



Dave Yost • Auditor of State

**ACADEMY OF ARTS AND SCIENCES
LORAIN COUNTY**

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Dave Yost • Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

Academy of Arts and Sciences
Lorain County
201 West Erie Street
Lorain, Ohio 44052

To the Board of Directors:

We have audited the accompanying basic financial statements of Academy of Arts and Sciences, Lorain County, Ohio, (the Academy), as of and for the year ended June 30, 2011, 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 financial position of the Academy of Arts and Sciences, Lorain County, Ohio, as of June 30, 2011, and the 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.

As discussed in Note 17 to the financial statements, the Academy has a deficit net asset balance of (\$360,803) as of June 30, 2011 and is experiencing financial difficulties. Note 17 describes management's plan regarding these issues. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 10, 2012, on our consideration of the Academy's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. 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.

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

January 10, 2012

**ACADEMY OF ARTS AND SCIENCES
LORAIN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
UNAUDITED**

The discussion and analysis of the Academy of Arts and Sciences (the "Academy") financial performance provides an overall review of the Academy's financial activities for the fiscal year ended June 30, 2011. 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 increased \$49,960
- Operating expenses accounted for \$1,319,221 of the total expenses of \$1,358,149
- Operating revenues accounted for \$1,025,631 of the total revenue of \$1,408,109
- The Academy had an operating loss of \$293,590 that was offset by \$382,478 of non-operating federal grants. The Academy was able to utilize the majority of federal grant allocations for fiscal year 2011.

OVERVIEW OF THE FINANCIAL STATEMENTS

The financial report consists of three parts – management's discussion and analysis, the basic financial statements, and the notes to the financial statements. These statements are organized so the reader can understand the financial position of the Academy. Enterprise accounting uses a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities are included on the statement of net assets. The Statement of Net Assets represents the statement of position of the Academy. The Statement of Revenues, Expenses, and Changes in Net Assets presents increases (e.g., revenues) and decreases (e.g., expenses) in net total assets. The Statement of Cash Flows reflects how the Academy finances and meets its cash flow needs. Finally, the notes to the basic financial statements provide additional information that is essential to a full understanding of the data provided on the basic financial statements.

FINANCIAL ANALYSIS OF THE ACADEMY AS A WHOLE

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

The following tables represent a summary the Academy's condensed financial information for 2011 derived from the Statement of Net Assets and the Statement of Revenues, Expenses and Changes in Net Assets.

**ACADEMY OF ARTS AND SCIENCES
LORAIN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
UNAUDITED**

Table 1 provides a summary of the Academy's net assets for 2011 as compared to 2010:

Table 1
Net Assets

	<u>2011</u>	<u>2010</u>	<u>Change</u>
Assets:			
Current Assets	\$ 98,024	\$ 75,762	\$ 22,262
Capital Assets	65,771	78,987	(13,216)
Total Assets	<u>163,795</u>	<u>154,749</u>	<u>9,046</u>
Liabilities:			
Current Liabilities	440,622	403,434	(37,188)
Long-term Liabilities	83,976	162,078	78,102
Total Liabilities	<u>524,598</u>	<u>565,512</u>	<u>40,914</u>
Net Assets:			
Invested in Capital Assets, Net of Related Debt Restricted for Other Purposes	65,771	78,987	(13,216)
Unrestricted	(426,574)	(489,750)	63,176
Total Net Assets	<u>\$ (360,803)</u>	<u>\$ (410,763)</u>	<u>\$ 49,960</u>

Results of fiscal year 2011 indicate an ending net deficit balance of \$360,803, a positive change of \$49,960 from fiscal 2010. Academy was able to maintain consistent enrollment levels between 2010 and 2011 fiscal years. The fall of 2011 enrollment levels show improvement over 2010. The goal is to grow enrollment to be closer to the capacity of the facility at which point the school would generate surpluses on an annual basis sufficient to eliminate accumulated deficits.

