



Office of Management and Budget Circular  
A-133 Reports Including Supplemental Schedule  
of Expenditures of Federal Awards as of and for  
the Year Ended June 30, 2011



**ALLIANCE ACADEMY  
OF CINCINNATI**

A PUBLIC CHARTER SCHOOL MANAGED BY NATIONAL HERITAGE ACADEMIES





# Dave Yost • Auditor of State

Board of Directors  
Alliance Academy of Cincinnati  
1712 Duck Creek Road  
Cincinnati, Ohio 45207

We have reviewed the *Independent Auditors' Report* of the Alliance Academy of Cincinnati, Hamilton County, prepared by Deloitte & Touche LLP, for the audit period July 1, 2010 through June 30, 2011. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

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

Dave Yost  
Auditor of State

April 23, 2012

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# ALLIANCE ACADEMY OF CINCINNATI

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## INDEPENDENT AUDITORS' REPORT

Board of Directors  
Alliance Academy of Cincinnati  
Cincinnati, Ohio 45207

We have audited the accompanying statement of net assets of Alliance Academy of Cincinnati (the "Academy") as of June 30, 2011, and the related statement of revenues, expenses, and changes in net assets and statement of cash flows for the year then ended. These financial statements are the responsibility of the Academy's management. Our responsibility is to express an opinion on these financial statements based on our audit.

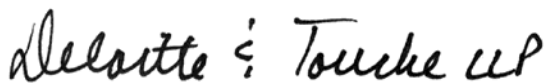
We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Academy's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the respective financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Academy, as of June 30, 2011, and its changes in net assets and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 21, 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. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 3 to 6 are not a required part of the basic financial statements but are supplementary information required by the *Governmental Accounting Standards Board*. This supplementary information is the responsibility of the Academy's management. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit such information and we do not express an opinion on it.

Our audit was conducted for the purpose of forming an opinion on the Academy's basic financial statements taken as a whole. The supplemental schedule of expenditures and federal awards listed in the foregoing table of contents is presented for the purpose of additional analysis as required by the applicable sections of the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and the Ohio Department of Education, and is not a required part of the basic financial statements. This supplemental schedule is the responsibility of the Academy's management. Such information has been subjected to the auditing procedures applied by us in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The logo for Deloitte & Touche LLP, featuring the company name in a cursive script font.

November 21, 2011



# **ALLIANCE ACADEMY OF CINCINNATI**

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

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The discussion and analysis of Alliance Academy of Cincinnati's (the "Academy") financial performance provides an overall review of the Academy's financial activities through June 30, 2011. The intent of this discussion and analysis is to look at the Academy's financial performance as a whole. It should be read in conjunction with the financial statements and notes to the financial statements, which immediately follow this section, to enhance their understanding of the Academy's financial performance.

The Management's Discussion and Analysis ("MD&A") is an element of the reporting model adopted by the Governmental Accounting Standards Board ("GASB") in their Statement No. 34 Financial Statements – and Management's Discussion and Analysis – for State and Local Government issued June, 1999.

### **Financial Highlights**

For the fiscal year ended June 30, 2011, total assets were \$307,064, total liabilities were \$277,807, and total net assets were \$29,257.

### **Using this Financial Report**

This report consists of three parts, the MD&A, the financial statements, and notes to those statements. The financial statements include a Statement of Net Assets, a Statement of Revenues, Expenses and Changes in Net Assets, and a Statement of Cash Flows.

### **Reporting the Academy as a Whole**

One of the most important questions asked about the Academy is, "As a whole, what is the Academy's financial condition as a result of the year's activities?" The Statement of Net Assets and the Statement of Revenues, Expenses and Changes in Net Assets, which appear first in the Academy's financial statements, report information on the Academy as a whole and its activities in a way that helps you answer this question. We prepare these statements to include all assets and liabilities, using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when the cash is received or paid.

These two statements report the Academy's net assets – the difference between assets and liabilities, as reported in the Statement of Net Assets – as one way to measure the Academy's financial health or financial position. Over time, increases or decreases in the Academy's net assets – as reported in the Statement of Net Assets – are indicators of whether its financial health is improving or deteriorating. The relationship between revenues and expenses is the Academy's operating results. However, the Academy's goal is to provide services to our students, not to generate profits as commercial entities do. One must consider many other non-financial factors, such as the quality of the education provided and the safety of the school, to assess the overall health of the Academy.

