



**STAR ACADEMY OF TOLEDO
LUCAS COUNTY**

REGULAR AUDIT

FOR THE YEAR ENDED JUNE 30, 2009



Mary Taylor, CPA
Auditor of State

**STAR ACADEMY OF TOLEDO
LUCAS COUNTY**

TABLE OF CONTENTS

TITLE	PAGE
Independent Accountants' Report.....	1
Management's Discussion and Analysis.....	3
Basic Financial Statements:	
Statement of Net Assets	7
Statement of Revenues, Expenses, and Changes in Net Assets.....	8
Statement of Cash Flows	9
Notes to the Basic Financial Statements	11
Independent Accountants' Report on Internal Control over Financial Reporting and on Compliance and other Matters Required by <i>Government Auditing Standards</i>	23
Schedule of Prior Audit Findings.....	25
Independent Accountants' Report on Applying Agreed-Upon Procedures.....	27

This page intentionally left blank



Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

Star Academy of Toledo
Lucas County
1850 Airport Highway
Toledo, Ohio 43609

To the Governing Board:

We have audited the accompanying basic financial statements of the Star Academy of Toledo, Lucas County, (STAR), as of and for the year ended June 30, 2009, as listed in the table of contents. These financial statements are the responsibility of STAR's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Star Academy of Toledo, Lucas County, as of June 30, 2009, 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 22, 2010, on our consideration of STAR'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.

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.

A handwritten signature in black ink that reads "Mary Taylor". The signature is written in a cursive, flowing style.

Mary Taylor, CPA
Auditor of State

April 22, 2010

STAR ACADEMY OF TOLEDO
Management's Discussion and Analysis
For the Year Ended June 30, 2009
(Unaudited)

The discussion and analysis of Star Academy of Toledo (STAR) financial performance provides an overall review of financial activities for the fiscal year ended June 30, 2009. The intent of this discussion and analysis is to look at the financial performance of STAR as a whole. Readers should also review the Notes to the Financial Statements and the Financial Statements to enhance their understanding of the financial performance of STAR.

Financial Highlights

Key financial highlights for 2009 include the following:

- The school began operations on August 2007 as a high school with enrollment at 32 students. In 2009 the school expanded to be a Kindergarten through grade 12 school and had enrollment of 236 students.
- In total, net assets increased \$234,250 from 2008. Increases in operating revenues were met by slightly higher increases in expenses in 2009. Federal and state grants increased \$311,811 for the year. Operating revenue and expense increases are due to the increased enrollment at the school.
- Total assets increased \$393,234 from 2008. This increase includes increases in cash, other current assets and net capital assets. Cash and receivables collected in early fiscal year 2010 have been used to liquidate liabilities that existed at June 30, 2009.
- Liabilities increased \$158,983 from 2008. Vendor payables at year end June 30, 2009 include \$140,000 to purchase 318 student electronic notebooks. Accrued wages and benefits totaled \$146,923 at June 30, 2009. These liabilities were liquidated in the fall of 2009.
- Operating revenues increased \$1,519,261 from 2008. The majority of the revenues are from the State Foundation and Poverty Based Assistance program. Additional funding came from an expense refund from 2008 and other minor collections.
- Operating expenses increased \$1,534,901 from 2008. All categories of expenses had significant increases from the prior year and are directly related to the enrollment growth of the school.
- Non-operating revenues increased \$311,811 from 2008. All of the increase is from the federal Public Charter School Program start-up grants and food service reimbursements.

Using this Financial Report

This report consists of three parts, Management's Discussion and Analysis, the Financial Statements and the Notes to the Financial 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.

Statement of Net Assets

The Statement of Net Assets looks at how well STAR has performed financially through June 30, 2009. This statement includes all of the assets, liabilities and net assets using the accrual basis of accounting, which is the accounting method used by most private-sector companies. This basis of accounting takes into account all revenues earned and expenses incurred during the year, regardless as to when the cash is received or expended.

STAR ACADEMY OF TOLEDO
Management's Discussion and Analysis
For the Year Ended June 30, 2009
(Unaudited)

The following schedule provides a summary Statement of Net Assets for fiscal years ended June 30, 2009 and 2008 for STAR.

