# MOUNT AUBURN INTERNATIONAL ACADEMY
# HAMILTON COUNTY

## SINGLE AUDIT

## FOR THE YEAR ENDED JUNE 30, 2012

Dave Yost • Auditor of State

MOUNT AUBURN INTERNATIONAL ACADEMY
HAMILTON COUNTY

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## INDEPENDENT ACCOUNTANTS' REPORT

Mount Auburn International Academy
Hamilton County
244 Southern Avenue
Cincinnati, Ohio 45219

To the Board of Directors:

We have audited the accompanying basic financial statements of Mount Auburn International Academy, Hamilton County, Ohio (the Academy), as of and for the year ended June 30, 2012, 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 financial position of Mount Auburn International Academy, Hamilton County, Ohio, as of June 30, 2012, and the changes in financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements have been prepared assuming that the Academy will continue as a going concern. As discussed in Note 11 to the financial statements, the Academy has suffered recurring losses from operations and has a net asset deficiency of $3,338,410 that raise substantial doubt about its ability to continue as a going concern. Note 11 describes Management's plans regarding these matters. 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 27, 2013, on our consideration of the Academy's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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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 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 not a required part of the basic financial statements. The schedule of federal awards receipts and expenditures 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

**Dave Yost**
Auditor of State

March 27, 2013

**MOUNT AUBURN INTERNATIONAL ACADEMY**
**HAMILTON COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**
**FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

The discussion and analysis of the Mount Auburn International Academy Community School's financial performance provides an overall review of the School's financial activities for the fiscal year ended June 30, 2012. The intent of this discussion and analysis is to look at the School's financial performance as a whole; readers should also review the basic financial statements and notes to the basic financial statements to enhance their understanding of the School's financial performance.

The Management's Discussion and Analysis (MD&A) is an element of the new reporting model adopted by the Governmental Accounting Standard Board (GASB) in their Statement No. 34 Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Government issued June, 1999. Certain comparative information between the current year and the prior year is required to be presented in the MD&A.

## Financial Highlights

- In total, net assets decreased ($956,161) from the beginning of the year.
- Total assets decreased ($482,858) from the beginning of the year. This was a result of additional cash on hand and intergovernmental receivable.
- Total liabilities increased ($473,304) from the beginning of the year. This is mainly due to increased salaries and benefits for additional staff to accommodate the increased enrollment, unpaid license fees, management fees, and facility rent.

## Using this Financial Report

This report consists of three parts, the MD&A, the basic financial statements, and notes to those statements. The basic financial statements include a statement of net assets, a statement of revenues, expenses and changes in net assets, and a statement of cash flows.

Statement of Net Assets

The Statement of Net Assets and the Statement of Revenues, Expenses and Changes in Net Assets answer the question, "How did we do financially during 2012? This statement includes all assets and liabilities, both financial and capital, and short-term and long-term using the accrual basis of accounting and economic resources focus, which is similar to the accounting used by most private-sector companies. This basis of accounting takes into account all revenues and expenses during the year, regardless of when the cash is received or paid.

Table 1 provides a summary of the School's net assets for fiscal year 2012.

(Table 1)
**Net Assets**

| | 2012 | 2011 |
|---|---|---|
| **Assets** | | |
| Current Assets | $ 512,965 | $ 984,964 |
| Land | $ - | $ - |
| Capital Assets, Net | $ 32,822 | $ 43,681 |
| Total Assets | $ 545,787 | $ 1,028,645 |
| | | |
| **Liabilities** | | |
| Current Liabilities | $ 545,788 | $ 1,028,645 |
| Non-Current Liabilities | $3,338,411 | $ 2,382,249 |
| Total Liabilities | $3,884,199 | $ 3,410,894 |
| | | |
| Net Assets | | |
| Invested in Capital Assets | $ 32,822 | $ 43,681 |
| Unrestricted | ($3,371,232) | ($2,425,930) |
| Total Net Assets | ($3,338,410) | ($2,382,249) |

Total assets decreased $482,858 from the beginning of the year. Liabilities increased $ 473,304 from the beginning of the year mainly due to unpaid fees to the management. Capital Assets, net of depreciation decreased by $ 10,859

Table 2 shows the changes in net assets for fiscal year 2012 and fiscal year 2011, as well as a listing of revenues and expenses.

