



Dave Yost • Auditor of State

**FOUNDATION ACADEMY
RICHLAND COUNTY**

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Dave Yost • Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

Foundation Academy
Richland County
1050 Wyandotte Ave.
Mansfield, Ohio 44906

To the Board of Directors:

We have audited the accompanying basic financial statements of the Foundation Academy, Richland County, Ohio (the Academy), as of and for the year ended June 30, 2010, 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 the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to reasonably assure whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of Foundation Academy, Richland Academy, Ohio, as of June 30, 2010, 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.

The accompanying financial statements have been prepared assuming that the Academy will continue as a going concern. As discussed in Note 18 to the financial statements, the Academy has suffered recurring losses from operations (\$1,167,112) and has a net asset deficiency (\$93,985) that raise substantial doubt about its ability to continue as a going concern. Note 18 describes management's plan regarding these issues. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 14, 2011, on our consideration of the Academy's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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

We conducted our audit to opine on the financial statements that collectively comprise the Academy's basic financial statements taken as a whole. The federal awards receipts and expenditures schedule provides additional information required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. The federal awards receipts and expenditures schedule is management's responsibility, and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. This schedule was subject to the auditing procedures we applied to the basic financial statements. We also applied certain additional procedures, including comparing and reconciling this information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, in accordance with auditing standards generally accepted in the United States of America. In our opinion, this information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



Dave Yost
Auditor of State

March 14, 2011

**FOUNDATION ACADEMY
RICHLAND COUNTY**

*MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2010
UNAUDITED*

The discussion and analysis of the Foundation Academy's (the "Academy") financial performance provides an overall review of the Academy's financial activities for the fiscal year ended June 30, 2010. Readers should also review the basic financial statements and notes to enhance their understanding of the Academy's financial performance.

Highlights

The Academy finished its third year of operations during fiscal year 2010 serving kindergarten through eighth grade. Enrollment varied during the year but ended with 220 students.

Key highlights for fiscal year 2010 are as follows:

- Net assets decreased \$357,621.
- Operating revenues accounted for \$1,507,412 of the total revenues of \$2,336,418.
- Operating expenses accounted for \$2,674,524 of the total expenses of \$2,694,039.
- The Academy had an operating loss of \$1,167,112.

Overview of the Financial Statements

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

Financial Analysis of the Academy as a Whole

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

**FOUNDATION ACADEMY
RICHLAND COUNTY**

*MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2010
UNAUDITED
(Continued)*

Table 1 provides a summary of Academy's net assets for 2010 and 2009:

Table 1
Net Assets

	2010	2009	Change
<u>Assets:</u>			
Current Assets	\$214,844	\$400,497	(\$185,653)
Capital Assets	1,163,977	126,024	1,037,953
Total Assets	<u>1,378,821</u>	<u>526,521</u>	<u>852,300</u>
<u>Liabilities:</u>			
Current Liabilities	851,375	206,313	645,062
Long-Term Liabilities	621,431	56,572	564,859
	<u>1,472,806</u>	<u>262,885</u>	<u>1,209,921</u>
<u>Net Assets:</u>			
Invested in Capital Assets, Net of Related Debt	665,190	31,716	633,474
Restricted for Other Purposes	0	78	(78)
Unrestricted	(759,175)	231,842	(991,017)
Total Net Assets	<u>(\$93,985)</u>	<u>\$263,636</u>	<u>(\$357,621)</u>

Total net assets decreased \$357,621. The decrease is primarily the result of total expenses exceeding total revenue in the Academy's third year of operations. The Academy was able to increase in enrollment in fiscal 2010 to 220 from 168 in fiscal 2009. Furthermore, during fiscal 2010, the Academy moved into its new facility (see Note 12). This new facility will allow for significant enrollment growth. The capacity of the facility is estimated to be approximately 300 students. Enrollment as of November 2010 was 280.

Based on the analysis that was done at the time the decision was made to open the school, the Board and its management made the decision to make an investment in the future of the children of this community, not based on a plan that was expected to general large economic profits, but rather on a plan that is economically sustainable and that would generate dividends to the community in the form of enhanced opportunities for children and families. 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.

**FOUNDATION ACADEMY
RICHLAND COUNTY**

*MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2010
UNAUDITED
(Continued)*

Table 2 reflects the changes in net assets for fiscal year 2010 and 2009.

