



Mary Taylor, CPA  
Auditor of State



**STAR ACADEMY OF TOLEDO  
LUCAS COUNTY**

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# Mary Taylor, CPA

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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 the Star Academy of Toledo, Lucas County, Ohio (the Academy), as of and for the year ended June 30, 2008, as listed in the table of contents. These financial statements are the responsibility of the Academy's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Academy, as of June 30, 2008, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 5, 2009, 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.

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

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

**Mary Taylor, CPA**  
Auditor of State

August 5, 2009

**STAR ACADEMY OF TOLEDO  
LUCAS COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2008  
UNAUDITED**

Our discussion and analysis of Star Academy of Toledo's (the Academy) financial performance provides an overall review of the Academy's financial activities for the fiscal year ended June 30, 2008. The intent of this discussion and analysis is to look at the Academy'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 Academy's financial performance.

**Financial Highlights**

- Total net assets were (\$61,921)
- Total revenue was \$441,397
- Similarly, total expenses were \$503,318
- Total assets were \$105,385 and total liabilities were \$167,307

**Using this Annual 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.

The statement of net assets and statement of revenues, expenses, and changes in net assets reflect how the Academy did financially during fiscal year 2008. These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting includes all the current year revenues and expenses regardless of when cash is received or paid.

These statements report the Academy's net assets and changes in those assets. This change in net assets is important because it tells the reader whether the financial position of the Academy has improved or diminished. The causes of this change may be result of many factors, some financial, some not. Non-financial factors include the Academy's student enrollment, per-pupil funding as determined by the State of Ohio, changes in technology, required educational programs and other factors.

**Statement of Net Assets**

The statement of net assets answers the question of how the Academy did financially during 2008. 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.

**STAR ACADEMY OF TOLEDO  
LUCAS COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2008  
UNAUDITED  
(Continued)**

Table 1 provides a summary of the Academy's net assets for fiscal year 2008.

Table 1 Net Assets	
	2008
<b>Assets</b>	
Current Assets	\$ 1,606
Capital Assets, Net of Accumulated Depreciation	103,779
<b>Total Assets</b>	<b>105,385</b>
 <b>Liabilities</b>	
Current Liabilities	167,307
<b>Total Liabilities</b>	<b>167,307</b>
 <b>Net Assets</b>	
Invested in Capital Assets	103,779
Unrestricted	(165,700)
<b>Total Net Assets</b>	<b>\$ (61,921)</b>

Total assets were \$105,385, while total liabilities were \$167,307. The Academy's capital assets, net of accumulated depreciation were \$103,779. The Academy's assets were primarily non-current, resulting from the purchase of computers and related accessories. Liabilities were largely intergovernmental payable for repayment of ineligible grant expenditures, accounts payable to vendors, the Academy's Sponsor, and the bank for overdrafts.

**Statement of Revenues, Expenses, and Changes in Net Assets**

Table 2 shows the changes in net assets for fiscal year 2008, as well as a listing of revenues and expenses. This change in net assets is important because it tells the reader that, for the Academy as a whole, the financial position of the Academy has improved or diminished. The cause of this may be the result of many factors, some financial, some not. Non-financial include changes in Ohio law, facility conditions, required educational programs and other factors.

**STAR ACADEMY OF TOLEDO  
LUCAS COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2008  
UNAUDITED  
(Continued)**

Table 2  
Change in Net Assets

	2008
<b>Revenues</b>	
Operating Revenues:	
State Aid	\$ 230,886
Other Operating	1,228
<b>Non-Operating Revenues:</b>	
Grants	209,283
Total Revenues	441,397
<b>Expenses</b>	
Operating Expenses	
Salaries	106,580
Fringe Benefits	21,972
Purchased Services	335,344
Materials and Supplies	18,245
Depreciation	19,109
Other Expenses	2,068
Total Expenses	503,318
Change in Net Assets	\$ (61,921)

Operating revenues were \$232,114, which represents 52.6 percent of total revenue. Operating expenses were \$503,318. The Academy's most significant expense, purchased services, represents 66 percent of total expenses because of typical expenses incurred in the initial year of the Academy. Most of the expenses went for equipment, advertising, building rent and repair, and for consultants to help get the Academy off the ground.