(Table 2)
**Change in Net Assets**

| | 2012 | 2011 |
|---|---|---|
| Operating Revenue | | |
| Extracurricular and Lunchroom Sales | 0 | 551 |
| Foundation Payments | 2,984,536 | 2,864,745 |
| Poverty Based Assistance | 737,624 | 595,684 |
| Other | 10,903 | 24,996 |
| Non-Operating Revenue | | |
| Federal and State Grants | 591,198 | 1,370,897 |
| Interest | 1,477 | 1,888 |
| Federal and State Meal Subsidies | 293,009 | 275,006 |
| Total Revenues | 4,618,747 | 5,133,767 |
| Operating Expenses | | |
| Salaries | 2,462,673 | 2,445,252 |
| Fringe Benefits | 638,728 | 745,814 |
| Purchased Services | 1,566,569 | 1,534,025 |
| Materials and Supplies | 517,102 | 569,428 |
| Cost of Sales-Lunchroom | 204,890 | 208,513 |
| Depreciation | 11,658 | 11,849 |
| Other Expenses | 173,288 | 166,210 |
| Total Expenses | 5,574,908 | 5,681,092 |
| Change in Net Assets | (956,161) | (547,324) |
| Net Assets Beginning of Year | ($2,382,249) | ($1,834,925) |
| Net Assets End of Year | ($3,338,410) | ($2,382,249) |

Total revenues decreased by $515,020 mainly due to a reduction in Federal and State grants. Total expenses decreased by $106,184, mainly due to less staff fringe benefit costs.

**Capital Assets**

At the end of fiscal year 2012 the School had $32,822 (net of depreciation), invested in furniture, fixtures, and equipment, which represented a decrease of $10,859 from 2011

**Current Financial Issues**

The Mount Auburn International Academy was formed in 2008. Hence 2011-2012 is the fourth year of operation. During the 2011-2012 school year there were approximately 525 students enrolled in the School. The School receives its finances mostly from state aide. Base per pupil aide for fiscal year 2012 amounted to $5,653 per student.

At June 30, 2012, the School had a net deficiency of $3,338,410, meaning that current liabilities were in excess of current assets by this amount.

In order to address the net deficiency the School's Education Provider shall, in its sole discretion, cover any deficits of the School in any year in which there is a deficit as long as the deficit is not due to a unilateral decision by the Board to expend additional funds. In the event that the School, in subsequent years, makes a profit, Education Provider may recover any amounts expended to cover previous deficits. This provision shall be effective as of July 1, 2008, and shall apply to all advances (either direct or indirect) previously made to the Board to cover deficits.

**Contacting the School's Financial Management**

This financial report is designed to provide our citizen's with a general overview of the School's finances and to show the School's accountability for the money it receives. If you have questions about this report or need additional information contact Ed Giese, Business Manager at Mount Auburn International Academy, 244 Southern Ave, Cincinnati, Ohio 45219.

**Mount Auburn International Academy**

Statement of Net Assets

As of June 30, 2012

| **Assets** | **FY 12** |
|---|---|
| **Current Assets:** | |
| Equity in Pooled Cash and Cash Equivalents | $299,762 |
| Accounts Receivable | 0 |
| Intergovernmental Receivables (operating activities) | 209,951 |
| Materials and Supplies Inventory | 0 |
| Prepaid Items | 3,252 |
| Total Current Assets | 512,965 |
| | |
| **Non-Current Assets:** | |
| Capital Assets: | |
| Depreciable Capital Assets, Net | 32,822 |
| Total Non-Current Assets | 32,822 |
| | |
| *Total Assets* | $545,787 |
| | |
| **Liabilities** | |
| **Current Liabilities:** | |
| Accounts Payable | 7,423 |
| Accrued Wages and Benefits | 202,040 |
| Capital Lease (long term) | 0 |
| Undistributed Monies | 0 |
| Management Company Payable | 336,325 |
| Total Current Liabilities | 545,788 |
| | |
| **Non-Current Liabilities** | |
| Managaement Company Payable | 3,338,411 |
| Total Non-Current Liabilities | 3,338,411 |
| | |
| *Total Liabilities* | 3,884,199 |
| | |
| **Net Assets** | |
| Invested in Capital Assets: | 32,822 |
| Unrestricted-Accumulated Surplus/(Deficit) | ($3,371,232) |
| | |
| *Total Net Assets* | ($3,338,410) |