	<u>2009</u>	<u>2008</u>
Assets		
Cash	\$187,064	
Other Current Assets	193,674	\$1,606
Capital Assets	<u>117,881</u>	<u>103,779</u>
 Total Assets	 <u>498,619</u>	 <u>105,385</u>
 Liabilities		
Current Liabilities	<u>326,290</u>	<u>167,307</u>
 Net Assets		
Investment in capital assets, net of related debt	117,881	103,779
Unrestricted	<u>54,448</u>	<u>(165,700)</u>
 Total Net Assets	 <u><u>\$172,329</u></u>	 <u><u>(\$61,921)</u></u>

Net Assets increased \$234,250 due to increase in revenues which were offset by increases in expenses and the receipt of federal Public Charter School Program grant funds. For assets, cash increased \$187,064; due from other governments increased \$186,018; accounts receivable increased \$6,323; prepaid items decreased \$273, and net capital assets increased \$14,102 from 2008. For liabilities, accounts payable increased \$135,574; accrued wages and benefits increased \$127,104; overdraft payable decreased \$5,744 and due to other governments decreased \$97,951 from 2008.

Statement of Revenues, Expenses and Changes in Net Assets

The Statement of Revenues, Expenses and Changes in Net Assets reports operating and non-operating activities for the fiscal year ended June 30, 2009.

The following schedule provides a summary of the Statement of Revenues, Expenses and Changes in Net Assets for STAR for fiscal years ended June 30, 2009 and 2008.

	<u>2009</u>	<u>2008</u>
Revenues		
Foundation and Poverty Based Assistance Revenues	\$1,739,827	\$230,886
Other Operating Revenues	<u>11,548</u>	<u>1,228</u>
Total Operating Revenues	<u>1,751,375</u>	<u>232,114</u>
 Federal and State Grants	 <u>521,094</u>	 <u>209,283</u>
Total Non-Operating Revenues	<u>521,094</u>	<u>209,283</u>

STAR ACADEMY OF TOLEDO
Management's Discussion and Analysis
For the Year Ended June 30, 2009
(Unaudited)

Total Revenues	<u>2,272,469</u>	<u>441,397</u>
Expenses		
Salaries	755,302	106,580
Fringe Benefits	191,424	21,972
Purchased Services	577,228	335,344
Materials and Supplies	312,838	18,245
Capital Outlay	143,491	
Depreciation and Amortization	32,099	19,109
Other Operating Expenses	<u>25,837</u>	<u>2,068</u>
Total Expenses	<u>2,038,219</u>	<u>503,318</u>
Net Income/(Loss)	<u>234,250</u>	<u>(61,921)</u>
Net Assets at Beginning of the Year	<u>(61,921)</u>	<u></u>
Net Assets at End of Year	<u><u>\$172,329</u></u>	<u><u>(\$61,921)</u></u>

Net assets increased in fiscal year ending June 30, 2009 and decreased in fiscal year ending June 30, 2008. These changes are due to the low enrollment in 2008, the significant enrollment increases in 2009 and the receipt of federal Public Charter School Program grant monies in 2009. Although certain expenditures such as salaries will increase or decrease as the number of classes increase or decrease other costs remain fixed such as facilities costs resulting in more efficient operations. Additionally, grants have been received to supplement various educational programs.

Overall, revenues increased by \$1,831,072 from 2008 to 2009. The most significant revenue increases include Foundation and Poverty Based Assistance funds which increased \$1,508,941 due to increased enrollment and increases in formula amounts. Federal and State Grants increased \$311,811 due mainly to lunch program reimbursements and a \$150,000 increase in federal Public Charter School Program funds for the year.

In total, expenses increased \$1,534,901 from 2008 to 2009. Salaries and Fringe Benefits increased \$818,174 due to hiring additional staff and to annual increases. Purchased services increased \$241,884 due to increases in student support services, administrative services, occupancy costs and food services. Materials and Supplies increased \$294,593 and Capital Outlay increased \$143,491 due to purchases of text books, classroom supplies, furniture, equipment and software for classroom expansion. Depreciation increased \$12,990 due to placing capitalized assets into service during the year. Other Operating Expenses increased \$23,769 due to increases in audit fees, memberships and student activities.

Capital Assets

As of June 30, 2009, STAR had \$117,881 invested in computers, furniture, equipment, and a transportation vehicle, net of depreciation. This is a \$14,102 increase over June 30, 2008.

STAR ACADEMY OF TOLEDO
Management's Discussion and Analysis
For the Year Ended June 30, 2009
(Unaudited)

The following schedule provides a summary of Fixed Assets as of June 30, 2009 and 2008 for STAR.