**Budgeting Highlights**

Unlike other public schools located in the State of Ohio, community schools are not required to follow budgetary provisions set forth in the Ohio Revised Code Chapter 5705, unless specifically provided in the Community School's contract with its Sponsor. The contract between the Academy and its Sponsor does prescribe a budgetary process. The Academy has developed a one year spending plan and a five-year project that is reviewed periodically by the Governing Board. The five-year projections are also submitted to the Sponsor and the Ohio Department of Education.

**Capital Assets**

At the end of fiscal year 2008, the Academy had \$103,779 invested in equipment. For more information on capital assets, see Note 4 in the Notes to the Basic Financial Statements.

**STAR ACADEMY OF TOLEDO  
LUCAS COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2008  
UNAUDITED  
(Continued)**

**Current Financial Issues**

The Academy has contracted with St. Borromeo Parish to rent its facility on Airport Highway, effective July 1, 2008. This building is expected ensure that the Academy can meet its enrollment projections and give students a positive learning environment.

**Contacting the Academy's Financial Management**

This financial report is designed to provide our citizen's taxpayers, investors and creditors with a general overview of the Academy's finances and show the Academy's accountability fo the money it receives. If you have any question about this report of need additional information, contact Brian Adams, Treasurer, at 7215 Sawmill Road, Suite 50, Dublin, Ohio 43016 or e-mail at [badams@ocscltd.com](mailto:badams@ocscltd.com).

**STAR ACADEMY OF TOLEDO  
LUCAS COUNTY**

**STATEMENT OF NET ASSETS  
AS OF JUNE 30, 2008**

**Assets:**

Current Assets:

Grants Receivable	\$1,333
Prepaid Items	273
Total Current Assets	<u>1,606</u>

Non-Current Assets:

Capital Assets, Net of Accumulated Depreciation	103,779
Total Assets	<u>105,385</u>

**Liabilities:**

Current Liabilities:

Overdraft Payable	5,744
Accounts Payable	43,793
Accrued Wages and Benefits	19,819
Intergovernmental Payable	97,951
Total Current Liabilities	<u>167,307</u>

**Net Assets:**

Invested in Capital Assets, Net of Debt	103,779
Unrestricted Deficit	(165,700)
Total Net Assets	<u>\$ (61,921)</u>

See Accompanying Notes to the Basic Financial Statements

**STAR ACADEMY OF TOLEDO  
LUCAS COUNTY**

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

**Operating Revenues:**

State Aid	\$ 230,886
Other Operating Revenue	1,228
Total Operating Revenues	<u>232,114</u>

**Operating Expenses:**

Salaries	106,580
Fringe Benefits	21,972
Purchased Services	335,344
Materials and Supplies	18,245
Depreciation	19,109
Other Operating Expenses	2,068
Total Operating Expenses	<u>503,318</u>
Operating Loss	<u>(271,204)</u>

**Non-Operating Revenues:**

Grants	<u>209,283</u>
Change in Net Assets	(61,921)
Net Assets Beginning of Year	
Net Assets End of Year	<u>\$ (61,921)</u>

See Accompanying Notes to the Basic Financial Statements

**STAR ACADEMY OF TOLEDO  
LUCAS COUNTY**

**STATEMENT OF CASH FLOWS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

**Increase (Decrease) in Cash and Cash Equivalents**

Cash Flows from Operating Activities:

Cash Received from State of Ohio	\$ 230,886
Cash Received from Other Operating Sources	1,228
Cash Payments to Suppliers for Goods and Services	(311,864)
Cash Payments to Employees for Services	(86,761)
Cash Payments for Employee Benefits	<u>(22,245)</u>

*Net Cash Used for Operating Activities* (188,756)

Cash Flows from Capital and Related Financing Activities:

Acquisition of Capital Assets (122,888)

Cash Flows from Noncapital Financing Activities:

Cash Received from Grants	305,900
Bank Overdraft Inflow	<u>5,744</u>

*Net Cash Provided by Noncapital Financing Activities* 311,644

*Net Increase in Cash and Cash Equivalents*

*Cash and Cash Equivalents at Beginning of Year*                     

*Cash and Cash Equivalents at End of Year* \$ -

(Continued)

**STAR ACADEMY OF TOLEDO  
LUCAS COUNTY**

**STATEMENT OF CASH FLOWS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2008  
(Continued)**

**Reconciliation of Operating Loss  
to Net Cash Used for Operating Activities:**

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Operating Loss \$ (271,204)