The Statement of Net Assets and the Statement of Revenues, Expenses and Changes in Net Assets report the activities for the Academy, which encompass all the Academy's services, including instruction, support services, community services, and food services. Unrestricted state aid and state and federal grants finance

most of these activities. The Academy has entered into a services agreement (the “agreement”) with National Heritage Academies, Inc. (“NHA”) which requires NHA to provide administration, strategic planning and all labor, materials, equipment, and supervision necessary for the provision of educational services to students. As part of the consideration received under the agreement, NHA also provides the facility in which the Academy operates. Under the terms of the agreement, NHA receives as remuneration for its services an amount equal to the total revenue received by the Academy from all revenue sources.

The table below provides a summary of the Academy’s net assets for fiscal years ended June 30:

	<b>2011</b>	<b>2010</b>
Assets:		
Current assets	\$ 296,671	\$ 389,716
Capital assets, net of accumulated depreciation	<u>10,393</u>	<u>5,767</u>
Total assets	307,064	395,483
Liabilities—current	<u>277,807</u>	<u>344,472</u>
Net assets:		
Invested in capital assets	10,393	5,767
Unrestricted	<u>18,864</u>	<u>45,244</u>
Total net assets	<u>\$ 29,257</u>	<u>\$ 51,011</u>

The unrestricted net assets represent the accumulated results of the Academy’s operations to date. These assets can be used to finance day to day operations without constraints, such as legislative or legal requirements. The results of the current year operations for the Academy as a whole are reported in the Statement of Revenues, Expenses and Changes in Net Assets, which shows the change in net assets.

## Statement of Revenues, Expenses and Changes in Net Assets

The table below shows the changes in net assets as well as a listing of revenues and expenses for the fiscal years ending June 30:

	<b>2011</b>	<b>2010</b>
Operating revenues:		
Foundation payments	\$ 2,117,767	\$ 2,692,803
Food services	2,591	4,326
Other revenues	<u>17,782</u>	<u>4,333</u>
Total operating revenues	<u>2,138,140</u>	<u>2,701,462</u>
Operating expenses:		
Depreciation	1,526	854
Contracted service fee	<u>5,256,020</u>	<u>5,664,072</u>
Total operating expenses	<u>5,257,546</u>	<u>5,664,926</u>
Operating loss	<u>(3,119,406)</u>	<u>(2,963,464)</u>
Nonoperating revenues:		
Federal grants	872,987	1,441,157
State grants	10,785	11,478
Private sources—NHA	<u>2,213,880</u>	<u>1,503,612</u>
Total nonoperating revenues	<u>3,097,652</u>	<u>2,956,247</u>
Change in net assets	<u>\$ (21,754)</u>	<u>\$ (7,217)</u>

As reported in the Statement of Revenues, Expenses and Changes in Net Assets, the cost of business activities was \$5,257,546. These activities were primarily funded by the Academy's state aid (based on student count) and governments and organizations that subsidized certain programs with grants. *Revenues — Private sources — NHA* represent a contribution granted by NHA for the excess of Academy expenses over public revenues available.

The Academy experienced a decrease in net assets of \$21,754 in 2011. Under the terms of the agreement with NHA, NHA provides a spending account to the Board of Directors for discretionary expenditures. The primary reason for the change in net assets is the timing of these discretionary expenditures.

### **Capital Assets**

At June 30, 2011, the Academy had \$10,393 invested in capital assets from board discretionary funds, primarily equipment. Capital assets are substantially provided as part of the agreement with NHA.

***General Economic Factors***

The Academy depends on legislative and governmental support to fund its operations. Based on information currently available, no significant changes are expected to occur in the nature of the funding or operations of the Academy in 2012.

***Contacting the Academy's Financial Management***

The financial report is designed to provide users of the report with a general overview of the Academy's finances and to demonstrate the Academy's accountability for the money it receives. If you have questions about this report, contact the Chief Financial Officer of National Heritage Academies, Inc., 3850 Broadmoor SE, Ste. 201, Grand Rapids, MI 49512.

# ALLIANCE ACADEMY OF CINCINNATI

## STATEMENT OF NET ASSETS

JUNE 30, 2011

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### CURRENT ASSETS:

Cash	\$ 18,865
Intergovernmental receivable	<u>277,806</u>
Total current assets	<u>296,671</u>

### NON-CURRENT ASSETS:

Capital assets	14,695
Less accumulated depreciation	<u>(4,302)</u>
Total non-current assets	<u>10,393</u>

Total assets 307,064

### LIABILITIES:

Deferred revenue	485
Contracted service fee payable	<u>277,322</u>

Total liabilities 277,807

### NET ASSETS:

Invested in capital assets	10,393
Unrestricted	<u>18,864</u>

TOTAL NET ASSETS \$ 29,257

See notes to financial statements.