Table 2
Change in Net Assets

	2010	2009	Change
<u>Operating Revenues:</u>			
Foundation	\$1,497,804	\$1,197,433	\$300,371
Charges for Services & Miscellaneous	9,608	9,976	(368)
<u>Non-Operating Revenues:</u>			
Federal/State Restricted Grants	829,006	510,552	318,454
 Total Revenues	 <u>\$2,336,418</u>	 <u>\$1,717,961</u>	 <u>\$618,457</u>
<u>Operating Expenses:</u>			
Building	75,200	62,822	12,378
Purchased Services	2,220,350	1,288,055	932,295
Depreciation	35,526	23,595	11,931
General Supplies	326,510	246,188	80,322
Other Operating Expense	16,938	16,827	111
<u>Non-Operating Expenses:</u>			
Interest	19,515	10,486	9,029
Total Expenses	<u>\$2,694,039</u>	<u>\$1,647,973</u>	<u>\$1,046,066</u>
 Total Increase (Decrease) in Net Assets	 <u>(\$357,621)</u>	 <u>\$69,988</u>	 <u>(\$427,609)</u>

The fiscal year 2010 deficit is primarily due to the Academy's recognition of organizational and development costs incurred during the pre-opening phase of the Academy. In addition, the Academy incurred costs related to the move into its new facility in May 2010. For fiscal 2011, enrollment at the new facility is approaching the student capacity of approximately 300.

Budgeting

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

**FOUNDATION ACADEMY
RICHLAND COUNTY**

*MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2010
UNAUDITED
(Continued)*

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2010, the Academy had \$1,163,977 invested in capital assets (net of accumulated depreciation) for furniture, equipment, computers and building as follows:

	<u>2010</u>	<u>2009</u>	<u>Change</u>
Furniture & Equipment	\$78,708	\$59,377	\$19,331
Computer Equipment	61,543	66,647	(5,104)
Building	<u>1,023,726</u>	<u>0</u>	<u>1,023,726</u>
Total Capital Assets, Net	<u>\$1,163,977</u>	<u>\$126,024</u>	<u>\$1,037,953</u>

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

Debt

At June 30, 2010, the Academy had \$785,154 of debt outstanding, of which \$163,723 is due within one year. The following table summarizes the Academy's debt outstanding as of June 30, 2010.

Outstanding Debt, at Year End

	<u>2010</u>	<u>2009</u>	<u>Change</u>
Capital Leases Payable	\$56,572	\$94,308	(\$37,736)
Secured Property Notes	442,214	0	442,214
Installment Note Payable	<u>286,368</u>	<u>0</u>	<u>286,368</u>
Total	<u>\$785,154</u>	<u>\$94,308</u>	<u>\$690,846</u>

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

Economic Factors

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

Operations

Foundation Academy is a nonprofit corporation established pursuant to Ohio Revised Code Chapter 1702. The Academy offers education for Ohio children in grades K-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.

**FOUNDATION ACADEMY
RICHLAND COUNTY**

*MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2010
UNAUDITED
(Continued)*

Requests for Information

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

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FOUNDATION ACADEMY OF MANSFIELD
RICHLAND COUNTY

STATEMENT OF NET ASSETS
JUNE 30, 2010

Assets:

Current assets:

Cash and Cash Equivalents	\$ 6,115
Intergovernmental Receivable	203,989
Prepaid Expense	4,740
Total current assets	<u>214,844</u>

Noncurrent assets:

Capital Assets, net of Accumulated Depreciation	1,163,977
Total assets	<u><u>1,378,821</u></u>

Liabilities:

Current liabilities:

Accounts Payable, Trade	205,712
Accounts Payable, Related Party	476,498
Accrued Interest	5,442
Current Portion of Long-term Debt	163,723
Total current liabilities	<u>851,375</u>

Noncurrent liabilities:

Noncurrent Portion of Long-term Debt	621,431
Total liabilities	<u>1,472,806</u>

Net Assets

Invested in Capital Assets, Net of Related Debt	665,190
Unrestricted Net Assets	(759,175)
Total Net Assets	<u><u>\$ (93,985)</u></u>