	<u>2009</u>	<u>2008</u>
Capital Assets (net of depreciation)		
Computers	\$111,147	\$103,779
Furniture and Equipment	4,184	
Transportation	<u>2,550</u>	
Net Capital Assets	<u>\$117,881</u>	<u>\$103,779</u>

For more information on capital assets see the Notes to the Financial Statements.

Current Financial Issues

Star Academy of Toledo opened in August 2007. In its initial year of operations it had thirty two students, three teaching staff members and expenses of \$503,318. For fiscal year 2009 the school had a total of 236 students, sixteen teaching staff members and expenses of \$2,038,219. In July 2009 the Board contracted with Constellation Schools LLC to provide to provide educational operations management, legal services, financial services, and business management services for the 2010 fiscal year.

During the past year as the nation has experienced a major economic downturn, the Board of Directors, school management and school staff have worked diligently to ensure that the school develops a high level of educational services and financial integrity. Our goal is to provide a strong educational product for our students and families and to maintain the reputation we have developed during our previous years.

Contacting the School's Financial Management

This financial report is designed to provide our constituents with a general overview of the finances for STAR and to show accountability for the monies it receives. If you have any questions about this report or need additional information please contact Thomas F. Babb, CPA, Treasurer, by mail at Constellation Schools, 5983 West 54th Street, Parma, Ohio 44129; by e-mail at babb.thomas@constellationschools.com; by calling 440.845.4200; or by faxing 440.845.4201.

**Star Academy of Toledo
Lucas County
Statement of Net Assets
As of June 30, 2009**

Assets:

Current Assets:

Cash	\$187,064
Due from Other Governments	187,351
Accounts Receivable	6,323
<i>Total Current Assets</i>	<u>380,738</u>

Non-Current Assets:

Capital Assets (Net of Accumulated Depreciation)	<u>117,881</u>
<i>Total Assets</i>	<u>498,619</u>

Liabilities:

Current Liabilities:

Accounts Payable	179,367
Accrued Wages and Benefits	146,923
<i>Total Liabilities</i>	<u>326,290</u>

Net Assets:

Investment in capital assets, net of related debt	117,881
Unrestricted	54,448
<i>Total Net Assets</i>	<u>\$172,329</u>

The accompanying notes to the financial statements are an integral part of this statement.

**Star Academy of Toledo
Lucas County
Statement of Revenues, Expenses and
Changes in Net Assets
For the Fiscal Year Ended June 30, 2009**

Operating Revenues:

Foundation and Poverty Based Assistance Revenues	\$1,739,827
Other Operating Revenues	<u>11,548</u>
<i>Total Operating Revenues</i>	<u>1,751,375</u>

Operating Expenses:

Salaries	755,302
Fringe Benefits	191,424
Purchased Services	577,228
Materials and Supplies	312,838
Capital Outlay	143,491
Depreciation	32,099
Other Operating Expenses	<u>25,837</u>
<i>Total Operating Expenses</i>	<u>2,038,219</u>
Operating Loss	<u>(286,844)</u>

Non-Operating Revenues:

Federal and State Grants	<u>521,094</u>
Net Income	<u>234,250</u>
Net Assets at Beginning of the Year	<u>(61,921)</u>
Net Assets at End of Year	<u><u>\$172,329</u></u>

The accompanying notes to the financial statements are an integral part of this statement.

**Star Academy of Toledo
Lucas County
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2009**

Increase (Decrease) in Cash:

Cash Flows from Operating Activities:

Cash Received from State of Ohio	\$1,739,827
Cash Payments to Suppliers for Goods and Services	(1,127,039)
Cash Payments to Employees for Services	(628,198)
Other Operating Revenues	<u>11,548</u>
Net Cash Used for Operating Activities	<u>(3,862)</u>

Cash Flows from Noncapital Financing Activities:

Federal and State Grants Received	<u>237,125</u>
-----------------------------------	----------------

Cash Flows from Capital and Related Financing Activities:

Payments for Capital Acquisitions	<u>(46,199)</u>
Net Increase in Cash	187,064
Cash at Beginning of Year	<u> </u>
Cash at End of Year	<u><u>\$187,064</u></u>

The accompanying notes to the financial statements are an integral part of this statement.