**Adjustments to Reconcile Operating Loss  
to Net Cash Used for Operating Activities:**

Depreciation 19,109

Changes in Assets and Liabilities:

(Increase) Decrease in Assets

(Increase) in Prepaid (273)

Increase (Decrease) in Liabilities:

Increase in Accounts Payable 43,793

Increase in Accrued Wages Payable 19,819

*Total Adjustments*

82,448

*Net Cash Used for Operating Activities*

\$ (188,756)

See Accompanying Notes to the Basic Financial Statements

**STAR ACADEMY OF TOLEDO  
LUCAS COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

**NOTE 1 - DESCRIPTION OF THE ACADEMY AND REPORTING ENTITY**

Star Academy of Toledo (the Academy) is a nonprofit corporation established pursuant to Ohio Revised Code Chapters 3314 and 1702. The Academy has applied for tax-exempt status under Section 501(c)(3) of the Internal Revenue Code. Management is not aware of any course of action or services of events that have occurred that might adversely affect the Academy's tax-exempt status. The Academy, 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 Academy may sue and be sued, acquire facilities as need and contract for services necessary for the operation of the Academy.

The Academy was approved for operation under a contract with the Delaware-Union Educational Service Center (the Sponsor) for a period of one year commencing July 1, 2007. The contract provides for a three year renewal after the first year and a one year renewal thereafter. In June 2008, the Academy's Governing Board approved the three year renewal, commencing July 1, 2008. Subsequently, the Delaware-Union Education Service Center merged with the Educational Service Center of Franklin County to become the Educational Service Center of Central Ohio. The sponsorship agreement transferred to the Educational Service Center of Ohio. The Sponsor is responsible for evaluating the performance of the Academy and has the authority to deny renewal of the contract at its expiration or terminate the contract prior to its expiration.

The Academy operates under the direction of a seven member Governing Board. The Governing Board is responsible for carrying out the provisions of the contract, which include but are not limited to state-mandated provisions regarding student population, curriculum, academic goals, performance standards, admission standards, and qualifications of teachers. The Governing Board controls one instructional/ support facility staffed by three certificated full time teaching personnel who provide services to 32 students.

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

**A. Basis of Presentation**

The Academy's basic financial statements consist of a statement of net assets, a statement of revenues, expenses, and changes in net assets, and a statement of cash flows. Enterprise fund reporting focuses on the determination of the change in net assets, financial position, and cash flows.

**STAR ACADEMY OF TOLEDO  
LUCAS COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2008  
(Continued)**

**NOTE 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 statements of net assets. The statement of revenues, expenses and changes in net assets presents increases (i.e., revenues) and decreases (i.e., expenses) in net total assets. Basis of accounting refers to when revenues and expenses are recognized in the financial records and reported in the financial statements. Basis of accounting relates to the timing of the measurements made. The accrual basis of accounting is used for reporting purposes. Revenues are recognized when earned and expenses are recognized when they are incurred.

**C. 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 Academy must prepare a five year spending plan and submit it to the Ohio Superintendent of Public Instruction.

**D. Cash and Cash Equivalents**

All cash received by the Academy is deposited in accounts in the Academy's name. The Academy did not have investments during fiscal year 2008.

For the purposes of the statement of cash flows and for presentation on the statement of net assets, investments with original maturities of three months or less at the time they are purchased by the Academy are considered to be cash equivalents. Investments with an initial maturity of more than three months are reported as investments.

**E. Prepaid Items**

Payments made to vendors for services that will benefit periods beyond June 30, 2008, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expense is reported in the fiscal year in which services are consumed.

**F. Capital Assets and Depreciation**

All 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 Academy's capitalization threshold is one thousand dollars.

Improvements are capitalized. The costs of normal maintenance and repairs that do not add to value of the asset or materially extend an assets life are not. Interest incurred during the construction of capitalized is also capitalized.

Depreciation of furniture and equipment is computed using the straight-line method over an estimated life of five years. Improvements to capital assets are depreciated of over the remaining useful lives. Buildings are depreciated over forty years.

