ACADEMY OF ARTS AND HUMANITIES
TRUMBULL COUNTY

REGULAR AUDIT

FOR THE YEAR ENDED JUNE 30, 2006

Mary Taylor, CPA
Auditor of State

ACADEMY OF ARTS AND HUMANITIES
TRUMBULL COUNTY

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Mary Taylor, CPA
Auditor of State

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, Ohio (the Academy), as of and for the year ended June 30, 2006, 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 the Academy of Arts and Humanities, Trumbull County, Ohio, as of June 30, 2006, 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.

As discussed in Note 17 to the financial statements, the Academy had a deficit net asset balance of ($242,896) and operating loss of ($319,094) as of June 30, 2006 and experienced certain financial difficulties during the year. Note 17 describes management's plans regarding these issues.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 24, 2007, on our consideration of the Academy's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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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

September 24, 2007

ACADEMY OF ARTS AND HUMANITIES
TRUMBULL COUNTY

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
UNAUDITED

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, 2006. 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

- Net assets decreased $242,896.
- Operating expenses accounted for $532,368 of the total expenses of $534,715
- Operating revenues accounted for $213,274 of the Academy's funding.
- The Academy had an operating loss of $319,094 and $78,545 of the operating loss was alleviated by non-operating federal grants. The Academy was able to fully utilize the federal grant allocations for fiscal year 2006.

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 table represents the Academy's condensed financial information for 2006 derived from the statement of net assets and the statement of revenues, expenses and changes in net assets.

Net Assets
June 30, 2006

Assets	
Current Assets	$29,170
Capital Assets, Net	88,145
Total Assets	117,315
Liabilities	
Current Liabilities	302,121
Non-current Liabilities	58,090
Total Liabilities	360,211
Net Assets	
Invested in Capital Assets, Net of Related Debt	222
Unrestricted	(243,118)
Total Net Assets	$(242,896)

Results of fiscal year 2006 indicate an ending net asset balance of ($242,896). The decrease is the result of an operating loss in the Academy's first year of operations. We anticipate that the Academy will have a decrease in net assets for fiscal year 2007 but should have an increase in net assets in fiscal year 2008 when the Academy will expand the number of available classrooms and will have room for increased enrollment. The initial loss is typical for a new Academy which may not typically achieve positive net assets until the second or third year of operations due to significant start-up costs.

Changes in Net Assets – The following table shows the changes in net assets for the fiscal year 2006:

Change in Net Assets

Operating Revenues:	
Foundation Receipts	$ 212,675
Charge for Services	599
Total Operating Revenues	213,274
Operating Expenses:	
Building	59,229
Purchased Services	364,054
Depreciation	2,563
General Supplies	79,787
Other Operating Expenses	26,735
Total Operating Expenses	532,368
Operating Loss	(319,094)
Non-operating Revenues and Expenses:	
Interest Expense	(2,347)
Federal and State Grants	78,545
Total Non-operating Revenues and Expenses;	76,198
Change in Net Assets	(242,896)
Net Assets Beginning of Year	0
Net Assets End of Year	$ (242,896)

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 large economic profits, but rather on a plan that is economically sustainable and that would generate dividends to the community in the form of enhanced opportunities for children and families. 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.

BUDGET

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

CAPITAL ASSETS AND DEBT ADMINISTRATION

At the end of FY 2006, the academy had $88,145 net of accumulated depreciation invested in equipment. A summary of the Academy's capital assets at June 30, 2006:

Furniture and Equipment	$38,432
Computers	52,276
Less: Accumulated Depreciation	(2,563)
Net Capital Assets:	$88,145

At June 30, 2006, the Academy had $87,923 of capital lease obligations for furniture and technology outstanding. Of that amount $29,833 is due within on year. 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 operations.

OPERATIONS

The Academy is a nonprofit corporation established pursuant to Ohio Revised Code Chapter 3314. The Academy offers education for Ohio children in third through sixth 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 Michael Troper, Controller of the Academy, 3330 Chippewa Street, Columbus, Ohio 43204.

