

STAR Academy of Toledo
Lucas County, Ohio

Audited Financial Statements

For the Fiscal Year Ended
June 30, 2012



Dave Yost • Auditor of State

Board of Trustees
STAR Academy of Toledo
1850 Airport Highway
Toledo, Ohio 43609

We have reviewed the *Independent Auditor's Report* of the STAR Academy of Toledo, Lucas County, prepared by Rea & Associates, Inc., for the audit period July 1, 2011 through June 30, 2012. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The STAR Academy of Toledo is responsible for compliance with these laws and regulations.

A handwritten signature in black ink that reads "Dave Yost".

Dave Yost
Auditor of State

February 28, 2013

This page intentionally left blank.

STAR ACADEMY OF TOLEDO
LUCAS COUNTY, OHIO

TABLE OF CONTENTS

TITLE	PAGE
Independent Auditor's Report	1
Management's Discussion and Analysis.....	2
Basic Financial Statements:	
Statement of Net Assets	8
Statement of Revenues, Expenses and Changes in Net Assets.....	9
Statement of Cash Flows	10
Notes to the Basic Financial Statements	12
Independent Auditor's Report On Internal Control Over Financial Reporting and On Compliance and Other Matters Based on An Audit of Financial Statements Performed In Accordance with <i>Government Auditing Standards</i>	24
Schedule of Prior Audit Findings.....	26

THIS PAGE INTENTIONALLY LEFT BLANK

December 27, 2012

To the Board of Trustees
STAR Academy of Toledo
Lucas County, Ohio
1850 Airport Highway
Toledo, Ohio 43609

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying financial statements of the STAR Academy of Toledo, Lucas County, Ohio (the Academy), as of and for the year ended June 30, 2012, which collectively comprise the Academy's basic financial statements 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 *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Academy, as of June 30, 2012, and the respective changes in financial position and cash flows, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 27, 2012, on our consideration of the Academy's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis information on pages 3 through 6 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Government Accounting Standards Board who considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Kea & Associates, Inc.

**STAR ACADEMY OF TOLEDO
LUCAS COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
UNAUDITED**

The discussion and analysis of the STAR Academy of Toledo (the "Academy") financial performance provides an overall review of the Academy's financial activities for the fiscal year ended June 30, 2012. 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 2007.

Financial Highlights

- Net assets decreased \$170,492.
- Operating expenses for fiscal 2012 were \$1,891,692 as compared to \$2,046,844 in fiscal 2011.
- Operating revenues accounted for \$1,312,833 of the Academy's total funding of \$1,722,137.
- The Academy had an operating loss of \$578,859. A substantial portion of the operating loss was alleviated by non-operating federal grants totaling \$409,305.

Overview of the Financial Statements

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

The following tables represent a summary the Academy's condensed financial information for 2012 derived from the statement of net assets and the statement of revenues, expenses and changes in net assets.

**STAR ACADEMY OF TOLEDO
LUCAS COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
UNAUDITED
(Continued)**

Table 1 provides a summary of the Academy's nets assets for 2012 as compared to 2011:

Table 1
Net Assets

	2012	2011	Change
Assets:			
Current Assets	\$ 156,943	\$ 313,121	\$ (156,178)
Capital Assets	44,083	90,255	(46,172)
Total Assets	<u>201,026</u>	<u>403,376</u>	<u>(202,350)</u>
Liabilities:			
Current Liabilities	96,235	128,093	31,858
Total Liabilities	<u>96,235</u>	<u>128,093</u>	<u>31,858</u>
Net Assets:			
Invested in Capital Assets	44,083	90,255	(46,172)
Restricted for Other Purposes	-	9,750	(9,750)
Unrestricted	60,708	175,278	(114,570)
Total Net Assets	<u>\$ 104,791</u>	<u>\$ 275,283</u>	<u>\$ (170,492)</u>

Results of fiscal year 2012 indicate an ending net asset balance of \$104,791, a decrease of \$170,492 from fiscal year 2011. The decrease is the result of decreased federal grant funding due to lower enrollment and temporary costs associated with maintaining transportation services following an accident with one of the Academy's buses. Fiscal 2012 funded enrollment was 175 students as compared to 180 for fiscal 2011.

