



**ACADEMY OF ARTS AND HUMANITIES  
TRUMBULL COUNTY**

**SINGLE AUDIT**

**FOR THE YEAR ENDED JUNE 30, 2010**



**Dave Yost • Auditor of State**



**ACADEMY OF ARTS AND HUMANITIES  
TRUMBULL COUNTY**

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# Dave Yost • 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, 2010, which collectively comprise the Academy's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Academy's management. Our responsibility is to express 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 respective financial position of Academy of Arts and Humanities, Trumbull County, Ohio, as of June 30, 2010, and the respective changes in financial position and cash flows, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements have been prepared assuming that the Academy will continue as a going concern. As discussed in Note 18 to the financial statements, the Academy's has suffered recurring losses from operations (\$1,074,327) and has a net asset deficiency (\$883,319) that raise substantial doubt about its ability to continue as a going concern. Note 18 describes management's plan regarding these issues. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 16, 2011, on our consideration of the Academy's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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

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



**Dave Yost**  
Auditor of State

March 16, 2011

**ACADEMY OF ARTS AND HUMANITIES  
TRUMBULL COUNTY**

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

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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, 2010. 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 2010 are as follows:

- Net assets decreased \$161,526.
- Operating expenses accounted for \$2,707,063 of the total expenses of \$2,793,100.
- Operating revenues accounted for \$1,632,736 of the Academy's total funding of \$2,631,574.
- The Academy had an operating loss of \$1,074,327 and \$998,838 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 2010.

**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.

**ACADEMY OF ARTS AND HUMANITIES  
TRUMBULL COUNTY**

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

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

Table 1  
Net Assets

	2010	2009	Change
<b>Assets:</b>			
Current Assets	\$ 363,988	\$ 196,392	\$ 167,596
Capital Assets	68,821	72,801	(3,980)
Total Assets	432,809	269,193	163,616
<b>Liabilities:</b>			
Current Liabilities	662,380	973,830	311,450
Long-term Liabilities	653,749	17,156	(636,593)
Total Liabilities	1,316,129	990,986	(325,143)
<b>Net Assets:</b>			
Invested in Capital Assets, Net of Related Debt	51,666	49,948	1,718
Restricted for Other Purposes	8,400	-	8,400
Unrestricted	(943,385)	(771,741)	(171,644)
Total Net Assets (Deficit)	\$ (883,319)	\$ (721,793)	\$ (161,526)

Results of fiscal year 2010 indicate a decrease in net assets of \$161,526 and an ending net asset deficit of \$883,319. The decrease in net assets is primarily due to a decline in enrollment. The Academy finished fiscal 2010 with 233 students, down from 291 at the end of fiscal 2009. However, the opening of classes in the fall of 2010 saw a further decrease in enrollment to 183 students.

**ACADEMY OF ARTS AND HUMANITIES  
TRUMBULL COUNTY**

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

Table 2 reflects the changes in net assets for fiscal year 2010 as compared to 2009.

Table 2  
Change in Net Assets

	2010	2009	Change
<b>Operating Revenues:</b>			
Community School Foundation	\$ 1,631,777	\$ 2,129,448	\$ (497,671)
Charge for Services	959	4,611	(3,652)
<b>Total Operating Revenues</b>	<u>1,632,736</u>	<u>2,134,059</u>	<u>(501,323)</u>
<b>Operating Expenses:</b>			
Building	294,825	289,992	4,833
Purchased Services	2,284,194	2,259,520	24,674
Depreciation	16,970	16,753	217
General Supplies	111,074	93,984	17,090
Other Operating Expenses	-	78,329	(78,329)
<b>Total Operating Expenses</b>	<u>2,707,063</u>	<u>2,738,578</u>	<u>(31,515)</u>
<b>Operating Loss</b>	<u>(1,074,327)</u>	<u>(604,519)</u>	<u>(469,808)</u>
<b>Nonoperating Revenues and Expenses:</b>			
Federal and State Restricted Grants	998,838	518,991	479,847
Interest Expense	(86,037)	(72,714)	(13,323)
<b>Net Nonoperating Revenues and Expenses</b>	<u>912,801</u>	<u>446,277</u>	<u>466,524</u>
<b>Change in Net Assets</b>	<u>(161,526)</u>	<u>(158,242)</u>	<u>(3,284)</u>
<b>Net Assets (Deficit) Beginning of Year</b>	<u>(721,793)</u>	<u>(563,551)</u>	<u>(158,242)</u>
<b>Net Assets (Deficit) End of Year</b>	<u>\$ (883,319)</u>	<u>\$ (721,793)</u>	<u>\$ (161,526)</u>

