ACADEMY OF ARTS AND HUMANITIES
TRUMBULL COUNTY

REGULAR AUDIT

FOR THE YEAR ENDED JUNE 30, 2007

ACADEMY OF ARTS AND HUMANITIES
TRUMBULL COUNTY

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Mary Taylor, CPA
Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

Academy of Arts and Humanities
Trumbull County
261 Elm Road
Warren, Ohio 44483

To the Board of Directors:

We have audited the accompanying basic financial statements of the Academy of Arts and Humanities, Trumbull County, Ohio (the Academy) , as of and for the year ended June 30, 2007, as listed in the table of contents. These financial statements are the responsibility of the Academy's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to reasonably assure whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Academy of Arts and Humanities, Trumbull County, Ohio, as of June 30, 2007, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements have been prepared assuming that the Academy will continue as a going concern. As discussed in Note 17 to the financial statements, the Academy's net assets ($350,371) and operating loss ($450,482) raise substantial doubt about its ability to continue as a going concern. 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 February 29, 2008, on our consideration of the Academy's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information accounting principles generally accepted in the United States of America requires. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measuring and presenting the required supplementary information. However, we did not audit the information and express no opinion on it.

Mary Taylor

Mary Taylor, CPA
Auditor of State

February 29, 2008

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

Key highlights for fiscal year 2007 are as follows:

- Net assets decreased $107,475.
- Operating expenses accounted for $1,195,470 of the total expenses of $1,225,233.
- Operating revenues accounted for $744,988 of the Academy's funding.
- The Academy had an operating loss of $450,482 and $372,770 of the operating loss was alleviated by non-operating federal and state grants. The Academy was able to utilize the majority of federal grant allocations for fiscal year 2007.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

Table 1 provides a summary of Academy's net assets for 2007 compared to 2006:

Table 1
Net Assets

	2007	2006	Change
Assets:			
Current Assets	$ 277,804	$ 29,170	$ 248,634
Capital Assets	74,406	88,145	(13,739)
Total Assets	352,210	117,315	234,895
Liabilities:			
Current Liabilities	675,800	302,121	(373,679)
Noncurrent Liabilities	26,781	58,090	31,309
Total Liabilities	1,431,943	778,512	(653,431)
Net Assets:			
Invested in Capital Assets, Net of Related Debt	16,316	222	16,094
Restricted for Other Purposes	138	-	138
Unrestricted	(366,825)	(243,118)	(123,707)
Total Net Assets (Deficit)	$ (350,371)	$ (242,896)	$ (107,475)

Results of fiscal year 2007 indicate an ending net asset balance of ($350,371). The decrease is the result of an operating loss in the Academy's second year of operations. We anticipate that the Academy will have a decrease in net assets for fiscal year 2008 but should have an increase in net assets in fiscal year 2009. In the 2008 school year, the Academy moved into a new larger facility. The goal of this investment is to increase 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. The Academy has made progress towards this goal. Enrollment in the 2008 school year has grown to 133 from 115 in the 2007 school year. The initial losses are typical for a new Academy which may not typically achieve positive net assets until the third or fourth year of operations due to significant start-up costs.

Table 2 reflects the changes in net assets for fiscal year 2007 as compared to 2006.

Table 2
Change in Net Assets

	2007	2006	Change
Operating Revenues:			
Community School Foundation	$ 743,488	$ 212,675	$ 530,813
Charge for Services	1,500	599	901
Total Operating Revenues	744,988	213,274	531,714
Operating Expenses:			
Building	148,115	59,229	88,886
Purchased Services	751,033	364,054	386,979
Depreciation	13,739	2,563	11,176
General Supplies	267,569	79,787	187,782
Other Operating Expenses	15,014	26,735	(11,721)
Total Operating Expenses	1,195,470	532,368	663,102
Operating Loss	(450,482)	(319,094)	(131,388)
Nonoperating Revenues and Expenses:			
Federal and State Restricted Grants	372,770	78,545	294,225
Interest Expense	(29,763)	(2,347)	(27,416)
Net Nonoperating Revenues and Expenses	343,007	76,198	266,809
Change in Net Assets	(107,475)	(242,896)	135,421
Net Assets (Deficit) Beginning of Year	(242,896)	-	(242,896)
Net Assets (Deficit) End of Year	$ (350,371)	$ (242,896)	$ (107,475)

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

Budgeting

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

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2007, the Academy had $74,406 invested in capital assets (net of accumulated depreciation) for computer and other equipment, a decrease of $13,739 or 15.59 percent. The following table shows fiscal year 2007 compared to 2006:

	2007	2006	Change
Furniture & Equipment	$34,327	$37,611	($3,284)
Computer Technology	40,079	50,534	(10,455)
Total Capital Assets, Net	$74,406	$88,145	($13,739)

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

Debt

At June 30, 2007, the Academy had $58,090 in capital leases outstanding, $31,309 due within one year. The following outstanding table summarized the Academy's debt outstanding as of June 30, 2007.