See Accompanying Notes to the Basic Financial Statements

**FOUNDATION ACADEMY OF MANSFIELD
RICHLAND COUNTY**

**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2010**

Operating Revenues:	
Community School Foundation	\$ 1,497,804
Charges for Services	6,535
Miscellaneous	3,073
Total Operating Revenues	<u>1,507,412</u>
 Operating Expenses:	
Building	75,200
Purchased Services	2,220,350
Depreciation	35,526
General Supplies	326,510
Other Operating Expenses	16,938
Total Operating Expenses	<u>2,674,524</u>
Operating Loss	<u>(1,167,112)</u>
 Nonoperating Revenues and Expenses:	
Federal and State Restricted Grants	829,006
Interest Expense	(19,515)
Net Nonoperating Revenues and Expenses	<u>809,491</u>
Change in Net Assets	(357,621)
Net Assets Beginning of Year	263,636
Net Assets (Deficit) End of Year	<u><u>\$ (93,985)</u></u>

See Accompanying Notes to the Basic Financial Statements

**FOUNDATION ACADEMY OF MANSFIELD
RICHLAND COUNTY**

**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2010**

CASH FLOWS FROM OPERATING ACTIVITIES

Foundation Receipts	\$ 1,497,804
Charge for Services	6,540
Other Operating Receipts	3,073
Cash Payments to Suppliers for Goods and Services	(1,828,144)
	(320,727)

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

Short-term Financing Payments	(4,827)
Federal and State Grant Receipts	872,590
Note Payable Interest Payments	(3,318)
Note Payable Principal Retirement	(13,632)
Net Cash Provided by Noncapital Financing Activities	850,813

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Purchase of Assets	(1,073,480)
Note and Mortgage Proceeds	442,214
Capital Lease Interest Payments	(5,928)
Capital Lease Principal Retirement	(37,736)
Net Cash Used by Capital and Related Financing Activities	(674,930)

Net Decrease in Cash and Cash Equivalents	(144,844)
Cash and Cash Equivalents - Beginning of the Year	150,959
Cash and Cash Equivalents - Ending of the Year	\$ 6,115

Reconciliation of Operating Loss to Net Cash Used for Operating Activities

Operating Loss	\$ (1,167,112)
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Adjustments to Reconcile Operating Loss to Net Cash Used for Operating Activities

Depreciation	35,526
Changes in assets and liabilities:	
Decrease in Receivables	5
Increase in Prepaid Expense	(2,779)
Increase in Accounts Payable, Trade	117,931
Increase in Accounts Payable, Related Party	395,702
Increase in Notes Payable	300,000
Net Cash Used for Operating Activities	\$ (320,727)

See Accompanying Notes to the Basic Financial Statements

The Academy entered into a promissory note agreement with Mosaica Education, Inc. for \$300,000 as part of the updated management agreement that the Academy would pay Mosaica Education, Inc for costs incurred during its start-up.

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**FOUNDATION ACADEMY
RICHLAND COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2010**

Note 1 - Description of the School

The Foundation Academy (the "Academy") is a nonprofit corporation established pursuant to Ohio Revised Code Chapter 1702. The Academy offers education for Ohio children in grades K-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 pursuant to Ohio Revised Code Chapter 3314 under a contract with Ohio Council of Community Schools (the Sponsor) as designated by the Board of Trustees of the University of Toledo for a period of five academic years commencing on March 7, 2007 and ending June 30, 2012. The Sponsor is responsible for evaluating the performance of the Academy and has the authority to deny renewal of the contract at its expiration or terminate the contract prior to its expiration.

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

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

Note 2 - Summary of Significant Accounting Policies

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

**FOUNDATION ACADEMY
RICHLAND COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2010
(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 Ohio Council of Community Schools, does not prescribe a budgetary process for the Academy.

E. Cash and Cash Equivalents

Cash received by the Academy is reflected as "Cash and Cash Equivalents" on the statement of net assets. The Academy had no investments during the fiscal year ended June 30, 2010.

F. Prepaid Items

The Academy records payments made to vendors for services that will benefit periods beyond June 30, 2010, 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 2010 consisted of a building, 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. Improvements that enhance value or extend the useful life of the asset 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.

**FOUNDATION ACADEMY
RICHLAND COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2010
(Continued)**

Note 2 - Summary of Significant Accounting Policies (Continued)

G. Capital Assets (Continued)

All capital assets, 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:

<u>Description</u>	<u>Useful Lives</u>
Building	25-50 years
Computers, Furniture 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 no restricted net assets related to certain unspent federal grant receipts and \$665,190 invested in capital assets net of related debt.