During fiscal 2010, the Academy recognized \$150,000 of organizational and development costs incurred during the pre-opening stage of the Academy.

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

**ACADEMY OF ARTS AND HUMANITIES  
TRUMBULL COUNTY**

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

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**Budgeting**

Unlike other public schools located in the State of Ohio, community schools are not required to follow budgetary provision set forth in the Ohio Revised Code Chapter 5705, unless specifically provided by the Academy's contract with its sponsor. The contract between the Academy and its sponsor, the 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 2010, the Academy had \$68,821 invested in capital assets (net of accumulated depreciation) for computer and other equipment, a decrease of \$3,980. The decrease is the result of \$12,990 in asset acquisitions during the year offset by the annual depreciation costs of \$16,970 recognized for the fiscal year. The following table shows fiscal year 2010 compared to 2009:

	<u>2010</u>	<u>2009</u>	<u>Change</u>
Furniture & Equipment	\$47,335	\$53,633	(\$6,298)
Computer Technology	21,486	19,168	2,318
Total Capital Assets, Net	<u>\$68,821</u>	<u>\$72,801</u>	<u>(\$3,980)</u>

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

**Debt**

At June 30, 2010, the Academy had \$696,329 in notes and capital leases outstanding, of which \$42,736 due within one year. The following outstanding table summarized the Academy's debt outstanding as of June 30, 2010.

Outstanding Debt, at Year End

	<u>2010</u>	<u>2009</u>	<u>Change</u>
Capital Leases	\$17,156	\$22,854	(\$5,698)
Promissory Note	679,329	0	\$679,329
Total Debt	<u>\$696,485</u>	<u>\$22,854</u>	<u>\$673,631</u>

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

**Economic Factors**

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

**ACADEMY OF ARTS AND HUMANITIES  
TRUMBULL COUNTY**

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

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**Operations**

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

**Requests for Information**

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

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**ACADEMY OF ARTS AND HUMANITIES  
TRUMBULL COUNTY**

**STATEMENT OF NET ASSETS  
JUNE 30, 2010**

<b>Assets:</b>		
<b><i>Current assets:</i></b>		
Cash and Cash Equivalents	\$	76,047
Intergovernmental Receivable		263,006
Prepaid Expense		24,935
<b>Total current assets</b>		<b>363,988</b>
<b><i>Noncurrent assets:</i></b>		
Capital Assets, net of Accumulated Depreciation		68,821
<b>Total noncurrent assets</b>		<b>68,821</b>
<b>Total assets</b>	<b>\$</b>	<b>432,809</b>
<b>Liabilities:</b>		
<b><i>Current liabilities:</i></b>		
Accounts Payable, Trade	\$	69,224
Accounts Payable, Related Party		508,176
Accrued Interest		361
Deferred Revenue		41,883
Current Portion of Long-term Debt		42,736
<b>Total current liabilities</b>		<b>662,380</b>
<b><i>Noncurrent liabilities:</i></b>		
Noncurrent Portion of Long-term Debt		653,749
<b>Total noncurrent liabilities</b>		<b>653,749</b>
<b>Total liabilities</b>		<b>1,316,129</b>
<b>Net Assets</b>		
Invested in Capital Assets, Net of Related Debt		51,666
Restricted Net Assets		8,400
Unrestricted Net Assets		(943,385)
<b>Total Net Assets</b>	<b>\$</b>	<b>(883,319)</b>
<b>See Accompanying Notes to the Basic Financial Statements</b>		