Outstanding Debt, at Year End

	2007	2006	Change
Capital Leases	$58,090	$87,923	($29,833)

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 operation.

Operations

The Academy is a public school established pursuant to Ohio Revised Code Chapter 3314. The Academy offers education for Ohio children in third through sixth grade. The Academy is independent of any school district and is nonsectarian in its programs, admission policies, employment practices, and all other operations. The Academy may lease or acquire facilities as needed and contract for any services necessary for the operation of the Academy.

Requests for Information

This financial report is designed to provide our citizens, taxpayers, investors and creditors with a general overview of the Academy's finances and to show the Academy's accountability for the money it receives. If you have any questions concerning this report, please contact Michael Troper, Controller of the Academy, 3333 Chippewa Drive, Columbus, Ohio 43204.

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ACADEMY OF ARTS AND HUMANITIES
TRUMBULL COUNTY

STATEMENT OF NET ASSETS
JUNE 30, 2007

Assets:	
Current assets:	
Cash and Cash Equivalents	$ 7,751
Intergovernmental Receivable	266,740
Prepaid Expense	3,313
Total current assets	277,804
Noncurrent assets:	
Capital Assets, net of Accumulated Depreciation	74,406
Total assets	352,210
Liabilities:	
Current liabilities:	
Accounts Payable, Trade	239,939
Accounts Payable, Related Party	366,772
Deferred Revenue	37,780
Current Portion of Long-term Debt	31,309
Total current liabilities	675,800
Noncurrent liabilities:	
Noncurrent Portion of Long-term Debt	26,781
Total liabilities	702,581
Net Assets	
Invested in Capital Assets, Net of Related Debt	16,316
Restricted for Other Purposes	138
Unrestricted Net Assets	(366,825)
Total Net Assets (Deficit)	$ (350,371)

See Accompanying Notes to the Basic Financial Statements

ACADEMY OF ARTS AND HUMANITIES
TRUMBULL COUNTY

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

Operating Revenues:	
Community School Foundation	$ 743,488
Charge for Services	1,500
Total Operating Revenues	744,988
Operating Expenses:	
Building	148,115
Purchased Services	751,033
Depreciation	13,739
General Supplies	267,569
Other Operating Expenses	15,014
Total Operating Expenses	1,195,470
Operating Loss	(450,482)
Nonoperating Revenues and Expenses:	
Federal and State Restricted Grants	372,770
Interest Expense	(29,763)
Net Nonoperating Revenues and Expenses	343,007
Change in Net Assets	(107,475)
Net Assets (Deficit) Beginning of Year	(242,896)
Net Assets (Deficit) End of Year	$ (350,371)

See Accompanying Notes to the Basic Financial Statements

ACADEMY OF ARTS AND HUMANITIES
TRUMBULL COUNTY

STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

CASH FLOWS FROM OPERATING ACTIVITIES	
Foundation Receipts	$ 737,767
Charge for Services	1,500
Cash Payments to Suppliers for Goods and Services	(797,063)
Net Cash Used for Operating Activities	(57,796)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Federal and State Grant Receipts	119,431
Net Cash Provided by Noncapital Financing Activities	119,431
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Capital Lease Principal Payments	(29,833)
Capital Lease Interest Payments	(30,960)
Net Cash Used by Capital and Related Financing Activities	(60,793)
Net Increase in Cash and Cash Equivalents	842
Cash and Cash Equivalents - Beginning of the Year	6,909
Cash and Cash Equivalents - Ending of the Year	$ 7,751

Reconciliation of Operating Loss to Net Cash Used for Operating Activities	
Operating Loss	$ (450,482)
Adjustments to Reconcile Operating Loss to Net Cash Used for Operating Activities	
Depreciation	13,739
Changes in assets and liabilities:	
Decrease in Prepaid Expense	5,547
Increase in Accounts Payable, Trade	187,036
Increase in Accounts Payable, Related Party	148,584
Increase in Deferred Revenue	37,780
Net Cash Used for Operating Activities	$ (57,796)

Noncash operating activities

The Academy's management company paid $148,584 for operating expenses on behalf of the Academy.

