# ACADEMY OF ARTS AND HUMANITIES
# TRUMBALL COUNTY

## REGULAR AUDIT

## FOR THE YEAR ENDED JUNE 30, 2009

Mary Taylor, CPA
Auditor of State

**ACADEMY OF ARTS AND HUMANITIES**
**TRUMBULL COUNTY**

## TABLE OF CONTENTS

**TITLE** **PAGE**

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# INDEPENDENT ACCOUNTANTS' REPORT

Academy of Arts and Humanities
Trumbull County
261 Elm Road
Warren, Ohio 44483

To the Board of Directors:

We have audited the accompanying basic financial statements of the Academy of Arts and Humanities, Trumbull County (the Academy), as of and for the year ended June 30, 2009, 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 that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Academy of Arts and Humanities, Trumbull County, Ohio, as of June 30, 2009, and the changes in its financial position and its 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's deficit net assets ($721,793) and operating loss ($604,519) 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 March 3, 2010, on our consideration of the Government'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.

88 E. Broad St. / Tenth Floor / Columbus, OH 43215-3506
Telephone: (614) 466-3402 (800) 443-9275 Fax: (614) 728-7199
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

March 3, 2010

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The discussion and analysis of the Academy of Arts and Humanities (the "Academy") financial performance provides an overall review of the Academy's financial activities for the fiscal year ended June 30, 2009. The intent of this discussion and analysis is to look at the Academy's financial performance as a whole. Readers should also review the financial statements and notes to the financial statements to enhance their understanding of the Academy's financial performance. The first year of the Academy's operations was 2006.

## FINANCIAL HIGHLIGHTS

Key highlights for fiscal year 2009 are as follows:

- Net assets decreased $158,242.
- Operating expenses accounted for $2,738,578 of the total expenses of $2,811,292.
- Operating revenues accounted for $2,134,059 of the Academy's funding.
- The Academy had an operating loss of $604,519 and $518,991 of the operating loss was alleviated by non-operating federal and state grants. The Academy was able to utilize the majority of federal grant allocations for fiscal year 2009.

## OVERVIEW OF THE FINANCIAL STATEMENTS

The financial report consists of three parts; the management's 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 the governmental-wide financial statements is included in the discussion and analysis.

The following tables represent a summary the Academy's condensed financial information for 2009 derived from the statement of net assets and the statement of revenues, expenses and change in net assets.

Table 1 provides a summary of Academy's net assets for 2009 compared to 2008:

Table 1
Net Assets

| | 2009 | 2008 | Change |
|---|---|---|---|
| **Assets:** | | | |
| Current Assets | $ 196,392 | $ 133,218 | $ 63,174 |
| Capital Assets | 72,801 | 89,554 | (16,753) |
| Total Assets | 269,193 | 222,772 | 46,421 |
| **Liabilities:** | | | |
| Current Liabilities | 973,830 | 763,470 | (210,360) |
| Long-term Liabilities | 17,156 | 22,853 | 5,697 |
| Total Liabilities | 990,986 | 786,323 | (204,663) |
| **Net Assets:** | | | |
| Invested in Capital Assets, Net of Related Debt | 49,948 | 34,684 | 15,264 |
| Restricted for Other Purposes | - | 2,596 | (2,596) |
| Unrestricted | (771,741) | (600,831) | (170,910) |
| Total Net Assets (Deficit) | $ (721,793) | $ (563,551) | $ (158,242) |

Results of fiscal year 2009 indicate a decrease in net assets of $158,242 and an ending net asset deficit of $721,793. The decrease in net assets represents a slight improvement over the net asset decrease in fiscal 2008. The improvement is due to an increase in student enrollment offset by a year of full rental costs for its facility. The Academy finished fiscal year 2009 with 291 students, up from 128 at the end of fiscal 2008. Increasing enrollment is expected to push the Academy closer to its breakeven point. However, the opening of classes in the fall of 2009 saw a decrease in enrollment to 232 students. The Academy is projecting an operating deficit for the 2010 fiscal year. The Academy's plan is to increase 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.