**STAR ACADEMY OF TOLEDO  
LUCAS COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2008  
(Continued)**

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)**

**G. Intergovernmental Revenues**

The Academy currently participates in the State Foundation and Parity Aid programs. Revenues received from these programs are recognized as operating revenues (foundation payments) in the accounting period in which all eligibility requirements are met. Funding from these programs is listed as “foundation payments” on the Statement of Revenues, Expenses, and Changes in Net Assets.

Grants and entitlements are recognized as non-operating revenues in the accounting period in which all eligibility requirements are met.

Eligibility requirements include timing requirements, which specify the fiscal year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the Academy must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the Academy on a reimbursement basis.

The Academy also participated in a program through the Ohio Department of Education. This program was the EMIS grant program. Revenue received from the program is recognized as non-operating revenue in the accompanying financial statements.

**H. Net Assets**

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Academy or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments.

**I. Operating Revenues and Expenses**

Operating revenues are those revenues that are generated directly from the primary activities. For the Academy, these revenues are primarily foundation payments from the State. Operating expenses are necessary costs incurred to provide the good or service that is the primary activity of the Academy. Revenues and expenses not meeting this definition are reported as non-operating.

**J. Estimates**

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

**NOTE 3 - DEPOSITS AND INVESTMENTS**

At fiscal year end June 30, 2008, the carrying value of the Academy's deposits was \$0, and the bank balance totaled (\$3,352). Based on the criteria described in GASB Statement No. 40, “Deposits and Investment Risk Disclosures”, as of June 30, 2008, all of the Academy's bank balance of (\$3,352) was covered by Federal Deposit insurance.

**STAR ACADEMY OF TOLEDO  
LUCAS COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2008  
(Continued)**

**NOTE 3 - DEPOSITS AND INVESTMENTS – (Continued)**

Custodial credit risk is the risk that in the event of bank failure, the Academy will not be able to recover the deposits. All deposits are collateralized with eligible securities in amounts equal to at least 105% of the carrying value of deposits. Such collateral, as permitted by the Ohio Revised Code, is held in single financial institution collateral pools at the Federal Reserve Banks or at member banks of the federal reserve system, in the name of the respective depository and pledged as a pool of collateral against all of the public deposits it holds or as specific collateral held at the Federal Reserve Bank in the name of the Academy.

The Academy had no deposit policy for custodial risk beyond the requirements of State statute. Ohio law requires that deposits be either insured or be protected by eligible securities pledged to and deposited either with Academy or a qualified trustee by the financial institution as security for repayment, or by a collateral pool of eligible securities deposited with a qualified trustee and pledged to secure the repayment of all public monies deposited in the financial institution whose market value at all times shall be at least one hundred five percent of the deposits being secure.

**NOTE 4 – CAPITAL ASSETS**

For the year ended June 30, 2008, the Academy's capital assets consisted of the following:

	Balance at 6/30/07	Additions	Reductions	Balance at 6/30/08
Business-Type Activities				
Equipment	\$	122,888		\$ 122,888
Less Accumulated Depreciation:				
Equipment		(19,109)		(19,109)
Total Accumulated Depreciation		(19,109)		(19,109)
Business-Type Activities				
Capital Assets, Net	\$	\$103,779		\$ 103,779

**NOTE 5 - RECEIVABLES**

At June 30, 2008, the Academy had grants receivables in the amount of \$1,333 for food service, which is expected to be collected within one year.

**NOTE 6 - RISK MANAGEMENT**

**A. Property and Liability**

The Academy is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. For the fiscal year ended 2008, the Academy obtained insurance from Indiana Insurance Company with the following insurance coverage:

Commercial General Liability per Occurrence	\$1,000,000
Commercial General Liability Aggregate	2,000,000
Umbrella Liability per Occurrence (\$10,000 self-insured retention)	2,000,000

**STAR ACADEMY OF TOLEDO  
LUCAS COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2008  
(Continued)**

**NOTE 6 - RISK MANAGEMENT (Continued)**

**B. Workers' Compensation**

The Academy pays the State Worker's 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.

**C. Employee Medical, Dental and Vision Benefits**

The Academy did not contract through an independent agent to provide employee medical, dental, and vision insurance to its full-time employees who work 40 or more hours per week. This is due to the fact that it only had 3 employees, and the cost was prohibitive. However, it did make COBRA payments on behalf of its administrator.

**NOTE 7 - DEFINED BENEFIT PENSION PLANS**

**A. School Employee Retirement System**

Plan Description - The Academy does not contribute to the School Employees Retirement System (SERS), a cost-sharing multiple employer pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746.