See accompanying notes to the basic financial statements

**Mount Auburn International Academy**
Statement of Revenues, Expenses and
Changes in Net Assets
For the Fiscal Year Ended June 30, 2012

| **Operating Revenues** | **FY 12** |
|---|---|
| Extracurricular and Lunchroom Sales | $0 |
| Foundation Payments | 2,984,536 |
| Poverty Based Assistance | 737,624 |
| Other Revenues | 10,903 |
| *Total Operating Revenues* | 3,733,063 |
| **Operating Expenses** | |
| Salaries | 2,462,673 |
| Fringe Benefits and Payroll Taxes | 638,728 |
| Purchased Services | 1,566,569 |
| Materials and Supplies | 517,102 |
| Cost of Sales - Lunchroom | 204,890 |
| Depreciation | 11,658 |
| Other | 173,287 |
| *Total Operating Expenses* | 5,574,908 |
| *Operating Loss* | (1,841,845) |
| **Non-Operating Revenues and (Expenses)** | |
| Other Federal and State Grants | 591,198 |
| Interest Income | 1,477 |
| Federal and State Meal Subsidies | 293,009 |
| *Total Non-Operating Revenues and Expenses* | 885,684 |
| *Change in Net Assets* | (956,161) |
| *Net Assets Beginning of Year* | (2,382,249) |
| *Net Assets End of Year* | ($3,338,410) |

See accompanying notes to the basic financial statements

**Mount Auburn International Academy**
**Statement of Cash Flows**
**For the Fiscal Year Ended June 30, 2012**

| | |
|---|---|
| ***Increase (Decrease) in Cash and Cash Eahuivalents:*** | **FY 12** |
| ***Cash Flows from Operating Activities:*** | |
| Cash Received from Customers | $0 |
| Cash Received from Others | 10,903 |
| Cash Received from Foundation Payments | 2,984,536 |
| Cash Received from Poverty Based Assistance | 737,624 |
| Cash Received from Other Non-Operating Revenues | |
| Cash Payments to Suppliers for Goods and Services | (1,759,588) |
| Cash Payments to Employees for Services | (2,499,364) |
| Cash Payments for Employee Benefits | (655,266) |
| Cash Payments to Others | (175,757) |
| Net Cash Used for Operating Activities | (1,356,911) |
| ***Cash Flows from Noncapital Financing Activities:*** | |
| Federal and State Subsidies Received (FOOD SERVICE) | 291,609 |
| Operating Grants Received (FEDERAL AND STATE GRANTS) | 648,432 |
| Net Cash Provided by Noncapital Financing Activities | 940,041 |
| ***Cash Flows from Capital and Related Financing Activities:*** | |
| Payments for Capital Acquisitions | (800) |
| Net Cash Used for Noncapital Financing Activities | (800) |
| ***Cash Flows from Investing Activities:*** | |
| Other Non-Operating Revenues | 1,477 |
| Net Increase (Decrease) in Cash and Cash Equivalents | (416,193) |
| Cash and Cash Equivalents at Beginning of Year | 715,956 |
| Cash and Cash Equivalents at End of Year | $299,762 |

**Mount Auburn International Academy**
Statement of Cash Flows
Proprietary Fund
For the Fiscal Year Ended June 30, 2012
(continued)

| | FY 12 |
|---|---|
| ***Reconciliation of Operating Loss to Net Cash Used for Operating Activities:*** | |
| Operating Loss | ($1,841,845) |
| ***Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities*** | |
| Depreciation | 11,658 |
| Changes in Assets and Liabilities: | |
| Decrease / (Increase) in Intergovermental Receivable Operating Activities | |
| Decrease / ( Increase) in Accounts Receivable | 0 |
| Decrease / ( Increase) in Prepaid Items | (27) |
| (Decrease) / Increase in Accounts Payable | (29,600) |
| (Decrease) / Increase in Due to Sponsor/State | |
| (Decrease) / Increase in Accrued Wages and Benefits | (40,302) |
| (Decrease) / Increase in Intergovernmental Payable | |
| (Decrease) / Increase in Management Company Payable | 543,205 |
| **Total Adjustments** | 484,934 |
| Net Cash Used for Operating Activities | ($1,356,911) |