Table 2 reflects the changes in net assets for fiscal year 2009 as compared to 2008.

Table 2
Change in Net Assets

| | 2009 | 2008 | Change |
|---|---|---|---|
| **Operating Revenues:** | | | |
| Community School Foundation | $ 2,129,448 | $ 901,693 | $ 1,227,755 |
| Charge for Services & Miscellaneous | 4,611 | 17,933 | (13,322) |
| **Total Operating Revenues** | 2,134,059 | 919,626 | 1,214,433 |
| **Operating Expenses:** | | | |
| Building | 289,992 | 197,174 | 92,818 |
| Purchased Services | 2,259,520 | 956,384 | 1,303,136 |
| Depreciation | 16,753 | 14,995 | 1,758 |
| General Supplies | 93,984 | 191,135 | (97,151) |
| Other Operating Expenses | 78,329 | 15,650 | 62,679 |
| **Total Operating Expenses** | 2,738,578 | 1,375,338 | 1,363,240 |
| **Operating Loss** | (604,519) | (455,712) | (148,807) |
| **Nonoperating Revenues and Expenses:** | | | |
| Federal and State Restricted Grants | 518,991 | 292,864 | 226,127 |
| Interest Expense | (72,714) | (50,332) | (22,382) |
| **Net Nonoperating Revenues and Expenses** | 446,277 | 242,532 | 203,745 |
| **Change in Net Assets** | (158,242) | (213,180) | 54,938 |
| **Net Assets (Deficit) Beginning of Year** | (563,551) | (350,371) | (213,180) |
| **Net Assets (Deficit) End of Year** | $ (721,793) | $ (563,551) | $ (158,242) |

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 Academy staff.

## 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 St. Aloysius Orphanage, does not prescribe a budgetary process for the Academy.

## Capital Assets and Debt Administration

### Capital Assets

At the end of fiscal year 2009, the Academy had $72,801 invested in capital assets (net of accumulated depreciation) for computer and other equipment, a decrease of $16,753. The decrease is the result of the annual depreciation costs recognized for the fiscal year. The following table shows fiscal year 2009 compared to 2008:

| | 2009 | 2008 | Change |
|---|---|---|---|
| Furniture & Equipment | $53,633 | $59,931 | ($6,298) |
| Computer Technology | 19,168 | 29,623 | (10,455) |
| Total Capital Assets, Net | $72,801 | $89,554 | ($16,753) |

No acquisitions of capital assets were made during fiscal 2009. For further information regarding the Academy's capital assets, refer to Note 6 of the basic financial statements.

### Debt

At June 30, 2009, the Academy had $22,854 in capital leases outstanding, $5,698 due within one year. The following outstanding table summarized the Academy's debt outstanding as of June 30, 2009.

| | 2009 | 2008 | Change |
|---|---|---|---|
| Capital Leases - Furniture/Equipment | $22,854 | $38,115 | ($15,261) |
| Capital Leases - Computers | | 16,755 | (16,755) |
| Total Capital Leases | $22,854 | $54,870 | ($32,016) |

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, decisions or conditions that have occurred that are expected to have a significant effect on the financial position or results of operation.

## Operations

The Academy is a public school established pursuant to Ohio Revised Code Chapter 3314. The Academy offers education for Ohio children in kindergarten 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 Robert Lotz, Treasurer for Academy of Arts and Humanities, 3333 Chippewa Drive, Columbus, Ohio 43204.