**ACADEMY OF ARTS AND HUMANITIES  
TRUMBULL COUNTY**

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

<b>Operating Revenues:</b>		
Community School Foundation	\$	1,631,777
Charge for Services		759
Miscellaneous		200
<b>Total Operating Revenues</b>		<b>1,632,736</b>
<b>Operating Expenses:</b>		
Building		294,825
Purchased Services		2,284,194
Depreciation		16,970
General Supplies		111,074
<b>Total Operating Expenses</b>		<b>2,707,063</b>
<b>Operating Loss</b>		<b>(1,074,327)</b>
<b>Nonoperating Revenues and Expenses:</b>		
Federal and State Restricted Grants		998,838
Interest Expense		(86,037)
<b>Net Nonoperating Revenues and Expenses</b>		<b>912,801</b>
<b>Change in Net Assets</b>		<b>(161,526)</b>
<b>Net Assets (Deficit) Beginning</b>		<b>(721,793)</b>
<b>Net Assets End</b>	<b>\$</b>	<b>(883,319)</b>
<b>See Accompanying Notes to the Basic Financial Statements</b>		

**ACADEMY OF ARTS AND HUMANITIES  
TRUMBULL COUNTY**

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

<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Foundation Receipts	\$	1,673,659
Charge for Services		759
Other Operating Receipts		200
Cash Payments to Suppliers for Goods and Services		(2,440,691)
Net Cash Used for Operating Activities		<u>(766,073)</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
Short-term Financing Payments		(77,732)
Federal and State Grant Receipts		929,128
Net Cash Provided by Noncapital Financing Activities		<u>851,396</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Purchase of Assets		(12,990)
Note Payable Interest Payments		(6,384)
Note Payable Principal Retirement		(35,069)
Capital Lease Interest Payments		(1,721)
Capital Lease Principal Retirement		(5,698)
Net Cash Used for Capital and Related Financing Activities		<u>(61,862)</u>
Net Increase in Cash and Cash Equivalents		23,461
Cash and Cash Equivalents - Beginning of the Year		52,586
Cash and Cash Equivalents - Ending of the Year	\$	<u>76,047</u>
<b>Reconciliation of Operating Loss to Net Cash Used for Operating Activities</b>		
Operating Loss	\$	<u>(1,074,327)</u>
<b>Adjustments to Reconcile Operating Loss to Net Cash Used for Operating Activities</b>		
Depreciation		16,970
Changes in assets and liabilities:		
Decrease in Receivable		(49,489)
Increase in Prepaid Expense		(24,935)
Decrease in Accounts Payable, Trade		(62,907)
Increase in Accounts Payable, Related Party		249,565
Decrease in Accrued Liabilities		(12,833)
Increase in Deferred Revenue		41,883
Increase in Notes Payable		150,000
<b>Net Cash Used for Operating Activities</b>	<b>\$</b>	<b><u>(766,073)</u></b>

The Academy entered into a promissory note agreement with Mosaica Education, Inc. for \$564,398 which transferred a portion of the Academy's Accounts Payable, Related Party balance to Long-term Debt

The Academy entered into a promissory note agreement with Mosaica Education, Inc. for \$150,000 as part of the updated management agreement that the Academy would pay Mosaica Education, Inc for costs incurred during its start-up.

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**ACADEMY OF ARTS AND HUMANITIES  
TRUMBULL COUNTY**

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

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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 kindergarten through eighth 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. Subsequent to June 30, 2010, the Academy received a one year extension to the contract through June 30, 2011. 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 16.

**Note 2 - Summary of Significant Accounting Policies**

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

**A. Basis of Presentation**

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

**B. Measurement Focus**

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

**ACADEMY OF ARTS AND HUMANITIES  
TRUMBULL COUNTY**

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

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**Note 2 - Summary of Significant Accounting Policies (Continued)**

**C. Basis of Accounting**

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

**D. Budgetary Process**

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

**E. Cash and Cash Equivalents**

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

**F. Prepaid Items**

The Academy records payments made to vendors for services that will benefit periods beyond June 30, 2010, as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expense is reported in the year in which services are consumed.