Star Academy of Toledo
Lucas County
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2009
(Continued)

Reconciliation of Operating Loss to Net

Cash Used for Operating Activities:

Operating Loss	(\$286,844)
----------------	-------------

Adjustments to Reconcile Operating Loss to

Net Cash Used for Operating Activities:

Depreciation	32,099
--------------	--------

Changes in Assets and Liabilities:

Decrease in Prepaid Expenses	273
(Increase) in Accounts Receivable	(6,323)
(Decrease) in Overdraft Payable	(5,744)
Increase in Accounts Payable	135,573
Increase in Accrued Wages and Benefits	127,104

Total Adjustments	282,982
-------------------	---------

Net Cash Used for Operating Activities	(\$3,862)
--	-----------

The accompanying notes to the financial statements are an integral part of this statement.

STAR ACADEMY OF TOLEDO
- A Community School -
Lucas County

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2009

I. Description of the School and Reporting Entity

Star Academy of Toledo (STAR) is a nonprofit corporation established on November 17, 2006 pursuant to Ohio Revised Code Chapters 3314 and 1702 to be operated exclusively for educational purposes and to be a public benefit corporation. STAR qualifies as an exempt organization under §501(c)(3) of the Internal Revenue Code and will be applying for tax-exempt status with the Internal Revenue Service under section 501(c)(3) of the Internal Revenue Code during the next fiscal year. Management is not aware of any course of action or series of events that have occurred that might adversely affect the tax-exempt status of STAR. STAR, which is part of Ohio's education program, is independent of any school district. STAR may sue and be sued, acquire facilities as needed, and contract for any services necessary for the operation of STAR.

STAR was approved for operation under a contract with the Delaware-Union Educational Service Center (the Sponsor) for a period of one year commencing July 1, 2007. The contract provides for a three year renewal after the first year and a one year renewal thereafter. In June 2008, STAR's Governing Board approved the three year renewal, commencing July 1, 2008. Subsequently, the Delaware-Union Educational Service Center merged with the Educational Service Center of Franklin County to become the Educational Service Center of Central Ohio (ESCCO). The sponsorship agreement transferred to the ESCCO. Under the terms of the contract ESCCO will provide sponsorship services for a fee. See Note XI for further discussion of the sponsor services.

STAR operates under a seven member Board of Directors. The Board is responsible for carrying out the provisions of the contract, which include, but are not limited to, state mandated provisions regarding student population, curriculum, academic goals, performance standards, admission standards, and qualification of teachers. The Board of Directors controls STAR's instructional facility staffed by sixteen certificated full time teaching personnel who provided services to 236 students.

II. Summary of Significant Accounting Policies

The financial statements of STAR have been prepared in conformity with generally accepted accounting principles (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 to its governmental activities provided they do not conflict with or contradict GASB pronouncements. STAR also applies Financial Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989, to its proprietary activities unless those pronouncements conflict with or contradict GASB pronouncements. STAR has elected not to follow FASB guidance issued after November 30, 1989 for its proprietary activities. The more significant of STAR's accounting policies are described below.

1. Basis of Presentation

Enterprise accounting is used to account for operations that are financed and operated in a manner similar to private business enterprises where the intent is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges or where it has been decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

STAR ACADEMY OF TOLEDO
- A Community School -
Lucas County

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2009

II. Summary of Significant Accounting Policies (Continued)

2. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment is determined by its 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. Operating statements present increases (e.g., revenues) and decreases (e.g., expenses) in net total assets.

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

3. Cash

All monies received by STAR are deposited in demand deposit accounts.

4. Budgetary Process

Pursuant to Ohio Revised Code Chapter 5705.391 STAR prepares and adopts an annual budget which includes estimated revenues and expenditures for the fiscal year and a five year forecast of revenues and expenditures. STAR will from time to time adopt budget revisions as necessary.

5. Due From Other Governments and Accounts Receivable

Monies due STAR for the year ended June 30, 2009 are recorded as Due From Other Governments and as Accounts Receivable. A current asset for the receivable amount is recorded at the time of the event causing the monies to be due.

6. Capital Assets and Depreciation

Capital assets are capitalized at cost and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the dates received. All items with a useful life of one year or greater and a value of \$1,000 or more 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.

STAR ACADEMY OF TOLEDO
- A Community School -
Lucas County

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2009

II. Summary of Significant Accounting Policies (Continued)

All capital assets are depreciated. Depreciation of computers, furniture, equipment and transportation vehicles is computed using the straight-line method over their estimated useful lives. Improvements to fixed assets are depreciated over the remaining useful lives of the related fixed assets. Estimated useful lives are as follows:

Capital Asset Classification	Years
Computers	5
Furniture and Equipment	5
Transportation	5

7. Intergovernmental Revenues

STAR currently participates in the State Foundation Program and the State Poverty Based Assistance Program. Revenues received from these programs are recognized as operating revenues in the accounting period in which all eligibility requirements have been met. STAR also participates in Federal Entitlement Programs, the Federal Lunch Reimbursement Program and various State Grant Programs. State and Federal Grants and Entitlements are recognized as non-operating revenues in the accounting period in which all eligibility requirements have been met.