See accompanying notes to the basic financial statements

## 1. DESCRIPTION OF THE SCHOOL AND REPORTING ENTITY

Mount Auburn International Academy, Hamilton County, Ohio (the School), is a nonprofit corporation established pursuant to Ohio Rev. Code Chapters 3314 and 1702 to address the needs of students in grades kindergarten through twelfth. The School, which is part of the State's education program, is independent of any school district and is nonsectarian in its programs, admission policies, employment practices, and all other operations. The School may sue and be sued, acquire facilities as needed, and contract for any services necessary for the operation of the School. Mount Auburn International Academy Community School may apply and qualify as an exempt organization under Section 501c (3) of the Internal Revenue Code. Management is not aware of any course of action or series of events that have occurred that might adversely affect the school's tax exempt status.

The School was approved for operation under contract with the Board of Trustees of the University of Toledo which is now referred to as Ohio Council of Community Schools (the Sponsor) for a period of five years commencing July 30, 2008. 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 five-member Board of Directors. The Board of Directors is responsible for carrying out the provisions of the contract which include, but are not limited to, state mandated provisions regarding student population, curriculum, academic goals, performance standards, admission standards, and qualifications of teachers. The Board of Directors controls the School's one instructional/support facility staffed by 44 certificated full time teaching personnel who provide services to 525 students.

The School contracts with Cincinnati Education Management LLC as the Education Provider. The Education Provider is not a division, subsidiary, or part of the Board, and functions as an independent contractor to the Board. The responsibilities of the Education Provider include: hire the School Director, with consultation from the Board; hire administrative staff as required; manage and operate the school; secure and maintain insurance; and educate the children enrolled in the School. The Education Provider is responsible and accountable to the Board for the administration, operation and performance of the School in accordance with the Charter.

Under the current agreement, the Educational Provider is paid the following percentage of revenue as fees: license fees, 6%; management fees, 8%.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Mount Auburn International Academy Community School have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental nonprofit organizations. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The School also applies Financial Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989, to its proprietary activities, provided they do not conflict with or contradict GASB pronouncements. 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 revenue, expenses and changes in net assets, and a statement of cash flows. The School uses enterprise accounting to monitor its financial records. Enterprise fund reporting focuses on the determination of the change in net assets, financial position and cash flows.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### B. Measurement Focus

Enterprise accounting uses a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities are included on the statement of net assets. The statement of changes in net assets presents increases (i.e., revenues) and decreases (i.e., expenses) in net total assets. The statement of cash flows provides information about how the School finances and meets the cash flow needs of its enterprise activities.

### 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.

Non-exchange transactions, in which the School receives value without directly giving equal value in return, include grants, entitlements, and donations. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching 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, unless specifically provided in the contract between the School and its sponsor. The contract between the School and its Sponsor requires the school to follow Ohio Revised Code 5705.39.1 and prepare a five year projection. However, no budgetary information is presented in the financial statements.

### E. Cash Deposits

All monies received by the School are accounted for by the School's Business Manager. For cash management, all cash received by the chief financial officer is pooled in a central bank account. Total cash for the School is presented as "equity in pooled cash" on the accompanying statement of net assets.

The School had no investments during the fiscal year outside of commercial paper which is represented as a recurring sweep transaction in the operating account.

### F. Capital Assets

Capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. The School maintains a capitalization threshold of five hundred dollars. The School does not possess 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.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

All reported capital assets except land 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:
Buildings and Building Improvements 1 - 50 years Furniture, Fixtures and Equipment 10 - 20 years Vehicles 3 - 10 years

G. Net Assets

Net assets represent the difference between assets and liabilities. Invested in capital assets, consists of capital assets, net of accumulated depreciation.

H. Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activities. For the School, these revenues are primarily foundation payments from the state and sales for food service. Operating expenses are necessary costs incurred to provide the goods or service that is the primary activity of the School. 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.

## 3. DEPOSITS

At fiscal year end, the bank balance was $299,761.92. Of the bank balance, $256,371.59 was covered by federal depository insurance.