Funding Policy - Plan members are required to contribute 10 percent of their annual covered salary and the Academy is required to contribute at an actuarially determined rate. The current Academy rate is 14 percent of annual covered payroll. A portion of the School District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2008, 9.16 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to a statutory maximum amount of 10 percent for plan members and 14 percent for employers. Chapter 3309 of the Ohio Revised Code provides statutory authority for member and employer contributions. The Academy made no contributions during fiscal year 2008. The Academy will get a determination from SERS as to whether the Superintendent is required to pay into the retirement system.

**B. State Teachers Retirement System**

Plan Description - The Academy participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple employer public employee retirement 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](http://www.strsoh.org).

**STAR ACADEMY OF TOLEDO  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2008  
(Continued)**

**NOTE 7 - DEFINED BENEFIT PENSION PLANS (Continued)**

**B. State Teachers Retirement System (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 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.

Funding Policy - For the fiscal year ended June 30, 2008, plan members were required to contribute 10 percent of their annual covered salaries. The Academy was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal year 2007, the portion used to fund pension obligations was also 13 percent. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The Academy's required contributions for pension obligations to STRS Ohio for the fiscal year ended June 30, 2008 was \$12,147, of which 100 percent has been contributed for fiscal year 2008. Contributions to the DB and combined plans for fiscal year 2008 were \$14,130 made by the school and \$8,967 made by plan members.

**NOTE 8 - POSTEMPLOYMENT BENEFITS**

**A. School Employee Retirement System**

Plan Description – The Academy does not participate in either of the two cost-sharing multiple employer defined benefit OPEB plans administered by the School Employees Retirement System for non-certificated retirees and their beneficiaries, which are 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.

**STAR ACADEMY OF TOLEDO  
LUCAS COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2008  
(Continued)**

**NOTE 8 - POSTEMPLOYMENT BENEFITS (Continued)**

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

Funding Policy – State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 401h. For 2008, 4.18 percent of covered payroll was allocated to health care. In addition, employers pay a surcharge for employees earning less than an actuarially determined amount; for 2008, this amount was \$35,800.

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

The Academy had no contributions to healthcare for fiscal year 2008.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For 2008, this actuarially required allocation was 0.66 percent of covered payroll. The Academy made no contributions during fiscal year 2008. The Academy will get a determination from SERS as to whether the Superintendent is required to pay into the retirement system.

**B. State Teachers Retirement System**

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

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

**NOTE 9 - CONTINGENCIES**

**A. Grants**

The Academy receives 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 is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the operating fund. The Ohio Department of Education's (ODE) Office of Community Schools (OCS) administers the Academy's Public Charter School Program (PCSP) grant. The OCS's review of the grant identified \$97,951 of ineligible expenditures submitted and reimbursed for the program year ended June 30, 2008. This amount is accrued as an intergovernmental payable on the financial statement as it is required to be repaid to the grantee.

**STAR ACADEMY OF TOLEDO  
LUCAS COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2008  
(Continued)**

**NOTE 9 – CONTINGENCIES (Continued)**

**B. State Funding**

The Ohio Department of Education conducts reviews of enrollment data and full-time equivalency (FTE) calculations made by the Schools. These reviews are conducted to ensure the Schools are reporting accurate student enrollment data to the State, upon which state foundation funding is calculated. For fiscal year 2008, the review resulted in an increase in funding of \$671.

**NOTE 10 – Tax Exempt Status**

The Academy filed its application for tax-exempt status under Section 501(c)(3) of the Internal Revenue Code. In the interim, the Academy has begun the process to file IRS Form 990, "Return of Organization Exempt from Income Tax".

**NOTE 11 – SPONSORSHIP AGREEMENT**

The Academy was approved for operation under a contract with the Delaware-Union Educational Service Center (the Sponsor) for a period of one year commencing July 1, 2007. The Academy has the option to renew the contract for a second term, commencing July 1, 2008. The Governing Board approved the second (3 year) term in June 2008. Subsequently, the Delaware-Union Education Service Center merged with the Educational Service Center of Franklin County to become the Educational Service Center of Central Ohio. The sponsorship agreement transferred to the Educational Service Center of Ohio.