ACADEMY OF ARTS AND HUMANITIES
TRUMBULL COUNTY

STATEMENT OF NET ASSETS
JUNE 30, 2006

Assets:	
Current assets:	
Cash and Cash Equivalents	$ 6,909
Accounts Receivable	4,174
Intergovernmental Receivable	9,226
Prepaid Expense	8,861
Total current assets	29,170
Non-current assets:	
Capital Assets, net of Accumulated Depreciation	88,145
Total non-current assets	88,145
Total assets	$ 117,315
Liabilities:	
Current liabilities:	
Accounts Payable, Trade	$ 52,903
Accounts Payable, Related Party	218,188
Accrued Interest Payable	1,197
Capital Leases Payable, Current Portion	29,833
Total current liabilities	302,121
Non-current liabilities:	
Capital Leases Payable, Non Current Portion	58,090
Total non-current liabilities	58,090
Total liabilities	360,211
Net Assets	
Invested in Capital Assets, Net of Related Debt	222
Unrestricted	(243,118)
Total Net Assets	$ (242,896)

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 FISCAL YEAR ENDED JUNE 30, 2006

Operating Revenues:	
Foundation Receipts	$ 212,675
Charge for Services	599
Total Operating Revenues	213,274
Operating Expenses:	
Building	59,229
Purchased Services	364,054
Depreciation	2,563
General Supplies	79,787
Other Operating Expenses	26,735
Total Operating Expenses	532,368
Operating Loss	(319,094)
Non-operating Revenues and Expenses:	
Interest Expense	(2,347)
Federal and State Grants	78,545
Total Non-operating Revenues and Expenses	76,198
Change in Net Assets	(242,896)
Net Assets Beginning of Year	0
Net Assets End of Year	$ (242,896)

See Accompanying Notes to the Basic Financial Statements

ACADEMY OF ARTS AND HUMANITIES
TRUMBULL COUNTY

STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

CASH FLOWS FROM OPERATING ACTIVITIES	
Foundation Receipts	$ 208,211
Charge for Services	1,044
Cash Payments to Suppliers for Goods and Services	(291,055)
Net Cash Used for Operating Activities	(81,800)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Federal and State Grants	92,644
Cash Provided by Noncapital Financing Activities	92,644
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Capital Lease Payments	(3,935)
Net Cash Used for Capital and Related Financing Activities	(3,935)
Net Increase in Cash and Cash Equivalents	6,909
Cash and Cash Equivalents - Beginning of the Year	-
Cash and Cash Equivalents – End of the Year	$ 6,909
Reconciliation of Operating Loss to Net Cash Used for Operating Activities	
Operating Loss	$ (319,094)
Adjustments to Reconcile Operating Loss to Net Cash Used for Operating Activities	
Depreciation	2,563
Changes in assets and liabilities:	
Increase in Accounts Receivable	(4,174)
Increase in Intergovernmental Receivable	(4,464)
Increase in Prepaid Expense	(8,861)
Increase in Accounts Payable, Trade	34,042
Increase in Accounts Payable, Related Party	218,188
Net Cash Used for Operating Activities	$ (81,800)

See Accompanying Notes to the Basic Financial Statements

Noncash operating activities
The Academy's management company paid $218,188 for operating expenses on behalf of the Academy.

Noncash capital and related financing activities
The Academy entered into a capital lease agreements for $90,708 for the purchase of computers, technology wiring, and furniture.

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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 third through sixth 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 three 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 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.

Note 2 - Summary of Significant Accounting Policies

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

A. Basis of Presentation

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

B. Measurement Focus

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

Note 2 - Summary of Significant Accounting Policies (Continued)

C. Basis of Accounting

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

D. Budgetary Process

Unlike other public school located in the State of Ohio, community schools are not required to follow budgetary provision set forth in the Ohio Revised Code Chapter 5705, unless specifically provided by the Academy's contract with its sponsor. The contract between the Academy and its sponsor, the 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, 2006.

F. Prepaid Items

The Academy records payments made to vendors for services that will benefit periods beyond June 30, 2006, 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 2006 consisted of capital leases for computers and other equipment. All capital assets are capitalized at cost and updated for additions and retirements during the fiscal year. Donated capital assets are recorded at their fair market values as of the date received. The Academy maintains a capitalization threshold of one thousand five hundred dollars. The Academy does not have any infrastructure. Improvements are capitalized. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized.

Note 2 - Summary of Significant Accounting Policies (Continued)

All capital asset leases, except land and construction in progress, 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, Fixtures, and Equipment	5-20 years

H. Net Assets

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

The statement of net assets reports $222 invested in capital assets net of related debt.