**G. Capital Assets**

The Academy's capital assets during fiscal year 2010 consisted of computers and other equipment. All capital assets are capitalized at cost and updated for additions and retirements during the fiscal year. Donated capital assets are recorded at their fair market values as of the date received. The Academy maintains a capitalization threshold of one thousand five hundred dollars. The Academy does not have any infrastructure. Improvements are capitalized. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized.

**ACADEMY OF ARTS AND HUMANITIES  
TRUMBULL COUNTY**

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

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**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:

<u>Description</u>	<u>Useful Lives</u>
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, 2010, there was \$8,400 of net assets restricted by enabling legislation.

The statement of net assets reports \$51,666 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 had \$41,883 in deferred revenue as of June 30, 2010.

**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.

**ACADEMY OF ARTS AND HUMANITIES  
TRUMBULL COUNTY**

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

**Note 3 – Changes in Accounting Principles**

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

**Note 4 - Deposits**

Custodial credit risk is the risk that, in the event of a bank failure, the Academy's deposits may not be returned. The Academy does not have a deposit policy for custodial credit risk. At June 30, 2010, the bank balance of Academy's deposits was \$105,326. The bank balance was covered by federal depository insurance. There are no significant statutory restrictions regarding the deposit and investment of funds by the nonprofit corporation.

**Note 5 – Receivables**

At June 30, 2010, the Academy had intergovernmental receivables, in the amount of \$263,006. The receivables are expected to be collected within one year.

Grant	Amount
Title I A	\$49,710
Title I ARRA	77,653
Federal School Public Grant	53,893
21st Century Grant	41,188
School Counselor Grant	13,911
Other	13,362
IDEA ARRA	8,919
National School Lunch Program	2,193
Title II	2,177
Total Intergovernmental Receivables	\$263,006

**Note 6 - Capital Assets**

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

	Balance			Balance
	June 30, 2009	Additions	Deletions	June 30, 2010
Furniture and Equipment	\$ 68,575	\$ -	\$ -	\$ 68,575
Computers	52,276	12,990	-	65,266
Total Capital Assets	120,851	12,990	-	133,841
Less: Accumulated Depreciation	(48,050)	(16,970)	-	(65,020)
Capital Assets (net of depreciation)	\$ 72,801	\$ (3,980)	\$ -	\$ 68,821

**ACADEMY OF ARTS AND HUMANITIES  
TRUMBULL COUNTY**

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

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**Note 7 - Risk Management**

The Academy is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2010, the Academy contracted with Pashley Insurance Agency to provide insurance coverage with the Hartford Casualty Insurance Company. The types and amounts of coverage provided are as follows:

General Liability:	
Each Occurrence	\$1,000,000
Aggregate Limit	2,000,000
Products - Completed Operations Aggregate Limit	2,000,000
Medical Expense Limit - Any One Person/Occurrence	15,000
Damage to Rented Premises - Each Occurrence	500,000
Personal and Advertising Injury	1,000,000
Business Personal Property	703,900
Automobile Liability:	
Combined Single Limit	1,000,000
Excess/Umbrella:	
Each Occurrence	8,000,000
Aggregate Limit	8,000,000

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, 2009 through June 30, 2010, purchased service expenses were as follows:

Purchased Services	Amount
Personnel Services	\$1,312,268
Staff and Administrative Services	640,462
Food Service	115,060
Building Services	105,558
Sponsor Fee	33,318
Professional Services	32,876
Student Services	29,466
Advertising	15,186
Total	<u><u>\$2,284,194</u></u>

**ACADEMY OF ARTS AND HUMANITIES  
TRUMBULL COUNTY**

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

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**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**

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

Funding Policy - Plan members are required to contribute 10 percent of their annual covered salary and the 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 2010, 12.74 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to a statutory maximum amount of 10 percent for plan members and 14 percent for employers. Chapter 3309 of the Ohio Revised Code provides statutory authority for member and employer contributions. The Academy's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2010, 2009 and 2008 were \$13,822, \$13,632 and \$5,887, respectively; 99 percent has been contributed for fiscal year 2010 and 100 percent for fiscal years 2009 and 2008.