See Accompanying Notes to the Basic Financial Statements

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Note 1 - Description of the School

The Academy of Arts and Humanities (the "Academy") is a nonprofit corporation established pursuant to Ohio Revised Code Chapter 3314. The Academy offers education for Ohio children in third through sixth grade. The Academy is independent of any school district and is nonsectarian in its programs, admission policies, employment practices, and all other operations. The Academy may lease or acquire facilities as needed and contract for any services necessary for the operation of the Academy.

The Academy was approved for operation under a contract with the St. Aloysius Orphanage (the Sponsor) for a period of five academic years commencing after July 1, 2005 and ending June 30, 2010. The Sponsor is responsible for evaluating the performance of the Academy and has the authority to deny renewal of the contract at its expiration or terminate the contract prior to its expiration.

The Academy operates under the direction of a Governing Board that consists of 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 Arts and Science 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.

Note 2 - Summary of Significant Accounting Policies (Continued)

C. Basis of Accounting

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

D. Budgetary Process

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

E. Cash and Cash Equivalents

Cash received by the Academy is reflected as "Cash and Cash Equivalents" on the statement of net assets. The Academy had no investments during the fiscal year ended June 30, 2007.

F. Prepaid Items

The Academy records payments made to vendors for services that will benefit periods beyond June 30, 2007, 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 2007 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.

Note 2 - Summary of Significant Accounting Policies (Continued)

All capital assets are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

Description	Useful Lives
Furniture 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. As of June 30, 2007, there were no net assets restricted by enabling legislation.

The statement of net assets reports $138 in restricted net assets related to certain unspent federal grant receipts and $16,316 invested in capital assets net of related debt.

I. Operating Revenues and Expenses

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

J. Estimates

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

K. Deferred Revenue

Deferred revenues arise when assets are recognized before revenue recognition criteria has been satisfied. The Academy reported deferred revenue for state foundation receipts collected but not earned as of June 30, 2007.

M. 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 principals implemented during 2007 that would have a material effect on the financial statements.

Note 4 - Deposits

Custodial credit risk is the risk that, in the event of a bank failure, the Academy's deposits may not be returned. The Academy does not have a deposit policy for custodial credit risk. At June 30, 2007, the bank balance of Academy's deposits was $15,443. The bank balance was covered by federal depository insurance which covers deposits up to $100,000. There are no significant statutory restrictions regarding the deposit and investment of funds by the nonprofit corporation.

Note 5 – Receivables

At June 30, 2007, the Academy had intergovernmental receivables, in the amount of $266,740. The receivables are expected to be collected within one year.

Grant	Amount
National School Lunch Program	$11,392
Title I	12,583
Federal School Public Grant	242,765
Total Intergovernmental Receivables	$266,740

Note 6 - Capital Assets

Capital asset activity for the fiscal year ended June 30, 2007, was as follows:

	Balance July 1, 2006	Additions (Deletions)	Depreciation Expense	Balance June 30, 2007
Depreciable Capital Assets				
Furniture & Equipment	$38,432	0	0	$38,432
Computer Technology	52,276	0	0	$52,276
Less Accumulated Depreciation				
Furniture & Equipment	(821)	0	(3,284)	($4,105)
Computer Technology	(1,742)	0	(10,455)	($12,197)
Capital Assets, Net	$88,145	$0	($13,739)	$74,406

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 2007, the Academy contracted with Pashley Insurance Agency to provide insurance coverage with the Hartford Casualty Insurance Company. The types and amounts of coverage provided are as follows:

Note 7 - Risk Management

General Liability:	
Each Occurrence	$1,000,000
Aggregate Limit	2,000,000
Products - Completed Operations Aggregate Limit	2,000,000
Medical Expense Limit - Any One Person/Occurrence	10,000
Damage to Rented Premises - Each Occurrence	300,000
Personal and Advertising Injury	1,000,000
Business Personal Property	670,400
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 from the prior year.

Note 8 – Purchased Services

For the period July 1, 2006 through June 30, 2007, purchased service expenses were as follows:

Service	Amount
Personnel	$432,262
Management Fee	144,158
Food Service	53,263
IT/Telephone	33,821
Advertising	22,615
Professional Contractors	22,529
Sponsor Fee	7,813
Professional Development	6,358
Consulting	6,051
Legal Fees	4,832
Furniture/Equipment Rental	4,749
Transportation	3,951
Special Education/Nursing	3,819
Travel	3,036
Other Services	1,776
Total	$751,033

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 system considers the Academy as the Employer-of-Record and the Academy is ultimately responsible for remitting retirement contributions to each of the systems noted below.