I. Operating Revenues and Expenses

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

J. Estimates

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

K. Economic Dependency

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

Note 3 – Changes in Accounting Principles

A. Change in Accounting Principles

For the fiscal year ended June 30, 2006, the Academy implemented GASB Statement No. 42, “Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries”, and GASB Statement No. 47, “Accounting for Termination Benefits.”

GASB Statement No. 42 provides guidance on the accounting treatment and financial reporting requirements for impairments of capital assets and insurance recoveries. The implementation of this statement had no effect on the financial statements.

Note 3 – Changes in Accounting Principles (Continued)

A. Change in Accounting Principles (Continued)

GASB Statement No. 47 establishes accounting standards for termination benefits. There was no effect on the financial statements.

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, 2006, the bank balance of Academy's deposits was $10,740. The bank balance was covered by federal depository insurance which covers deposits up to $100,000. There are no significant statutory restrictions regarding the deposit and investment of funds by the nonprofit corporation.

Note 5 – Receivables

At June 30, 2006, the Academy had intergovernmental receivables, in the amount of $9,226. The receivables are expected to be collected within one year.

Grant	Amount
Title VI-B	1,355
School Foundation	4,464
Title I	3,407
Total Intergovernmental Receivables	$9,226

Note 6 – Capital Assets

The capital asset activity for the fiscal year ended June 30, 2006, was as follows:

	Balance July 1, 2005	Additions	Deletions	Balance June 30, 2006
Furniture & Equipment	$0	38,432	0	$38,432
Computer Technology	0	52,276	0	$52,276
Less Accumulated Depreciation				
Furniture & Equipment			(1,742)	(821)
Computer Technology			(821)	(1,742)
Capital Assets, Net	$0	$90,708	($2,563)	$88,145

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 2006, the Academy contracted 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
Automobile Liability:	
Combined Single 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 period July 1, 2005 through June 30, 2006, purchased service expenses were for the following services:

Service	Amount
Management Fee	35,000
IT / Telephone	14,292
Insurance	14,109
Speech / Psychology Contractors	10,238
Advertising	9,135
Nursing Services	7,371
Other Services	395
Transportation	5,131
Sponsor Fee	2,174
Consulting	2,133
Legal Fees	889
Furniture / Equipment Rental	847
Printing	685
Personnel Services	261,655
Total:	$364,054

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.

A. School Employees Retirement System

The Academy contributes to the School Employees Retirement System (SERS), a cost-sharing multiple-employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746, by calling (800) 878-5853 or by visiting the SERS website at: ohsers.org.

Plan members are required to contribute 10 percent of their annual covered salary and the Academy is required to contribute at an actuarially determined rate. The current Academy rate is 14 percent of annual covered payroll. A portion of the Academy's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2006, 10.58 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The Academy's required contribution for pension obligations to SERS for the fiscal year ended June 30, 2006 was $479; 100 percent of this amount has been contributed for fiscal year 2006.

B. State Teachers Retirement System

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 (614) 227-4090, 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 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 Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan. Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one time irrevocable decision to transfer their account balances from the existing DB Plan into the DC Plan or the Combined

<u>Note 9 – Defined Benefit Pension Plans</u> (Continued)

B. State Teachers Retirement System (Continued)

Plan. This option expired on December 31, 2001. Benefits are established by Chapter 3307 of the Ohio Revised Code.

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

For the fiscal year ended June 30, 2006, 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 2005, 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 contribution for pension obligations for the DBP for the fiscal year ended June 30, 2006 was $26,550; 100 percent has been contributed for fiscal year 2006. No employees contribute to the DCP and CP for the fiscal year ended June 30, 2006.

<u>Note 10 – Postemployment Benefits</u>

The Academy provides comprehensive health care benefits to retired teachers and their dependents through the State Teachers Retirement System of Ohio (STRS Ohio), and to retired non-certified employees and their dependents through the School Employees Retirement System (SERS). Benefits include hospitalization, physicians' fees, prescription drugs and partial reimbursement of monthly Medicare premiums. Benefit provisions and the obligations to contribute are established by the Systems based on authority granted by State statute. Both systems are on a pay-as-you-go basis.