**ACADEMY OF ARTS AND SCIENCES
LORAIN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
UNAUDITED
(Continued)**

Table 2 reflects the changes in net assets for the fiscal year 2011 as compared to 2010:

Table 2
Change in Net Assets

	<u>2011</u>	<u>2010</u>	<u>Change</u>
Operating Revenues:			
Community School Foundation	\$ 1,020,429	\$ 825,341	\$ 195,088
Charge for Services and Miscellaneous	5,202	5,120	82
Total Operating Revenues	<u>1,025,631</u>	<u>830,461</u>	<u>195,170</u>
Operating Expenses:			
Building	129,780	129,780	-
Purchased Services	1,111,095	1,304,624	(193,529)
Depreciation	13,216	12,394	822
General Supplies	48,354	34,509	13,845
Other Operating Expenses	16,776	16,801	(25)
Total Operating Expenses	<u>1,319,221</u>	<u>1,498,108</u>	<u>(178,887)</u>
Operating Loss	<u>(293,590)</u>	<u>(667,647)</u>	<u>374,057</u>
Nonoperating Revenues and Expenses:			
Federal and State Restricted Grants	382,478	335,694	46,784
Interest Expense	(38,928)	(34,456)	(4,472)
Net Nonoperating Revenues and Expenses	<u>343,550</u>	<u>301,238</u>	<u>42,312</u>
Change in Net Assets	49,960	(366,409)	416,369
Net Assets Beginning of Year	(410,763)	(44,354)	(366,409)
Net Assets End of Year	<u>\$ (360,803)</u>	<u>\$ (410,763)</u>	<u>\$ 49,960</u>

At the onset of planning for the opening of the Academy, management and the board carefully calculated the costs and risks associated with offering a high quality educational program that would be competitive with the educational programs available at the traditional public schools and weighed those costs and risks against the enhanced educational opportunities that would be available to students. Based on that analysis, the board and its management made the decision to make an investment in the future of the children of this community, not based on a plan that was expected to generate economic profits, but rather on a plan that is economically sustainable and that would generate dividends to the community in the form of enhanced opportunities for children and families. Resources for the necessary programs in excess of those available from funding sources came from delaying payment on invoices from the Academy's management company for management services, other operating expenses and invoices for payroll of Academy staff.

**ACADEMY OF ARTS AND SCIENCES
LORAIN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
UNAUDITED
(Continued)**

BUDGET

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

CAPITAL ASSETS AND DEBT ADMINISTRATION

At the end of fiscal year 2011, the Academy had \$65,771 net of accumulated depreciation invested in capital assets. A summary of the Academy's capital assets at June 30, 2011:

Furniture and Equipment	\$74,284
Computers	54,315
Less: Accumulated Depreciation	<u>(62,828)</u>
Net Capital Assets:	<u><u>\$65,771</u></u>

In July 2009, the Academy executed a \$300,000 long-term promissory note with Mosaica Education, Inc. (a related party, see Note 15), to reimburse Mosaica for organizational and development costs incurred during the start-up phase of the Academy. The outstanding principal at June 30, 2011 was \$186,771. Interest expense incurred on this note during fiscal 2011 was \$18,128. 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 1702. The Academy offers education for Ohio children in Kindergarten through third 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 Brenda Neff, Treasurer for Academy of Arts and Sciences, 3333 Chippewa Drive, Columbus, Ohio 43204.

**ACADEMY OF ARTS AND SCIENCES
LORAIN COUNTY**

**STATEMENT OF NET ASSETS
JUNE 30, 2011**

Assets:

Current assets:

Cash and Cash Equivalents	\$ 3,486
Intergovernmental Receivable	73,140
Prepaid Expense	<u>21,398</u>
Total current assets	<u>98,024</u>

Noncurrent assets:

Capital Assets, net of Accumulated Depreciation	<u>65,771</u>
Total noncurrent assets	<u>65,771</u>

Total assets	<u>163,795</u>
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Liabilities:

Current liabilities:

Accounts Payable, Trade	25,732
Accounts Payable, Related Party	312,095
Current Portion of Long-term Debt	<u>102,795</u>
Total current liabilities	<u>440,622</u>

Noncurrent liabilities:

Noncurrent Portion of Long-term Debt	<u>83,976</u>
Total noncurrent liabilities	<u>83,976</u>

Total liabilities	524,598
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Net Assets

Invested in Capital Assets	65,771
Unrestricted Net Assets	<u>(426,574)</u>
Total Net Assets	<u>\$ (360,803)</u>