A. School Employees Retirement System

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

Plan members are required to contribute 10 percent of their annual covered salary and the Academy is required to contribute at an actuarially determined rate. The current Academy rate is 14 percent of annual covered payroll. A portion of the Academy's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2007, 10.68 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The Academy's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2007 and 2006 were $3,386 and $479 respectively; 100 percent of this amount has been contributed for fiscal year 2007 and 100 percent for fiscal year 2006.

B. State Teachers Retirement System of Ohio

The Academy participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement system. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3371, by calling (614) 227-4090, or by visiting the STRS Ohio web site at www.strsoh.org.

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds divided by an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan. Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one time irrevocable decision to transfer their account balances from the existing DB Plan into the DC Plan or the Combined Plan. This option expired on December 31, 2001. Benefits are established by Chapter 3307 of the Ohio Revised Code.

Note 9 – Defined Benefit Pension Plans (Continued)

B. State Teachers Retirement System of Ohio (Continued)

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

For the fiscal year ended June 30, 2007, plan members were required to contribute 10 percent of their annual covered salaries. The Academy was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal year 2006, the portion used to fund pension obligations was also 13 percent. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The Academy's required contribution for pension obligations for the STRS Ohio for the fiscal years ended June 30, 2007 and 2006 were $38,348 and $26,395 respectively; 91 percent has been contributed for fiscal year 2007 and 100 percent has been contributed for fiscal year 2006. No employees contribute to the DCP and CP Plans.

Note 10 – Postemployment Benefits

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

All STRS Ohio retirees who participated in the DB or Combined Plans and their dependents are eligible for health care coverage. The STRS Ohio Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. All benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS Ohio funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2007, the STRS Ohio Board allocated employer contributions equal to one percent of covered payroll to the Health Care Stabilization Fund. For the Academy, this amount equaled $2,948 for fiscal year 2007.

STRS Ohio pays health care benefits from the Health Care Stabilization Fund. At June 30, 2006, (the latest information available) the balance in the Fund was $3.5 billion. For the fiscal year ended June 30, 2006, net health care costs paid by STRS Ohio were $282,743,000 and STRS Ohio had 119,184 eligible benefit recipients.

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

Note 10 – Postemployment Benefits (Continued)

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2007, employer contributions to fund health care benefits were 3.32 percent of covered payroll, compared to 3.42 and 3.43 percent of covered payroll for fiscal years 2006 and 2005. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2007, the minimum pay was established at $35,800. However, the surcharge is capped at two percent of each employer's SERS salaries. For the Academy, the amount contributed to fund health care benefits, including the surcharge, during the 2007 fiscal year equaled $1,052.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of the projected claims less premium contributions for the next fiscal year. Expenses for health care for the fiscal year ended June 30, 2006 (the latest information available) were $158,751,207. At June 30, 2006, SERS had net assets available for payment of health care benefits of $295.6 million. SERS has 59,492 participants eligible to receive health care benefits.

Note 11 - Contingencies

A. Grants

The Academy received financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the Academy. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the Academy at June 30, 2007.

B. Litigation

A lawsuit entitled ***Beverly Blount-Hill, et al. v. State of Ohio, et al., Case #3:04CV197***, was filed in the US District Court, Southern District of Ohio, Western Division in October 2004. The suit alleges that the funding provisions of the Ohio Community School Act, O.R.C. Section 3314, violate both the Ohio and Federal constitution. If the funding scheme is determined to be unconstitutional, it could have financial ramification for all community/charter schools. The case is still currently pending, and the effect of this suit, if any, on the Academy cannot presently be determined.

C. Ohio Department of Education Enrollment Review

The Ohio Department of Education (ODE) conducts reviews of enrollment data and full-time equivalency (FTE) calculations made by community schools. These reviews are conducted to ensure the Academy is reporting accurate student enrollment data to the State, upon which state foundation funding is calculated. The conclusion of this review could result in state funding being adjusted. A review conducted by the Ohio Department of Education reflected the Academy owed the Ohio Department of Education $37,780. This is reported as deferred revenue on the June 30, 2007 Statement of Net Assets.