I. Operating Revenues and Expenses

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

J. Estimates

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

K. Economic Dependency

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

Note 3 – Changes in Accounting Principles

There were no changes in accounting principles implemented during 2010 that would have a material effect on the financial statements.

**FOUNDATION ACADEMY
RICHLAND COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2010
(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, 2010, the bank balance of Academy's deposits was \$19,051. 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, 2010, the Academy had intergovernmental receivables, in the amount of \$203,989. The receivables are expected to be collected within one year.

	Amount
Title I A	\$ 100,376
Title I School Improvement	23,633
21st Century Grant	41,467
Federal Community School Implementation	16,299
IDEA B	7,319
IDEA ARRA	2,430
National School Lunch Programs	5,793
State Foundation Adjustment	4,809
Title II D	1,230
Title II A	627
Other	6
Total Intergovernmental Receivables	\$ 203,989

Note 6 - Capital Assets

Capital asset activity for the fiscal year ended June 30, 2010, was as follows:

	Balance June 30, 2009	Additions	Deletions	Balance June 30, 2010
Furniture & Equipment	\$68,536	\$26,405	\$0	\$94,941
Computer Equipment	89,387	12,990	0	102,377
Building	0	1,034,084		1,034,084
Total Accumulated Depreciation	(31,899)	(35,526)	0	(67,425)
Capital Assets, Net	\$126,024	\$1,037,953	\$0	\$1,163,977

Aside from miscellaneous furniture and technology purchases during fiscal 2010, in December 2009 the Academy acquired a building for \$299,933 inclusive of closing and financing costs. In addition, the Academy made \$734,151 in building improvements. The building went into service in April 2010.

**FOUNDATION ACADEMY
RICHLAND COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2010
(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 2010, the Academy contracted with Pashley Insurance Agency to provide insurance coverage with the Hartford Casualty Insurance Company. The types and amounts of coverage provided are as follows:

General Liability:	
Each Occurrence	\$1,000,000
Aggregate Limit	2,000,000
Products - Completed Operations Aggregate Limit	2,000,000
Medical Expense Limit - Any One Person/Occurrence	15,000
Damage to Rented Premises - Each Occurrence	300,000
Personal and Advertising Injury	1,000,000
Automobile Liability:	
Combined Single Limit	1,000,000
Building	3,118,000
Business Personal Property	300,000
Excess/Umbrella Liability:	
Each Occurrence	5,000,000
Aggregate Limit	5,000,000

Settled claims have not exceeded this commercial coverage.

Note 8 – Purchased Services

For the fiscal year ended June 30, 2010, purchased service expenses were as follows:

Purchased Services	Amount
Personnel Services	\$1,215,231
Staff and Administrative Services	743,789
Lunch Services	85,164
Professional Services	56,742
Building Services	50,481
Student Services	30,194
Sponsor Services	29,860
Advertising	8,889
Total	<u><u>\$2,220,350</u></u>

Note 9 - Defined Benefit Pension Plans

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

**FOUNDATION ACADEMY
RICHLAND COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2010
(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 and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746.

Funding Policy - Plan members are required to contribute 10 percent of their annual covered salary and the School District is required to contribute at an actuarially determined rate. The current 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 2010, 12.74 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to a statutory maximum amount of 10 percent for plan members and 14 percent for employers. Chapter 3309 of the Ohio Revised Code provides statutory authority for member and employer contributions. The Academy's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2010, 2009, and 2008 were \$31,146, \$13,230, and \$8,663 respectively; 99 percent has been contributed for fiscal year 2010 and 100 percent for fiscal years 2009 and 2008.

B. State Teachers Retirement System

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

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

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

**FOUNDATION ACADEMY
RICHLAND COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2010
(Continued)**

Note 9 - Defined Benefit Pension Plans (Continued)

B. State Teachers Retirement System (Continued)

Funding Policy - For the fiscal year ended June 30, 2010, plan members were required to contribute 10 percent of their annual covered salaries. The Academy was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal year 2009, the portion used to fund pension obligations was also 13 percent. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The Academy's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2010, 2009, and 2008 were \$88,153, \$64,271, and \$37,268 respectively; 91 percent has been contributed for fiscal year 2010 and 100 percent for fiscal years 2009 and 2008. Contributions to the DC and Combined Plans for fiscal year 2010 were made by the School.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System of Ohio have an option to choose Social Security or the School Retirement System. As of June 30, 2010, none of the members of the Board of Education has elected Social Security. The contribution rate is 6.2 percent of wages.