See Accompanying Notes to the Basic Financial Statements

**ACADEMY OF ARTS AND SCIENCES
LORAIN COUNTY**

**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

Operating Revenues:	
Community School Foundation	\$ 1,020,429
Charge for Services	5,202
Total Operating Revenues	<u>1,025,631</u>
Operating Expenses:	
Building	129,780
Purchased Services	1,111,095
Depreciation	13,216
General Supplies	48,354
Other Operating Expenses	16,776
Total Operating Expenses	<u>1,319,221</u>
Operating Loss	<u>(293,590)</u>
Nonoperating Revenues and Expenses:	
Federal and State Restricted Grants	382,478
Interest Expense	(38,928)
Net Nonoperating Revenues and Expenses	<u>343,550</u>
Change in Net Assets	49,960
Net Assets Beginning of Year	<u>(410,763)</u>
Net Assets (Deficit) End of Year	<u><u>\$ (360,803)</u></u>

See Accompanying Notes to the Basic Financial Statements

**ACADEMY OF ARTS AND SCIENCES
LORAIN COUNTY**

**STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

CASH FLOWS FROM OPERATING ACTIVITIES

Foundation Receipts	\$ 967,471
Charge for Services	8,259
Cash Payments to Suppliers for Goods and Services	<u>(1,279,913)</u>
Net Cash Used for Operating Activities	<u>(304,183)</u>

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

Federal and State Grant Receipts	394,254
Principal Payments	(68,243)
Interest Payments	(12,881)
Short-term Financing Payments	<u>(11,780)</u>
Net Cash Provided by Noncapital Financing Activities	<u>301,350</u>

Net decrease in Cash and Cash Equivalents	(2,833)
Cash and Cash Equivalents - Beginning of the Year	<u>6,319</u>
Cash and Cash Equivalents - Ending of the Year	<u>\$ 3,486</u>

Reconciliation of Operating Loss to Net Cash Used for Operating Activities

Operating Loss	<u>(293,590)</u>
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Adjustments to Reconcile Operating Loss to Net Cash Used for Operating Activities

Depreciation	13,216
Changes in assets and liabilities:	
Increase in Receivables	(52,967)
Increase in Prepaid Expense	(8,365)
Increase in Accounts Payable, Trade	10,760
Increase in Accounts Payable, Related Party	26,763
Net Cash Used for Operating Activities	<u><u>\$ (304,183)</u></u>

See Accompanying Notes to the Basic Financial Statements

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**ACADEMY OF ARTS AND SCIENCES
LORAIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

Note 1 - Description of the School

The Academy of Arts and Sciences (the "Academy") is a nonprofit corporation established pursuant to Ohio Revised Code Chapter 3314. The Academy offers education for Ohio children in kindergarten through third 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, 2010 and ending June 30, 2015. The Sponsor is responsible for evaluating the performance of the Academy and has the authority to deny renewal of the contract at its expiration or terminate the contract prior to its expiration.

The Academy operates under the direction of a Governing Board that consists of not less than five individuals who are not owners or employees, or immediate relatives or owners or employees of any for-profit firm that operate or manage the Academy for the Governing Board. The Board is responsible for carrying out the provisions of the contract that include, but are not limited to, state-mandated provisions regarding student population, curriculum, academic goals, performance standards, admission standards, and qualifications of teachers. The Academy's Governing Board also serves as the Board for the Lorain Preparatory Academy.

The Academy contracts with Mosaica Education, Inc., for management services including management of personnel and human resources, the program of instruction, technology, marketing, data management, purchasing, strategic planning, public relations, financial reporting, recruiting, compliance issues, budgets, contracts, and equipment and facilities. See Note 15.

Note 2 - Summary of Significant Accounting Policies

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

A. Basis of Presentation

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

B. Measurement Focus

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

**ACADEMY OF ARTS AND SCIENCES
LORAIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(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 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, 2011.

F. Prepaid Items

The Academy records payments made to vendors for services that will benefit periods beyond June 30, 2011, 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 2011 consisted of computers and other equipment. All capital assets are capitalized at cost and updated for additions and retirements during the fiscal year. Donated capital assets are recorded at their fair market values as of the date received. The Academy maintains a capitalization threshold of one thousand five hundred dollars. The Academy does not have any infrastructure. Improvements are capitalized. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized.