## 4. RECEIVABLES

Receivables at June 30, 2012, consisted of inter-governmental receivables. All receivables are considered collectible in full and will be received within one year. A summary of the principal items of intergovernmental receivables follows:

| | |
|---|---|
| Federal Entitlement Grants | 207,896.26 |
| Federal Lunch | 2,054.77 |

Total All Intergovernmental Receivables $ 209,951.03

## 5. CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2012:

| | Balance 6/30/2011 | Additions | Deletions | Balance 6/30/2012 |
|---|---|---|---|---|
| Capital Assets being Depreciated | | | | |
| furniture fixture and Equipment | $61,023 | $800 | | $61,823 |
| | ======== | ======== | ======== | ======== |
| Total Capital Assets being depreciated | 61,023 | 800 | - | 61,823 |
| Less Accumulated Depreciation | | | | |
| furniture fixture and Equipment | (17,342) | (11,658) | | (29,000) |
| | ========== | ========= | ========== | =========== |
| Total Accumulated Depreciation | (17,342) | (11,658) | - | (29,000) |
| Total Capital assets Being depreciated Net | 43,681 | (10,858) | - | 32,823 |
| Business Type Activity Capital Assets, Net | $43,681 | $(10,858) | - | $32,823 |

## 6. RISK MANAGEMENT

A. Property and Liability

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 2012, the School contracted with St. Paul Travelers for general liability and property insurance and National Union for educational errors and omissions insurance. Settled claims have not exceeded this commercial coverage since formation of School.

B. Workers Compensation

The School pays the State Workers' Compensation System a premium for employee injury coverage. The premium is calculated by multiplying the monthly total gross payroll by a factor that is calculated by the State.

## 7. DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

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

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 2012, 12.70 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The School's required contributions for pension obligations to SERS for the fiscal year ended June 30, 2012 were $119,187. 100 percent has been contributed for the fiscal year 2012.

B. State Teachers Retirement System of Ohio

The School 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 or by calling (614) 227-4090 or by visiting the STRSOHIO website at www.strsoh.org.
NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED JUNE 30, 2012 (Continued)

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

## 7. DEFINED BENEFIT PENSION PLANS (Continued)

A DB or Combined Plan member with five or more years credited service who becomes disabled may qualify for a disability benefit. Eligible spouses and dependents of these active members who die before retirement may qualify for survivor benefits. Members in the DC Plan who become disabled are entitled only to their account balance. If a member dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance. For the fiscal year ended June 30, 2012, plan members were required to contribute 10.0 percent of their annual covered salaries. The School was required to contribute 14 percent; 14 percent was the portion used to fund pension obligations. For fiscal year 2012, the portion used to fund pension obligations was also 14 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, 2012 was $ 231,040.80. 94.95 percent has been contributed for fiscal year 2012. Contributions to the DC and combined plans for fiscal year 2012 were $165,029.14 made by the plan members.

## 8. POSTEMPLOYMENT BENEFITS

### A. State Teachers Retirement System of Ohio

Plan Description - The School contributes to the cost sharing, multiple employer defined benefit Health Plan (the "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 under *"Publications"* or by calling (888) 227-7877.
NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED JUNE 30, 2012 (Continued)

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 2012, 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, 2012, was $2,310.41. For fiscal year 2012 100 percent has been contributed.

## 8. POSTEMPLOYMENT BENEFITS (Continued)

### B. School Employees Retirement System

Plan Description - The School participates in two cost-sharing, multiple employer postemployment benefit plans administered by the School Employees Retirement System (SERS) 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, Medicare Advantage, and traditional indemnity plans. A prescription drug program is also available to those who elect health coverage. SERS employs two third-party administrators and a pharmacy benefit manager to manage the self-insurance and prescription drug plans, respectively. The Medicare Part B Plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries as set forth in Chapter 3309.69 of the Ohio Revised Code. Qualified benefit recipients who pay Medicare Part B premiums may apply for and receive a monthly reimbursement from SERS. The reimbursement amount is limited by statute to the lesser of the January 1, 1999 Medicare Part B premium or the current premium. The Medicare Part B premium for calendar year 2012 was $99.90 and SERS' reimbursement to retirees was $45.50. 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 the SERS' Ohio website, www.ohsers.org, under "*Media/Financial Reports"*.