STAR participated in the Federal Charter School Grant Program through the Ohio Department of Education. Under this program, STAR was awarded \$450,000 in fiscal year 2009 to offset start-up costs of the School. During fiscal year 2009, \$247,638 of the award was received. Revenue received from this program is recognized as non-operating revenue on the accompanying financial statements.

Amounts awarded under the above named programs for the 2009 school year totaled \$2,260,921.

8. Compensated Absences

Vacation is taken in a manner which corresponds with the school calendar; therefore, STAR does not accrue vacation time as a liability.

Sick leave benefits are earned at the rate of five days per year and cannot be used beyond the year earned. No financial accrual for sick time is made since unused sick time is not paid to employees upon employment termination.

9. Use of 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 these estimates.

STAR ACADEMY OF TOLEDO
- A Community School -
Lucas County

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2009

III. Deposits

At fiscal year end June 30, 2009, the carrying amount of STAR' deposits totaled \$187,064 and its bank balance was \$190,144. Based on the criteria described in GASB Statement No. 40, "Deposit and Investment Risk Disclosure," as of June 30, 2009, none of the bank balance was exposed to custodial risk as discussed below, while \$190,144 was covered by the Federal Depository Insurance Corporation.

Custodial credit risk is the risk that in the event of bank failure, STAR 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 Banks 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 STAR.

IV. Purchased Services

Purchased Services include the following:

Instruction	\$11,775
Pupil Support Services	17,185
Staff Development & Support	1,267
Administrative	294,647
Occupancy Costs	151,405
Transportation	1,082
Food Services	<u>99,867</u>
 Total Purchased Services	 <u><u>\$577,228</u></u>

V. Operating Lease

STAR entered into a lease for the period March 24, 2008 to July 31, 2008 with Shirley Jean Leadbetter, Trustee, to lease space for the school. The lease required monthly payments of \$5,500. The lease was allowed to expire at the end of the lease term. Total payments made in fiscal year 2009 under this lease totaled \$5,500.

STAR leases its facilities from St. Charles Borromeo Catholic Church under a one-year lease agreement for the period August 1, 2008 through July 31, 2009. This lease can be renewed for an additional two year term commencing August 1, 2009. The lease requires monthly payments \$10,000 as well as other related costs. During fiscal year 2009 total rents paid to St. Charles Borromeo Catholic Church totaled \$110,000.

STAR ACADEMY OF TOLEDO
- A Community School -
Lucas County

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2009

VI. Capital Assets

A summary of capital assets at June 30, 2009 follows:

	Balance <u>6/30/08</u>	Additions	Deletions	Balance <u>6/30/09</u>
Capital Assets Being Depreciated				
Computers and Technology	\$122,888	\$37,002		\$159,890
Furniture and Equipment		6,152		6,152
Transportation		<u>3,000</u>		<u>3,000</u>
Total Capital Assets Being Depreciated	<u>122,888</u>	<u>46,154</u>		<u>169,042</u>
Less Accumulated Depreciation				
Computers and Technology	(19,109)	(29,681)	\$47	(48,743)
Furniture and Equipment		(1,968)		(1,968)
Transportation		<u>(450)</u>		<u>(450)</u>
Total Accumulated Depreciation	<u>(19,109)</u>	<u>(32,099)</u>	<u>47</u>	<u>(51,161)</u>
Total Capital Assets, Net of Accumulated Depreciation	<u>\$103,779</u>	<u>\$14,055</u>	<u>\$47</u>	<u>\$117,881</u>

VII. Risk Management

1. Property and Liability Insurance

STAR 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. For fiscal year 2009, STAR contracted with Indiana Insurance Company for all of its' insurance.

General liability is covered at \$3,000,000 single occurrence limit and \$5,000,000 aggregated. Hired and Non-Owned Vehicles are covered at \$500,000 combined single limit of liability. Other coverage includes Employee Crime, School Leaders Errors & Omissions, Sexual Abuse and Misconduct, Electronic Data Processing and Business Interruption. Settled claims have not exceeded this coverage in any of the past three years, nor has there been any significant reduction in insurance coverage from the prior year.