**ACADEMY OF ARTS AND HUMANITIES**
**TRUMBULL COUNTY**

**STATEMENT OF NET ASSETS**
**JUNE 30, 2009**

| | |
|---|---|
| **Assets:** | |
| ***Current assets:*** | |
| Cash and Cash Equivalents | $ 52,586 |
| Intergovernmental Receivable | 143,806 |
| **Total current assets** | 196,392 |
| ***Noncurrent assets:*** | |
| Capital Assets, net of Accumulated Depreciation | 72,801 |
| **Total assets** | $ 269,193 |
| **Liabilities:** | |
| ***Current liabilities:*** | |
| Accounts Payable, Trade | $ 132,131 |
| Accounts Payable, Related Party | 823,008 |
| Accrued Interest | 161 |
| Accrued Expenses | 12,832 |
| Capital Lease Payable, Current Portion | 5,698 |
| **Total current liabilities** | 973,830 |
| **Noncurrent liabilities:** | |
| Capital Lease Payable, Noncurrent Portion | 17,156 |
| **Total liabilities** | 990,986 |
| **Net Assets** | |
| Invested in Capital Assets, Net of Related Debt | 49,948 |
| Unrestricted Net Assets | (771,741) |
| **Total Net Assets** | $ (721,793) |

**See Accompanying Notes to the Basic Financial Statements**

**ACADEMY OF ARTS AND HUMANITIES**
**TRUMBULL COUNTY**

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS**
**FOR THE YEAR ENDED JUNE 30, 2009**

| | |
|---|---|
| **Operating Revenues:** | |
| Community School Foundation | $ 2,129,448 |
| Charge for Services | 3,531 |
| Miscellaneous | 1,080 |
| **Total Operating Revenues** | 2,134,059 |
| **Operating Expenses:** | |
| Building | 289,992 |
| Purchased Services | 2,259,520 |
| Depreciation | 16,753 |
| General Supplies | 93,984 |
| Other Operating Expenses | 78,329 |
| **Total Operating Expenses** | 2,738,578 |
| **Operating Loss** | (604,519) |
| **Nonoperating Revenues and Expenses:** | |
| Federal and State Restricted Grants | 518,991 |
| Interest Expense | (72,714) |
| **Net Nonoperating Revenues and Expenses** | 446,277 |
| **Change in Net Assets** | (158,242) |
| **Net Assets Beginning of Year** | (563,551) |
| **Net Assets End of Year** | $ (721,793) |

**See Accompanying Notes to the Basic Financial Statements**

**ACADEMY OF ARTS AND HUMANITIES**
**TRUMBULL COUNTY**

**STATEMENT OF CASH FLOWS**
**FOR THE YEAR ENDED JUNE 30, 2009**

| | |
|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | |
| Foundation Receipts | $ 2,129,448 |
| Charge for Services | 3,531 |
| Other Operating Receipts | 1,080 |
| Cash Payments to Suppliers for Goods and Services | (2,470,041) |
| Net Cash Used for Operating Activities | (335,982) |
| **CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES** | |
| Short-term Financing Payments | (69,809) |
| Federal and State Grant Receipts | 483,152 |
| Net Cash Provided by Noncapital Financing Activities | 413,343 |
| **CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES** | |
| Capital Lease Interest Payments | (3,239) |
| Capital Lease Principal Retirement | (32,017) |
| Net Cash Used for Capital and Related Financing Activities | (35,256) |
| Net Increase in Cash and Cash Equivalents | 42,105 |
| Cash and Cash Equivalents - Beginning of the Year | 10,481 |
| Cash and Cash Equivalents - End of the Year | $ 52,586 |

| | |
|---|---|
| **Reconciliation of Operating Loss to Net Cash Used for Operating Activities** | |
| Operating Loss | $ (604,519) |
| **Adjustments to Reconcile Operating Loss to Net Cash Used for Operating Activities** | |
| Depreciation | 16,753 |
| Changes in assets and liabilities: | |
| Decrease in Prepaid Expense | 14,770 |
| Increase in Accounts Payable, Trade | 37,500 |
| Increase in Accounts Payable, Related Party | 191,772 |
| Increase in Accrued Expenses | 12,833 |
| Decrease in Deferred Revenue | (5,091) |
| **Net Cash Used for Operating Activities** | $ (335,982) |

**See Accompanying Notes to the Basic Financial Statements**

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## Note 1 - Description of the School

The Academy of Arts and Humanities (the "Academy") is a nonprofit corporation established pursuant to Ohio Revised Code Chapter 3314. The Academy offers education for Ohio children in kindergarten 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.

