



Dave Yost • Auditor of State

STAR ACADEMY OF TOLEDO
LUCAS COUNTY

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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 Star Academy of Toledo, Lucas County, Ohio (the School), as of and for the year ended June 30, 2010, as listed in the table of contents. These financial statements are the responsibility of the School'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, Ohio, as of June 30, 2010, and the changes in financial position and cash flows, thereof 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 June 7, 2011, on our consideration of the School'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 School's basic financial statements taken as a whole. The schedule of federal awards receipts and expenditures 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 also not a required part of the basic financial statements 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

June 7, 2011

**STAR ACADEMY OF TOLEDO
LUCAS COUNTY**

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

The discussion and analysis of the Star Academy of Toledo (the "School") financial performance provides an overall review of the School's financial activities for the fiscal year ended June 30, 2010. The intent of this discussion and analysis is to look at the School'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 School's financial performance. The first year of the School's operations was 2007.

Financial Highlights

- Net assets increased \$132,493.
- Operating expenses accounted for \$1,764,814 of the total expenses of \$1,764,838.
- Operating revenues accounted for \$1,441,321 of the School's total funding of \$1,897,331.
- The School had an operating loss of \$323,492 and all of the operating loss was alleviated by non-operating federal grants. The School utilized a significant portion of federal grant dollars allocated for 2009-10 fiscal year but the unused portion of the allocation was able to be carried forward and added to the 2010-11 fiscal year allocations.

Overview of the Financial Statements

The financial report consists of three parts – management's discussion and analysis, the basic financial statements, and the notes to the financial statements. These statements are organized so the reader can understand the financial position of the School. 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 School. 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 School 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 School as a Whole

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

The following tables represent a summary the School's condensed financial information for 2010 derived from the statement of net assets and the statement of revenues, expenses and changes in net assets.

**STAR ACADEMY OF TOLEDO
LUCAS COUNTY**

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

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

Table 1
Net Assets

	<u>2010</u>	<u>2009</u>	<u>Change</u>
Assets:			
Current Assets	\$ 201,320	\$ 380,738	\$ (179,418)
Capital Assets	106,141	117,881	(11,740)
Total Assets	<u>307,461</u>	<u>498,619</u>	<u>(191,158)</u>
Liabilities:			
Current Liabilities	2,639	326,290	(323,651)
Total Liabilities	<u>2,639</u>	<u>326,290</u>	<u>(323,651)</u>
Net Assets:			
Invested in Capital Assets	106,141	117,881	(11,740)
Unrestricted	198,681	54,448	144,233
Total Net Assets	<u>\$ 304,822</u>	<u>\$ 172,329</u>	<u>\$ 132,493</u>

Results of fiscal year 2010 indicate an ending net asset balance of \$304,822, an increase of \$132,493 over fiscal year 2009. The increase is the result of the continued growth in enrollment allowing for grades K – 8 and the closure of grades 9 – 12 along with reduced fixed costs per pupil. The decrease in liabilities was mainly due to the effort of the Academy to be current with its payments to vendors and employees as of June 30, 2010. This was possible because the Public Charter School grant funds that were a receivable at June 30, 2009 were received and available to catch up on obligations with vendors.

**STAR ACADEMY OF TOLEDO
LUCAS COUNTY**

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

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

Table 2
Change in Net Assets

	<u>2010</u>	<u>2009</u>	<u>Change</u>
Revenues:			
Community School Foundation	\$ 1,439,028	\$ 1,739,827	\$ (300,799)
Miscellaneous	2,293	11,548	(9,255)
Federal and State Restricted Grants	456,010	521,094	(65,084)
Total Revenues	<u>1,897,331</u>	<u>2,272,469</u>	<u>(375,138)</u>
Expenses:			
Salaries	702,412	755,302	(52,890)
Fringe Benefits	200,482	191,424	9,058
Building	120,430	120,000	430
Purchased Services	565,941	457,228	108,713
Depreciation	39,311	32,099	7,212
General Supplies	120,010	456,329	(336,319)
Other Operating Expenses	16,228	25,837	(9,609)
Interest Expense	24		24
Total Expenses	<u>1,764,838</u>	<u>2,038,219</u>	<u>(273,381)</u>
Change in Net Assets	132,493	234,250	(101,757)
Net Assets (Deficit) Beginning of Year	<u>172,329</u>	<u>(61,921)</u>	<u>234,250</u>
Net Assets End of Year	<u>\$ 304,822</u>	<u>\$ 172,329</u>	<u>\$ 132,493</u>

Changes in net assets are primarily attributable to a decrease in operating expenses by closing grades 9 – 12 and reducing fixed costs per pupil. The fiscal year 2009-10 was the final year of Public Charter School Grant funds availability. Consequently, supplies and capital outlay funded by this grant in 2007-08, 2008-09 and 2009-10 will need to be funded from per pupil foundation funds beginning in 2010-11, potentially creating a strain on financial resources. A breakdown of Purchased Services can be found in Note 8 to the financial statements.