**STAR ACADEMY OF TOLEDO
LUCAS COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
UNAUDITED
(Continued)**

Table 2 reflects the changes in net assets for the fiscal year 2012 as compared to 2011:

Table 2
Change in Net Assets

	<u>2012</u>	<u>2011</u>	<u>Change</u>
Operating Revenues:			
Community School Foundation	\$ 1,309,331	\$ 1,268,282	\$ 41,049
Miscellaneous	3,502	4,470	(968)
Federal and State Restricted Grants	409,305	745,156	(335,851)
Total Revenues	<u>1,722,138</u>	<u>2,017,908</u>	<u>(295,770)</u>
Operating Expenses:			
Salaries	25,703	57,875	(32,172)
Fringe Benefits	8,655	17,758	(9,103)
Building	120,360	120,030	330
Purchased Services	1,530,522	1,663,589	(133,067)
Depreciation	46,172	42,971	3,201
General Supplies	139,799	132,324	7,475
Other Operating Expenses	20,481	12,297	8,184
Interest Expense	938	603	335
Total Expenses	<u>1,892,630</u>	<u>2,047,447</u>	<u>(154,817)</u>
Change in Net Assets	(170,492)	(29,539)	(140,953)
Net Assets (Deficit) Beginning of Year	<u>275,283</u>	<u>304,822</u>	<u>(29,539)</u>
Net Assets (Deficit) End of Year	<u>\$ 104,791</u>	<u>\$ 275,283</u>	<u>\$ (170,492)</u>

Changes in net assets are primarily attributable to the decrease in enrollment and decreases in Federal and State Restricted Grants.

**STAR ACADEMY OF TOLEDO
LUCAS COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
UNAUDITED
(Continued)**

Budget

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

Capital Assets and Debt Administration

Capital Assets

At the end of FY 2012, the Academy had \$44,083 invested in capital assets (net of accumulated depreciation) for computers, furniture, a bus and other equipment, a decrease of \$46,173. The following table shows fiscal year 2012 compared to 2011:

	<u>2012</u>	<u>2011</u>	<u>Change</u>
Leasehold Improvements	\$14	\$3,981	(\$3,967)
Computer Technology	27,169	58,690	(31,521)
Furniture & Equipment	16,150	26,234	(10,084)
Transportation	750	1,350	(600)
Net Capital Assets	<u>\$44,083</u>	<u>\$90,255</u>	<u>(\$46,172)</u>

The decrease primarily represents the depreciation expense for the year on the computer and other equipment. There were no asset disposals during the year. For further information regarding the Academy's capital assets, refer to Note 6 of the basic financial statements.

Economic Factors

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

Operations

STAR Academy of Toledo is a public school established pursuant to Ohio Revised Code Chapter 3314. The Academy offers education for Ohio children in grades K-8. The Academy is independent of any school district and is nonsectarian in its programs, admission policies, employment practices, and all other operations. The Academy may lease or acquire facilities as needed and contract for any services necessary for the operation of the Academy. Subsequent to the end of the fiscal year, the Academy's Head of School resigned and was replaced with a new Head of School.

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 the Treasurer for STAR Academy of Toledo, 1850 Airport Highway, Toledo, Ohio 43609.

THIS PAGE INTENTIONALLY LEFT BLANK

STAR ACADEMY OF TOLEDO
LUCAS COUNTY, OHIO

STATEMENT OF NET ASSETS
JUNE 30, 2012

Assets:

Current assets:

Cash and Cash Equivalents	\$ 87,114
Accounts Receivable	890
Intergovernmental Receivable	43,828
Prepaid Expense	25,111
Total current assets	<u>156,943</u>

Noncurrent assets:

Capital Assets, net of Accumulated Depreciation	<u>44,083</u>
---	---------------

Total assets	<u>201,026</u>
---------------------	----------------

Liabilities:

Current liabilities:

Accounts Payable, Trade	9,598
Accounts Payable, Related Party	30,773
Deferred Revenue	55,864
Total current liabilities	<u>96,235</u>

Total liabilities	<u>96,235</u>
--------------------------	---------------

Net Assets

Invested in Capital Assets	44,083
Unrestricted Net Assets	60,708
Total Net Assets	<u>\$ 104,791</u>

See Accompanying Notes to the Basic Financial Statements

**STAR ACADEMY OF TOLEDO
LUCAS COUNTY, OHIO**

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NETS ASSETS
FOR THE YEAR ENDED JUNE 30, 2012**