All STRS Ohio retirees who participated in the DB or Combined Plans and their dependents are eligible for health care coverage. The STRS Ohio Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. All benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS Ohio funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2006, the STRS Ohio Board allocated employer contributions equal to one percent of covered payroll to the Health Care Stabilization Fund. For the Academy, this amount equaled $2,042 for fiscal year 2006.

STRS Ohio pays health care benefits from the Health Care Stabilization Fund. At June 30, 2005, (the latest information available) the balance in the Fund was $3.3 billion. For the fiscal year ended June 30, 2005, net health care costs paid by STRS Ohio were $254,780,000 and STRS Ohio had 115,395 eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten or more years of qualifying service credit, and to disability and survivor benefit recipients. All retirees and beneficiaries are required to pay a portion of their health care premium. The portion is based on years of service, Medicare eligibility, and retirement status.

Note 10 – Postemployment Benefits (Continued)

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2006, employer contributions to fund health care benefits were 3.42 percent of covered payroll, compared to 3.43 percent of covered payroll for fiscal year 2005. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2006, the minimum pay was established at $35,800. However, the surcharge is capped at two percent of each employer's SERS salaries. For the Academy, the amount contributed to fund health care benefits, including the surcharge, during the 2006 fiscal year equaled $155.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of the projected claims less premium contributions for the next fiscal year. Expenses for health care for the fiscal year ended June 30, 2005 (the latest information available) were $178,221,113. At June 30, 2005, SERS had net assets available for payment of health care benefits of $267.5 million. SERS has 58,123 participants eligible to receive health care benefits.

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, 2006.

B. Litigation

A lawsuit entitled ***Beverly Blount-Hill, et al. v. State of Ohio, et. Al., Case #3:04CV197*** was filed in the US District Court, Southern District of Ohio, Western Division on October 6, 2004, which challenges the funding of charter schools under Equal Protection, Due Process and claims violation of a right to vote on the bodies administering public schools. The case is still pending. The effect of this suit, if any, on the Academy is not presently determinable.

C. Full Time Equivalency

The Ohio Department of Education conducts reviews of enrollment data and full-time equivalency (FTE) calculations made by community schools. These reviews are conducted to ensure the schools are reporting accurate student enrollment data to the State, upon which state foundation funding is calculated. The conclusions of this review could result in state funding being adjusted. A review conducted by the Ohio Department of Education reflected the Academy is owed $4,464 by the Ohio Department of Education. This is reported as an intergovernmental receivable on the June 30, 2006 Statement of Net Assets.

Note 12 – Building Leases

The Academy entered into a lease agreement on June 6, 2005 for 10 years to sub lease a building from Ohio Educational Facilities, LLC, a wholly owned subsidiary of Mosaica Education, Inc. for the use of the main building and grounds as a school facility. Mosaica Education, Inc. is a related party, as disclosed in Note 15. Lease payments were based on a master lease agreement between the Ohio Educational Facility, LLC and the Landlord. The total premises approximate 24,000 square feet. However, the Academy shares the premises with another school. Rent is allocated based on the number of classrooms used by each school. For 2005-2006, the Academy used three of the eight classrooms or 37.5%. Payment made totaled $59,229 for the fiscal year.

Fiscal Year Ending June 30	Amount
2007	$89,342
2008	91,129
2009	92,952
2010	94,811
2011	96,707
2012	98,641
2013	100,614
2014	102,626
2015	104,679
Total minimum lease payments	$871,500

Note 13 – Capital Lease-Lessee Disclosure

The Academy entered into two lease agreements in fiscal year 2006 with Relational LLC for technology equipment (computers) and furniture. 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". The furniture & equipment; technology and technology wiring have been capitalized in the amounts of $38,432 $29,194 and $23,082 respectively, the present value of the minimum lease payments at the inception of the lease. The following is a schedule of the future long-term minimum lease payments required under the capital leases and the present value of the minimum lease payments are as follows:

Year Ending June 30	Technology	Technology Wiring	Furniture
2007	$13,946	$11,030	$15,739
2008	11,955	9,453	15,739
2009	9,963	7,877	10,493
Total future minimum lease payments	35,864	28,360	41,971
Less: amount representing interest	(6,670)	(5,278)	(6,324)
Present value of future minimum lease payments	$29,194	$23,082	$35,647

Note 13 – Capital Lease-Lessee Disclosure (Continued)

A liability for capital lease obligations in the amount of $87,923 is reported on the Statement of Net Assets. Of this amount, $29,833 is a current liability due within one year and $ 58,090 is a long-term liability due in more than one year.