**ACADEMY OF ARTS AND SCIENCES
LORAIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

Note 2 - Summary of Significant Accounting Policies (Continued)

G. Capital Assets (Continued)

All capital assets, except land, 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>
Furniture, Fixtures, and Equipment	5-20 years
Computer Technology	5 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 unspent federal grant receipts and \$65,771 invested in capital assets.

I. Operating Revenues and Expenses

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

J. Estimates

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

K. Economic Dependency

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

Note 3 – Changes in Accounting Principles

There were no changes in accounting principles implemented during 2011 that would have a material effect on the financial statements.

**ACADEMY OF ARTS AND SCIENCES
LORAIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(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, 2011, the bank balance of Academy's deposits was \$18,373. 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, 2011, the Academy had intergovernmental receivables, in the amount of \$73,140. The receivables are expected to be collected within one year. During fiscal 2011, the Academy was underpaid by \$28,498 from the Ohio Department of Education (ODE).

Grant	Amount
State Foundation FY11	28,498
Title I	16,249
IDEA B	3,850
Title IID	469
Title I ARRA	11,370
IDEA ARRA	2,498
Other Receivables	10,206
Total Intergovernmental Receivables	\$73,140

Note 6 – Capital Assets

The capital asset activity for the fiscal year ended June 30, 2011, was as follows:

	Balance June 30, 2010	Additions (Deletions)	Depreciation Expense	Balance June 30, 2011
Depreciable Capital Assets				
Furniture & Equipment	\$74,284	0		\$74,284
Computer Technology	54,315	0		\$54,315
Less Accumulated Depreciation				
Furniture & Equipment	(16,630)		(3,913)	(\$20,543)
Computer Technology	(32,982)		(9,303)	(\$42,285)
Capital Assets, Net	\$78,987	\$0	(\$13,216)	\$65,771

**ACADEMY OF ARTS AND SCIENCES
LORAIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(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 2011, 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	15,000
Damage to Rented Premises - Each Occurrence	500,000
Personal and Advertising Injury	1,000,000
Business Personal Property	447,000
Automobile Liability:	
Combined Single Limit	1,000,000
Excess/Umbrella	
Each Occurrence	3,000,000
Aggregate Limit	3,000,000

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

Note 8 – Purchased Services

For the year ending June 30, 2011, purchased service expenses were for the following services:

Service	Amount
Personnel Services	\$ 739,202
Contracted Staff and Administrative Services	201,779
Contracted Food Service	74,939
Purchased Building and Maintenance Services	14,824
Advertising	2,638
Sponsor Fee	29,228
Contracted Student Services	34,573
Professional Services	13,912
Total:	<u>\$1,111,095</u>

**ACADEMY OF ARTS AND SCIENCES
LORAIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

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 Employee Retirement System

Plan Description - The School District 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 School District rate is 14 percent of annual covered payroll. A portion of the School District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2011, 11.81 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 School District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2011, 2010, and 2009 were \$10,210, \$12,404, and \$11,005 respectively; 100 percent has been contributed for fiscal year 2011 and 100 percent for fiscal years 2010 and 2009.

B. State Teachers Retirement System

Plan Description - The School District 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.

**ACADEMY OF ARTS AND SCIENCES
LORAIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

Note 9 - Defined Benefit Pension Plans (Continued)

B. State Teachers Retirement System (Continued)

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.

Funding Policy - For the fiscal year ended June 30, 2011, plan members were required to contribute 10 percent of their annual covered salaries. The School District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal year 2010, 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 School District's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2011, 2010, and 2009 were \$60,868, \$55,728, and \$62,218 respectively; 86 percent has been contributed for fiscal year 2011 and 100 percent for fiscal years 2010 and 2009. Contributions to the DC and Combined Plans for fiscal year 2011 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, 2011, 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 School 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 2011, 1.43 percent of covered payroll was allocated to health care.

**ACADEMY OF ARTS AND SCIENCES
LORAIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

Note 10 - Postemployment Benefits (Continued)

A. School Employee Retirement System (Continued)

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 School's contributions for health care for the fiscal years ended June 30, 2011, 2010, and 2009 were \$1,236, \$487, and \$5,022 respectively; 100 percent has been contributed for fiscal year 2011 and 100 percent for fiscal years 2010 and 2009.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For 2011, this actuarially required allocation was 0.76 percent of covered payroll. The School District's contributions for Medicare Part B for the fiscal years ended June 30, 2011, 2010, and 2009 were \$657, \$740, and \$793 respectively; 100 percent has been contributed for fiscal year 2011, 2010 and 2009.

