	8,304
General Supplies	164,433
Other Operating Expenses	14,875
Total Operating Expenses	999,227
Operating Loss	(862)
Nonoperating Revenues and Expenses:	
Federal and State Restricted Grants	201,457
Interest Expense	(6,947)
Net Nonoperating Revenues and Expenses	194,510
Change in Net Assets	193,648
Net Assets Beginning of Year	-
Net Assets End of Year	$ 193,648

See Accompanying Notes to the Basic Financial Statements

FOUNDATION ACADEMY
RICHLAND COUNTY

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2008

CASH FLOWS FROM OPERATING ACTIVITIES	
Foundation Receipts	$ 936,439
Charge for Services	3,906
Cash Payments to Suppliers for Goods and Services	(806,502)
Net Cash Provided by Operating Activities	133,843
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Short-term Finance Payments	(1,600)
Federal and State Grant Receipts	102,846
Net Cash Provided by Noncapital Financing Activities	101,246
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Capital Lease Interest Payments	(4,408)
Capital Lease Principal Retirement	(12,759)
Net Cash Used For Capital and Related Financing Activities	(17,167)
Net Increase in Cash and Cash Equivalents	217,922
Cash and Cash Equivalents - Beginning of the Year	-
Cash and Cash Equivalents - Ending of the Year	$ 217,922
Reconciliation of Operating Loss to Net Cash Provided by Operating Activities	
Operating Loss	$ (862)
Adjustments to Reconcile Operating Loss to Net Cash Provided by Operating Activities	
Depreciation	8,304
Changes in assets and liabilities:	
Increase in Prepaid Expense	(6,762)
Increase in Accounts Payable, Trade	79,292
Increase in Accounts Payable, Related Party	52,394
Increase in Deferred Revenue	1,477
Net Cash Provided by Operating Activities	$ 133,843

Noncash capital and related financing activities
The Academy entered into a capital lease agreements for $148,134 for the purchase of furniture and equipment.

See Accompanying Notes to the Basic Financial Statements

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Note 1 - Description of the School

The Foundation Academy (the "Academy") is a nonprofit corporation established pursuant to Ohio Revised Code Chapter 1702. The Academy offers education for Ohio children in grades K-6. The Academy is independent of any school district and is nonsectarian in its programs, admission policies, employment practices, and all other operation. 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 pursuant to Ohio Revised Code Chapter 3314 under a contract with Ohio Council of Community Schools (the Sponsor) as designated by the Board of Trustees of the University of Toledo for a period of five academic years commencing on March 7, 2007 and ending June 30, 2012. 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.

Ohio Revised Code Section 3314.02(E) states in part that the Academy operate under the direction of a Governing Board that consists of not less than five individuals who are not owners or employees, or immediate relatives or owners or employees of any for-profit firm that operates or manages an academy for the Governing Board. The Board is responsible for carry out the provisions of the contract that include, but are not limited to, state-mandated provision regarding student population, curriculum, academic goals, performance standards, admission standards, and qualification of teachers.

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

Note 2 - Summary of Significant Accounting Policies

The financial statements of the Academy have been prepared in conformity with generally accepted accounting principals (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.

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 school 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 Ohio Council of Community Schools, 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, 2008.

F. Prepaid Items

The Academy records payments made to vendors for services that will benefit periods beyond June 30, 2008, 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 2008 consisted of computers 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.

Note 2 - Summary of Significant Accounting Policies (Continued)

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

Description	Useful Lives
Computers, Furniture and Equipment	5-10 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 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.

The statement of net assets reports $278 in restricted net assets related to certain unspent federal grant receipts and $4,455 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

For fiscal year 2008, the Academy has implemented GASB Statement No. 45, “Accounting and Financial Reporting for Postemployment Benefits Other than Pensions”, GASB Statement No. 48, “Sales and Pledges of Receivables and Future Revenues and Intra Entity Transfers of Assets and Future Revenues”, and GASB Statement No. 50, “Pension Disclosures”. The implementation of GASB Statement 45 did not have an effect on the financial statements of the Academy; however, certain disclosures related to postemployment benefits (Refer to Note 10) have been modified to conform to the new reporting requirements. The implementation of GASB Statement 48 and GASB Statement 50 did not have effect on the financial statements for the Academy.

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, 2008, the bank balance of Academy's deposits was $224,647. The $100,000 of the bank balance was covered by federal depository insurance while $124,647 remained uncollateralized/uninsured. There are no significant statutory restrictions regarding the deposit and investment of funds by the nonprofit corporation.