Note 10 - Postemployment Benefits

A. School Employee Retirement System

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

Funding Policy – State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 401h. For 2010, 0.5 percent of covered payroll was allocated to health care.

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

The Academy's contributions for health care for the fiscal years ended June 30, 2010, 2009, and 2008 were \$1,222, \$6,037, and \$3,953 respectively; 99 percent has been contributed for fiscal year 2010 and 100 percent for fiscal years 2009 and 2008.

**FOUNDATION ACADEMY
RICHLAND COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2010
(Continued)**

Note 10 - Postemployment Benefits (Continued)

A. School Employee Retirement System (Continued)

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For 2010, this actuarially required allocation was 0.76 percent of covered payroll. The Academy's contributions for Medicare Part B for the fiscal years ended June 30, 2010, 2009, and 2008 were \$1,858, \$2,417, and \$2,001 respectively; 99 percent has been contributed for fiscal year 2010 and 100 percent for fiscal years 2009 and 2008.

B. State Teachers Retirement System

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

Funding Policy – Ohio law authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For 2010, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. The Academy's contributions for health care for the fiscal years ended June 30, 2010, 2009, and 2008 were \$6,781, \$4,944, and \$2,867 respectively; 91 percent has been contributed for fiscal year 2010 and 100 percent for fiscal years 2009 and 2008.

Note 11 - Contingencies

A. Grants

The Academy received financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the Academy. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the Academy at June 30, 2010.

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. As a result of a recent review, it was determined that the Academy was under funded during fiscal 2010 by \$4,809. The amount was recognized at June 30, 2010 as an intergovernmental receivable (see Note 5).

Note 12 – Building and Building Leases

In September 2007, the Academy entered into a lease agreement with Richland Academy of Arts for the use of a building (7,554 rentable square feet) as a school facility. The lease commenced August 1, 2007 and extended through June 30, 2008 with one year renewal options available upon 30 days notice to Landlord. For fiscal year 2009, the lease was renewed at a base rent of \$5,600 per month.

**FOUNDATION ACADEMY
RICHLAND COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2010
(Continued)**

Note 12 – Building and Building Leases (Continued)

For fiscal 2010, the Academy renewed the lease effective July 1, 2009 through June 30, 2010 at the base rent of \$5,600 per month for July 2009 through December 2009 and \$7,000 per month for January 2010 through June 2010. This lease was not renewed for fiscal 2011. Net rent expense for this lease for fiscal year 2010 was \$75,200.

In December 2009, the Academy acquired a building for \$299,933 (inclusive of closing and loan fees). Subsequently, the Academy invested \$734,151 in building improvements. The building went into service in April 2010 and can accommodate approximately 300 students.

Note 13 – Long-Term Obligations

Changes in the Academy's long-term obligations during fiscal year 2010 were as follows:

	Balance 6/30/2009	Additions	Principal Payments	Balance 6/30/2010	Amount Due Within One Year
Capital Leases Payable	\$ 94,308	\$ -	\$ (37,736)	\$ 56,572	\$ 33,727
Note Payable - Property	-	270,000	-	270,000	19,331
Note Payable - Renovation	-	172,214	-	172,214	83,616
Installment Note Payable	-	300,000	(13,632)	286,368	27,049
Total Debt	\$ 94,308	\$ 742,214	\$ (51,368)	\$ 785,154	\$ 163,723

Note Payable - Property

In December 2009, the Academy executed a secured promissory note in the amount of \$270,000. The proceeds were used to acquire a building for use as a school facility. The note bears interest at 7% per annum and matures in July 2018. Commencing July 2010, the loan will be repaid in 33 equal quarterly installments of \$9,459.75. The loan may be prepaid at any time without penalty. The building collateralizes the loan. Interest expense incurred on this note during fiscal 2010 was \$4,753.

Note Payable – Renovation

In April 2010, the Academy entered into a \$172,214 credit facility with a lending institution. Borrowings under the facility are to be used for renovations to the Academy's new building. The facility bears interest at 6% per annum and matures on June 30, 2012. The facility is interest only during the draw period (up to six months) with monthly principal and interest payments thereafter. Commencing July 2010, the loan will be repaid in 24 equal monthly installments of \$7,639.48. The building collateralizes the loan. There was no interest incurred on this loan in fiscal 2010.