B. State Teachers Retirement System

Plan Description – The School 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 2011, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. The School District's contributions for health care for the fiscal years ended June 30, 2011, 2010, and 2009 were \$4,682, \$4,287, and \$4,786 respectively; 86 percent has been contributed for fiscal year 2011 and 100 percent for fiscal years 2010 and 2009.

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, 2011.

**ACADEMY OF ARTS AND SCIENCES
LORAIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

Note 11 – Contingencies (Continued)

B. Full Time Equivalency

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 schools are reporting accurate student enrollment data to the State, upon which state foundation funding is calculated. Based on this review for fiscal 2011, it was determined that the Academy was under funded by \$28,498 (see Note 5).

Note 12 – Building Leases

The Academy leases its premises on a month to month basis and may elect to terminate the lease with 180 days written notice. The base rent is \$10,815 per month. Base rent expense for the fiscal year ended 2011 was \$129,780.

Note 13 – Long-term Debt

In July 2009, the Academy executed a \$300,000 long-term promissory note with Mosaica Education, Inc. (a related party, see Note 15), to reimburse Mosaica for organizational and development costs incurred during the start-up phase of the Academy. The note bears interest at 9% per annum and matures on June 15, 2013. From July 2009 through May 2013, equal monthly payments of \$7,465 are due with a final payment of \$5,867 due in June 2013. The outstanding principal at June 30, 2011 was \$186,771. Interest expense incurred on this note during fiscal 2011 was \$18,128.

Note 14 –Tax Exempt Status

In January 2011, the Academy received approval for its tax-exempt status under Section 501(c)(3) of the Internal Revenue Code. The effective date of the exemption is July 2005.

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 2011 was \$175,367.

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

**ACADEMY OF ARTS AND SCIENCES
LORAIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

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

At June 30, 2011, the Academy had payables as follows to Mosaica.

	<u>Amount</u>
Payroll	\$227,194
Management Fee	66,355
Miscellaneous	<u>18,546</u>
Total June 30, 2011	<u><u>\$312,095</u></u>

Note 16 – Sponsor

The Academy was approved for operation under a contract with the St. Aloysius Orphanage (the Sponsor) for a period of five academic years commencing July 18, 2005. In July 2011, this contract was extended for an additional five academic years. As part of this contract, the Sponsor is entitled to a percentage of the total state funds. Total amount due and paid for fiscal year 2011 was \$29,228.

Note 17 – Management’s Plan

For fiscal year 2011, the Academy had an increase in net assets of \$49,960 and a cumulative net asset deficit of \$360,803. The Academy is expected to have operating income and a net asset surplus for the fiscal year that ends June 30, 2012 due to higher enrollment and steady fixed costs. Over time, management believes that continued enrollment growth should allow the school to continue its recovery from its initial deficits. The cash balance as of December 31, 2011 was \$2,966.

Management plans to continue efforts to increase enrollment through active advertising via print, radio, mailings and through referrals of current parents which may increase enrollment, reduce future deficits and may lead to no operating losses in future years. Management has been successful in increasing enrollment at its other community schools in Ohio.



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*

Academy of Arts and Sciences
Lorain County
201 West Erie Street
Lorain, Ohio 44052

To the Board of Directors:

We have audited the basic financial statements of the Academy of Arts and Sciences, Lorain County, Ohio, (the Academy) as of and for the year ended June 30, 2011, and have issued our report thereon dated January 10, 2012, wherein we noted the Academy had a deficit net asset balance and an operating loss as of June 30, 2011 and is experiencing financial difficulties. 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 the purpose of expressing our opinion on the financial statements, but not for the purpose of 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 did note certain matters not requiring inclusion in this report that we reported to the Academy's management in a separate letter dated January 10, 2012.

We intend this report solely for the information and use of management, Audit Committee, Board of Directors, and the St. Aloysius Orphanage. 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

January 10, 2012



Dave Yost • Auditor of State

ACADEMY OF ARTS AND SCIENCES

LORAIN COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
MARCH 8, 2012