The Sponsor is responsible for evaluating the performance of the Academy and has the authority to deny renewal of the contract at its expiration or terminate the contract prior to its expiration. The Academy shall pay annually to the sponsor 3% of the state foundation payment per pupil, as provided for by the State of Ohio. A payable to Delaware-Union Educational Service Center in the amount of \$6,927 was recognized as no payments were made during the fiscal year.

**NOTE 12 - PURCHASED SERVICES**

For the period July 1, 2007, through June 30, 2008, purchased service expenses were payments for services rendered by various vendors, as follows:

Professional and Technical Services	\$ 199,451
Property Services	33,367
Travel Mileage/Meeting Expense	3,524
Communications	52,049
Contracted Trade Services	42,231
Insurance	4,722
Total Purchased Services	<u>\$ 335,344</u>

**NOTE 13 - OPERATING LEASE – LESSEE DISCLOSURE**

The Academy entered into a lease for the period March 24, 2008, to July 31, 2008 with Shirley Jean Leadbetter, Trustee, to lease space to house the Academy. The Academy paid the minimum rent during the fiscal year in the amount of \$28,100.

The lease requires monthly minimum rent payments of \$5,500 per month, with a prorated rent of \$600 for the first month.

**STAR ACADEMY OF TOLEDO  
LUCAS COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2008  
(Continued)**

**NOTE 14 – RELATED PARTY TRANSACTIONS**

**A. Keith Birkhold**

Keith Birkhold is the founder and an original Board member of the Academy during its startup phase. Mr. Birkhold has a contract for administrative services with the Academy to provide the following services, but not limited to, personnel and facilities management, as well as business administration. Mr Birkhold also incurred expenses (e.g. equipment, supplies, and other capital outlays) on behalf of the Academy for which he was reimbursed. Total fees incurred for Mr. Birkhold during fiscal year 2008 were \$141,770 for services and reimbursements. \$7,370 was unpaid at June 30, 2008 and was recorded as an accounts payable.

**B. E-Practical Solutions**

The Academy's Governing Board entered into a computer purchasing and service contract with E-Practical Solutions. Jim Mendenhall, an employee of E-Practical Solutions was on the Governing Board when the Academy entered into the contract; however, Mendenhall abstained from voting on the contract. Total payments to E-Practical Solutions totaled \$123,456.

**C. The Preston Joan Group**

The Academy's Governing Board entered into an agreement with the Preston Joan Group for human resource management services. John Dortch, an employee of the Preston Joan Group, was on the Board at the time the Academy entered into the contract. Total payments made to the Preston Joan Group during the fiscal year totaled \$7,725. Unpaid fees at June 30, 2008 totaled \$18,000, which was accrued as a payable.

**NOTE 16 – SUBSEQUENT EVENT**

**A. Loan**

Keith Birkhold, Superintendent, loaned the Academy \$20,000 on September 24, 2008 for the purpose of paying bills related to the Academy's operating activities.

**B. Operating Lease**

The Academy entered into a lease for the period August 1, 2008, through July 31, 2009, with St. Charles Catholic Church to lease space to house the Academy. The Academy has the option to renew this lease for an additional two year term commencing August 1, 2009. The lease requires monthly rent payments of \$10,000. The Academy is also subject to additional rent charges, including, but not limited to, real estate taxes, utilities, insurance, late charges and penalties.

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# Mary Taylor, CPA

## Auditor of State

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

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

To the Governing Board:

We have audited the basic financial statements Star Academy of Toledo, Lucas County, Ohio (the Academy), as of and for the year ended June 30, 2008 and have issued our report thereon dated August 5, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

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

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

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

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

We consider findings 2008-004 and 2008-006 described in the accompanying Schedule of Findings to be significant deficiencies in internal control over financial reporting.

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

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and accordingly, would not necessarily disclose all significant deficiencies that are also material weaknesses. Of the significant deficiencies described above, we believe Finding Number 2008-006 is also a material weakness.

We also noted certain internal control matters that we reported to the Academy's management in a separate letter dated August 5, 2009.

### **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 instances of noncompliance or other matters that we must report under *Government Auditing Standards*, which are described in the accompanying schedule of findings as items 2008-001 through 2008-005.

We also noted certain noncompliance or other matters not requiring inclusion in this report that we reported to the Academy's management in a separate letter dated August 5, 2009.