Note 5 – Receivables

At June 30, 2008, the Academy had intergovernmental receivables, in the amount of $98,611. The receivables are expected to be collected within one year.

	Amount
National School Lunch Programs	$3,788
Title I	16,600
IDEA	2,130
Federal Community School Implementation	76,093
Total Intergovernmental Receivables	$98,611

Note 6 - Capital Assets

Capital asset activity for the fiscal year ended June 30, 2008, was as follows:

	Balance June 30, 2007	Additions	Deletions	Balance June 30, 2008
Furniture & Equipment	$0	$62,859	$0	$62,859
Computer Equipment	0	85,275	0	85,275
Less Accumulated Depreciation	0	(8,304)	0	(8,304)
Capital Assets, Net	$0	$139,830	$0	$139,830

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 2008, the Academy contracted with Pashley Insurance Agency to provide insurance coverage with the Hartford Casualty Insurance Company. The types and amounts of coverage provided are as follows:

Note 7 - Risk Management (Continued)

General Liability:	
Each Occurrence	$1,000,000
Aggregate Limit	2,000,000
Products - Completed Operations Aggregate Limit	2,000,000
Medical Expense Limit - Any One Person/Occurrence	10,000
Damage to Rented Premises - Each Occurrence	300,000
Personal and Advertising Injury	1,000,000
Automobile Liability:	
Combined Single Limit	1,000,000
Business Personal Property	100,000
Excess/Umbrella Liability:	
Each Occurrence	10,000,000
Aggregate Limit	10,000,000

Settled claims have not exceeded this commercial coverage.

Note 8 – Purchased Services

For the fiscal year ended June 30, 2008, purchased service expenses were as follows:

Purchased Services	Amount
Personnel Services	$482,420
Building Services	24,334
Lunch Services	24,201
Student Services	13,210
Staff and Administrative Services	185,337
Professional Services	206
Sponsor Services	19,919
Advertising	16,788
Total	$766,415

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.

Note 9 – Defined Benefit Pension Plans (Continued)

A. School Employees Retirement System

Plan Description - The Academy 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 Academy is required to contribute at an actuarially determined rate. The current Academy rate is 14 percent of annual covered payroll. A portion of the Academy's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2008, 9.16 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 Academy's required contribution for pension obligations to SERS for the fiscal year ended June 30, 2008 was $8,663; 76 percent has been contributed for fiscal year 2008.

B. State Teachers Retirement System

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

Note 9 – Defined Benefit Pension Plans (Continued)

B. State Teachers Retirement System (Continued)

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, 2008, plan members were required to contribute 10 percent of their annual covered salaries. The Academy was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. 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 Academy's required contributions for pension obligations to STRS Ohio for the fiscal year ended June 30, 2008 was $37,268; 100 percent has been contributed for the fiscal year 2008. No contributions were made to the CD and Combined Plans for the fiscal year 2008 by the Academy and the plan members.

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. The contribution rate is 6.2 percent of wages. As of June 30, 2008, none of the Academy staff have elected Social Security.

Note 10 – Postemployment Benefits

Plan Description – The Academy 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.

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 2008, 4.18 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 Academy's contribution for health care for the fiscal year ended June 30, 2008 was $3,953; 100 percent has been contributed for fiscal year 2008.

Note 10 – Postemployment Benefits (Continued)

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For 2008, this actuarially required allocation was 0.66 percent of covered payroll. The Academy's contribution for Medicare Part B for the fiscal year ended June 30, 2008 was $624; 100 percent has been contributed for fiscal year 2008.

B. State Teachers Retirement System

Plan Description – The Academy 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 2008, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. The Academy's contribution for health care for the fiscal years ended June 30, 2008 was $2,867; 100 percent has been contributed for fiscal year 2008.

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, 2008.

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. A review conducted by the Ohio Department of Education reflected the Academy owes $1,477 to the Ohio Department of Education. This is reported as a deferred revenue on the June 30, 2008 Statement of Net Assets.

Note 12 – Building Leases

In September 2007, the Academy entered into a lease agreement with Richland Academy of Arts for the use of a building (7,554 rentable square feet) as a school facility. The lease commenced August 1, 2007 and extends through June 30, 2008 with a one year renewal option upon 30 days notice to Landlord. No rent was due for August 2007 through September 2007. Monthly rental payments of $4,500 began in October 2007.

Note 13 – Long-Term Obligations

Changes in the Academy's long-term obligations during fiscal year 2008 were as follows:

	Balance 6/30/2007	Additions	Reductions	Balance 6/30/2008	Amount Due Within One Year
Capital Leases Payable	$ -	$ 148,134	$ (12,759)	$ 135,375	$ 37,776

Note 14 – Capital Lease-Lessee Disclosure

The Academy has entered into capitalized leases for the use of computer equipment and furniture. Each lease meets the criteria of 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. Principal payments in 2008 were $12,759.