## ALLIANCE ACADEMY OF CINCINNATI

### STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS YEAR ENDED JUNE 30, 2011

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OPERATING REVENUES:	
Foundation payments	\$ 2,117,767
Food services	2,591
Other revenues	<u>17,782</u>
Total operating revenues	<u>2,138,140</u>
OPERATING EXPENSES:	
Depreciation	1,526
Contracted service fee	<u>5,256,020</u>
Total operating expenses	<u>5,257,546</u>
OPERATING LOSS	<u>(3,119,406)</u>
NONOPERATING REVENUES:	
Federal grants	872,987
State grants	10,785
Private sources — National Heritage Academies, Inc.	<u>2,213,880</u>
Total nonoperating revenue	<u>3,097,652</u>
CHANGE IN NET ASSETS	(21,754)
NET ASSETS — Beginning of year	<u>51,011</u>
NET ASSETS — End of year	<u>\$ 29,257</u>

See notes to financial statements.

# ALLIANCE ACADEMY OF CINCINNATI

## STATEMENT OF CASH FLOWS YEAR ENDED JUNE 30, 2011

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CASH FLOWS FROM OPERATING ACTIVITIES:	
Cash received from State of Ohio	\$ 2,117,767
Cash received from food services	2,739
Cash received from other operating revenue	17,782
Cash paid on behalf of the Academy for goods and services	<u>(3,087,928)</u>
Net cash used in operating activities	<u>(949,640)</u>
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES — Purchase of capital assets	
	<u>(6,152)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:	
Federal grants received	957,163
State grants received	<u>(33,199)</u>
Net cash provided by noncapital financing activities	<u>923,964</u>
NET DECREASE IN CASH	(31,828)
CASH — Beginning of year	<u>50,693</u>
CASH — End of year	<u>\$ 18,865</u>
RECONCILIATION OF OPERATING LOSS TO NET CASH USED FOR OPERATING ACTIVITIES:	
Operating loss	\$ (3,098,381)
Support from private sources — National Heritage Academies, Inc.	2,213,880
Depreciation	1,526
Changes in assets and liabilities:	
Change in accounts payable	(2,263)
Change in intergovernmental payable	(2,265)
Change in deferred revenue	148
Change in contracted service fee payable	<u>(62,285)</u>
NET CASH USED FOR OPERATING ACTIVITIES	<u>\$ (949,640)</u>
NON-CASH ACTIVITY — Contribution from National Heritage Academies, Inc.	<u>\$ 2,213,880</u>

See notes to financial statements.

# ALLIANCE ACADEMY OF CINCINNATI

## NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2011

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### 1. NATURE OF OPERATIONS

Alliance Academy of Cincinnati (the "Academy") is an Ohio Public School Academy which provides education based on rigorous teaching methods, parental involvement, student responsibility, and basic moral values. The Academy operates under an approved charter received from Lucas County Educational Service Center ("LCESC" or the "Sponsor"), which is responsible for oversight of the Academy's operations. The charter's term expires on June 30, 2013 at which time it will automatically renew on a year-to-year basis, unless at least 90 days written notice is given by either the Academy or LCESC. The Academy provides education to students in kindergarten through the eighth grade, at no cost to the parent. Enrollment is open to all appropriately aged children without regard to gender, ethnic background, disability, and/or religious affiliation.

The Academy was established and is operated as a non-profit corporation under Chapter 1702 of the Ohio Revised Code and believes itself to be exempt from taxation under Internal Revenue Code Section 115(1) because its income is derived from the exercise of an essential governmental function and accrues to the State of Ohio. Donations to the Academy qualify as a charitable deduction under Internal Revenue Code Section 170(c)(1).

The Academy operates under the direction of a Board of Directors (the "Board"). The Board is responsible for carrying out the provisions of the contract with the Sponsor which include, but are not limited to, state-mandated provisions regarding student population, curriculum, academic goals, performance standards, admission standards, and qualifications of teachers.

The Board has entered into a services agreement (the "Agreement") with National Heritage Academies, Inc. ("NHA") which requires NHA to provide administration, strategic planning and all labor, materials, equipment, and supervision necessary for the provision of educational services to students. As part of the consideration received under the Agreement, NHA also provides the facility in which the Academy operates. The facility lease term is from July 1st to June 30th and is renewable on a year to year basis. The Agreement will continue until termination or expiration of the charter contract, inclusive of any charter contract renewal periods, unless at least 90 days written notice of intent to terminate or renegotiate is given by either the Academy or NHA.

Under the terms of the Agreement, NHA receives as remuneration for its services an amount equal to the total revenue received by the Academy from all revenue sources. *Revenues — private sources — National Heritage Academies, Inc.* represent a contribution granted by NHA for the excess of Academy expenses over public revenues available.