**B. State Teachers Retirement System**

Plan Description - The Academy participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement 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 (888) 227-7877, or by visiting the STRS Ohio web site at [www.strsoh.org](http://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's lifetime contributions and earned interest matched by STRS Ohio funds divided by an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump sum withdrawal. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan.

**ACADEMY OF ARTS AND HUMANITIES  
TRUMBULL COUNTY**

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

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**Note 9 – Defined Benefit Pension Plans (Continued)**

**B. State Teachers Retirement System (Continued)**

The DB portion of the Combined Plan payment is payable to a member on or after age 60; the DC portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50. Benefits are established by Chapter 3307 of the Ohio Revised Code.

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

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

The Academy's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2010, 2009 and 2008 were \$118,428, \$128,224 and \$47,508, respectively; 100 percent has been contributed for the fiscal year 2010 and 100 percent for fiscal years 2009 and 2008.

**C. Social Security System**

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

**Note 10 – Postemployment Benefits**

**A. State Employee Retirement System**

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

**ACADEMY OF ARTS AND HUMANITIES  
TRUMBULL COUNTY**

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

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**Note 10 – Postemployment Benefits (Continued)**

**A. State Employee Retirement System (Continued)**

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

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

The Academy's contributions for health care for the fiscal years ended June 30, 2010, 2009 and 2008 were \$542, \$6,221 and \$2,686, respectively; 99 percent has been contributed for fiscal year 2010 and 100 percent for fiscal years 2009 and 2008.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For 2010, this actuarially required allocation was 0.76 percent of covered payroll. The Academy's contributions for Medicare Part B for the fiscal years ended June 30, 2010, 2009 and 2008 were \$825, \$982 and \$424, respectively; 99 percent has been contributed for fiscal year 2010 and 100 percent was contributed for fiscal years 2009 and 2008.

**B. State Teachers Retirement System**

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

Funding Policy – Ohio law authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For 2010, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. The Academy's contributions for health care for the fiscal years ended June 30, 2010, 2009 and 2008 were \$9,110, \$9,863 and \$3,654, respectively; 100 percent has been contributed for fiscal year 2010 and 100 percent for fiscal years 2009 and 2008.

**Note 11 - Contingencies**

**A. Grants**

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

**ACADEMY OF ARTS AND HUMANITIES  
TRUMBULL COUNTY**

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

**Note 11 – Contingencies (Continued)**

**B. Ohio Department of Education Enrollment Review**

The Ohio Department of Education (ODE) conducts reviews of enrollment data and full-time equivalency (FTE) calculations made by community schools. These reviews are conducted to ensure the Academy is reporting accurate student enrollment data to the State, upon which state foundation funding is calculated. The conclusion of this review could result in state funding being adjusted. Based on a recent review of the 2009 – 2010 school year, it was determined that the Academy was overfunded by \$41,883. The amount was recognized at June 30, 2010 as deferred revenue on balance sheet.

**Note 12 – Building Leases**

The Academy entered into a 10 year lease agreement in November 2007 to lease a building from Warren-Elm Facilities, LLC, a wholly owned subsidiary of Mosaica Education, Inc. for the use of the building and grounds as a school facility. Mosaica Education, Inc. is a related party, as disclosed in Note 16. The lease term ends on June 30, 2017. The initial annual base rent was \$290,000 and has scheduled increases every two years based on the consumer price index. Under the lease agreement, the Academy is responsible for payment of all utilities, repairs and maintenance and property taxes. The building approximates 59,000 square feet. Rent expense for the year ended June 30, 2010 was \$294,825.

**Note 13 – Long-Term Debt Obligations**

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

	Balance June 30, 2009	Additions	Principal Payments	Balance June 30, 2010	Amount Due Within One Year
Capital Leases	\$ 22,854	\$ -	\$ (5,698)	\$ 17,156	\$ 6,200
Promissory Notes	-	714,398	(35,069)	679,329	36,536
Long-Term Obligations	<u>\$ 22,854</u>	<u>\$ 714,398</u>	<u>\$ (40,767)</u>	<u>\$ 696,485</u>	<u>\$ 42,736</u>

In July 2009, the Academy executed a \$150,000 promissory note payable to Mosaica Education, Inc., a related party (see Note 16), to reimburse Mosaica for organizational and development costs incurred during the pre-opening stage of the Academy. The note bears interest at 5 percent per annum and matures in June 2013. The note is payable in equal monthly installments of \$3,454 until maturity.