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 105(e). For 2012, .55 percent of covered payroll was allocated to health care. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. Statute provide that no employer shall pay a health care surcharge greater than 2.0 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the statewide SERS-covered payroll for the health care surcharge. For fiscal year 2012, the actuarially determined amount was $35,800. Active members do not contribute to the postemployment benefit plans. The Retirement Board establishes the rules for the premiums paid by the retirees for health care coverage for themselves and their dependents or for their surviving beneficiaries. Premiums vary depending on the plan NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED JUNE 30, 2012 (Continued)

selected, qualified years of service, Medicare eligibility and retirement status.
The School's contributions for health care (including surcharge) for the fiscal years ended June 30, 2012 was $4,682.35. 100 percent has been contributed for fiscal years 2012.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For fiscal year 2012, this actuarially required allocation was 0.75 percent of covered payroll. The School's contributions for Medicare Part B for the fiscal years ended June 30, 2012 was $6,385.02. 100 percent has been contributed for fiscal year 2012.

## 9. EMPLOYEE BENEFITS

### A. Compensated Absences

The criteria for determining vacation and sick leave components are derived from policies and procedures approved by the Board of Directors.

Vacation Leave: Calendar year employees who are regularly scheduled to work 25 or more hours per week are eligible for vacation leave. Teachers or employees following the academic year calendar are not eligible for vacation leave. Unused accrued vacation leave days may be carried forward into the next year at the rate of one-half of the employee's annual accrual rate. The vacation carried forward is determined as of August 31 each year. Employees who have one year of service or more have access to 50% of their annual vacation accrual at September 1.

If an employee's employment terminates, only the days fully earned at the time of termination would be accrued. No cash out of vacation accrued from year to year unless specifically granted through approval by the President. Accrued vacation leave in excess of amount allowed to be carried forward at September 1 is lost. Upon resignation and receipt of at least two weeks' notice, the Employer will pay in a lump sum payment an amount equal to the individual's daily rate times the number of unused accrued vacation leave days as of the termination date.

Sick Leave: All staff regularly scheduled to work 25 or more hours per week are eligible for sick leave. Teachers and academic year staff accrue one day per month September through May (up to 9 days accrued in an academic year). Calendar year staff accrues one day per month. Maximum days that can be accrued are 120 days. Accrual ceases until balance falls below maximum days. Sick leave is a privilege and is not to be used for any purposes
other than those identified in the sick leave policy. Sick leave is never converted into cash payments.

### B. Insurance Benefits

The School provides life, dental and medical/surgical benefits to most employees through Anthem Blue Cross/Blue Shield, Delta Dental and Sun Life.

## 10. 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 grants agreement is 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, 2012.

### B. State Funding

The Ohio Department of Education reviews enrollment data and full time equivalency (FTE) calculations made by the schools. These reviews ensure the schools are reporting accurate student enrollment data of the State, upon which state foundation funding is calculated.

## 11. NET WORKING CAPITAL DEFICIENCY

At June 30, 2012, the School had a net deficiency of $3,338,410, meaning that current liabilities were in excess of current assets by this amount. Management feels that much of this deficiency is the result of lower student enrollment than anticipated. Further, Management anticipates growth in student enrollment which will in turn increase future revenues in excess of future costs. Any excess revenue will be used by the School to address its current liabilities.

## 12. PURCHASED SERVICES

Purchased services were composed of the following:
Utilities $153,380.38
Rents 550,000.00
Advertising 13,899.07
Sponsor Oversight Fees 111,664.80
Contract Services 174,656.27
Royalty Fees 216,629.70
Management Fees 288,839.28
Personal Property Fees 57,500

Total: $1,566,569.50

## 13. OPERATING LEASE

During the year ended June 30, 2012, the School leased classroom facilities and offices for a period of five years. The lease also grants the School an automatic 5 year renewal, upon the renewal of the School's charter. The lease payments are $ 45,833.33 a month payable in monthly installments. Payments totaled $ 550,000 for fiscal year 2012.

The following is a schedule of the future minimum lease payments required under the operating lease as of June 30, 2012.