Note 12 – Building Leases

The Academy entered into a lease agreement on June 6, 2005 for 10 years to sub lease a building from Ohio Educational Facilities, LLC, a wholly owned subsidiary of Mosaica Education, Inc. for the use of the main building and grounds as a school facility. Mosaica Education, Inc. is a related party, as disclosed in Note 15. Lease payments were based on a master lease agreement between the Ohio Educational Facility, LLC and the Landlord. The total premises approximate 24,000 square feet. However, the Academy shared the premises with another school. Rent was allocated based on the number of classrooms used by each school. For 2006-2007, the Academy used four of the eight classrooms or 50.0%. Rent expense for the fiscal year 2007 was $148,115.

See Note 18 for information regarding a building lease entered into after June 30, 2007.

Note 13 – Capital Lease-Lessee Disclosure

The Academy entered into three lease agreements in fiscal year 2006 with Relational LLC for technology equipment (computers) and furniture. The Academy's lease obligations met the criteria of a capital lease as defined by Statement of Financial Accounting Standards No. 13 "Accounting for Leases", which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee. The furniture & equipment; technology and technology wiring have been capitalized in the amounts of $38,432 $29,194 and $23,082 respectively, the present value of the minimum lease payments at the inception of the lease. The following is a schedule of the future long-term minimum lease payments required under the capital leases and the present value of the minimum lease payments are as follows:

Year Ending June 30	Technology	Technology Wiring	Furniture
2008	$ 11,955	$ 9,453	$ 15,739
2009	9,963	7,877	10,493
Total future minimum lease payments	21,918	17,330	26,232
Less: amount representing interest	(2,667)	(2,108)	(2,615)
Present value of future minimum lease payments	$ 19,251	$ 15,222	$ 23,617

A liability for capital lease obligations in the amount of $58,090 is reported on the Statement of Net Assets. Of this amount, $31,309 is a current liability due within one year and $26,781 is a long-term liability due in more than one year. The Academy made $29,833 of principal payments to reduce the June 30, 2006 outstanding capital lease balance of $87,923.

Note 14 –Tax Exempt Status.

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

Note 15 – Related Party Transactions/Management Company

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

Per the management agreement with the Academy, Mosaica Education, Inc. is entitled to a management fee that is equivalent to 12.5% of Academy revenue. The management fee for fiscal year 2007 was $144,158.

Also, per the management agreement there are expenses that will be billed to the Academy based on the actual cost incurred for the Academy by Mosaica Education, Inc. These expenses include rent, salaries of Mosaica Education, Inc employees working at the Academy, and other costs related to providing educational and administration services. The total expenses paid to Mosaica Education Inc during fiscal year 2007 were $494,884.

At June 30, 2007, the Academy had payables to Mosaica Education, Inc. in the amount of $366,772. The following is a schedule of payables owed to Mosaica Education, Inc.

	Amount
Payroll	$185,650
Management Fee	78,960
Building Rent	84,972
Miscellaneous	17,190
Total June 30, 2006	$366,772

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. As part of this contract, the Sponsor is entitled to a maximum of 1% of the total state funds. Total amount due and paid for fiscal year 2007 was $7,813.

Note 17 – Management's Plan

For fiscal year 2007, the Academy experienced an operating loss of ($450,482) and a cumulative net asset deficit of ($350,371). It is anticipated that the Academy will have an operating loss and a net asset deficit at June 30, 2008 due to lower than expected enrollment. The Governing Board has moved the School into a larger facility and is continuing its effort to expand enrollment in fiscal year 2008. Over time, management believes the anticipated increase in enrollment should allow the school to reduce its operating losses and have operating gains. As of January 31, 2008 the Academy's change in net assets was ($22,091) and the net asset deficit was ($372,462).

Final fiscal year 2006 full-time equivalents students was 32 students and final fiscal year 2007 full-time equivalent student enrollment was 115 students. Current full-time equivalents student enrollment as of January of 2008 is 133 students.

Note 17 – Management's Plan (Continued)

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

Note 18 – Subsequent Event

In August of 2007, Ohio Educational Facilities, LLC, agreed to terminate the existing lease with the Academy to allow the Governing Board to relocate the Academy to a larger facility. A new lease dated September 1, 2007 was executed between the Academy and Warren-Elm Facilities, LLC, a wholly owned subsidiary of Mosaica Education, Inc, for a term of ten years.