Installment Note Payable

In January 2010, the Academy executed a \$300,000 promissory note to reimburse Mosaica Education, Inc., a related party, (see Note 16) for organizational and development costs incurred by Mosaica during the pre-opening phase of the Academy. The note bears interest at 2.5% and matures in December 2019. The note is to be repaid in 120 equal installments of \$2,825 commencing January 2010. The note is unsecured. Interest expense incurred on this note in fiscal 2010 was \$3,318.

**FOUNDATION ACADEMY
RICHLAND COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2010
(Continued)**

Note 13 – Long-Term Obligations (Continued)

Amortization of the above debt, including interest, is scheduled as follows:

<u>Year Ending June 30:</u>	<u>Note Payable- Property</u>	<u>Note Payable - Renovation</u>	<u>Installment Note Payable</u>
2011	\$37,839	\$91,674	\$33,900
2012	\$37,839	\$91,501	\$33,900
2013	\$37,839		\$33,900
2014	\$37,839		\$33,900
2015	\$37,839		\$33,900
2016-2020	\$170,276		\$152,548

Note 14 – Capital Lease-Lessee Disclosure

The Academy has entered into capitalized leases for the use of computer equipment and furniture. Each lease meets the criteria of capital lease as defined by Statement of Financial Accounting Standards No. 13, "Accounting for Leases", which defines a capital lease generally as one which transfers benefits and risk of ownership to the lessee. The leases have been capitalized in the amounts of \$85,275 and \$62,858 at the present value of future minimum lease payments at their inception in 2008.

The following is a schedule of the future long-term minimum lease payments required under the capital lease and the present value of the minimum lease payments as of June 30, 2010.

Capital Lease			
Fiscal Year Ending June 30	Principal	Interest	
2011	33,727	3,181	
2012	14,071	1,397	
2013	8,774	250	
Total	<u>\$56,572</u>	<u>\$4,828</u>	

Note 15 –Tax Exempt Status

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

Note 16 – Related Party Transactions/Management Company

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

**FOUNDATION ACADEMY
RICHLAND COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2010
(Continued)**

Note 16 – Related Party Transactions/Management Company (Continued)

Per the management agreement with the Academy, Mosaica Education, Inc. is entitled to a management fee that is equivalent to 12.5% of Academy revenue. The management fee for fiscal year 2010 was \$291,668.

Also, per the management agreement there are expenses that will be billed back to the Academy based on the actual cost incurred for the Academy by Mosaica Education, Inc. These expenses include salaries and other costs related to providing educational and administrative services. The total expenses paid by Academy during fiscal year 2010 were \$788,051.

At June 30, 2010, the Academy had payables to Mosaica Education, Inc. in the amount of \$476,498. The following is a schedule of payables to Mosaica Education, Inc.

	<u>Amount</u>
Payroll	\$333,953
Management Fees	134,318
Miscellaneous	<u>8,227</u>
Total June 30, 2010	<u><u>\$476,498</u></u>

Note 17 – Sponsor

The Academy was approved for operation under a contract with the Ohio Council of Community Schools (the Sponsor) for a period of five academic years continuing through June 30, 2012. As part of this contract, the Sponsor is entitled to a maximum of three percent of all revenues. There is a reduction in the fee as enrollment among all schools sponsored by the Ohio Council of Community Schools and managed by Mosaica Education, Inc. reaches certain benchmarks. Total amount due and paid for fiscal year 2010 was \$29,860.

Note 18 – Management’s Plan

For fiscal year 2010, the Academy had a change in net assets of (\$357,621) and a net asset deficit of \$93,985. Projected revenues and expenses for fiscal year 2011 indicate that a surplus is likely.

Fiscal year 2010 was the Academy’s third year of operations. Final full-time equivalents student enrollment was 220 at June 30, 2010 and 168 at June 30, 2009. Current full-time equivalent student enrollment as of November 2010 is 280 students. During fiscal 2010 the Academy moved into its new school facility which has a student capacity of approximately 300. The increase in enrollment from 220 students at June 30, 2010 to 280 students in February 2011 is a result of the school having established its presence in its new community, acquiring, renovating and moving into its new school facility and from an advertising campaign conducted during the summer. The cash balance is \$22,785 and Net Assets are \$49,901 as of February 2011.

Management plans to continue efforts to increase enrollment through continued advertising via print, radio, mailings and through referrals of current parents which will help to build the financial strength of the Academy.