In June 2010, the Academy executed a promissory note payable to Mosaica Education, Inc., a related party (see Note 16), to defer payment of certain accounts payable invoices owed to Mosaica. The note bears interest at 7 percent per annum and matures in March 2015. Interest accrues only from July 1, 2010 to September 15, 2011. Beginning September 15, 2011 through March 15, 2015, quarterly installments are payable.

**ACADEMY OF ARTS AND HUMANITIES  
TRUMBULL COUNTY**

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

**Note 13 – Long-Term Debt Obligations (Continued)**

The following is the schedule of quarterly payments (payments are inclusive of principal and interest):

	<u>Quarterly Payment</u>
September 15, 2011 thru June 15, 2012	\$20,000
September 15, 2012 thru June 15, 2013	\$40,000
September 15, 2013 thru June 15, 2014	\$60,000
September 15, 2014 thru March 15, 2015	\$78,000

The Academy was unable to pay \$35,069 in principal payments and \$6,384 in interest payments due in fiscal year 2010. These amounts owed to Mosaica Education, Inc., are reported as related party payables on the Statement of Net Assets. Mosaica Education, Inc., did not charge the Academy the late fees per the amortization schedule, however these amounts will be subject to the related party payables interest charge on late fees.

**Note 14 – 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. In addition, the Academy entered into a lease agreement in fiscal year 2008 for telephone and security systems in the amount of \$30,143. 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:

<u>Year Ending June 30</u>	<u>Telephone / Security</u>
2011	7,419
2012	7,419
2013	4,327
Total future minimum lease payments	19,165
Less: amount representing interest	(2,009)
Present value of future minimum lease payments	\$ 17,156

A liability for capital lease obligations in the amount of \$17,156 is included on the Statement of Net Assets. Of this amount, \$6,200 is a current liability due within one year and \$10,956 is a long-term liability due in more than one year.

**ACADEMY OF ARTS AND HUMANITIES  
TRUMBULL COUNTY**

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

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**Note 15 –Tax Exempt Status**

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

**Note 16 – Related Party Transactions/Management Company**

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

Per the management agreement with the Academy, Mosaica Education, Inc. is entitled to a management fee that is equivalent to 12.5% of Academy revenue. The management fee for fiscal year 2010 was \$328,922.

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 by Academy during fiscal year 2010 were \$1,516,412.

At June 30, 2010, the Academy had payables to Mosaica Education, Inc. in the amount of \$508,176.

Management Fees	\$209,315
Rent	147,682
Finance Charges	45,649
Payroll	53,067
Other	52,463
Total	\$508,176

**Note 17 – 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 and extended for one year through June 30, 2011. As part of this contract, the Sponsor is entitled to a percentage of the total state funds. Total amount due and paid for fiscal year 2010 was \$33,318.

**Note 18 – Management’s Plan**

For fiscal year 2010, the Academy experienced an operating loss of \$1,074,327 and a cumulative net asset deficit of \$883,319. It is projected that the Academy will have an operating loss and a net asset deficit at June 30, 2011. In fiscal year 2008, the Governing Board moved the School into a larger facility and is continuing its effort to expand enrollment in fiscal year 2011. Enrollment as of November 2010 is 183 students. The building capacity is approximately 400 students. As of February 28, 2011 the Academy had an operating deficit of \$194,377 and a cumulative net asset deficit of \$1,085,713.

Management plans to continue efforts to increase enrollment, as long as the charter remains in place, through active advertising via print, radio, mailings and through referrals of current parents which may increase enrollment, reduce future deficits and may lead to operating surpluses in future years.

ACADEMY OF ARTS AND HUMANITIES  
TRUMBULL COUNTY

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

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**Note 19 – Subsequent Event**

The Ohio Department of Education informed the Academy's sponsor, St. Aloysius Orphanage, on August 22, 2010 that the Academy is required to close by June 30, 2011 due to continued poor academic performance. The specific performance criteria for such closure are described in Ohio Revised Code Section 3314.35.