Future minimum lease payments, excluding the effect of periodic increases based on the consumer price index, under the newly executed lease agreement and balance of old lease through its August 31, 2007 termination are as follows:

Fiscal Year Ending June 30	Amount
2008	$256,488
2009	290,000
2010	290,000
2011	290,000
2012	290,000
Thereafter	1,450,000
Total minimum lease payments	$2,866,488

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

Academy of Arts and Humanities
Trumbull County
261 Elm Road
Warren, Ohio 44483

To the Board of Directors:

We have audited the basic financial statements of the Academy of Arts and Humanities, Trumbull County, Ohio, (the Academy), as of and for the year ended June 30, 2007, and have issued our report thereon dated February 29, 2008 wherein we noted matters which raise substantial doubt about the Academy's ability to continue as a going concern. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Academy's internal control over financial reporting as a basis for designing our audit procedures for expressing our opinion on the financial statement, but not to opine 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.

Our consideration of internal control over financial reporting was for the limited purposes described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Academy's ability to initiate, authorize, record, process, or report financial data reliably in accordance with its applicable accounting basis, such that there is more than a remote likelihood that the Academy's internal control will not prevent or detect a more-than-inconsequential financial statements misstatement.

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We consider the following deficiencies described in the accompanying schedule of findings to be significant deficiencies in internal control over financial reporting: 2007-001 through 2007-003.

A material weakness is a significant deficiency, or combination of significant deficiencies resulting in more than a remote likelihood that the Academy's internal control will not prevent or detect a material financial statement misstatement.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and accordingly, would not necessarily disclose all significant deficiencies that are also material weaknesses. However, of the significant deficiencies described above, we believe findings 2007-001 through 2007-003 are also material weaknesses.

We also noted certain internal control matters that we reported to the Academy's management in a separate letter dated February 29, 2008.

Compliance and Other Matters

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

We did note certain noncompliance or other matters that we reported to the Academy's management in a separate letter dated February 29, 2008.

The Academy's responses to the findings identified in our audit are described in the accompanying schedule of findings. We did not audit the Academy's responses and, accordingly, we express no opinion on them.

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

Mary Taylor

Mary Taylor, CPA
Auditor of State

February 29, 2008

SCHEDULE OF FINDINGS
JUNE 30, 2007

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

FINDING NUMBER 2007-001

Board Monitoring—Significant Deficiency and Material Weakness

Mosaica Education, Inc., the Academy's management company, prepares monthly bank reconciliations and year to date and month to date budget versus actual financial reports that are presented to the Board of Directors. Since the Academy reports on a full accrual basis of accounting throughout the year the revenue and expenditures reported on the budget versus actual reports include receivable and payable amounts outstanding. However, the Board of Directors is not provided a Statement of Net Assets. Therefore, the Board of Directors could not effectively monitor the Academy's assets, liabilities, and net assets throughout the year.

In addition, the management agreement entered into with Mosaica Education, Inc. states that the following services would be provided: management of personnel and human resources, board relations, financial management, marketing, the program of instruction, purchasing, strategic planning, public relation, financial reporting, recruiting, compliance issues, budgets, contracts, and equipment and facilities. Currently the Board does not have procedures in place to monitor the services being provided by Mosaica Education, Inc.

Monitoring comprises of regular management activities established to oversee whether management's financial objectives are being achieved. Data from financial reports provided by Mosaica Education, Inc may indirectly provide assurance as to the reliability of financial reporting information if it conforms to the users' expectation. Lack of effective legislative monitoring may lead to errors, irregularities, or misappropriation of the Academy's funds.

We recommend that the following items be reviewed and approved by the Board of Directors at the monthly meetings.

1. A Statement of Net Assets that reports the assets, liabilities, and net assets as of the last day of each month.

2. All invoices from Mosaica Education, Inc. and the supporting documentation of the expenses incurred by Mosaica Education, Inc. on behalf of the Academy. Supporting documentation should include payroll reports, the calculation of the management fee charged, rental agreements, and invoices of any other miscellaneous expenses billed to the Academy.

These items should be reviewed by the Board of Directors for any unusual or unexpected financial activity and for discrepancies between the Academy's Management Agreement and the actual services provided and billed by Mosaica Education, Inc. Appropriate follow-up should be made regarding any unusual balances or transactions.

Officials' Response

Although management believes that sufficient management reporting and Sponsor oversight and monitoring is occurring to assure that the Board is kept up to date, the Academy's management and administration is open to expanding the amount of data that is provided to the Board each month to better document that the Board is kept aware of what is going on at the Academy. As a part of the regular Board meeting agenda, the site administration provides a operations report known as a "CAO Report" and management presents a financial package and operations report known as an "MEI Report" as a way for Board to monitor activities and receive updates on issues of interest and concern.