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Academy have been prepared in conformity with accounting principles generally accepted in the United States of America ("GAAP") as applied to governmental nonprofit organizations. 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 Academy does not apply FASB statements or 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 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. Enterprise fund reporting focuses on the determination of the change in net assets, financial position, and cash flows.

**B. Measurement Focus**

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 revenues, expenses and changes in net assets presents increases (i.e., revenues) and decreases (i.e., expenses) in net total assets. The statement of cash flows provides information about how the Academy finances and meets the cash flow needs of its enterprises activities.

**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.

Non-exchange transactions, in which the Academy receives value without directly giving equal value in return, include grants, entitlements, and donations. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching 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**

The contract between the Academy and its Sponsor prescribes an annual budget requirement in addition to preparing a 5-year forecast, which is to be updated on an annual basis. Chapter 5705.391(A) of the Ohio Revised Code also requires the Academy to prepare a 5-year forecast, update it annually, and submit it to the Superintendent of Public Instruction at the Ohio Department of Education.

#### **E. Estimates**

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

#### **F. Cash Deposits**

For cash management, all cash received by the Chief Financial Officer is pooled in a non-interest bearing central bank account. Total cash for the Academy is presented as "Cash" on the accompanying Statement of Net Assets. Cash as of June 30, 2011, represents bank deposits, which are covered by federal depository insurance.

#### **G. Capital Assets**

Capital assets, which include equipment, are reported in the financial statements at historical cost. Capital assets are defined by the Academy as assets with an initial cost of more than \$5,000 and an estimated useful life in excess of one year.

Equipment is depreciated using the straight-line method over useful lives of 3-10 years.

#### **H. Current Liabilities**

**Contracted Service Fee Payable** — this amount consists of payments due to NHA for services rendered in fiscal year 2011.

#### **I. Operating Revenues and Expenses**

**Intergovernmental Revenues** — the Academy currently participates in the State Foundation Program, the State Intervention Services Program, and the State Special Education Program. Revenues received from these programs are recognized as operating revenues in the accounting period in which all eligibility requirements have been met.

Grants and entitlements are recognized as nonoperating revenue in the accounting period in which all eligibility requirements have been met.

Eligibility requirements include timing requirements, which specify the year when resources are required to be used or the fiscal year when use is 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.

#### **J. 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 constitutional provisions or enabling legislation adopted through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. At fiscal year end June 30, 2011, the Academy had no restricted net assets.

### 3. DEPOSITS AND INVESTMENTS

At fiscal year end June 30, 2011, the Academy's bank balance was \$21,528. Based on the criteria described in GASB Statement No. 40, "Deposit and Investment Risk Disclosure," as of June 30, 2011, none of the bank balance was exposed to custodial risk as discussed below and all of the bank balance was covered by the Federal Depository Insurance Corporation.

Custodial credit risk is the risk that in the event of bank failure, the Academy will not be able to recover the deposits. All deposits are collateralized with eligible securities in amounts equal to at least 105% of the carrying value of the deposits. Such collateral, as permitted by the Ohio Revised Code, is held in single financial institution collateral pools at the Federal Reserve Bank or at member banks of the federal reserve system, in the name of the respective depository bank and pledged as a pool of collateral against all of the public deposits it holds or as specific collateral held at the Federal Reserve Bank in the name of the Academy.

### 4. RECEIVABLES

Receivables at June 30, 2011, consisted of intergovernmental grants. All receivables are considered collectible in full and will be received within one year.

A summary of the principal items of intergovernmental receivables follows:

	<b>Amounts</b>
Due from State	\$ 22,959
Title I	117,148
Title IIA	14,423
Title IID	399
IDEA Part B	6,534
Title I ARRA	58,351
IDEA Part B ARRA	1,196
Race to the Top ARRA	52,892
National School Lunch and Breakfast	<u>3,904</u>
Total intergovernmental receivables	<u>\$ 277,806</u>

## 5. CAPITAL ASSETS

Capital asset activity of the Academy’s governmental activities was as follows:

	Beginning Balance	Additions	Disposals	Ending Balance
Business-type activities — equipment	\$ 8,543	\$ 6,152	\$ -	\$ 14,695
Total capital assets at historical cost	<u>8,543</u>	<u>6,152</u>	<u>-</u>	<u>14,695</u>
Less accumulated depreciation — equipment	<u>(2,776)</u>	<u>(1,526)</u>	<u>-</u>	<u>(4,302)</u>
Total accumulated depreciation	<u>(2,776)</u>	<u>(1,526)</u>	<u>-</u>	<u>(4,302)</u>
Total business-type activities capital assets — net	<u>\$ 5,767</u>	<u>\$ 4,626</u>	<u>\$ -</u>	<u>\$ 10,393</u>

## 6. DEFINED BENEFIT PENSION PLANS

- A. **School Employees Retirement System** — NHA and contractors of NHA, on behalf of certain employees at the Academy, contribute to the School Employees Retirement System (“SERS”), a cost-sharing multiple-employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained on SERS’ website at [www.ohsers.org](http://www.ohsers.org) under Employers/Audit Resources.