**ACADEMY OF ARTS AND HUMANITIES  
TRUMBULL COUNTY**

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

<b>FEDERAL GRANTOR Pass Through Grantor Program Title</b>	<b>Federal CFDA Number</b>	<b>Revenues</b>	<b>Expenses</b>
<b><u>United States Department of Agriculture</u> Passed Through Ohio Department of Education</b>			
Nutrition Cluster:			
Federal School Breakfast Program	10.553	\$ 37,688	\$ 37,688
National School Lunch Program	10.555	91,812	91,812
Total U.S. Department of Agriculture-Nutrition Cluster		129,500	129,500
<b><u>United States Department of Education</u> Passed Through Ohio Department of Education</b>			
Title I Grants to Local Educational Agencies	84.010	256,593	256,593
ARRA - Title I Grants to Local Educational Agencies	84.389	100,106	100,106
Total Title I Cluster		356,699	356,699
Special Education Grants to States (IDEA Part B)	84.027	58,475	58,475
ARRA - Special Education Grants to States (IDEA)	84.391	18,752	27,671
Total Special Education Cluster		77,227	86,146
Title IV - Safe and Drug Free School Communities	84.186	903	903
21st Century Community Learning Centers	84.287	200,000	200,000
Title II-D Technology Literacy Challenge	84.318	1,516	1,516
Title IIA - Improving Teacher Quality State Grants	84.367	18,804	18,804
ARRA - State Fiscal Stabilization Fund Educator	84.394	111,126	111,126
Total United States Department of Education		766,275	775,194
<b>TOTAL FEDERAL AWARDS</b>		<b>895,775</b>	<b>904,694</b>

*The accompanying notes are an integral part of this schedule.*

**ACADEMY OF ARTS AND HUMANITIES  
TRUMBULL COUNTY**

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

**NOTE A - SIGNIFICANT ACCOUNTING POLICIES**

The accompanying Federal Awards Expenditures Schedule (the Schedule) reports the Academy of Arts and Humanities (the Academy's) federal award revenues and expenses. The schedule has been prepared on the accrual basis of accounting.

**NOTE B - CHILD NUTRITION CLUSTER**

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



# Dave Yost • Auditor of State

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

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

To the Board of Directors:

We have audited the financial statements of Academy of Arts and Humanities, Trumbull County, (the Academy) as of and for the year ended June 30, 2010, and have issued our report thereon dated March 16, 2011 wherein we noted matters which raise substantial doubt about the Academy's ability to continue as a going concern. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

### **Internal Control Over Financial Reporting**

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

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

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

### **Compliance and Other Matters**

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

We did note certain matters not requiring inclusion in this report that we reported to the Academy's management in a separate letter dated March 16, 2011.

We intend this report solely for the information and use of management, Board of Directors, St. Aloysius Orphanage and federal awarding agencies and pass-through entities. We intend it for no one other than these specified parties.

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

**Dave Yost**  
Auditor of State

March 16, 2011



# Dave Yost • Auditor of State

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

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

To the Board of Directors:

### Compliance

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

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

As described in item 2010-001 in the accompanying schedule of findings and questioned costs, the Academy did not comply with requirements regarding the school wide program special provisions applicable to its Title I Grants to Local Educational Agencies major federal program. Compliance with this requirement is necessary, in our opinion, for the Academy to comply with requirements applicable to this program.

In our opinion, except for the noncompliance described in the preceding paragraph, the Academy of Arts and Humanities complied, in all material respects, with the requirements referred to above that could directly and materially affect each of its major federal programs for the year ended June 30, 2010.

### Internal Control Over Compliance

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

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and therefore, we cannot assure we have identified all deficiencies, significant deficiencies, or material weaknesses. However, as discussed below, we identified a certain deficiency in internal control over compliance that we consider to be a material weakness.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, when performing their assigned functions, to prevent, or to timely detect and correct, noncompliance with a federal program compliance requirement. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a federal program compliance requirement will not be prevented, or timely detected and corrected. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2010-01 to be a material weakness.