STAR ACADEMY OF TOLEDO
- A Community School -
Lucas County

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2009

VII. Risk Management (Continued)

2. Workers' Compensation

STAR makes premium payments to the Ohio Worker's Compensation System for employee injury coverage. There have been no claims filed by STAR employees with the Ohio Worker's Compensation System between January 1, 2003 and June 30, 2009.

3. Employee Medical, Dental, and Life Benefits

STAR provides medical, dental and vision insurance benefits to all full time employees. Employees participate in premium payments through pretax payroll deductions. Total insurance benefits paid by STAR for the fiscal year is \$73,367.

VIII. Defined Benefit Pension Plans

1. State Teachers Retirement System

STAR 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 comprehensive annual financial report that may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, Ohio 43215-3371, by calling toll-free 1-888-227-7877, or by visiting the STRS website at www.strsoh.org.

New members have a choice of three retirement plan options. In addition to the Defined Benefit (DB) Plan, new members are offered a Defined Contribution (DC) Plan and a Combined Plan. The DC Plan allows members to allocate all their member contributions and employer contributions equal to 10.5% of earned compensation among various investment choices. The Combined Plan offers features of the DC Plan and the DB Plan. In the Combined Plan, member contributions are allocated to investment choices by the member, and employer contributions are used to fund a defined benefit payment at a reduced level from the regular DB Plan. Contributions into the DC Plan and the Combined Plan are credited to member accounts as employers submit their payroll information to STRS Ohio, generally on a biweekly basis. DC and Combined Plan members will transfer to the DB plan during their fifth year of membership unless they permanently select the DC or Combined Plan.

The DB Plan benefits are established under Chapter 3307 of the Ohio Revised Code. Any member may retire who has (i) five years of service credit and attained age 60; (ii) 25 years of service credit and attained age 55; or (iii) 30 years of service credit regardless of age. The annual retirement allowance, payable for life, is the greater of the "formula benefit" or the "money-purchase benefit" calculation. Under the "formula benefit," the retirement allowance is based on years of credited service and final average salary, which is the average of the members' three highest salary years. The annual allowance is calculated by using a base percentage of 2.2% multiplied by the total number of years of service credit (including Ohio-valued purchased credit) times the final average salary. The 31st year of earned Ohio service credit is calculated at 2.5%. An additional one-tenth of a percent is added to the calculation for every year of earned Ohio service over 31 years until 100% of the final average salary is reached. For members with 35 or more

STAR ACADEMY OF TOLEDO
- A Community School -
Lucas County

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2009

VIII. Defined Benefit Pension Plans (Continued)

years of Ohio contributing service, the first 30 years will be calculated at 2.5% instead of 2.2%. Under the "money-purchase benefit" calculation, a member's lifetime contributions plus interest at specified rates are matched by an equal amount from other STRS Ohio funds. The total is then divided by an actuarially determined annuity factor to determine the maximum annual retirement allowance. Benefits are increased annually by 3% of the original base amount for DB Plan participants.

DC Plan benefits are established under Sections 3307.80 to 3307.89 of the Ohio Revised Code. For members who select the DC Plan, all member contributions and employer contributions at a rate of 10.5% are placed in an investment account. The member determines how to allocate the member and employer money among various investment choices. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump sum withdrawal. Employer contributions into members' accounts are vested after the first anniversary of the first day of paid service. Members in the DC Plan who become disabled are entitled only to their account balance. If a member dies before retirement benefits begin, the members' designated beneficiary is entitled to receive the member's account balance.

Member contributions in the Combined Plan are allocated by the member, and employer contributions are used to fund a defined benefit payment. A members' defined benefit is determined by multiplying 1% of the members' final average salary by the members' years of service credit. The defined portion of the Combined Plan is payable to a member on or after age 60. The defined contribution portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50.

A retiree of STRS Ohio or another Ohio public retirement system is eligible for reemployment following the elapse of two months from the date of retirement. Contributions are made by the reemployed member and employer during reemployment. Upon termination of reemployment or age 65, whichever comes later, the retiree is eligible for an annuity benefit or equivalent lump-sum payment in addition to the original retirement allowance. A reemployed retiree may alternatively receive a refund of only member contributions with interest before age 65, once employment is terminated.

The DB and Combined Plan offer access to health coverage to eligible retirees who participated in the plans and their eligible dependents. Coverage under the current program includes hospitalization, physicians' fees, prescription drugs and partial reimbursement of monthly Medicare Part B premiums. By Ohio law, health care benefits are not guaranteed.