Note 14 –Tax Exempt Status.

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

Note 15 – Related Party Transactions/Management Company

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

Per the management agreement with the Academy, Mosaica Education is entitled to a management fee that is equivalent to 12.5% of the Academy's revenues. The management fee for fiscal year 2006 was $35,000.

Also, per the management agreement there are expenses that will be billed to the Academy based on the actual costs 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 administrative services.

At June 30, 2006, the Academy had payables to Mosaica Education in the amount of $218,188.

The following is a schedule of all expenses billed by Mosaica Education, Inc. as of June 30, 2006

	Amount
Payroll	$152,979
Management Fee	35,000
Building Rent	59,229
Miscellaneous	29,510
Total June 30, 2006	$276,718

Note 16 – Sponsor

The Academy was approved for operation under a contract with St. Aloysius Orphanage (the Sponsor) for a period of five academic years commencing July 18, 2005. As part of this contract, the Sponsor is entitled to a maximum of 1% of the total state funds. Total amount due and paid for fiscal year 2006 was $2,174.

Note 17 – Management's Plan

For fiscal year 2006, the Academy had an operating loss ($319,094) and net asset deficit ($242,896). The Academy will have an operating loss and a net asset deficit at June 30, 2007 due to only having students in third through sixth grade. Management plans to expand the school in fiscal year 2008 and operate with grades K - 7. At this time, management feels the significantly anticipated increase in enrollment should allow the school to reduce its operating losses and have operating gains.

Management plans 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 no operating losses in future years. Management has been very successful in increasing enrollment at its other community schools in Ohio.

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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, 2006, and have issued our report thereon dated September 24, 2007 wherein we noted the Academy had a deficit net asset balance and an operating loss as of June 30, 2006 and experienced certain financial difficulties during the fiscal year. 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 to determine our auditing procedures in order to express our opinion on the financial statements and not to opine on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that in our judgment, could adversely affect the Academy's ability to record, process, summarize, and report financial data consistent with management's assertion in the financial statements. Reportable conditions are described in the accompany schedule of findings as items 2006-001, 2006-002, 2006-004, and 2006-005.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all maters in the internal control that might be reportable condition and, accordingly, would not necessary disclose all reportable conditions that are also considered material weaknesses. We considered items 2006-001, 2006-002, and 2006-004 to be material weaknesses. In a separate letter to the Academy's management dated September 24, 2007, we reported other matters involving internal control over financial reporting which we did not deem reportable conditions.

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 provision 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 instances of noncompliance or other matters that we must report under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 2006-001 through 2006-003 and 2006-005. In a separate letter to the Academy's management dated September 24, 2007, we reported other matters related to noncompliance we deemed immaterial.

We intend this report solely for the information and use of management and the Board of Directors. It is not intended for anyone other than these specified parties.

Mary Taylor

Mary Taylor, CPA
Auditor of State

September 24, 2007

ACADEMY OF ARTS AND HUMANITIES
TRUMBULL COUNTY

SCHEDULE OF FINDINGS
JUNE 30, 2006

FINDINGS RELATED TO THE FINANCIAL STATEMENTS
REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS

FINDING NUMBER 2006-001

Tax Exempt Status—Noncompliance/Reportable Condition/Material Weakness

The Academy's sponsorship agreement with St. Aloysius Orphanage states the Academy is required to apply and qualify as a tax-exempt organization under section 501(C)(3) of the Internal Revenue Code.

The Academy did not present documentation that it has applied to the Internal Revenue Service to obtain tax exempt status pursuant to Section 26 USC 501(C)(3). The Academy has made no provision for potential current or future tax liability which could result from not obtaining the Section 501(C)(3) tax exempt status.

We recommend the Academy consult with qualified tax counsel to determine necessary tax filing with Internal Revenue Service, pay any outstanding taxes due, and negotiate a settlement concerning any fees and/or penalties which may be assessed.

Officials' Response

The Academy has filed for tax exempt status pursuant to Section 26 USC 501(c)(3) and is awaiting a response from the IRS.

FINDING NUMBER 2006-002

Board Meetings—Noncompliance/Reportable Condition/Material Weakness

Ohio Revised Code § 3314.03(A)(11)(d) requires a community school to comply with Sections 121.22 and 149.43 of the Ohio Revised Code.