Operating Revenues:	
Community School Foundation	\$ 1,309,331
Miscellaneous	3,502
Total Operating Revenues	1,312,833
 Operating Expenses:	
Salaries	25,703
Fringe Benefits	8,655
Building	120,360
Purchased Services	1,530,522
Depreciation	46,172
General Supplies	139,799
Other Operating Expenses	20,481
Total Operating Expenses	1,891,692
Operating Loss	(578,859)
 Nonoperating Revenues and (Expenses):	
Federal and State Restricted Grants	409,305
Interest Expense	(938)
Net Nonoperating Revenues and (Expenses)	408,367
Change in Net Assets	(170,492)
Net Assets Beginning of Year	275,283
Net Assets End of Year	\$ 104,791

See Accompanying Notes to the Basic Financial Statements

**STAR ACADEMY OF TOLEDO
LUCAS COUNTY, OHIO**

**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2012**

CASH FLOWS FROM OPERATING ACTIVITIES

Foundation Receipts	\$ 1,365,195
Other Operating Receipts	3,502
Cash Payments to Suppliers for Goods and Services	<u>(1,957,107)</u>
Net Cash Used for Operating Activities	<u>(588,410)</u>

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

Short-term Financing Payments	(938)
Federal and State Grant Receipts	<u>391,796</u>
Net Cash Provided by Noncapital Financing Activities	<u>390,858</u>

Net Decrease in Cash and Cash Equivalents	(197,552)
Cash and Cash Equivalents - Beginning of the Year	<u>284,666</u>
Cash and Cash Equivalents - Ending of the Year	<u>\$ 87,114</u>

Reconciliation of Operating Loss to Net Cash Used for Operating Activities

Operating Loss	<u>\$ (578,858)</u>
----------------	---------------------

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

Depreciation	46,172
Changes in assets and liabilities:	
Decrease in Accounts Receivable	(890)
Increase in Prepaid Expenses	(22,977)
Increase in Accounts Payable, Trade	(20,144)
Increase in Accounts Payable, Related Party	(67,577)
Increase in Deferred Revenue	55,864
Net Cash Used for Operating Activities	<u><u>\$ (588,410)</u></u>

See Accompanying Notes to the Basic Financial Statements

THIS PAGE INTENTIONALLY LEFT BLANK

**STAR ACADEMY OF TOLEDO
LUCAS COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012**

Note 1 – Description of the School

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

The Academy was approved for operation under a contract with the Delaware-Union Educational Service Center (the Sponsor) for a period of three academic years commencing after July 1, 2008 and ending June 30, 2012 and then further extended through June 30, 2013. 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 seven 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.

For the 2011-12 academic year, the Academy contracted 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 14.

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.

**STAR ACADEMY OF TOLEDO
LUCAS COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012
(Continued)**

Note 2 - Summary of Significant Accounting Policies (Continued)

C. Basis of Accounting

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

D. Budgetary Process

Unlike other public schools located in the State of Ohio, community schools are not required to follow budgetary provision set forth in the Ohio Revised Code Chapter 5705, unless specifically provided by the Academy's contract with its sponsor. The contract between the Academy and its sponsor, the Delaware-Union Educational Service Center, 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, 2012.

F. Prepaid Items

The Academy records payments made to vendors for services that will benefit periods beyond June 30, 2012, 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 2012 consisted of capital leases for computers and other equipment, transportation equipment, furniture and equipment, as well as leasehold improvements to make the lower level of the facility useable. 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 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.

**STAR ACADEMY OF TOLEDO
LUCAS COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012
(Continued)**

Note 2 - Summary of Significant Accounting Policies (Continued)

All capital asset leases 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:

<u>Description</u>	<u>Useful Lives</u>
Furniture and Equipment	5 years
Computer Technology	5 years
Transportation Vehicles	5 years
Leasehold Improvements	Remaining life of lease

H. Net Assets

Net assets represent the difference between assets and liabilities. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Academy or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. The Academy applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net assets are available. As of June 30, 2012, there was no net assets deemed to be restricted.

In addition, the statement of net assets reports \$44,083 as invested in capital assets.