Plan members are required to contribute 10 percent of their annual covered salary and the employer is required to contribute at an actuarially determined rate. The current employer rate is 14 percent of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS’ Retirement Board. The Retirement Board acting with the advice of the actuary, allocates the employer contribution rate among four of the funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund) of the System. For the fiscal year ending June 30, 2011, the allocation to pension and death benefits is 11.81%. The remaining 2.19% of the 14% employer contribution rate is allocated to the Health Care and Medicare Part B Funds. Employer required contributions to SERS for the fiscal years ended June 30, 2011, 2010 and 2009, were \$49,400, \$45,120, and \$52,614, respectively; and 100 percent was contributed for each fiscal year.

- B. **State Teachers Retirement System** — NHA, on behalf of teachers at the Academy, participates in the State Teachers Retirement System of Ohio (“STRS Ohio”), a cost-sharing, multiple-employer public employee retirement system. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 East Broad St., Columbus, Ohio 43215-3371 or by calling (614) 227-4090.

New members have a choice of three retirement plans; a Defined Benefit Plan (DBP), a Defined Contribution Plan (DCP), and a Combined Plan (CP). The DBP offers an annual retirement allowance based on final average salary multiplied by a percentage that varies based on years of service or on 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 DCP 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 fifty and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump sum withdrawal. The CP offers features of both the DBP and the DCP. In the CP, 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 DBP. The DBP portion of the CP payment is payable to a member on or after age sixty; the DCP portion of the account may be taken as a lump sum payment or converted to a lifetime monthly annuity at age fifty. 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 dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

Plan members are required to contribute 10 percent of their annual covered salaries. NHA was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. 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. Employer required contributions to STRS for the fiscal years ended June 30, 2011, 2010 and 2009, were \$211,455, \$212,037, and \$217,913, respectively; 100 percent was contributed for each fiscal year.

## **7. POST-EMPLOYMENT BENEFITS**

The Academy provides comprehensive health care benefits to retired teachers and their dependents through STRS Ohio and to retired, non-certified employees and their dependents through SERS. Benefits include hospitalization, physicians' fees, prescription drugs, and partial reimbursement of monthly Medicare premiums. All benefit recipients and sponsored dependents are eligible for health care coverage. Benefit provisions and the obligations to contribute are established by the Systems based on authority granted by state statute. Both systems are on a pay-as-you-go basis.

All STRS Ohio benefit recipients and sponsored dependents are eligible for health care coverage. The STRS Ohio Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. All benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS Ohio funds is included in the employer contribution rate, currently 14 percent of covered payroll. The Retirement Board allocates employer contributions to the Health Care Reserve Fund from which health care benefits are paid. For the fiscal year ended June 30, 2011, the STRS Ohio Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Reserve Fund. The Academy's contributions for health care for the fiscal years ended June 30, 2011, 2010 and 2009 were \$15,104, \$15,145 and \$15,565, respectively; 100 percent was contributed for each fiscal year.

STRS Ohio pays health care benefits from the Health Care Reserve Fund. At June 30, 2010 (the latest information available) the balance in the Fund was \$2.8 billion. For the year ended June 30, 2010, net health care costs paid by STRS Ohio were approximately \$370.1 million and STRS Ohio had 133,103 eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten or more years of qualifying service credit and to disability and survivor benefit recipients. All members must pay a portion of their premium for health care. The portion is based on years of service, Medicare eligibility, and retirement status. A safety net is in place for retirees whose household income falls below federal poverty levels. Premiums are reduced by 50 percent for those who apply.

The SERS Medicare Part B plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries as set forth in Ohio Revised Code (ORC) 3309.69. Qualified benefit recipients who pay Medicare Part B premiums may apply for and receive a monthly reimbursement from SERS. The reimbursement amount is limited by statute to the lesser of the January 1, 1999 Medicare Part B premium or the current premium. The Medicare Part B monthly premium for calendar year 2010 was \$96.40 for most participants, but could be as high as \$369.10 per month depending on their income. SERS' reimbursement to retirees was \$45.50.