Ohio Revised Code § 121.22(C) states in part that the minutes of a regular or special meeting of any public body shall be promptly prepared, filed, and maintained and shall be open to public inspection. The minutes need only reflect the general subject matter of discussions in executive sessions authorized under division (G) or (J) of this section.

Additionally, **Ohio Revised Code § 149.43(B)(1)** states in part that subject to division (B)(4) of this section, all public records shall be promptly prepared and made available for inspection to any person at all reasonable times during regular business hours.

The Academy opened for operation during the fiscal year ended June 30, 2006. The minutes for the Board meetings were not maintained on file at the Academy and therefore, the minutes were not available for public inspection.

We recommend that minutes are documented as a public record of all meetings held by the Board of Directors. The Board of Directors should approve all contracts, leases, and debt agreements through a formal resolution and the Board's approval should be documented in the minutes as the official public record of the Board.

FINDINGS RELATED TO THE FINANCIAL STATEMENTS
REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)

FINDING NUMBER 2006-002 (Continued)

Board Meetings—Noncompliance/Reportable Condition/Material Weakness (Continued)

Officials' Response

Minutes were prepared for each meeting of the governing board and copies were submitted to the Academy's Sponsor. Unfortunately, due to multiple transitions in site leadership, the copies that were to have been retained on site could not be located at the time of the Auditor of State's request. Management will work with the sponsor to obtain copies of meeting minutes that were unable to be located on site at the Academy.

FINDING NUMBER 2006-003

Governing Authority—Noncompliance

Ohio Revised Code § 3314.02(E)(1) states in part that each community school established under this chapter shall be under the direction of a governing authority which shall consist of a board of not less than five individuals.

As of June 30, 2006 the Academy had only three individuals participating on the Board of Directors. Not only is the current number of board members insufficient to be compliant with the above Ohio Revised Code requirement, but is also a violation of the Academy's agreement with its sponsor, which also stipulates that the Academy must maintain a five-member governing board.

We recommend the Academy takes steps to secure not less than five governing board members that comply with all aspects of Ohio Revised Code § 3314.02(E) to act as the governing authority for the Academy. By establishing the required five-member governing board, the Academy can gain assurance that it is in compliance with the Ohio Revised Code and sponsorship agreement requirements.

Officials' Response

The governing board is actively recruiting additional members to ensure that it remains in compliance with ORC Section 3314.02(E)(1) requiring a minimum of five members.

FINDING NUMBER 2006-004

GAAP Financial Statement Preparation and Reporting—Reportable Condition/Material Weakness

Financial statements prepared using generally accepted accounting principles (GAAP) enhance the decision making capabilities of administrative personnel charged with the operations of the Academy, and others with regulatory interests in the results of operations and available resources of the Academy. GAAP basis financial statements provide financial statement users with an accurate financial picture of the Academy's results of operations and available resources by including accrued assets, liabilities, revenues and expenditures/expenses.

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)

FINDING NUMBER 2006-004 (Continued)

GAAP Financial Statement Preparation and Reporting—Reportable Condition/Material Weakness (Continued)

However, financial information becomes less valuable with the passage of time. This is primarily because accrued revenues and expenditures become realized. Those relying upon the Academy's financial statements may draw different conclusions if GAAP basis financial statements are not completed in a timely and accurate fashion. Inaccurate and untimely financial statements could possibly lead to decision-making which is not in the best interests of the Academy.

The Ohio Administrative Code requires financial statements to be completed within 150 days of the fiscal year end.

The Academy did not prepare a complete set of GAAP basis basic financial statements, Management Discussion and Analysis, and related footnotes until June 22, 2007, almost one year after the year ending

June 30, 2006. Furthermore, as a result of applying auditing procedures, the financial statements required fifteen audit adjustments to be compliant with GAAP. Additionally the Management's Discussion and Analysis, financial statements, and the related footnotes contained several errors.

To enhance financial accountability and decision making by the Academy's administration, the Board of Directors, and the citizens served by the Academy, we recommend the Academy prepare its GAAP basis basic financial statements in an accurate and timely fashion as required by the Ohio Administrative Code. We also recommend the Academy implement policies and procedures for the completion and review of the financial statements, including the Management's Discussion and Analysis and related footnotes, to detect errors and potential modifications that may be necessary before submitting the financial statements.