I. Operating Revenues and Expenses

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

J. Estimates

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

K. Economic Dependency

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

Note 3 – Changes in Accounting Principles

There were no changes in accounting principles implemented during 2012 that would have a material effect on the financial statements.

**STAR ACADEMY OF TOLEDO
LUCAS COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012
(Continued)**

Note 4 - Deposits

Custodial credit risk is the risk that, in the event of a bank failure, the Academy's deposits may not be returned. The Academy does not have a deposit policy for custodial credit risk. At June 30, 2012, the book balance was \$87,114, and the bank balance of Academy's deposits was \$334,586. The bank balance was covered by federal depository insurance. There are no significant statutory restrictions regarding the deposit and investment of funds by the nonprofit corporation.

Note 5 – Receivables

At June 30, 2012, the Academy had intergovernmental receivables, in the amount of \$43,828. The receivables are expected to be collected within one year.

Grant	Amount
Education Jobs Funds	\$2,040
Title I	14,527
IDEA Part B	10,056
Title II D	35
Child Nutrition Program	17,170
Total Intergovernmental Receivables	\$43,828

Note 6 – Capital Assets

The capital asset activity for the fiscal year ended June 30, 2012, was as follows:

	Balance June 30, 2011	Additions	(Deletions)	Balance June 30, 2012
Depreciable Capital Assets				
Furniture & Equipment	\$54,392	\$0	\$0	\$54,392
Leasehold Improvements	8,699	0	0	8,699
Computer Technology	157,607	0	0	157,607
Transportation Vehicles	3,000	0	0	3,000
Total Depreciable Capital Assets	223,698	0	0	223,698
Less Accumulated Depreciation				
Furniture & Equipment	(28,158)	(10,084)	0	(38,242)
Leasehold Improvements	(4,718)	(3,967)	0	(8,685)
Computer Technology	(98,917)	(31,521)	0	(130,438)
Transportation Equipment	(1,650)	(600)	0	(2,250)
Total Accumulated Depreciation	(133,443)	(46,172)	0	(179,615)
Capital Assets, Net	\$90,255	(\$46,172)	\$0	\$44,083

**STAR ACADEMY OF TOLEDO
LUCAS COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012
(Continued)**

Note 7 – Risk Management

The Academy is exposed to various risks of loss related to: torts, theft of, damage to, and destruction of assets, errors and omissions, injuries to employees, and natural disasters. During fiscal year 2012, the Academy contracted with the Selective Insurance Company.

General Liability:	
Each Occurrence	\$ 1,000,000
Aggregate Limit	2,000,000
Products - Completed Operations Aggregate Limit	1,000,000
Medical Expense Limit - Any One Person/Occurrence	5,000
Damage to Rented Premises - Each Occurrence	100,000
Personal and Advertising Injury	1,000,000
Business Personal Property	215,000
Automobile Liability:	
Combined Single Limit	1,000,000
Excess/Umbrella	
Each Occurrence	1,000,000
Aggregate Limit	1,000,000

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

Note 8 – Purchased Services

For the year ended June 30, 2012, purchased service expenses were for the following services:

<u>Purchased Services</u>	<u>Amount</u>
Personnel Services	\$941,083
Staff and Administrative Services	212,857
Building Services	126,867
Food Services	98,511
Professional Services	55,096
Sponsor Services	29,771
Student Services	41,312
Advertising	25,025
Total	<u>\$1,530,522</u>

Note 9 - Defined Benefit Pension Plans

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

**STAR ACADEMY OF TOLEDO
LUCAS COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012
(Continued)**

Note 9 - Defined Benefit Pension Plans (Continued)

A. School Employee Retirement System

Plan Description - The Academy contributes to the School Employees Retirement System (SERS), a cost-sharing multiple-employer pension plan. SERS provides retirement, disability, and survivor benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by state statute per Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report can be obtained on SERS' website at www.ohsers.org under **Employers/Audit Resources**.

Funding Policy - Plan members are required to contribute 10 percent of their annual covered salary and the Academy is required to contribute 14 percent of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS' Retirement Board, The Retirement Board acting with the advice of the actuary, allocates the employer contribution rate among four of the funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund) of the System. For fiscal year ending June 30, 2012, the allocation to pension and death benefits is 12.7 percent. The remaining 1.3 percent of the 14 percent employer contribution rate is allocated to the Health Care and Medicare B Funds. The Academy's contributions to SERS for the years ended June 30, 2012, 2011 and 2010 were \$14,768, \$14,312 and \$12,119, respectively; which equaled the required contributions each year.