The Retirement Board, acting with the advice of the actuary, allocates a portion of the current employer contribution rate to the Medicare B Fund. For fiscal year 2011, the actuarially required allocation is 0.76%. The Academy's contributions to Medicare Part B for the fiscal years ended June 30, 2011, 2010 and 2009 were \$2,424, \$2,449, and \$2,819, respectively, 100 percent was contributed in each fiscal year.

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

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

The Health Care Fund was established under, and is administered in accordance with Internal Revenue Code § 105(e). Each year after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer 14% contribution to the Health Care Fund. For the year ended June 30, 2011, the health care allocation is 1.43%. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. State law provides that no employer shall pay a health care surcharge greater than 2% of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5% of the total statewide SERS-covered payroll for the health care surcharge. For fiscal year 2011, the minimum compensation level was established at \$35,800. The surcharge, added to the unallocated portion of the 14% employer contribution rate is the total amount assigned to the Health Care Fund. The Academy's contributions assigned to health care for the years ended June 30, 2011, 2010, and 2009 were \$2,218, \$3,014, and \$17,733, respectively.

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

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

## **8. RISK MANAGEMENT**

The Academy is exposed to various risks of loss related to general liability. Commercial insurance policies to cover certain risks of loss have been obtained through Indiana Insurance Company. General liability coverage provides \$1,000,000 per occurrence and \$5,000,000 in the aggregate with no deductible. The Indiana Insurance Company also provides umbrella liability coverage of \$1,000,000 per occurrence, as well as, in the aggregate. There have been no significant reductions in insurance coverage during fiscal year 2011, and claims did not exceed coverage less retained risk deductible amounts during the past three fiscal years.

## **9. CONTINGENCIES**

### **A. Grants**

Amounts received from grantor agencies are subject to audit and adjustment by the grantor. Any disallowed costs may require refunding to the grantor. Amounts, which may be disallowed, if any, are not presently determinable. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the financial position of the Academy.

### **B. State Funding**

The Ohio Department of Education conducts reviews of enrollment data and FTE calculations made by the schools. These reviews are conducted to ensure the schools are reporting accurate student enrollment data to the State, upon which state foundation funding is calculated. The results of this review could result in the State funding being adjusted. The Academy does not anticipate any material adjustments to State funding for fiscal year 2011, as a result of such a review.

**10. CONTRACTED SERVICE FEE**

NHA incurred the following actual direct and indirect expenses on behalf of the Academy for the year ended June 30, 2011:

Direct expenses:	
Salaries, wages and benefits	\$ 2,189,246
Professional and technical services	253,388
Contracted (trade) services	38,548
Property services	1,281,686
Books, periodicals and films	66,976
Supplies	154,017
Utilities	113,405
Food and related supplies	237,215
Travel and training	78,517
Purchased service	31,707
Equipment lease and purchases	172,107
Field trips and student activities	23,721
Insurance and property taxes	<u>59,635</u>
Total direct expenses	4,700,168
Total indirect expenses (overhead)	<u>555,852</u>
Total contracted service fee	<u>\$ 5,256,020</u>

NHA charges expenses benefiting more than one school (i.e. indirect overhead expenses) based on key cost drivers. These charges represent indirect cost of services provided in the operation of the Academy. Such services include, but are not limited to facilities management, equipment, operational support services, management and management consulting, board relations, human resources management, training and orientation, financial reporting and compliance, purchasing and procurement, education services, technology support and marketing and communications.

**11. SPONSORSHIP AGREEMENT**

The Academy entered into a sponsorship agreement with the LCESC. This agreement provides that LCESC receives approximately one percent of State Foundation funds received by the Academy from the State of Ohio. This amounted to \$31,707 for fiscal year 2011.

**12. OPERATING LEASE**

The Academy has entered into a sub-lease agreement with National Heritage Academies for a facility to house the Academy. The lease term is from July 1, 2010 through June 30, 2011. Annual rental payments required by the lease are \$886,720, payable in twelve monthly payments of \$73,893. This lease is renewable on a year to year basis.

The Academy subsequently renewed the sub-lease with National Heritage Academies effective July 1, 2011, for the period of July 1, 2011 through June 30, 2012 at the same annual rental.