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, 2010. 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 not less than 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 Arts and Science Academy.

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.

**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, 2009.

### F. Capital Assets

The Academy's capital assets during fiscal year 2009 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.

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 |
|---|---|
| Furniture and Equipment | 5-20 years |
| Computer Technology | 5 years |

**<u>Note 2 - Summary of Significant Accounting Policies</u> (Continued)**

**G. 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. As of June 30, 2009, there were no net assets restricted by enabling legislation.

The statement of net assets reports $49,948 invested in capital assets net of related debt.

**H. 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.

**I. 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.

**J. 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.

**<u>Note 3 – Changes in Accounting Principles</u>**

There were no changes in accounting principles implemented during 2009 that would have a material effect on the financial statements.

**<u>Note 4 - Deposits</u>**

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, 2009, the bank balance of Academy's deposits was $67,632. The bank balance was covered by federal depository insurance which covers deposits up to $250,000. There are no significant statutory restrictions regarding the deposit and investment of funds by the nonprofit corporation.

## Note 5 – Receivables

At June 30, 2009, the Academy had intergovernmental receivables, in the amount of $143,806. The receivables are expected to be collected within one year.

| Grant | Amount |
|---|---|
| Title I | $55,532 |
| School Improvement Grant | $44,677 |
| School Counselor Grant | 15,544 |
| Arts & Sciences Academy - Rent | 13,028 |
| IDEA | 11,760 |
| National School Lunch Program | 2,776 |
| Other | 489 |
| Total Intergovernmental Receivables | $143,806 |

## Note 6 - Capital Assets

Capital asset activity for the fiscal year ended June 30, 2009, was as follows:

| | Balance July 1, 2008 | Additions | Deletions | Balance June 30, 2009 |
|---|---|---|---|---|
| Depreciable Capital Assets | | | | |
| Furniture & Equipment | $68,575 | 0 | 0 | $68,575 |
| Computer Technology | 52,276 | 0 | 0 | $52,276 |
| Less Accumulated Depreciation | | | | |
| Furniture & Equipment | (8,644) | (6,298) | | ($14,942) |
| Computer Technology | (22,653) | (10,455) | | ($33,108) |
| Capital Assets, Net | $89,554 | ($16,753) | $0 | $72,801 |

## 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 2009, 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:

| | | |
|---|---|---|
| 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 |
| Business Personal Property | | 703,900 |
| Automobile Liability: | | |
| Combined Single Limit | | 1,000,000 |
| Excess/Umbrella: | | |
| Each Occurrence | | 8,000,000 |
| Aggregate Limit | | 8,000,000 |

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

## Note 8 – Purchased Services

For the period July 1, 2008 through June 30, 2009, purchased service expenses were as follows:

| Purchased Services | Amount |
|---|---|
| Personnel Services | $1,531,230 |
| Staff and Administrative Services | 349,454 |
| Food Service | 132,443 |
| Building Services | 120,343 |
| Student Services | 54,326 |
| Sponsor Fee | 38,190 |
| Advertising | 20,370 |
| Professional Services | 13,164 |
| Total | $2,259,520 |

## Note 9 – Defined Benefit Pension Plans

The Academy contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing multiple-employer defined benefit pension plan. SERS provides retirement, disability, and survivor benefits: annual cost-of-living adjustments; and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by state statute per Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report can be obtained by contacting SERS, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746 or by calling toll free (800) 878-5853. It is also posted on SERS' website at www.ohsers.org under Employers/Audit Resources.