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**FOUNDATION ACADEMY
RICHLAND COUNTY**

**FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2010**

FEDERAL GRANTOR Pass Through Grantor Program Title	Federal CFDA Number	Revenues	Expenses
<u>U.S. Department of Agriculture</u>			
<i>Passed Through Ohio Department of Education</i>			
Nutrition Cluster:			
Federal School Breakfast Program	10.553	\$ 36,942	\$ 36,942
National School Lunch Program	10.555	92,400	92,400
Total Nutrition Cluster		<u>129,342</u>	<u>129,342</u>
Total U.S. Department of Agriculture		<u>129,342</u>	<u>129,342</u>
<u>U.S. Department of Education</u>			
<i>Passed Through Ohio Department of Education</i>			
Title I Cluster:			
Title I Grants to Local Education Agencies Program	84.010	152,379	152,379
ARRA-Title I Grants to Local Educational Agencies	84.389	13,904	10,016
Total Title I Grants Cluster		<u>166,283</u>	<u>162,395</u>
Special Education Cluster:			
Special Education_Grants to States Program	84.027	32,139	32,139
ARRA-Special Education_Grants to States Program	84.391	19,487	19,487
Total Special Education Cluster		<u>51,626</u>	<u>51,626</u>
Safe and Drug Free Schools and Communities States Grants Program	84.186	195	195
Charter Schools	84.282	143,221	143,221
Twenty-First Century Community Learning Centers	84.287	144,404	144,404
Education Technology State Grants Program	84.318	1,319	1,319
Improving Teacher Quality State Grants Program	84.367	6,981	6,981
School Improvement Grants	84.377	60,000	60,000
ARRA - State Fiscal Stabilization Fund	84.394	101,900	101,900
Total U.S. Department of Education		<u>675,929</u>	<u>672,041</u>
Total		<u>\$ 805,271</u>	<u>\$ 801,383</u>

The accompanying notes are an integral part of this schedule.

**FOUNDATION ACADEMY
RICHLAND COUNTY**

**NOTES TO THE FEDERAL AWARDS EXPENDITURES SCHEDULE
FISCAL YEAR ENDED JUNE 30, 2010**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

The accompanying Federal Awards Receipts and Expenditures Schedule (the Schedule) reports the Foundation Academy (the Academy's) federal award receipts and disbursements. The schedule has been prepared on the accrual basis of accounting.

NOTE B - CHILD NUTRITION CLUSTER

The Academy commingles cash receipts from the U.S. Department of Agriculture with similar State grants. When reporting expenditures on this Schedule, the Academy assumes it expends federal monies first.



Dave Yost • Auditor of State

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

Foundation Academy
Richland County
1050 Wyandotte Ave.
Mansfield, Ohio 44906

To the Board of Directors:

We have audited the financial statements of Foundation Academy, Richland County, Ohio (the Academy) as of and for the year ended June 30, 2010, and have issued our report thereon dated March 14, 2011, wherein we noted matters which raise substantial doubt about the Academy's ability to continue as a going concern.. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

We also noted certain matters not requiring inclusion in this report that we reported to the Academy's management in a separate letter dated March 14, 2011.

We intend this report solely for the information and use of management, Board of Directors, Audit Committee, Ohio Council of Community Schools, federal awarding agencies and pass-through entities and others within the Academy. We intend it for no one other than these specified parties.

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

Dave Yost
Auditor of State

March 14, 2011



Dave Yost • Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

Foundation Academy
Richland County
1050 Wyandotte Ave.
Mansfield, Ohio 44906

To the Board of Directors:

Compliance

We have audited the compliance of Foundation Academy, Richland County, Ohio (the Academy) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133, Compliance Supplement* that could directly and materially affect each of Foundation Academy's major federal programs for the year ended June 30, 2010. The summary of auditor's results section of the accompanying schedule of findings identifies the Academy's major federal programs. The Academy's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to each major federal program. Our responsibility is to express an opinion on the Academy's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits included in the Comptroller General of the United States' *Government Auditing Standards*; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to reasonably assure whether noncompliance occurred with the compliance requirements referred to above that could directly and materially affect a major federal program. An audit includes examining, on a test basis, evidence about the Academy's compliance with those requirements and performing other procedures we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Academy's compliance with those requirements.