\* \* \* \* \*



**SUPPLEMENTAL SCHEDULE**

# ALLIANCE ACADEMY OF CINCINNATI

## SUPPLEMENTAL SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS YEAR ENDED JUNE 30, 2011

Federal Grantor/Pass-Through Grantor/Program Title	Grant Year	Federal CFDA Number	Receipts	Disbursements
U.S. Department of Education — Passed through the Ohio Department of Education: ARRA State Fiscal Stabilization Fund	2011	84.394	\$ 176,493	\$ 176,493
Title I Cluster —				
Title I Grants to Local Educational Agencies	2010	84.010	79,072	36,912
	2011		<u>249,019</u>	<u>278,886</u>
			328,091	315,798
Title I School Improvement (Sub A)	2010	84.010	7,745	-
ARRA Title I Grants to Local Educational Agencies	2010	84.389	52,734	-
	2011		<u>4,204</u>	<u>10,654</u>
			<u>56,938</u>	<u>10,654</u>
Total Title I Cluster			<u>392,774</u>	<u>326,452</u>
Title II Improving Teacher Quality	2010	84.367	7,482	7,482
	2011		<u>5,002</u>	<u>5,002</u>
			<u>12,484</u>	<u>12,484</u>
Title IID Technology Education	2011	84.318	2,211	2,211
Race to the Top	2011	84.395A	-	21,500
Special Education Cluster —				
IDEA Part B	2011	84.027	91,853	98,386
IDEA Preschool	2011	84.173	581	581
ARRA IDEA Part B	2010	84.391	9,715	-
	2011		<u>65,487</u>	<u>65,333</u>
			<u>75,202</u>	<u>65,333</u>
Total Special Education Cluster			<u>167,636</u>	<u>164,300</u>
Total U.S. Department of Education			<u>751,598</u>	<u>703,440</u>

(Continued)

# ALLIANCE ACADEMY OF CINCINNATI

## SUPPLEMENTAL SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS YEAR ENDED JUNE 30, 2011

Federal Grantor/Pass-Through Grantor/Program Title	Grant Year	Federal CFDA Number	Receipts	Disbursements
U.S. Department of Agriculture:				
Passed through the Ohio Department of Education:				
Child Nutrition Cluster:				
Non-Cash Assistance:				
National School Lunch Program — Entitlement Commodities	2011	10.555	\$ 8,345	\$ 8,345
Total Non-Cash Assistance			<u>8,345</u>	<u>8,345</u>
Cash Assistance:				
School Breakfast Program	2010	10.553	532	-
	2011		<u>60,645</u>	<u>60,645</u>
			61,177	60,645
National School Lunch Program	2010	10.555	1,921	-
	2011		<u>136,112</u>	<u>136,112</u>
			<u>138,033</u>	<u>136,112</u>
Total Cash Assistance			<u>199,210</u>	<u>196,757</u>
Total Child Nutrition Cluster			<u>207,555</u>	<u>205,102</u>
Total U.S. Department of Agriculture			<u>207,555</u>	<u>205,102</u>
TOTAL FEDERAL ASSISTANCE			<u>\$ 959,153</u>	<u>\$ 908,542</u>

See note to supplemental schedule of expenditures of federal awards.

(Concluded)

## **ALLIANCE ACADEMY OF CINCINNATI**

### **NOTE TO SUPPLEMENTAL SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS YEAR ENDED JUNE 30, 2011**

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#### **A. BASIS OF PRESENTATION**

The accompanying Supplemental Schedule of Expenditures of Federal Awards is presented in accordance with the U.S. Office of Management and Budget ("OMB") Circular A-133 and is prepared using the cash basis of accounting.

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

Board of Directors  
Alliance Academy of Cincinnati  
Cincinnati, Ohio 45207

We have audited the financial statements of Alliance Academy of Cincinnati (the "Academy") as of and for the year ended June 30, 2011, and have issued our report thereon dated November 21, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control over Financial Reporting**

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

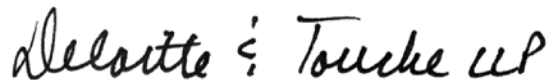
A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination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

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

## Compliance and Other Matters

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

This report is intended solely for the information and use of the Board of Directors, management of the Academy, National Heritage Academies, Inc., Lucas County Education Service Center, federal awarding agencies, and state awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

The logo for Deloitte & Touche LLP, featuring the company name in a cursive script font.

November 21, 2011

## **INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133 AND THE STATE SINGLE AUDIT IMPLEMENTATION ACT**

Board of Directors  
Alliance Academy of Cincinnati  
Cincinnati, Ohio 45207

### **Compliance**

We have audited Alliance Academy of Cincinnati's (the "Academy") compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* and the *Ohio School Audit Manual*, that could have a direct and material effect on each of the Academy's major federal programs for the year ended June 30, 2011. The Academy's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the Academy's management. 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 contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*; and the Ohio Department of Education. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Academy's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Academy's compliance with those requirements.

In our opinion, the Academy complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011.