**Funding Policy**
Plan members are required to contribute 10% of their annual covered salary and the Academy is required to contribute 14% of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS' Retirement Board. The Retirement Board acting with the advice of the actuary, allocates the employer contribution rate among four of the funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund) of the System. For fiscal year ending June 30, 2009, the allocation to pension and death benefits is 9.09%. The remaining 4.91% of the 14% employer contribution rate is allocated to the Health Care and Medicare B Funds. The School District's contributions to SERS for the years ended June 30, 2009, 2008, and 2007 were *$13,632, $5,887 and $3,386* respectively, 56 percent has been contributed for the fiscal year 2009 and 100 percent for fiscal years 2008 and 2007.

### 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.

**Note 9 – Defined Benefit Pension Plans (Continued)**

**B. State Teachers Retirement System (Continued)**

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, 2009, 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. For fiscal year 2009, 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 Academy's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2009, 2008 and 2007 were $128,224, $47,508 and $38,348 respectively; 99 percent has been contributed for the fiscal year 2009, and 100 percent for fiscal years 2008 and 2007. Contributions to the DC and Combined Plans for the fiscal year 2009 were $0 made by the Academy and $0 made by 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, 2009, none of the Academy's staff have elected Social Security.

**Note 10 – Postemployment Benefits**

**A. School Employees Retirement System**

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

**Medicare Part B Plan**
The Medicare B plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries as set forth in Ohio Revised Code (ORC) 3309.69. Qualified benefit recipients who pay Medicare Part B premiums may apply for and receive a monthly reimbursement from SERS. The reimbursement amount is limited by statute to the lesser of the January 1, 1999 Medicare Part B premium or the current premium. The Medicare Part B premium for calendar year 2009 was $96.40, SERS' reimbursement to retirees was $45.50.

The Retirement Board, acting with the advice of the actuary, allocates a portion of the current employer contribution rate to the Medicare B Fund. For fiscal year 2009, the actuarially required allocation is .75%. The Academy's contributions for the years ended June 30, 2009 and 2008 were $982 and $424 respectively, 56 percent has been contributed for fiscal year 2009 and 100 percent was contributed for fiscal year 2008.

**Note 10 – Postemployment Benefits (Continued)**

**A. School Employees Retirement System**

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

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

The Health Care Fund was established under, and is administered in accordance with Internal Revenue Code 105(e). Each year after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer 14% contribution to the Health Care Fund. For the year ended June 30, 2009, the health care allocation is 4.16%. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. Statutes provide that no employer shall pay a health care surcharge greater than 2% of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5% of the total statewide SERS-covered payroll for the health care surcharge. For fiscal year 2009, the minimum compensation level was established at $35,800. The surcharge, added to the unallocated portion of the 14% employer contribution rate is the total amount assigned to the Health Care Fund. The Academy's contributions assigned to health care for the years ended June 30, 2009, 2008, and 2007 were $6,221, $2,686, and $1,052, respectively; 56 percent has been contributed for fiscal year 2009 and 100 percent for fiscal years 2008 and 2007.

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

The financial reports of SERS' Health Care and Medicare B plans are included in its *Comprehensive Annual Financial Report.* The report can be obtained by contacting SERS, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746 or by calling toll free (800) 878-5853. It is also posted on SERS' website at www.ohsers.org under Employers/Audit Resources.

**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.

**Note 10 – Postemployment Benefits (Continued)**

**B. State Teachers Retirement System (Continued)**

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 2009, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. The Academy's contributions for health care for the fiscal years ended June 30, 2009, 2008 and 2007 were $9,863, $3,654 and $52,948 respectively; 99 percent has been contributed for fiscal year 2009 and 100 percent for fiscal years 2008 and 2007.

**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, 2009.

**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 Academy will receive an adjustment from ODE for the FTE calculations of $20,419 during the fiscal year 2010.