B. State Teachers Retirement System

The Academy contributes to the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement system. STRS Ohio issues a stand-alone financial report. Copies of the STRS Ohio's 2012 Comprehensive Annual Financial Report can be requested in writing to STRS Ohio, 275 E Broad St, Columbus, OH 43215-3771, by calling toll-free 1-888-227-7877, or visiting the STRS Ohio website at www.strsoh.org.

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

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

**STAR ACADEMY OF TOLEDO
LUCAS COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012
(Continued)**

Note 9 - Defined Benefit Pension Plans (Continued)

B. State Teachers Retirement System (Continued)

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

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

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

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

A DB or Combined Plan member with five or more years’ credited service who becomes disabled may qualify for a disability benefit. Eligible spouses and dependents of members who die before retirement may qualify for survivor benefits. A death benefit of \$1,000 is payable to the beneficiary of each deceased retired member who participated in the DB Plan. Death benefit coverage up to \$2,000 can be purchased by participants in the DB, DC, or Combined Plans. Various other benefits are available to members’ beneficiaries.

Funding Policy – Chapter 3307 of the Revised Code provides statutory authority for members and employer contributions. Contribution rates are established by the State Teachers Retirement Board, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers.

**STAR ACADEMY OF TOLEDO
LUCAS COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012
(Continued)**

Note 9 - Defined Benefit Pension Plans (Continued)

B. State Teachers Retirement System (Continued)

Contribution requirements and the contributions actually made for the fiscal year ended June 30, 2012, were 10 percent of covered payroll for members and 14 percent for employers. Employer contributions actually paid should be disclosed in both dollar amounts and as a percentage of the employer's covered payroll for the current year and the two preceding years. Member and employer contributions actually made for DC and Combined Plan participants will be provided upon written request.

The Academy required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2012, 2011, 2010 were \$88,706, \$81,891 and \$94,641 respectively; 100 percent has been contributed for fiscal years 2012, 2011 and 2010, respectively. Contributions to the DC and Combined Plans for fiscal year 2012 were made by the Academy.

Note 10 - Postemployment Benefits

A. School Employee Retirement System

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

Medicare Part B Plan

The Medicare Part B plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries as set forth in Ohio Revised Code (ORC) 3309.69. Qualified benefit recipients who pay Medicare Part B premiums may apply for and receive a monthly reimbursement from SERS. The reimbursement amount is limited by statute to the lesser of the January 1, 1999 Medicare Part B premium of the current premium. The Medicare Part B monthly premium for calendar year 2012 was \$99 for most participants, but could be as high as \$369.10 per month depending on their income. SERS' reimbursement to retirees was \$45.50.

The Retirement Board, acting with the advice of the actuary, allocates a portion of the current employer contribution rate to the Medicare Part B Fund. For fiscal year 2012, the actuarially required allocation is .75 percent. The Academy's contributions for the years ended June 30, 2012, 2011, and 2010 were \$872, \$921 and \$715, respectively, which equaled the required contributions each year.

Health Care Plan

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

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

**STAR ACADEMY OF TOLEDO
LUCAS COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012
(Continued)**

Note 10 - Postemployment Benefits (Continued)

A. School Employee Retirement System (Continued)

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 percent contribution to Health Care Fund. For the year ended June 30, 2012, the health care allocation is .55 percent. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. State law provides that no employer shall pay a health care surcharge greater than 2 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the total statewide SERS-covered payroll for the health care surcharge. For fiscal year 2012, the minimum compensation level was established at \$35,800. The surcharge, added to the unallocated portion of the 14% 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, 2012, 2011, and 2010 were \$640, \$1,733 and \$525, respectively.

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

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

B. State Teachers Retirement System

Plan Description

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

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

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

STRS Ohio issues a stand-alone financial report. Interested parties can view the most recent *Comprehensive Annual Financial Report* by visiting www.strsoh.org or by requesting a copy by calling toll-free 1-888-227-7877.