| Fiscal Year Ending June 30, 2013 | |
|---|---|
| 2013 | $ 550,000 |

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**MOUNT AUBURN INTERNATIONAL ACADEMY**
**HAMILTON COUNTY**

**SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES**
**FOR THE YEAR ENDED JUNE 30, 2012**

| Federal Grantor/ Pass Through Grantor Program Title | Federal CFDA Number | Receipts | Disbursements |
|---|---|---|---|
| **U.S. DEPARTMENT OF AGRICULTURE** | | | |
| *Passed Through Ohio Department of Education:* | | | |
| Nutrition Cluster: | | | |
| National School Breakfast Program | 10.553 | $79,389 | $79,389 |
| National School Lunch Program | 10.555 | 205,284 | 204,606 |
| Total U.S. Department of Agriculture - Nutrition Cluster | | **284,673** | **283,995** |
| **U.S. DEPARTMENT OF EDUCATION** | | | |
| *Passed Through Ohio Department of Education:* | | | |
| Special Education Cluster: | | | |
| Special Education Grants to States IDEA Part B | 84.027 | 136,479 | 115,731 |
| Total Special Education Cluster | | **136,479** | **115,731** |
| Title I Cluster: | | | |
| Title I | 84.010 | 495,464 | 486,175 |
| Total Title I Cluster | | **495,464** | **486,175** |
| Title IV-Safe & Drug Free Schools | 84.186 | | 472 |
| Title II D - Technology Literacy Challenge | 84.318 | | 3,298 |
| Title II-A - Improving Teacher Quality | 84.367 | 7,795 | 8,588 |
| Race to the Top | 84.395 | 3,150 | 3,150 |
| Education Jobs | 84.410 | 5,544 | 5,544 |
| Total Department of Education | | **648,432** | **622,958** |
| **Totals** | | **$ 933,105** | **$ 906,953** |

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

**NOTES TO THE FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE**
**FISCAL YEAR ENDED JUNE 30, 2012**

## NOTE A - SIGNIFICANT ACCOUNTING POLICIES

The accompanying Federal Awards Expenditures Schedule (the Schedule) reports the Mount Auburn International Academy's (the Academy's) federal award programs receipts and disbursements. The schedule has been prepared on the cash 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.

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

Mount Auburn International Academy
Hamilton County
244 Southern Avenue
Cincinnati, Ohio 45219

To the Board of Directors:

We have audited the basic financial statements of Mount Auburn International Academy, Hamilton County, Ohio (the Academy), as of and for the year ended June 30, 2012, and have issued our report thereon dated March 27, 2013, wherein we noted the accompanying financial statements have been prepared assuming that the Academy will continue as a going concern. The Academy has suffered recurring losses from operations and has a net asset deficiency of $3,338,410 that raise substantial doubt about its 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 the purpose of expressing our opinion on the financial statements, but not for the purpose of opining on the effectiveness of the Academy's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the Government'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 27, 2013.

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

Dave Yost

**Dave Yost**
Auditor of State

March 27, 2013

**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**

Mount Auburn International Academy
Hamilton County
244 Southern Avenue
Cincinnati, Ohio 45219

To the Board of Directors:

**Compliance**

We have audited the compliance of Mount Auburn International Academy, Hamilton County, Ohio (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 Mount Auburn International Academy's major federal program for the year ended June 30 2012. The summary of auditor's results section of the accompanying schedule of findings identifies the Academy's major federal program. 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.

Our compliance audit followed 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*. These 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 these 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 these requirements.

In our opinion, the Mount Auburn International Academy complied, in all material respects, with the requirements referred to above that could directly and materially affect its major federal program for the year ended June 30, 2012.

**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.

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.

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

Dave Yost

**Dave Yost**
Auditor of State

March 27, 2013

**MOUNT AUBURN INTERNATIONAL ACADEMY**
**HAMILTON COUNTY**

**SCHEDULE OF FINDINGS**
**OMB CIRCULAR A -133 § .505**
**JUNE 30, 2012**

## 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)?** | No |
| ***(d)(1)(vii)*** | **Major Programs (list):** | Title I Part A Cluster – CFDA 84.010 |
| ***(d)(1)(viii)*** | **Dollar Threshold: Type A\B Programs** | Type A: > $ 300,000<br>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

None.

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**MOUNT AUBURN INTERNATIONAL ACADEMY**
**HAMILTON COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS AND QUESTIONED COSTS**
**OMB CIRCULAR A -133 § .315 (b)**
**JUNE 30, 2012**

| Finding Number | Finding Summary | Fully Corrected? | Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; ***Explain*** |
|---|---|---|---|
| 2011-01 | Title 1 questioned cost. | Yes | |

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# Dave Yost • Auditor of State

**MT. AUBURN INTERNATIONAL ACADEMY**

**HAMILTON COUNTY**

**CLERK'S CERTIFICATION**

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

Susan Babbitt

**CLERK OF THE BUREAU**

**CERTIFIED**
**APRIL 9, 2013**