We also noted certain matters not requiring inclusion in this report that we reported to the Academy's management in a separate letter dated March 16, 2011.

The Academy's response to the finding we identified is described in the accompanying schedule of findings. We did not audit the Academy's response and, accordingly, we express no opinion on it.

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



**Dave Yost**  
Auditor of State

March 16, 2011

**ACADEMY OF ARTS AND HUMANITIES  
TRUMBULL COUNTY**

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

**1. SUMMARY OF AUDITOR'S RESULTS**

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

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

None

**ACADEMY OF ARTS AND HUMANITIES  
TRUMBULL COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
OMB CIRCULAR A -133 § .505  
JUNE 30 2010  
(Continued)**

<b>3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS</b>
------------------------------------------------------------

**1. Title I Grants to Local Educational Agencies – Special Provisions – School Wide Programs**

<b>Finding Number</b>	2010-001
<b>CFDA Title and Number</b>	CFDA #84.010 and #84.389 – Title I Grants to Local Educational Agencies
<b>Federal Award Number / Year</b>	2010
<b>Federal Agency</b>	The United States Department of Education
<b>Pass-Through Agency</b>	The Ohio Department of Education

**Noncompliance/Questioned Costs/Material Weakness**

30 CFR 200.25 (b) (ii) provides that a school may operate a school wide program if the initial year of the school wide program the school serves a school attendance area in which not less than 40 percent of the children are from low-income families or not less than 40 percent of the children enrolled in the school are from low-income families.

Ohio Department of Education requires a school to utilize free/reduce applications to determine the percentage of children enrolled at the school that are from low-income families.

Furthermore, 7 CFR 245.6 (e) provides that the local education agency must maintain documentation substantiating eligibility determinations on file for 3 years after the date of the fiscal year to which they pertain.

The Academy did not maintain the 2008-09 free and reduce applications. These applications were used to determine the Academy’s Title I building eligibility for fiscal year 2010. As such, we could not determine whether all the school serves a school attendance area in which not less than 40 percent of the children are from low-income families or not less than 40 percent of the children enrolled in the school are from low-income families. Therefore, we are issuing questioned costs for the entire amount the Academy received for Title I received in 2010, which was \$356,699.

We recommend the Academy implement procedures to ensure that proper documentation is maintained according to federal regulations.

**Official’s Response and Correction Action Plan:**

The 2008-09 free and reduced lunch applications were provided to the Ohio Department of Education for their review and determination of “School Wide” status eligibility. The School has been unable to determine that the records were returned to the School from the Ohio Department of Education or if returned, where they were stored. The Ohio Department of Education completed their review of these documents prior to the documents being misplaced and as a result of their review, granted the Academy “School Wide” status. The Academy has these records for the 2007-08, the 2009-10 and the 2010-11 school years. In each of the years prior to and subsequent to the 2008-09 school year, the school easily exceeded a 40% free and reduced eligible population of students.

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**3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS (Continued)**

**1. Title I Grants to Local Educational Agencies – Special Provisions – School Wide Programs**  
**(Continued)**

**Official's Response and Correction Action Plan (Continued):**

Based on the trends of the student population being well in excess of 40% free and reduced eligible and the approval of "School Wide" status based on the Ohio Department of Education's determination that the Academy actually met the minimum eligibility requirements, management believes that although the missing records is technically a non-compliance issue, that alone should not call into question the validity of all Title I expenditures for the 2009-10 school year. The availability of records from the prior and subsequent periods together with the determination from the Ohio Department of Education based on the missing records are mitigating factors that should provide sufficient corroborating evidence to support the validity of the Academy's eligibility for "School Wide" status in 2008-09.

Corrective action plan: The Academy will make paper or electronic copies for auditors or other parties that might request records be taken off site for examination or review to ensure that original documentation remains on site. The Academy has verified that free and reduced lunch applications are on file for the 2009-10 and 2010-11 fiscal periods.

Estimated date of completion: Completed.

Contact Person: Gari Voss

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# Dave Yost • 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 10, 2011