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

FINDING NUMBER 2007-001

Officials' Response (Continued)

All contracts that are non-cancellable in nature are executed directly by the Board. In 2007-08, Management began including a statement of net assets along with the budget to actual detail financial statements and bank reconciliations that are distributed to the Board each month. Management is also now including copies of all Management Company invoices to all members of the Board each month. In the past, management provided a list of checks issued as part of the bank reconciliation support and provided explanations and further support to the Board upon request.

In addition to regular management and administrative reporting, there is regular reporting from the Academy's Sponsor in regards to monthly site visits and compliance monitoring help the Board monitor operational compliance with state and federal guidelines.

FINDING NUMBER 2007-002

Monitoring of Purchased Service Expenses- Significant Deficiency and Material Weakness

The management agreement entered into with Mosaica Education, Inc. states that Mosaica Education, Inc. will manage personnel and human resources for all staff of the Academy and maintain accurate financial records pertaining to the operation of the Academy. In order to ensure accurate record keeping of payroll paid to employees and subsequently billed to the Academy as a purchased service, Mosaica Education, Inc. maintains supporting documentation for all payroll paid to employees.

The following internal control weaknesses were noted during the testing of various payroll transactions billed by Mosaica Education, Inc. to the Academy:

1. The Personnel Action Forms are utilized to document the employee's standing information including but not limited to, the approved pay rate, hours to be worked, and the name of the Academy in which the employee would provide their services to, were not signed by the employee. Therefore, there is no documentation of the employee's agreement to the terms of employment.
2. Hourly employee time sheets were not reviewed and approved by the Chief Administrative Officer of the Academy before the total hours worked were reported for payroll processing.
3. There were staff members that split their services between the Arts and Science Academy, the Arts and Humanities Academy, and/or the Youngstown Academy of Excellence. However, time and effort documentation was not maintained to support the break down of payroll paid to staff between the Academies.

Lack of internal controls over the processing of employee payroll can lead to misappropriation of the Academy's resources for the payment of purchased service expenses that were not actually incurred by the Academy.

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

FINDING NUMBER 2007-002 (Continued)

Monitoring of Purchased Service Expenses- Significant Deficiency and Material Weakness (Continued)

We recommend the following internal controls be implemented within the payroll process.

1. All Personnel Action Forms should be signed by the employees and the administrators assigned to oversee the employee's performance.
2. Each hourly employee should complete a timesheet that accurately reflects the hours worked. All timesheets should be reviewed and signed by the Chief Administrative Officer before payroll is processed.
3. For all employees that are assigned to provide services for more than one Academy, time and effort records should be maintained to support the payroll paid related to each job function.

Officials' Response

While management was under the belief that controls identified below were in place to mitigate the concerns auditors identified in this finding, recommendations for improvements to controls are welcomed and will be implemented where feasible:

1. The Personnel Action Form referred to was not intended to be signed by employee as instructions on the face of the form call for an employee signature if personal information such as name and contact information is being changed. Management issues an offer letter that identifies job title and school assignment for each new hire. The employee signs and returns the offer letter for maintenance in his/her personnel file. Management has modified the new hire packet to require signature of the employee on all Personnel Action Forms that are submitted to payroll. Although the majority of Personnel Action forms for 2007-08 will be unsigned as policy was not revised until midyear, going forward, the signatures will be available on all new Personnel Action Forms that are submitted to payroll for processing.

2. Although the Chief Administrative Officer does not review and sign off on each individual time sheet, the administrative assistant does review them and inputs the time sheet data into a payroll spreadsheet that the Chief Administrative Officer is responsible for approving prior to transmission to the payroll department. One modification to the second recommendation is that rather than having Chief Administrative Officer sign off on individual time sheets, management will require Chief Administrative Officer to provide positive affirmation that spreadsheets provided to payroll are accurate. Prior to providing that positive affirmation, time being reported will need to have been verified against employee timesheets.

3. During 2006-07, because the Academy shared a site with Arts and Sciences Academy, shared administrative site personnel costs were split based on the number of students in each Academy. While the two Academies operated at separate sites for the first part of 2007-08, personnel would have been maintaining service logs or following specific schedules to document which Academy they provided services to. Once the Academies started sharing the Elm Street property midyear, shared costs are again being used with costs being split based on average enrollment.