Officials' Response

A financial reporting package that includes bank reconciliations, vendor payment history and accrual based financial statements are presented each month to board for their review and approval. Throughout the year, management performs periodic analysis of the adopted budget to monitor the need for revisions to the appropriations levels approved by the governing board. The Academy's management has implemented additional oversight steps to ensure that GAAP basis financial statements are made available within the 150 day requirement of the Ohio Administrative Code. With regards to the number of adjustments made by auditor, only five of the fifteen adjustments were items that impacted the originally reported net assets or change in net assets of the Academy. Those five adjustments were to record an additional liability of $15,516 that the auditors deemed to be have been recognized in the wrong fiscal year, to recognize $544 of unspent federal grant receipts as revenues instead of deferred revenue and to record an additional receivable for the final 2005-06 FTE adjustment made by ODE in November 2006 in the amount of $4,464. Since the payment by ODE occurred five months after year end, management had intended to just run that through the 2006-07 foundation revenue. The net impact on net assets and change in net assets was a total of $10,508. The remaining ten adjustments were financial statement adjustments having no impact on net assets or change in net assets.

FINDINGS RELATED TO THE FINANCIAL STATEMENTS
REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)

FINDING NUMBER 2006-004 (Continued)

GAAP Financial Statement Preparation and Reporting—Reportable Condition/Material Weakness (Continued)

Officials' Response (Continued)

Eight of those remaining adjustments noted by the auditors were to increase level of detail (ie report intergovernmental receivables separate from accounts receivable, report personnel cost as purchased services instead of as salaries and benefits, report related party payables separate from accounts payable even though the footnotes disclosed the same information in Note 15). The remaining two adjustments referenced by auditors were to break out $27,462 of current vs long term classification of capital lease obligation on balance sheet and to change classification of interest expense in the amount of $2,347 from operating to other expense.

Title I and Public Charter School- Reporting

Finding Number	2006-005
CFDA Title and Number	Title I Grants to Local Educational Agencies—CFDA #84.010
Federal Award Number / Year	C1S1-2006
Federal Agency	U.S. Department of Education
Pass-Through Agency	Ohio Department of Education

Noncompliance/Reportable Condition

The Ohio Department of Education (ODE) Federal Fiscal Report Procedures #1, and ODE Superintendent Weekly E-mail, dated December 6, 2002 require the following:

> Consolidated Application Assurance item 5 provides that the Academy will report to ODE as may be reasonably necessary to enable ODE to perform its duties.
>
> Program funds are reported to the State of Ohio by the following reports:
> -Project Cash Requests
> -Final Expenditure Report

Actual expenditures authorized by the approved project application and charges to the project special cost center are to be reported (report amount actually expended not encumbered).

The Academy uses an accrual basis accounting system. Rather than performing a calculation to determine actual cash basis expenditures, the Academy estimated cash expenditures for each Project Cash Request submitted for all the federal grants awarded by the Ohio Department of Education.

FINDINGS RELATED TO THE FINANCIAL STATEMENTS
REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)

Title I and Public Charter School- Reporting (Continued)

Finding Number	2006-005
CFDA Title and Number	Title I Grants to Local Educational Agencies—CFDA #84.010
Federal Award Number / Year	C1S1-2006
Federal Agency	U.S. Department of Education
Pass-Through Agency	Ohio Department of Education

Noncompliance/Reportable Condition (Continued)

The Academy should implement procedures that will identify the actual cash basis expenditures of the program that should be reported on the Project Cash Request forms and submitted to the Ohio Department of Education.

Officials' Response:

Academy follows the instructions prescribed in the "Generate New PCR" input screen in CCIP to request draws on federal grants. The instructions allow Academy to draw negative cash plus one month of anticipated cash needs. Since the Academy maintains its financial records on full accrual basis, vendor invoices that have been received but not paid are reflected in the trial balances that are generated from the financial reporting system. When management processes a draw request, the amount requested is determined by generating a trial balance of grant expenses on the accrual basis, determining if any liabilities that aren't anticipated to be paid in the next month are included, and then comparing the total expenses less those not anticipated to be paid within next 30 days to amounts previously received. Management has been and will continue to monitor cash management requirements to avoid drawing funds in excess of one month cash needs.

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
NOVEMBER 27, 2007

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