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



**Mary Taylor, CPA**  
Auditor of State

August 5, 2009

**STAR ACADEMY OF TOLEDO  
LUCAS COUNTY**

**SCHEDULE OF FINDINGS  
JUNE 30, 2008**

<b>1. FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS</b>
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**FINDING NUMBER 2008-001**

**Finding For Recovery Repaid Under Audit**

On February 14, 2008, Brian Adams, Treasurer, issued check #1029 in the amount of \$30,748 to Keith Birkhold, Superintendent, reimbursing him for supplies, meals, payments to vendors and employees, and payment of his monthly contract with the Academy. Of this amount, it was determined that \$4,500 was reimbursement for an advance the Superintendent made to the Principal for services provided to the Academy for the period September 10, 2007 to September 28, 2007. An examination of the Academy's records however, indicated the Academy also paid the Principal directly for these services through issuance of check #2032 on 5/7/08 in the amount of \$4,716. Additional review of the records indicated the Principal repaid the Superintendent the \$4,500 advance on 5/13/08 and the Superintendent failed to return the \$4,500 to the Academy as required. The result of the foregoing facts was that Superintendent Keith Birkhold received an overpayment of \$4,500.

In accordance with the foregoing facts and pursuant to Ohio Revised Code §117.28, a Finding for Recovery for public money illegally expended is hereby issued against Keith Birkhold, Superintendent, in favor of the Star Academy of Toledo, in the total amount of \$4,500.

Keith Birkhold has repaid the \$4,500 to Star Academy. The Academy recorded this amount as a deposit on June 5, 2009.

**FINDING NUMBER 2008-002**

**Finding For Recovery Repaid Under Audit**

On February 14, 2008, Brian Adams, Treasurer, issued check #1029 in the amount of \$30,748 to Keith Birkhold, Superintendent, reimbursing him for supplies, meals, payments to vendors and employees, and payment of his monthly contract with the Academy. Of this amount, it was determined the Superintendent was reimbursed for payments made on behalf of the Academy for marketing services, in the amount of \$1,000, and a facility deposit, in the amount of \$2,500. Records indicate the Superintendent was reimbursed for these same services with the issuance of check #1011 on 12/20/07, in the amount of \$43,945. The result of the foregoing facts was the Academy reimbursed the Superintendent twice for purchases in the amount of \$3,500.

In accordance with the foregoing facts and pursuant to Ohio Revised Code §117.28, a Finding for Recovery for public money illegally expended is hereby issued against Keith Birkhold, Superintendent, in favor of the Star Academy of Toledo, in the total amount of \$3,500.

Keith Birkhold has repaid the \$3,500 to Star Academy. The Academy recorded this amount as a deposit on June 5, 2009.

**STAR ACADEMY OF TOLEDO  
LUCAS COUNTY**

**SCHEDULE OF FINDINGS  
JUNE 30, 2008  
(Continued)**

<b>1. FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)</b>
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**FINDING NUMBER 2008-003**

**Noncompliance Citation**

Ohio Revised Code Section 3314.03(A)(11)(d) requires that each contract entered into between a sponsor and the governing authority of a community school shall specify that the school will comply with Section 149.43 of the Ohio Rev. Code. Ohio Rev. Code Section 149.43(B) states, in part, that all public records shall be promptly prepared and made available for inspection to any person at all reasonable times during regular business hours. In order to facilitate broader access to public records, public offices shall maintain public records in a manner that they can be made available for inspection in accordance with this division.

For the fiscal year ending June 30, 2008, Brian Adams, Treasurer, reimbursed Keith Birkhold, Superintendent, for supplies, meals, and payments to vendors in the amount of \$35,378. There was no supporting documentation to show what was purchased or the amount spent. This made it impossible to determine whether the expenses were related to school activities.

The Academy's failure to maintain adequate support for expenditures could result in a loss of accountability over the Academy's finances, making it difficult to identify errors which could go undetected, and possibly result in expenditures that are not for a proper public purpose.

We recommend the Academy develop policies and procedures to help ensure all public records are maintained and available for public inspection.

**FINDING NUMBER 2008-004**

**Noncompliance Citation/Significant Deficiency**

Ohio Revised Code Section 3309.23 (A)(1) states that all employees as defined in division (B) of Section 3309.01 of the Revised Code shall be contributors of the School Employees Retirement System (SERS). Ohio Rev. Code Section 3309.01(B)(2) defines an employee as "any person who performs a service common to the normal daily operation of an educational unit even though the person is employed and paid by one who has contracted with an employer to perform the service".