**STAR ACADEMY OF TOLEDO
LUCAS COUNTY**

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

Budget

Unlike other public schools located in the State of Ohio, community schools are not required to follow budgetary provisions set forth in Ohio Revised Code Chapter 5705, except under Ohio Revised Code Section 5705.391, the School must prepare a five year spending plan and submit it to the Ohio Superintendent of Public Instruction. In addition the Sponsor does prescribe an annual budget requirement in addition to preparing a 5-year forecast which is to be updated on an annual basis.

Capital Assets

At the end of FY 2010, the School had \$106,141 invested in capital assets (net of accumulated depreciation) for computers, furniture, a bus and other equipment, a decrease of \$11,740 or 9.96 percent. The following table shows fiscal year 2010 compared to 2009:

	2010	2009	Change
Computer Technology	\$70,000	\$111,147	(\$41,147)
Furniture and Equipment	34,191	4,184	30,007
Transportation	1,950	2,550	(600)
Net Capital Assets	\$106,141	\$117,881	(\$11,740)

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

Economic Factors

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

Operations

Star Academy of Toledo is a public school established pursuant to Ohio Revised Code Chapter 3314. The School offers education for Ohio children in grades K-8. The School is independent of any school district and is nonsectarian in its programs, admission policies, employment practices, and all other operations. The School may lease or acquire facilities as needed and contract for any services necessary for the operation of the School.

Requests for Information

This financial report is designed to provide our citizens, taxpayers, investors and creditors with a general overview of the School's finances and to show the School's accountability for the money it receives. If you have any questions concerning this report, please contact the Treasurer for Star Academy of Toledo, 1850 Airport Highway, Toledo, Ohio 43609.

STAR ACADEMY OF TOLEDO
LUCAS COUNTY, OHIO

STATEMENT OF NET ASSETS
JUNE 30, 2010

Assets:

Current assets:

Cash and Cash Equivalents	\$	132,709
Intergovernmental Receivable		<u>68,611</u>

Total current assets		<u>201,320</u>
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Noncurrent assets:

Depreciable Capital Assets, Net		<u>106,141</u>
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Total assets		<u>307,461</u>
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Liabilities:

Current liabilities:

Accounts Payable		<u>2,639</u>
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Net assets:

Invested in Capital Assets, Net		106,141
Unrestricted		<u>198,681</u>

Total net assets	\$	<u><u>304,822</u></u>
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SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**STAR ACADEMY OF TOLEDO
LUCAS COUNTY, OHIO**

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

Operating revenues:	
State School Foundation	\$ 1,439,028
Miscellaneous	<u>2,293</u>
Total operating revenues	<u>1,441,321</u>
 Operating expenses:	
Salaries	702,412
Fringe Benefits	200,482
Building	120,430
Purchased Services	565,941
Depreciation	39,311
General Supplies	120,010
Other Operating Expenses	<u>16,228</u>
Total operating expenses	<u>1,764,814</u>
 Operating loss	 <u>(323,493)</u>
 Non-operating revenues and expenses:	
Federal and State Restricted Grants	456,010
Interest Expense	<u>(24)</u>
Total nonoperating revenues and expenses	<u>455,986</u>
 Change in net assets	 132,493
 Net assets at beginning of year	 <u>172,329</u>
 Net assets at end of year	 <u><u>\$ 304,822</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**STAR ACADEMY OF TOLEDO
LUCAS COUNTY, OHIO**