**STAR ACADEMY OF TOLEDO
LUCAS COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012
(Continued)**

Note 10 - Postemployment Benefits (Continued)

B. State Teachers Retirement System (Continued)

Funding Policy

Under Ohio law, funding for post-employment health care may be deducted from employer contributions. Of the 14 percent employer contribution rate, 1 percent of covered payroll was allocated to post-employment health care for the years ended June 30, 2012, 2011, and 2010. The 14 percent employer contribution rate is the maximum rate established under Ohio law.

The Academy's contributions for health care for the fiscal years ended June 30, 2012, 2011, and 2010 were \$6,824, \$6,299 and \$7,280, respectively; 100 percent has been contributed for fiscal years 2012, 2011 and 2010, respectively.

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, 2012.

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 indicated that the Academy owed \$55,864 to the Ohio Department of Education. This balance due is reported as Deferred Revenues on the Statement of Net Assets.

C. Litigation

The Academy is involved in certain litigation proceedings, the outcome of which is uncertain. It is expected that any material exposure the Academy may have with regards to these proceedings will be covered by the Academy's liability insurance.

D. Auditor of State Review

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

**STAR ACADEMY OF TOLEDO
LUCAS COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012
(Continued)**

Note 12 – Building Leases

The Academy entered into an operating lease agreement with the Roman Catholic Diocese of Toledo in America commencing August 1, 2008 and running through July 31, 2012. Subsequent to June 30, 2012, the lease was further extended for five additional periods of one year each terminating July 31, 2016. Base rent remains unchanged at \$10,000 per month. Rent expense for both fiscal years ended 2012 and 2011 was \$120,000.

The following is a schedule of the future minimum payments required under the executed lease agreement:

Fiscal Year Ending June 30	Amount
2013	\$ 120,000
2014	120,000
2015	120,000
2016	120,000
Total minimum lease payments	<u>\$ 480,000</u>

Note 13 –Tax Exempt Status.

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

Note 14 – Related Party Transactions/Management Company

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

Per the management agreement with the Academy, Mosaica Education, Inc. is entitled to a management fee that is 12.5 percent of the Academy's foundation and federal revenues, excluding amounts related to student lunches and breakfast revenues. The management fee for fiscal year 2012 was \$202,653.

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 total expenses billed by Mosaica Education Inc. during fiscal year 2012 were \$47,642.

At June 30, 2012, the Academy had payables to Mosaica Education, Inc. in the amount of \$30,773. The following is a schedule of payables owed to Mosaica Education, Inc.

	<u>Amount</u>
Payroll	\$30,391
Other	382
Total at June 30, 2012	<u>\$30,773</u>

STAR ACADEMY OF TOLEDO
LUCAS COUNTY, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012
(Continued)**

Note 15 – Sponsor

The Academy was approved for operation under a contract with the Delaware-Union Educational Service Center of Central Ohio (the Sponsor) for a period of three academic years commencing July 1, 2008 and further extended through June 30, 2013. As part of this contract, the Sponsor is entitled to a maximum of 3% of the total Foundation state funds. Total amount due and paid for fiscal year 2012 was \$29,771.

December 27, 2012

To the Board of Trustees
STAR Academy of Toledo
Lucas County, Ohio
1850 Airport Highway
Toledo, Ohio 43609

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

We have audited the financial statements of the STAR Academy of Toledo, Lucas County, Ohio (the Academy) as of and for the year ended June 30, 2012, and have issued our report thereon dated December 27, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of the Academy is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Academy's internal control over financial reporting as a basis for designing our audit procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Academy's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Academy's internal control over financial reporting.

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

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

STAR Academy of Toledo
Lucas County
Independent Auditors Report on Internal Control Over
Financial Reporting and on Compliance and Other
Matters Based on an Audit of Financial Statements
Performed in Accordance with *Government Auditing Standards*
Page 2

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Academy's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Board of Trustees, management and the Academy's sponsor, and is not intended to be and should not be used by anyone other than those specified parties

Rea & Associates, Inc.

**STAR ACADEMY OF TOLEDO
LUCAS COUNTY, OHIO**

**SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2012**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain
2011-001	Maintaining adequate attendance and withdrawal records.	Yes	
2011-002	Noncompliance - Failure to file the A-133 Reporting Package in a timely manner.	No	Finding no longer valid, Academy is no longer subject to A133 requirements for 2012.



Dave Yost • Auditor of State

STAR ACADEMY OF TOLEDO

LUCAS COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
MARCH 14, 2013