### **Internal Control over Compliance**

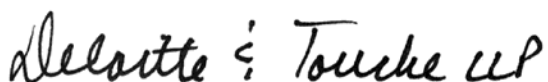
Management of the Academy is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Academy's internal control over compliance with the requirements that could have a direct and material effect on a major federal

program to determine the auditing procedures for the purpose of expressing our opinion 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 expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion 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, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. 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 type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance 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 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.

This report is intended solely for the information and use of the Board of Directors, management of the Academy, Lucas County Education Service Center, federal awarding agencies, state funding agencies, and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

The logo for Deloitte & Touche LLP, written in a cursive, handwritten style.

November 21, 2011



# ALLIANCE ACADEMY OF CINCINNATI

## SCHEDULE OF FINDINGS AND QUESTIONED COSTS YEAR ENDED JUNE 30, 2011

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### PART I — SUMMARY OF AUDITOR'S RESULTS

#### Financial Statements

Type of auditors' report issued	Unqualified	
Internal control over financial reporting: Material weakness(es) identified?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
Significant deficiency(s) identified not considered to be material weaknesses?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> N/A
Noncompliance material to financial statements noted?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No

#### Federal Awards

Internal control over major programs: Material weakness(es) identified?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
Significant deficiency(s) identified not considered to be material weaknesses?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> N/A
Type of auditors' report issued on compliance for major programs	Unqualified	
Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No

#### Identification of major programs:

Name of Federal Program or Cluster Number	CFDA Number
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Title I Grants to Local Educational Agencies Cluster:	
Title I Grants to Local Education Agencies	84.010
Title I – ARRA	84.389

Dollar threshold used to distinguish between Type A and Type B programs	\$300,000
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Auditee qualified as low-risk auditee?	<input checked="" type="checkbox"/> Yes	<input type="checkbox"/> No
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# **ALLIANCE ACADEMY OF CINCINNATI**

## **SCHEDULE OF FINDINGS AND QUESTIONED COSTS YEAR ENDED JUNE 30, 2011 (CONTINUED)**

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### **PART II — FINANCIAL STATEMENT FINDINGS**

Findings relating to the financial statements, which are required to be reported in accordance with *Government Auditing Standards*:

No matters are reportable.

### **PART III — FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

No matters are reportable.

# **ALLIANCE ACADEMY OF CINCINNATI**

## **SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS YEAR ENDED JUNE 30, 2011**

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### **PART I — FINANCIAL STATEMENT FINDINGS**

Findings relating to the financial statements, which are required to be reported in accordance with *Government Auditing Standards*:

No matters are reportable.

### **PART II — FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

No matters are reportable.

## INDEPENDENT ACCOUNTANTS' REPORT ON APPLYING AGREED-UPON PROCEDURES

To the Board of Directors  
National Heritage Academies, Inc. and Subsidiaries  
Grand Rapids, Michigan

Dave Yost, CPA  
Auditor of State of Ohio  
Columbus, Ohio

We have performed the procedure enumerated below, which was agreed to by National Heritage Academies, Inc. and subsidiaries (the "Company") and the Ohio Auditor of State's Office (the "AOS"), solely to assist you and the AOS with respect to the Company's and the AOS evaluation of the anti-harassment policy of the Alliance Academy of Cincinnati, in accordance with Section 3313.666, HB 19 amendment, of the revised State of Ohio code, for the year ended June 30, 2011. The Company's management is responsible for this requirement. This agreed-upon procedure engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of this procedure is solely the responsibility of the parties specified in this report. Consequently, we make no representation regarding the sufficiency of the procedure described below either for the purpose for which this report has been requested or for any other purpose.

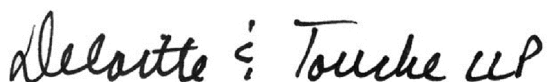
The procedure that we performed and our finding is as follows:

1. We noted the Board of Directors of Alliance Academy of Cincinnati had an anti-harassment policy to include violence within a dating relationship within its definition of harassment, intimidation or bullying in the school's 2010-2011 *Parent and Student Handbook*. This handbook was approved by the Board of Directors at its May 13, 2010 meeting.

No exceptions were noted.

We were not engaged to, and did not, conduct an audit, the objective of which would be the expression of an opinion on the specified elements, accounts, or items. 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 specified parties listed above and is not intended to be and should not be used by anyone other than these specified parties.



January 31, 2012



# Dave Yost • Auditor of State

**ALLIANCE ACADEMY OF CINCINNATI**

**HAMILTON COUNTY**

**CLERK'S CERTIFICATION**

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

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
MAY 3, 2012**