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

Cash flows from operating activities:	
Cash received from foundation receipts	\$ 1,272,876
Cash received from other operating receipts	8,616
Cash payments to employees for services	(946,983)
Cash payments to suppliers for goods and services	<u>(999,337)</u>
Net cash used in operating activities	<u>(664,828)</u>
Cash flows from noncapital financing activities:	
Cash used in short term financing	(24)
Cash received from grants and subsidies	<u>638,068</u>
Net cash provided by noncapital financing activities	<u>638,044</u>
Cash flows from capital and related financing activities:	
Acquisition of capital assets	<u>(27,571)</u>
Net decrease in cash and cash equivalents	(54,355)
Cash and cash equivalents at beginning of year	<u>187,064</u>
Cash and cash equivalents at end of year	<u><u>\$ 132,709</u></u>
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	\$ (323,493)
Adjustments:	
Depreciation	39,311
Changes in assets and liabilities:	
(Increase) in intergovernmental receivable	(56,995)
(Decrease) in accounts payable	(176,728)
(Decrease) in accrued wages and benefits	<u>(146,923)</u>
Net cash (used in) operating activities	<u><u>\$ (664,828)</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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**STAR ACADEMY OF TOLEDO
LUCAS COUNTY**

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

Note 1 – Description of the School

The Star Academy of Toledo (the “School”) is a nonprofit corporation established pursuant to Ohio Revised Code Chapter 3314. The School offers education for Ohio children in grades K-8. The School is independent of any school district and is nonsectarian in its programs, admission policies, employment practices, and all other operations. The School may lease or acquire facilities as needed and contract for any services necessary for the operation of the School

The School was approved for operation under a contract with the Educational Service Center of Central Ohio (the Sponsor) for a period of three academic years commencing after July 1, 2008 and ending June 30, 2011. The Sponsor is responsible for evaluating the performance of the School and has the authority to deny renewal of the contract at its expiration or terminate the contract prior to its expiration.

The School operates under the direction of a Governing Board that consists of seven individuals who are not owners or employees, or immediate relatives or owners or employees of any for-profit firm that operate or manage the School 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.

For the 2009-2010 academic year, the School contracted with Constellation Schools, LLC, 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 14.

Note 2 - Summary of Significant Accounting Policies

The financial statements of the School 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 School 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 School’s accounting policies are described below.

A. Basis of Presentation

The School’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 School 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 School 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 School finances meet its cash flow needs.

**STAR ACADEMY OF TOLEDO
LUCAS COUNTY**

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

Note 2 - Summary of Significant Accounting Policies (Continued)

C. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. The School'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 School 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 School must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the School 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 provisions set forth in Ohio Revised Code, Chapter 5705, except under Ohio Revised Code, Section 5705.391, the School must prepare a five year spending plan and submit it to the Ohio Superintendent of Public Instruction. In addition the Sponsor does prescribe an annual budget requirement in addition to preparing a 5-year forecast which is to be updated on an annual basis

E. Cash and Cash Equivalents

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

F. Capital Assets

The School's capital assets during fiscal year 2010 consisted of capital leases for computers and other equipment as well as leasehold improvements to make the lower level of the facility useable. 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 School maintains a capitalization threshold of one thousand dollars. The School 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.

All capital asset leases 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 years
Computer Technology	5 years
Transportation Vehicles	5 years

**STAR ACADEMY OF TOLEDO
LUCAS COUNTY**

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

Note 2 - Summary of Significant Accounting Policies (Continued)

G. 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 School or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. The School 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 were no net assets restricted for enabling legislation.

The statement of net assets reports no restricted net assets related to federal grant receipts and \$106,141 invested in capital assets net of related debt.

H. Operating Revenues and Expenses

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

I. 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.

J. Economic Dependency

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

Note 3 – Changes in Accounting Principles

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

Note 4 - Deposits

At June 30, 2010, the carrying amount of the School deposits was \$132,709. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2010, the School's entire bank balance of \$197,788 was covered by the Federal Deposit Insurance Corporation (FDIC).

**STAR ACADEMY OF TOLEDO
LUCAS COUNTY**

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

Note 5 – Receivables

At June 30, 2010, the School had intergovernmental receivables, in the amount of \$68,611. The receivables are expected to be collected within one year.