	Amount
Property under Capital Lease	$148,134
Less Accumulated Depreciation	(8,304)
Total June 30, 2008	$139,830

The following is a schedule of the future long-term minimum lease payments required under the capital lease and the present value of the minimum lease payments as of June 30, 2008.

	Capital Lease	
Fiscal Year Ending June 30	Principal	Interest
2009	$37,776	$9,857
2010	41,027	6,606
2011	33,727	3,186
2012	14,071	1,400
2013	8,774	250
Total	$135,375	$21,299

Note 15 –Tax Exempt Status.

The Academy has filed for its tax-exempt status under Section 501(c)(3) of the Internal Revenue Code. The Academy has made no provision for any potential tax liability resulting from not obtaining the Section 501(c)(3) tax-exempt status.

Note 16 – Related Party Transactions/Management Company

The Academy contracts with Mosaica Education, Inc. for variety of services including management of personnel and human resources, board relation, 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, budget preparation, accounts payable, and payroll preparation.

Per the management agreement with the Academy, Mosaica Education, Inc. is entitled to a management fee that is equivalent to 12.5% of Academy revenue. The management fee for fiscal year 2008 was $149,978.

Also, per the management agreement there are expenses that will be billed back to the Academy based on the actual cost incurred for the Academy by Mosaica Education, Inc. These expenses include salaries and other costs related to providing educational and administrative services. The total expenses billed by Mosaica Education, Inc during fiscal year 2008 were $464,177.

At June 30, 2008, the Academy had payables to Mosaica Education, Inc. in the amount of $52,394. The following is a schedule of payables to Mosaica Education, Inc.

	Amount
Payroll	$35,192
Management Fees	$13,226
Miscellaneous	3,976
Total June 30, 2008	$52,394

Note 17 – Sponsor

The Academy was approved for operation under a contract with the Ohio Council of Community Schools (the Sponsor) for a period of five academic years continuing through June 30, 2012. As part of this contract, the Sponsor is entitled to a maximum of three percent of all revenues. As enrollment reaches certain benchmarks, the Sponsor fee adjusts to two or even one percent. Total amount due and paid for fiscal year 2008 was $19,919.

Note 18 – Management's Plan

For fiscal year 2008, the Academy had an operating loss of $862, an ending net assets of$193,648. Projected revenues and expenses for fiscal year 2009 indicate a small surplus is likely.

Fiscal year 2008 was the Academy's first year of operations. Final full-time equivalents student enrollment was 144 at June 30, 2008. However, current full-time equivalent student enrollment as of January 2009 is 169 students. The increase in enrollment from 144 students at June 30, 2008 to 169 students at January 2009 is a result of the school having established its presence in its new community.

Management plans to increase enrollment through active advertising via print, radio, mailings and through referrals of current parents which will help reduce future deficits and operating losses.

Note 19 – Subsequent Event

The Academy will not renew its lease on July 1, 2009 and are in the process of looking for a larger facility.

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

Foundation Academy
Richland County
75 N. Walnut St.
Mansfield, Ohio 44902

To the Board of Directors:

We have audited the basic financial statements of the Foundation Academy, Richland County, Ohio, (the Academy) as of and for the year ended June 30, 2008, and have issued our report thereon dated February 24, 2009. 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 expressing our opinion on the financial statements, but not to opine 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 control deficiency exists when the design or operation of a control does not allow management or employees, in performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Academy's ability to initiate, authorize, record, process, or report financial data reliably in accordance with its applicable accounting basis, such that there is more than a remote likelihood that the Academy's internal control will not prevent or detect a more-than-inconsequential financial statement misstatement.

A material weakness is a significant deficiency, or combination of significant deficiencies resulting in more than a remote likelihood that the Academy's internal control will not prevent or detect a material financial statement misstatement.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all internal control deficiencies that might be 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.

We noted certain matters that we reported to the Academy's management in a separate letter dated February 24, 2009.

Compliance and Other Matters

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

We intend this report solely for the information and use of the management, Board of Directors and the Ohio Council of Community Schools. We intend it for no one other than these specified parties.

Mary Taylor

Mary Taylor, CPA
Auditor of State

February 24, 2009

Mary Taylor, CPA
Auditor of State

FOUNDATION ACADEMY

RICHLAND COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
MAY 7, 2009

88 E. Broad St. / Fourth Floor / Columbus, OH 43215-3506
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