YOUNGSTOWN ACADEMY OF EXCELLENCE
MAHONING COUNTY

REGULAR AUDIT

FOR THE YEAR ENDED JUNE 30, 2009

Mary Taylor, CPA
Auditor of State

YOUNGSTOWN ACADEMY OF EXCELLENCE
MAHONING COUNTY

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Mary Taylor, CPA
Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

Youngstown Academy of Excellence
Mahoning County
1408 Rigby Street
Youngstown, Ohio 44506

To the Board of Directors:

We have audited the accompanying basic financial statements of the Youngstown Academy of Excellence, Mahoning County, Ohio (the Academy), as of and for the year ended June 30, 2009, 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 Youngstown Academy of Excellence, Mahoning County, Ohio, as of June 30, 2009, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements have been prepared assuming that the Academy will continue as a going concern. As discussed in Note 17 to the financial statements, the Academy's deficit net assets ($634,355) and operating loss ($486,133) raise substantial doubt about its ability to continue as a going concern. Note 17 describes management's plan regarding these issues. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 3, 2010, 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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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.

Mary Taylor

Mary Taylor, CPA
Auditor of State

March 3, 2010

MANAGEMENT'S DISUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009
UNAUDITED

The discussion and analysis of the Youngstown Academy of Excellence (the "Academy") financial performance provides an overall review of the Academy's financial activities for the fiscal year ended June 30, 2009. The intent of this discussion and analysis is to look at the Academy's financial performance as a whole. Readers should also review the financial statements and notes to the financial statements to enhance their understanding of the Academy's financial performance. The first year of the Academy's operations was 2006.

Financial Highlights

- Net assets decreased $72,489.
- Operating expenses accounted for $2,135,490 of the total expenses of $2,206,800.
- Operating revenues accounted for $1,649,357 of the Academy's total funding of $2,134,311.
- The Academy had an operating loss of $486,133 and $484,954 of the operating loss was alleviated by non-operating federal grants. The Academy was able to utilize majority of the federal grant allocations for fiscal year 2009.

Overview of the Financial Statements

The financial report consists of three parts – management's discussion and analysis, the basic financial statements, and the notes to the financial statements. These statements are organized so the reader can understand the financial position of the Academy. Enterprise accounting uses a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities are included on the statement of net assets. The statement of net assets represents the statement of position of the Academy. The statement of revenues, expenses, and changes in net assets presents increases (e.g., revenues) and decreases (e.g., expenses) in net total assets. The statement of cash flows reflects how the Academy finances and meets its cash flow needs. Finally, the notes to the basic financial statements provide additional information that is essential to a full understanding of the data provided on the basic financial statements.

Financial Analysis of the Academy as a Whole

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

The following tables represent a summary the Academy's condensed financial information for 2009 derived from the statement of net assets and the statement of revenues, expenses and changes in net assets.

Table 1 provides a summary of the Academy's nets assets for 2009 as compared to 2008:

Table 1
Net Assets

	2009	2008	Change
Assets:			
Current Assets	$ 198,314	$ 170,029	$ 28,285
Capital Assets	114,498	116,820	(2,322)
Total Assets	312,812	286,849	25,963
Liabilities:			
Current Liabilities	947,167	848,715	(98,452)
Total Liabilities	947,167	848,715	(98,452)
Net Assets:			
Invested in Capital Assets	114,498	69,977	44,521
Restricted for Other Purposes	-	189	(189)
Unrestricted	(748,853)	(632,032)	(116,821)
Total Net Assets	$ (634,355)	$ (561,866)	$ (72,489)

Results of fiscal year 2009 indicate an ending net asset balance of ($634,355), a decrease of $72,489 over fiscal year 2008. The decrease is the result of below breakeven enrollment in the Academy's fourth year of operations. We anticipate that the Academy will have another decrease in net assets for fiscal year 2010, as a result of lower than anticipated enrollment. The goal is to grow enrollment to be closer to the capacity of the facility at which point the school would generate surpluses on an annual basis sufficient to eliminate accumulated deficits. The initial losses are typical for a new Academy which may not typically achieve positive net assets until the third or fourth year of operations due to significant start-up costs.