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

FINDING NUMBER 2007-003

Financial Reporting - Significant Deficiency and Material Weakness

Section 1.02(a)(vii)(A) of the management agreement between the Academy and Mosaica Education, Inc. (MEI) states that MEI will maintain accurate financial records pertaining to its operation of the Academy. Sound financial reporting is essential to ensure the information provided to the readers of the financial statements is compete and accurate.

The following audit adjustments were made to the June 30, 2007 financial statements and posted to the Academy's accounting ledgers:

1. An adjustment was made in the amount of $33,130 to decrease general supplies expense and related party accounts payable that was not obligated prior to June 30, 2007.
2. An adjustment was made in the amount of $35,640 to reduce food service related revenue and expenses that were reported twice in the federal and state restricted grants revenue and the purchased services expenses.

In addition, the following audit adjustments were quantitatively and qualitatively immaterial to the overall financial statements of the Academy and were not posted to the June 30, 2007 financial statements. However, the accumulation of these audit adjustments has more than an inconsequential impact on the financial statements.

1. An adjustment of $5,588 to increase community school foundation revenue and decrease deferred revenue to properly report the full time equivalency (FTE) amount owed to the Ohio Department of Education at June 30, 2007.
2. An adjustment of $2,632 to reduce community school foundation revenue and increase intergovernmental receivable, other expense and trade accounts payable to properly account for the amount owed by the Academy of Arts and Humanities to the Arts and Science Academy as an accounts payable rather than a reduction of intergovernmental receivables.

The fiscal department of Mosaica Education, Inc. should review the adjustments identified above to ensure that similar errors are not reported on the financial statements in subsequent years. In addition, policies and procedures should be adopted that include a final review of the financial statements and note disclosures to identify and correct errors and omissions.

Officials' Response
The adjustments required by the Auditor of State are explained as follows:

1. Management included the costs in the fiscal year as products were ordered prior to year end and accrued as the appropriations were encumbered.

2. Management recorded all receipts paid by Ohio Department of Education to AAH under the Free and Reduced Lunch Program as federal grant revenues. Management then paid Arts and Sciences Academy for the Arts and Sciences Academy students that were reported under the Academy of Arts and Humanities Free and Reduced Lunch program meal claims and recorded the payment as an expense. Auditors are reclassifying that payment from expense to a reduction in revenue even though doing so will make federal grant revenues no longer match Ohio Department of Education records.

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

FINDING NUMBER 2007-003 (Continued)

Officials' Response (Continued)
The adjustments not required by the Auditor of State are a result of:

1. AOS provided preliminary numbers of the Ohio Department of Education final FTE adjustments which management used in closing out the Academy's financial records for 2006-07. Subsequent to the report completion, modifications to the preliminary FTE adjustment occurred. Had the difference between the preliminary numbers used and the final numbers been material, management would have made an adjustment to correct the total revenue.

2. Since there was both an amount receivable and an amount payable to Arts and Sciences Academy, management reported the amount as a net number. Auditors are recommending that the amounts be reported separately as a receivable and a payable, even though only the net balance would be remitted. If the impact would have been material, management would have reported the amounts separately.

Auditor of State Conclusion:
The adjustment for the amount of $35,640 to reduce food service related revenue and expenses was made to match federal grant revenues reported on the financial statements to the confirmation of receipts provided by the Ohio Department of Education.

ACADEMY OF ARTS AND HUMANITIES
TRUMBULL COUNTY

PRIOR YEAR SCHEDULE OF FINDINGS
JUNE 30, 2007

Finding Number	**Finding Summary**	**Fully Corrected?**	**Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; *Explain***
2006-001	Sponsorship Agreement—The Academy had not obtained Tax Exempt Status	Yes	N/A
2006-002	Ohio Revised Code § 3314.03(A)(11)(d), Ohio Revised Code § 121.22(C), and Ohio Revised Code § 149.43(B)(1)-- The minutes for the Board meetings were not maintained on file at the Academy and therefore, the minutes were not available for public inspection.	No	Partially corrected: this finding is being repeated in the Management Letter.
2006-003	Ohio Revised Code § 3314.02(E)(1)—The Academy only had three members on the Board of Directors	Yes	N/A
2006-004	GAAP Financial Statement Preparation and Reporting	No	Partially corrected; this finding is being repeated as finding 2007-003
2006-005	Ohio Department of Education Federal Report Procedures #1	Yes	N/A

Mary Taylor, CPA
Auditor of State

ACADEMY OF ARTS AND HUMANITIES

TRUMBULL COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
MAY 13, 2008

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