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 members who die before retirement may qualify for survivor benefits. A death benefit of \$1,000 is payable to the beneficiary of each deceased retired member who participated in the DB Plan. Death benefit coverage up to \$2,000 can be purchased by participants in the DB, DC or Combined Plans. Various other benefits are available to members' beneficiaries.

STAR ACADEMY OF TOLEDO
- A Community School -
Lucas County

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2009

VIII. Defined Benefit Pension Plans (Continued)

Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions. Contribution rates are established by the State Teachers Retirement Board, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers. Contribution requirements and the contributions actually made for the fiscal year ended June 30, 2009, were 10% of covered payroll for members and 14% for employers. The amount required to fund pension obligations during the year is 13%.

STAR's required contributions for pension obligations for the fiscal years ended June 30, 2009 and 2008 were \$83,538 and \$12,147, respectively; 94.97% has been contributed for fiscal year 2009 and 100% has been contributed for fiscal year 2008. \$4,205 representing the unpaid contribution due for fiscal year 2009 is recorded as a liability. Member and employer contributions actually made for DB, DC and Combined Plan participants will be provided upon written request.

2. School Employees Retirement System

STAR contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing, multiple-employer defined benefit pension plan. SERS provides retirement, disability and survivor benefits; annual cost-of-living adjustments; and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by state statute per Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. The report can be obtained by contacting SERS, 300 E. Broad Street, Suite 100, Columbus, Ohio 43215-3746 or by calling toll free 1-800-878-5853. It is also posted on SERS' website at www.ohsers.org under Employers/Audit Resources.

Plan members are required to contribute 10% of their annual covered salary and STAR is required to contribute 14% 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 fiscal year ending June 30, 2009, the allocation to pension and death benefits is 9.09%. The remaining 4.91% of the 14% employer contribution rate is allocated to the Health Care and Medicare B Funds. STAR's contributions to SERS for the fiscal years ended June 30, 2009 and 2008 were \$15,779 and \$-0-, respectively; 33.27% has been contributed for fiscal year 2009 and 100% has been contributed for fiscal year 2008. \$10,528 representing the unpaid contribution due for fiscal year 2009 is recorded as a liability.

STAR ACADEMY OF TOLEDO
- A Community School -
Lucas County

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2009

IX. Post-Employment Benefits Other than Pension Benefits

1. State Teachers Retirement System

Ohio law authorizes STRS Ohio to offer a cost-sharing, multiple employer health care plans. STRS Ohio provides access to health care coverage to eligible retirees who participated in the Defined Benefit or Combined Plans. Coverage under the current program includes hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare Part B premiums.

Pursuant to Section 3307 of the Ohio Revised Code, the Retirement Board has discretionary authority over how much, if any, of the associated health care costs will be absorbed by STRS Ohio. All benefit recipients, for the most recent year, pay a portion of the health care costs in the form of a monthly premium.

Under Ohio law funding for post-employment health care may be deducted from employer contributions. Of the 14% employer contribution rate, 1% of covered payroll was allocated to post-employment health care. The 14% employer contribution rate is the maximum rate established under Ohio law. For the fiscal years ended June 30, 2009, and 2008 STAR's contributions to post-employment health care were \$6,426 and \$867, respectively; 94.97% has been contributed for fiscal year 2009 and 100% has been contributed for fiscal year 2008. \$323 representing the unpaid contribution due for fiscal year 2009 is recorded as a liability.

2. School Employees Retirement System

In addition to a cost-sharing multiple-employer defined benefit pension plan the School Employees Retirement System of Ohio administers two post-employment benefit plans. The Medicare B Plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries as set forth in Ohio Revised Code 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 premium for calendar year 2009 was \$96.40. 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 Part B Fund. For fiscal year 2009 the actuarially required allocation is .75%. For the fiscal years ended June 30, 2009 and 2008 STAR contributions to Medicare Part B were \$845 and \$-0-, respectively; 33.27% has been contributed for fiscal year 2009 and 100% has been contributed for fiscal year 2008. \$564 representing the unpaid contribution due for fiscal year 2009 is recorded as a liability.