<u>Grant</u>	<u>Amount</u>
Title I	\$1,265
Title I ARRA	2,182
IDEA B	898
Title II D	948
Foundation Funding	63,011
Miscellaneous	<u>307</u>
Total Intergovernmental Receivables	<u><u>\$68,611</u></u>

Note 6 – Capital Assets

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

	<u>Balance</u> <u>June 30, 2009</u>	<u>Additions</u> <u>(Deletions)</u>	<u>Depreciation</u> <u>Expense</u>	<u>Balance</u> <u>June 30, 2010</u>
Depreciable Capital Assets				
Furniture & Equipment	\$53,685			\$53,685
Computer Technology	112,357	27,571		139,928
Transportation Vehicles	3,000			3,000
Less Accumulated Depreciation				
Furniture & Equipment	(8,445)		(11,049)	(19,494)
Computer Technology	(42,266)		(27,662)	(69,928)
Transportation Equipment	(450)		(600)	(1,050)
Capital Assets, Net	<u><u>\$117,881</u></u>	<u><u>\$27,571</u></u>	<u><u>(\$39,311)</u></u>	<u><u>\$106,141</u></u>

Note 7 – Risk Management

The School 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 School contracted with the Indiana Insurance Company. The types and amounts of coverage provided are as follows:

**STAR ACADEMY OF TOLEDO
LUCAS COUNTY**

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

Note 7 – Risk Management (Continued)

General Liability:	
Each Occurrence	\$1,000,000
Aggregate Limit	2,000,000
Products - Completed Operations Aggregate Limit	1,000,000
Medical Expense Limit - Any One Person/Occurrence	5,000
Damage to Rented Premises - Each Occurrence	100,000
Personal and Advertising Injury	1,000,000
Business Personal Property	215,000
Automobile Liability:	
Combined Single Limit	1,000,000
Excess/Umbrella	
Each Occurrence	1,000,000
Aggregate Limit	2,000,000

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

Note 8 – Purchased Services

For the year ended June 30, 2010, purchased service expenses were for the following services:

Purchased Services	Amount
Personnel Services	\$22,954
Building Services	70,712
Food Services	83,369
Student Services	32,364
Staff and Administrative Services	243,173
Professional Services	63,901
Sponsor Services	41,250
Advertising	8,218
Total	<u><u>\$565,941</u></u>

Note 9 – Defined Benefit Pension Plans

A. School Employee Retirement System

Plan Description - The School 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. It is also posted on SERS' website at www.ohser.org under *Employers/Audit Resources*.

**STAR ACADEMY OF TOLEDO
LUCAS COUNTY**

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

Note 9 - Defined Benefit Pension Plans (Continued)

Funding Policy - Plan members are required to contribute 10 percent of their annual covered salary and the School is required to contribute at an actuarially determined rate. The current School rate is 14 percent of annual covered payroll. A portion of the School's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2010, 12.78 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to a statutory maximum amount of 10 percent for plan members and 14 percent for employers. Chapter 3309 of the Ohio Revised Code provides statutory authority for member and employer contributions. The School's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2010, 2009, and 2008 were \$16,272, \$15,779, and \$0 respectively; 100 percent has been contributed for fiscal years 2010, 2009 and 2008.

B. State Teachers Retirement System

Plan Description - The School participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple employer public employee retirement plan. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3771, by calling (888) 227-7877, or by visiting the STRS Ohio Web site at www.strsoh.org

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on a member's lifetime contributions and earned interest matched by STRS Ohio funds divided by an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump sum withdrawal. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan.

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.

**STAR ACADEMY OF TOLEDO
LUCAS COUNTY**

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

Note 9 - Defined Benefit Pension Plans (Continued)

Funding Policy - For the fiscal year ended June 30, 2010, plan members were required to contribute 10 percent of their annual covered salaries. The School was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal year 2009, the portion used to fund pension obligations was also 13 percent. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The School's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2010, 2009, and 2008 were \$74,762, \$83,538, and \$12,147 respectively; 100 percent has been contributed for fiscal years 2010, 2009 and 2008.

Note 10 - Postemployment Benefits

A. School Employee Retirement System

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

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, 0.46 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 School's contributions for health care for the fiscal years ended June 30, 2010, 2009, and 2008 were \$586, \$6,405, and \$0 respectively; 100 percent has been contributed for fiscal years 2010, 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 School's contributions for Medicare Part B for the fiscal years ended June 30, 2010, 2009, and 2008 were \$968, \$845, and \$0 respectively; 100 percent has been contributed for fiscal years 2010, 2009 and 2008.

**STAR ACADEMY OF TOLEDO
LUCAS COUNTY**

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

Note 10 - Postemployment Benefits (Continued)

B. State Teachers Retirement System

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

Funding Policy – Ohio law authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For 2010, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. The School's contributions for health care for the fiscal years ended June 30, 2010, 2009, and 2008 were \$5,751, \$6,426, and \$867 respectively; 100 percent has been contributed for fiscal years 2010, 2009 and 2008.