**Note 12 – Building Leases**

The Academy entered into a lease agreement in November 2007 for 10 years to lease a building from Warren-Elm Facilities, LLC, a wholly owned subsidiary of Mosaica Education, Inc. for the use of the building and grounds as a school facility. Mosaica Education, Inc. is a related party, as disclosed in Note 15. Annual base rent is $290,000 and has scheduled increases every two years based on the consumer price index. The building approximates 59,000 square feet. Rent expense for the year ended June 30, 2009 was $289,992.

**Note 13 – Capital Lease-Lessee Disclosure**

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 risks of ownership to the lessee. The Academy entered into a lease agreement in fiscal year 2008 for telephone and security systems in the amount of $30,143, the present value of the minimum lease payments at the inception of the lease. The assets related to this lease have been capitalized. 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 are as follows:

**Note 13 – Capital Lease-Lessee Disclosure (Continued)**

| Year Ending June 30 | Telephone / Security |
|---|---|
| 2010 | 7,419 |
| 2011 | 7,419 |
| 2012 | 7,419 |
| 2013 | 4,327 |
| Total future minimum lease payments | 26,584 |
| Less: amount representing interest | (3,730) |
| Present value of future minimum lease payments | $ 22,854 |

A liability for capital lease obligations in the amount of $22,854 is reported on the Statement of Net Assets. Of this amount, $5,698 is a current liability due within one year and $17,156 is a long-term liability due in more than one year. The Academy made $32,017 of principal payments during the 2008-09 fiscal year.

**Note 14 –Tax Exempt Status**

The Academy has filed for its tax-exempt status under Section 501(c)(3) of the Internal Revenue Code.

**Note 15 – Related Party Transactions/Management Company**

The Academy contracts with Mosaica Education, Inc. for 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, 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 2009 was $324,010. In addition, upon termination of the agreement due to nonperformance by either party, or in the event of nonrenewal upon expiration of the agreement, the Academy must pay Mosaica Education, Inc. $100,000 per year for three consecutive years.

Also, per the management agreement there are expenses that will be billed to the Academy based on the actual cost incurred for 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 actual expenses paid to Mosaica Education Inc. during fiscal year 2009 were $1,603,511.

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

At June 30, 2009, the Academy had payables to Mosaica Education, Inc. in the amount of $823,008. The following is a schedule of payables owed to Mosaica Education, Inc.

| | Amount |
|---|---|
| Payroll | $418,988 |
| Management Fee | 221,207 |
| Building Rent | 120,830 |
| Finance Charges | 38,497 |
| Miscellaneous | 23,486 |
| Total June 30, 2009 | $823,008 |

**Note 16 – Sponsor**

The Academy was approved for operation under a contract with the St. Aloysius Orphanage (the Sponsor) for a period of five academic years commencing July 18, 2005. 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 2009 was $38,190.

**Note 17 – Management's Plan**

For fiscal year 2009, the Academy experienced an operating loss of $604,519 and a cumulative net asset deficit of $721,793. It is projected that the Academy will have an operating loss and a net asset deficit at June 30, 2010. In fiscal year 2008, the Governing Board moved the Academy into a larger facility and is continuing its effort to expand enrollment in fiscal year 2010. Over time, management believes the anticipated increase in enrollment should allow the Academy to reduce its operating losses and have operating gains. As of January 31, 2010 the Academy had an operating gain of $6,318 and a cumulative net asset deficit of $715,475.

Final fiscal year 2008 full-time equivalents students was 128 students and final fiscal year 2009 full-time equivalent student enrollment was 291 students. Current full-time equivalents student enrollment as of January 2010 is 237 students.

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. Management has been successful in increasing enrollment at its other community schools in Ohio.