Ohio Revised Code 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 Ohio Revised Code provides a statutory authority to fund SERS' postemployment benefits

STAR ACADEMY OF TOLEDO
- A Community School -
Lucas County

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2009

through employee contributions. Active members do not make contributions to the postemployment 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, 2009 the health care allocation is 4.16%. 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. Statutes provide 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 2009, 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. For the fiscal years ended June 30, 2009 and 2008 STAR contributions to the Health Care Plan, including the surcharge were \$6,405 and \$-0-, respectively; 24.34% has been contributed for fiscal year 2009 and 100% has been contributed for fiscal year 2008. \$4,846, which includes \$1,717 for unpaid surcharge, representing the unpaid Health Care Plan contribution due for fiscal year 2009 is recorded as a liability.

X. Contingencies

1. Grants

STAR received financial assistance from Federal and State agencies in the form of grants. The disbursement of funds received under these programs 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 STAR. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of STAR at June 30, 2009.

2. Enrollment FTE

The Ohio Department of Education conducts reviews of enrollment and full-time equivalency (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. For fiscal year 2009, the review resulted in a decrease in funding of \$10,909.

XI. Sponsorship Agreement

STAR entered into an agreement with Delaware-Union Educational Service Center which merged with the Educational Service Center of Franklin County to become the Educational Service Center of Central Ohio (ESCCO) to provide sponsorship and oversight services as required by law. Under the agreement sponsorship fees due ESCCO are calculated as 3% of the Fiscal Year 2009 Foundation payments received by STAR, from the State of Ohio. The total amount due ESCCO from STAR for fiscal year 2009 was \$40,555, of which \$12,455 was outstanding as of June 30, 2009.

**STAR ACADEMY OF TOLEDO
- A Community School -
Lucas County**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2009**

XII. Subsequent Events

In July 2009 the Board contracted with Constellation Schools LLC (CS) to provide educational operations management, legal services, financial services, and business management services for the 2010 fiscal year. CS is charging fees for their services including review work to determine the necessary steps to improve the educational program of STAR as well as a management fees for ongoing services provided throughout the 2010 fiscal year.

This page intentionally left blank



Mary Taylor, CPA

Auditor of State

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

Star Academy of Toledo
Lucas County
1850 Airport Highway
Toledo, Ohio 43609

To the Governing Board:

We have audited the basic financial statements of Star Academy of Toledo, Lucas County, (STAR) as of and for the year ended June 30, 2009, and have issued our report thereon dated April 22, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

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

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 STAR'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 STAR's internal control will not prevent or detect a more-than-inconsequential financial statement misstatement.

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

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

We noted certain matters that we reported to STAR's management in a separate letter dated April 22, 2010.

Compliance and Other Matters

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

We intend this report solely for the information and use of management, the Board of Directors and STAR's sponsor. We intend it for no one other than these specified parties.

A handwritten signature in cursive script that reads "Mary Taylor".

Mary Taylor, CPA
Auditor of State

April 22, 2010

**STAR ACADEMY OF TOLEDO
LUCAS COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2009**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2008-001	Finding For Recovery Repaid Under Audit	Yes	
2008-002	Finding For Recovery Repaid Under Audit	Yes	
2008-003	Ohio Revised Code Section 3314.03(A)(11)(d) support for management contract payments	Yes	
2008-004	Ohio Revised Code Section 3309.23 (A)(1) SERS withholdings	Yes	
2008-005	Spending authority procedures	Yes	
2008-006	Financial Reporting errors involving GAAP conversion	Yes	

This page intentionally left blank.



Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT ON APPLYING AGREED-UPON PROCEDURES

Star Academy of Toledo
Lucas County
1850 Airport Highway
Toledo, Ohio 43609

To the Governing Board:

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

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

1. We noted the Board adopted an anti-harassment policy at its meeting on February 25, 2010.
2. We read the policy, noting it included the following requirements from Ohio Rev. Code Section 3313.666(B):
 - (1) A statement prohibiting harassment, intimidation, or bullying of any student on school property or at school-sponsored events;
 - (2) A definition of harassment, intimidation, or bullying that includes the definition in division (A) of Ohio Rev. Code Section 3313.666;
 - (3) A procedure for reporting prohibited incidents;
 - (4) A requirement that school personnel report prohibited incidents of which they are aware to the school principal or other administrator designated by the principal;

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

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

This report is intended solely for the information and use of the Board, management, and STAR's sponsor, and is not intended to be and should not be used by anyone other than these specified parties.



Mary Taylor, CPA
Auditor of State

April 22, 2010



Mary Taylor, CPA
Auditor of State

STAR ACADEMY OF TOLEDO

LUCAS 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 25, 2010**