In our opinion, the Foundation Academy, Richland County, Ohio, complied, in all material respects, with the requirements referred to above that could directly and materially affect each of its major federal programs for the year ended June 30, 2010.

Internal Control Over Compliance

The Academy's management is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Academy's internal control over compliance with requirements that could directly and materially affect a major federal program, to determine our auditing procedures for the purpose of opining on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of opining on the effectiveness of internal control over compliance. Accordingly, we have not opined on the effectiveness of the Academy's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, when performing their assigned functions, to prevent, or to timely detect and correct, noncompliance with a federal program compliance requirement. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a federal program compliance requirement will not be prevented, or timely detected and corrected.

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

We intend this report solely for the information and use of management, Board of Directors, Audit Committee, Ohio Council of Community Schools, federal awarding agencies, and pass-through entities. It is not intended for anyone other than these specified parties.

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

Dave Yost
Auditor of State

March 14, 2011

**FOUNDATION ACADEMY
RICHLAND COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
JUNE 30, 2010**

1. SUMMARY OF AUDITOR'S RESULTS

<i>(d)(1)(i)</i>	Type of Financial Statement Opinion	Unqualified
<i>(d)(1)(ii)</i>	Were there any material control weaknesses reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(ii)</i>	Were there any significant deficiencies in internal control reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(iii)</i>	Was there any reported material noncompliance at the financial statement level (GAGAS)?	No
<i>(d)(1)(iv)</i>	Were there any material internal control weaknesses reported for major federal programs?	No
<i>(d)(1)(iv)</i>	Were there any significant deficiencies in internal control reported for major federal programs?	No
<i>(d)(1)(v)</i>	Type of Major Programs' Compliance Opinion	Unqualified
<i>(d)(1)(vi)</i>	Are there any reportable findings under § .510(a)?	No
<i>(d)(1)(vii)</i>	Major Programs (list):	CFDA #84.010 and #84.389 – Title I Grants to Local Education Agencies Cluster CFDA #84.394 - State Fiscal Stabilization Fund CFDA #84.287 – Twenty-First Century Community Learning Centers
<i>(d)(1)(viii)</i>	Dollar Threshold: Type A/B Programs	Type A: > \$ 300,000 Type B: all others
<i>(d)(1)(ix)</i>	Low Risk Auditee?	No

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

None

3. FINDINGS FOR FEDERAL AWARDS

None

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Dave Yost • Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT ON APPLYING AGREED-UPON PROCEDURES

Foundation Academy
Richland County
1050 Wyandotte Ave.
Mansfield, Ohio 44906

To the Board of Directors:

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

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

1. We noted the Board adopted an anti-harassment policy on December 17, 2007.
2. We read the policy, noting it included the following requirements from Ohio Rev. Code Section 3313.666(B):
 - (1) A statement prohibiting harassment, intimidation, or bullying of any student on school property or at school-sponsored events;
 - (2) A definition of harassment, intimidation, or bullying that includes the definition in division (A) of Ohio Rev. Code Section 3313.666;
 - (3) A procedure for reporting prohibited incidents;
 - (4) A requirement that school personnel report prohibited incidents of which they are aware to the school principal or other administrator designated by the principal;
 - (5) A requirement that parents or guardians of any student involved in a prohibited incident be notified and, to the extent permitted by section 3319.321 of the Revised Code and the "Family Educational Rights and Privacy Act of 1974," 88 Stat. 571, 20 U.S.C. 1232q, as amended, have access to any written reports pertaining to the prohibited incident;

- (6) A procedure for documenting any prohibited incident that is reported;
- (7) A procedure for responding to and investigating any reported incident;
- (8) A strategy for protecting a victim from additional harassment, intimidation, or bullying, and from retaliation following a report;
- (9) A disciplinary procedure for any student guilty of harassment, intimidation, or bullying, which shall not infringe on any student's rights under the first amendment to the Constitution of the United States;
- (10) A requirement that the Academy administration semiannually provide the president of the Board of Directors a written summary of all reported incidents and post the summary on its web site, if the district has a web site, to the extent permitted by section 3319.321 of the Revised Code and the "Family Educational Rights and Privacy Act of 1974," 88 Stat. 571, 20 U.S.C. 1232q, as amended.

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

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



Dave Yost
Auditor of State

March 14, 2011



Dave Yost • Auditor of State

RICHLAND FOUNDATION ACADEMY

RICHLAND COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
APRIL 12, 2011**