**Note 18 – Subsequent event**

An amended and restated Management Agreement was signed and approved by the Academy's Board of Directors effective August 26, 2009. The amended agreement established a schedule of payment by the Academy to Mosaica Education, Inc for the $150,000 start-up fee originally agreed upon in the February 12, 2004 Management Agreement. The amended agreement states that the start-up fee is a promissory note to be repaid with 9% interest starting July 1, 2009 and amortized through June 15, 2013 with regular equal monthly payments to be made on the fifteenth day of each month, starting with the first month after the start date. Upon any termination or expiration of this agreement by either party for any reason, the entire unpaid principle balance together with all accrued interest of the start-up note shall become due and payable by the Academy to Mosaica Education, Inc.

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Mary Taylor, CPA
Auditor of State

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

Academy of Arts and Humanities
Trumbull County
261 Elm Road
Warren, Ohio 44483

To the Board of Directors:

We have audited the basic financial statements of the Academy of Arts and Humanities, Trumbull County Ohio, (the Academy) as of and for the year ended June 30, 2009, and have issued our report thereon dated March 3, 2010 wherein we noted matters which raise substantial doubt about the Academy's ability to continue as a going concern. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in 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 internal control matters that we reported to the Academy's management in a separate letter dated March 3, 2010.

88 E. Broad St. / Tenth Floor / Columbus, OH 43215-3506
Telephone: (614) 466-3402 (800) 443-9275 Fax: (614) 728-7199
www.auditor.state.oh.us

**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 St. Aloysius Orphanage. We intend it for no one other than these specified parties.

Mary Taylor

**Mary Taylor, CPA**
Auditor of State

March 3, 2010

Mary Taylor, CPA
Auditor of State

**Independent Accountants' Report on Applying Agreed-Upon Procedures**

Academy of Arts and Humanities
Trumbull County
261 Elm Road
Warren, Ohio 44483

To the Board of Directors

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

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

1. We noted the Board adopted an anti-harassment policy at its meeting on December 11, 2007.

2. We read the policy, noting it included the following requirements from Ohio Rev. Code Section 3313.666(B):

   (1) A statement prohibiting harassment, intimidation, or bullying of any student on school property or at school-sponsored events;

   (2) A definition of harassment, intimidation, or bullying that includes the definition in division (A) of Ohio Rev. Code Section 3313.666;

   (3) A procedure for reporting prohibited incidents;

   (4) A requirement that school personnel report prohibited incidents of which they are aware to the school principal or other administrator designated by the principal;

   (5) A requirement that parents or guardians of any student involved in a prohibited incident be notified and, to the extent permitted by section 3319.321 of the Revised Code and the "Family Educational Rights and Privacy Act of 1974," 88 Stat. 571, 20 U.S.C. 1232q, as amended, have access to any written reports pertaining to the prohibited incident;

(6) A procedure for documenting any prohibited incident that is reported;

(7) A procedure for responding to and investigating any reported incident;

(8) A strategy for protecting a victim from additional harassment, intimidation, or bullying, and from retaliation following a report;

(9) A disciplinary procedure for any student guilty of harassment, intimidation, or bullying, which shall not infringe on any student's rights under the first amendment to the Constitution of the United States;

(10) A requirement that the Academy administration semiannually provide the president of the Board of Directors a written summary of all reported incidents and post the summary on its web site, if the district has a web site, to the extent permitted by section 3319.321 of the Revised Code and the "Family Educational Rights and Privacy Act of 1974," 88 Stat. 571, 20 U.S.C. 1232q, as amended.

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

This report is intended solely for the information and use of the Board of Directors, management, and the St. Aloysius Orphanage and is not intended to be and should not be used by anyone other than these specified parties.

Mary Taylor

**Mary Taylor, CPA**
Auditor of State

March 3, 2010

Mary Taylor, CPA
Auditor of State

ACADEMY OF ARTS AND HUMANITIES

TRUMBULL 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 6, 2010**

88 E. Broad St. / Fourth Floor / Columbus, OH 43215-3506
Telephone: (614) 466-4514 (800) 282-0370 Fax: (614) 466-4490
www.auditor.state.oh.us