The Academy entered into a contract during the fiscal year with Keith Birkhold to serve in the capacity of Superintendent. There were no employer or employee contributions made on behalf of the Superintendent during the fiscal year.

At June 30, 2008, the Academy's liability is \$10,490 for the employer portion. The Superintendent's potential liability is \$7,493 for the employee's portion.

We recommend that both the Academy and Superintendent contact SERS to get a determination as to whether the Superintendent must contribute to SERS. We also recommend the Academy withhold retirement contributions from all applicable employees each pay period. This matter has been referred to SERS.

**STAR ACADEMY OF TOLEDO  
LUCAS COUNTY**

**SCHEDULE OF FINDINGS  
JUNE 30, 2008  
(Continued)**

<b>1. FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)</b>
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**FINDING NUMBER 2008-005**

**Noncompliance Citation**

The Academy's By-laws require that other than electronic funds disbursements authorized pursuant to any management agreement approved by the Board of Directors, disbursements in excess of Ten Thousand Dollars (\$10,000) shall require the signature of the Treasurer and one other officer. Expenditures in excess of Twenty Thousand Dollars (\$20,000) shall require approval by the Governing Board.

The Academy made 11 disbursements that were in the amount of \$10,000 or more. Ten of the disbursements were signed by the Treasurer only. Additionally, one of the disbursements was paid by manual check, which was signed only by the Superintendent.

The Academy made 7 disbursements that were in the amount of \$20,000 or more. Only two of the disbursements were approved by the Board, as noted in the minutes, prior to expenditure.

The failure to correct the above noted conditions could result in misappropriation of assets; inappropriate and/or incorrect payments to vendors and employees; and noncompliance with Academy By-laws.

We recommend the Academy follow the spending authority procedures established in the By-laws approved by the Governing Board.

**FINDING NUMBER 2008-006**

**Material Weakness**

**GAAP Conversion**

The Academy should have procedures in place to prevent or detect material misstatements for the accurate presentation of the Academy's financial statements and related disclosures. These procedures should include Governing Board review of the Academy's annual financial report and review the Academy's accounting and financial reporting practices. Errors were identified in calculating and posting journal entries to the financial statements during the GAAP conversion process, resulting in several audit adjustments, totaling \$328,086. The deficiencies resulting in the audit adjustments, consisted of, but were not limited to the following:

- Accrual of grants monies required to be returned to grantee (\$97,951);
- Improper capitalization of leasehold improvements (\$38,768);
- Identification of capital asset additions (\$12,192);
- Accrual of unpaid sponsor fees (\$6,927);
- Net Asset accounts (\$144,215); and,
- Statement of cash flows (\$28,033).

The deficiencies resulting in revisions to note disclosures, consisted of, but were not limited to the following:

- Identification and disclosure of grant monies required to be paid back to grantee;  
Identification and disclosure of operating lease;

**STAR ACADEMY OF TOLEDO  
LUCAS COUNTY**

**SCHEDULE OF FINDINGS  
JUNE 30, 2008  
(Continued)**

<p><b>1. FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)</b></p>
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**FINDING NUMBER 2008-006  
(Continued)**

**Material Weakness - GAAP Conversion (Continued)**

- Identification and disclosure of related parties;
- Intergovernmental revenue, including identification of programs the Academy participates in; and,
- GAAP schedules and/or workpapers were not incomplete.

The failure to record accurate financial activity on the financial statements and in the notes and lack of appropriate Governing Board review and approval could result in material misstatements and inaccurate financial reporting.

We recommend due care be exercised in the calculation and preparation of the financial statements and related note disclosures. Further, we recommend the Academy implement review procedures to detect material financial statement errors, including Governing Board review of the Academy's annual report for erroneous information and inaccurate presentation and classification. The Governing Board should document this review in the minutes.

**Officials Response:**

We received no response from the Officials to the findings reported above.



**Mary Taylor, CPA**  
Auditor of State

**STAR ACADEMY OF TOLEDO**

**LUCAS COUNTY**

**CLERK'S CERTIFICATION**

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

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
SEPTEMBER 8, 2009**