Table 2 reflects the changes in net assets for the fiscal year 2009 as compared to 2008:

Table 2
Change in Net Assets

Operating Revenues:			
Community School Foundation	$ 1,645,614	$ 1,318,566	$ 327,048
Miscellaneous	3,743	1,481	2,262
Nonoperating Revenues:			
Federal and State Restricted Grants	484,954	438,674	46,280
Total Revenues	2,134,311	1,758,721	375,590
Operating Expenses:			
Building	303,573	297,470	6,103
Purchased Services	1,734,397	1,512,077	222,320
Depreciation	23,375	23,083	292
General Supplies	47,381	147,662	(100,281)
Other Operating Expenses	26,764	16,327	10,437
Nonoperating Expenses:			
Interest Expense	71,310	42,866	28,444
Total Expenses	2,206,800	2,039,485	167,315
Change in Net Assets	(72,489)	(280,764)	208,275
Net Assets (Deficit) Beginning of Year	(561,866)	(281,102)	(280,764)
Net Assets (Deficit) End of Year	$ (634,355)	$ (561,866)	$ (72,489)

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

Budget

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 by the Academy's contract with its sponsor. The contract between the Academy and its sponsor, St. Aloysius Orphanage, does not prescribe a budgetary process for the Academy.

Capital Assets and Debt Administration

Capital Assets

At the end of FY 2009, the Academy had $114,498 invested in capital assets (net of accumulated depreciation) for leasehold improvements, computers and other equipment, a decrease of $2,322 or 1.99 percent. The following table shows fiscal year 2009 compared to 2008:

	2009	2008	Change
Furniture & Equipment	$60,029	$63,850	($3,821)
Computer Technology	33,708	52,970	(19,262)
Leasehold Improvements	20,761	0	20,761
Net Capital Assets	$114,498	$116,820	($2,322)

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

Debt

At June 30, 2009, the Academy had retired the balance of capital lease obligations for furniture and technology that had been outstanding. The following outstanding table summarized the Academy's debt outstanding as of June 30, 2009.

	2009	2008	Change
Capital Lease - Furniture	$0	$18,901	($18,901)
Capital Lease - Computers	0	27,942	(27,942)
Total	$0	$46,843	($46,843)

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

Economic Factors

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

Operations

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

Requests for Information

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

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YOUNGSTOWN ACADEMY OF EXCELLENCE
MAHONING COUNTY

STATEMENT OF NET ASSETS
JUNE 30, 2009

Assets:	
Current assets:	
Cash and Cash Equivalents	$ 51,466
Intergovernmental Receivable	136,178
Prepaid Expense	10,670
Total current assets	198,314
Noncurrent assets:	
Capital Assets, net of Accumulated Depreciation	114,498
Total assets	$ 312,812
Liabilities:	
Current liabilities:	
Accounts Payable, Trade	$ 78,560
Accounts Payable, Related Party	868,607
Total liabilities	947,167
Net Assets	
Invested in Capital Assets	114,498
Unrestricted Net Assets	(748,853)
Total Net Assets	$ (634,355)

See Accompanying Notes to the Basic Financial Statements

YOUNGSTOWN ACADEMY OF EXCELLENCE
MAHONING COUNTY

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2009

Operating Revenues:	
Community School Foundation	$ 1,645,614
Miscellaneous	3,743
Total Operating Revenues	1,649,357
Operating Expenses:	
Building	303,573
Purchased Services	1,734,397
Depreciation	23,375
General Supplies	47,381
Other Operating Expenses	26,764
Total Operating Expenses	2,135,490
Operating Loss	(486,133)
Nonoperating Revenues and Expenses:	
Federal and State Restricted Grants	484,954
Interest Expense	(71,310)
Net Nonoperating Revenues and Expenses	413,644
Change in Net Assets	(72,489)
Net Assets Beginning of Year	(561,866)
Net Assets End of Year	$ (634,355)