Note 11 - Contingencies

A. Grants

The School 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 School. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the School at June 30, 2010.

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 School is reporting accurate student enrollment data to the State, upon which state foundation funding is calculated. For fiscal year 2010, the review resulted in an increase in funding of \$63,011.

C. Litigation

The School is involved in certain litigation proceedings, the outcome of which is uncertain. It is expected that any material exposure the School may have with regards to these proceedings will be covered by the School's liability insurance.

Note 12 – Building Leases

The School entered into an operating lease agreement renewal from St. Charles Borromeo Catholic Church commencing August 1, 2009 and running for a two year period for the use of the facilities the School uses for its academic programs. Rent expense for the fiscal year ended 2010 was \$120,000. The future minimum payments required under the executed lease are \$120,000.

**STAR ACADEMY OF TOLEDO
LUCAS COUNTY**

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

Note 13 – Tax Exempt Status.

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

Note 14 – Management Company

The School contracts with Constellation Schools, LLC. for a 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 and budget preparation and accounts payable and payroll preparation.

Per the management agreement with the School, Constellation Schools, LLC is entitled to a management fee that is a function of the School's revenues. The management fee for fiscal year 2010 was \$218,898.

Note 15 – Sponsor

The School was approved for operation under a contract with the Educational Service Center of Central Ohio (the Sponsor) for a period of three academic years commencing July 1, 2008. As part of this contract, the Sponsor is entitled to a maximum of 3% of the total Foundation state funds. Total amount due and paid for fiscal year 2010 was \$41,250.

Note 16 – Subsequent Events

In July 2010, the Board and Constellation Schools, LLC terminated their agreement for management services. Subsequently, the School has contracted with Mosaica Education, Inc. for a 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 and budget preparation and accounts payable and payroll preparation.

Per the management agreement with the School, Mosaica Education is entitled to a management fee that is equivalent to 12.5% of the School's revenues.

Also, per the management agreement there are expenses that will be billed to the School based on the actual cost incurred for the School by Mosaica Education, Inc. These expenses include rent, salaries, of Mosaica Education, Inc employees working at the School, and other costs related to providing educational and administration services.

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**STAR ACADEMY OF TOLEDO
LUCAS COUNTY**

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

FEDERAL GRANTOR <i>Pass Through Grantor</i> Program Title	Federal CFDA Number	Receipts	Disbursements
U.S. DEPARTMENT OF EDUCATION			
<i>Passed Through the Ohio Department of Education</i>			
Title I Cluster:			
Title I Grants to Local Educational Agencies	84.010	\$ 109,654	\$ 122,730
ARRA - Title I Grants to Local Educational Agencies	84.389	<u>73,145</u>	<u>75,327</u>
		182,799	198,057
Special Education Cluster:			
Special Education Grants to States	84.027	30,872	32,655
ARRA - Special Education Grants to States	84.391	<u>100</u>	<u>100</u>
		30,972	32,755
Safe and Drug-Free Schools and Communities State Grant	84.186	690	706
Education Technology State Grant	84.318	109	1,169
Improving Teacher Quality State Grants	84.367	12,220	12,670
ARRA - Education Stabilization Grant	84.394	94,715	94,715
Public School Charter Grant	84.282	<u>195,683</u>	<u>158,548</u>
Total U.S. Department of Education		<u>517,188</u>	<u>498,620</u>
U.S. DEPARTMENT OF AGRICULTURE			
<i>Passed Through the Ohio Department of Education</i>			
Child Nutrition Cluster:			
School Breakfast Program	10.553	<u>23,877</u>	<u>23,877</u>
National School Lunch Program	10.555	<u>86,992</u>	<u>86,992</u>
Total U.S. Department of Agriculture		<u>110,869</u>	<u>110,869</u>
Total		<u>\$ 628,057</u>	<u>\$ 609,489</u>

The accompanying notes are an integral part of this schedule.

**STAR ACADEMY OF TOLEDO
LUCAS COUNTY**

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

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

The accompanying Schedule of Federal Awards Receipts and Expenditures (the Schedule) reports the Star Academy of Toledo (the School's) federal award programs' receipts and disbursements. The schedule has been prepared on the cash basis of accounting.

NOTE B - CHILD NUTRITION CLUSTER

The School commingles cash receipts from the U.S. Department of Agriculture with similar State grants. When reporting expenditures on this Schedule, the School 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*

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 Ohio, Lucas County, Ohio (the School), as of and for the year ended June 30, 2010, and have issued our report thereon dated June 7, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the School's internal control over financial reporting as a basis for designing our audit procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of opining on the effectiveness of the School's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the School'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 School'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 School'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 a matter not requiring inclusion in this report that we reported to the School's management in a separate letter dated June 7, 2011.

We intend this report solely for the information and use of management, Governing Board, the Community School's sponsor, federal awarding agencies and pass-through entities, and others within the School. We intend it for no one other than these specified parties.

A handwritten signature in black ink that reads "Dave Yost". The signature is written in a cursive style with a large, looping initial "D".

Dave Yost
Auditor of State

June 7, 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

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

To the Governing Board:

Compliance

We have audited the compliance of Star Academy of Toledo, Lucas County, Ohio (the School), 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 the School's 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 School's major federal programs. The School'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 School'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 School'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 School's compliance with those requirements.

In our opinion, the Star Academy of Toledo 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. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements that, while not affecting our opinion on compliance, OMB Circular A-133 requires us to report. The accompanying schedule of findings lists this instance as Finding 2010-001.

Internal Control Over Compliance

The School'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 School'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 School's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, 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.

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

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

We intend this report solely for the information and use of management, Governing Board, the Community School's sponsor, others within the School, federal awarding agencies, and pass-through entities. It is not intended for anyone other than these specified parties.



Dave Yost
Auditor of State

June 7, 2011

**STAR ACADEMY OF TOLEDO
LUCAS COUNTY**

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

1. SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	Type of Financial Statement Opinion	Unqualified
(d)(1)(ii)	Were there any material control weaknesses reported at the financial statement level (GAGAS)?	No
(d)(1)(ii)	Were there any significant deficiencies in internal control reported at the financial statement level (GAGAS)?	No
(d)(1)(iii)	Was there any reported material noncompliance at the financial statement level (GAGAS)?	No
(d)(1)(iv)	Were there any material internal control weaknesses reported for major federal programs?	No
(d)(1)(iv)	Were there any significant deficiencies in internal control reported for major federal programs?	No
(d)(1)(v)	Type of Major Programs' Compliance Opinion	Unqualified
(d)(1)(vi)	Are there any reportable findings under § .510(a)?	Yes
(d)(1)(vii)	Major Programs (list):	Title I Grants to LEA Cluster: <ul style="list-style-type: none"> • Title I Grants to Local Educational Agencies - CFDA 84.010 • ARRA - Title I Grants to Local Educational Agencies - CFDA 84.389 Charter Schools Grant – CFDA # 84.282
(d)(1)(viii)	Dollar Threshold: Type A/B Programs	Type A: > \$ 300,000 Type B: all others
(d)(1)(ix)	Low Risk Auditee?	No

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

None

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

FINDING NUMBER 2010-001

Noncompliance Citation

OMB Circular A-133 §.200, Audits of States, Local Governments and Non-Profit Organizations, as published on 06/27/2003, requires Non-Federal entities that expend \$500,000 or more in a year in Federal awards to have a single audit or program-specific audit conducted for that year in accordance with the provisions of **OMB Circular A-133**.

OMB Circular A-133 §.320, requires the audit to be completed and the data collection form and reporting package to be submitted within the earlier of 30 days after receipt of the auditor's report, or nine months after the end of the audit period, unless a longer period is agreed to in advance by the cognizant or oversight agency for the audit.

The School expended greater than \$500,000 in Federal awards during fiscal year 2010 and did not have a single audit or a program-specific audit conducted to meet the nine month deadline. The School did not receive an extension to this filing requirement.

Officials' Response:

Management will work with the Auditor of State to make sure that future single audit reporting deadlines are met.

**STAR ACADEMY OF TOLEDO
LUCAS COUNTY**

**CORRECTIVE ACTION PLAN
OMB CIRCULAR A -133 § .315 (c)
JUNE 30, 2010**

Finding Number	Planned Corrective Action	Anticipated Completion Date	Responsible Contact Person
2010-001	Management will work with the Auditor of State to make sure that future single audit reporting deadlines are met.	May 31, 2011	Roger W. Gray Senior VP School Finance

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Dave Yost • 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
JUNE 23, 2011