See Accompanying Notes to the Basic Financial Statements

YOUNGSTOWN ACADEMY OF EXCELLENCE
MAHONING COUNTY

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2009

CASH FLOWS FROM OPERATING ACTIVITIES	
Foundation Receipts	$ 1,645,120
Other Operating Receipts	3,743
Cash Payments to Suppliers for Goods and Services	(1,955,095)
Net Cash Used for Operating Activities	(306,232)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Short-term Financing Payments	(69,308)
Federal and State Grant Receipts	487,862
Net Cash Provided by Noncapital Financing Activities	418,554
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Purchase of Assets	(21,054)
Capital Lease Interest Payments	(2,518)
Capital Lease Principal Retirement	(46,843)
Net Cash Used for Capital and Related Financing Activities	(70,415)
Net Increase in Cash and Cash Equivalents	41,907
Cash and Cash Equivalents - Beginning of the Year	9,559
Cash and Cash Equivalents - End of the Year	$ 51,466

Reconciliation of Operating Loss to Net Cash Used for Operating Activities	
Operating Loss	$ (438,044)
Adjustments to Reconcile Operating Loss to Net Cash Used for Operating Activities	
Depreciation	23,375
Changes in assets and liabilities:	
Decrease in Prepaid Expense	7,997
Decrease in Accounts Payable, Trade	(24,630)
Increase in Accounts Payable, Related Party	125,563
Decrease in Deferred Revenue	(493)
Net Cash Used for Operating Activities	$ (306,232)

See Accompanying Notes to the Basic Financial Statements

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Note 1 – Description of the School

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

The Academy was approved for operation under a contract with the St. Aloysius Orphanage (the Sponsor) for a period of five academic years commencing after July 1, 2005 and ending June 30, 2010. The Sponsor is responsible for evaluating the performance of the Academy and has the authority to deny renewal of the contract at its expiration or terminate the contract prior to its expiration.

The Academy operates under the direction of a Governing Board that consists of five individuals who are not owners or employees, or immediate relatives or owners or employees of any for-profit firm that operate or manage the Academy for the Governing Board. The Board is responsible for carrying out the provisions of the contract that include, but are not limited to, state-mandated provisions regarding student population, curriculum, academic goals, performance standards, admission standards, and qualifications of teachers.

The Academy contracts with Mosaica Education, Inc., for management services including management of personnel and human resources, the program of instruction, technology, marketing, data management, purchasing, strategic planning, public relations, financial reporting, recruiting, compliance issues, budgets, contracts, and equipment and facilities. See Note 15.

Note 2 - Summary of Significant Accounting Policies

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

A. Basis of Presentation

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

B. Measurement Focus

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

Note 2 - Summary of Significant Accounting Policies (Continued)

C. Basis of Accounting

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

D. Budgetary Process

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

E. Cash and Cash Equivalents

Cash received by the Academy is reflected as "Cash and Cash Equivalents" on the statement of net assets. The Academy had no investments during the fiscal year ended June 30, 2009.

F. Prepaid Items

The Academy records payments made to vendors for services that will benefit periods beyond June 30, 2009, as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expense is reported in the year in which services are consumed.

G. Capital Assets

The Academy's capital assets during fiscal year 2009 consisted of computers and other equipment as well as leasehold improvements to make the lower level of the facility useable. All capital assets are capitalized at cost and updated for additions and retirements during the fiscal year. Donated capital assets are recorded at their fair market values as of the date received. The Academy maintains a capitalization threshold of one thousand five hundred dollars. The Academy does not have any infrastructure. Improvements are capitalized. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized.

Note 2 - Summary of Significant Accounting Policies (Continued)

All capital asset leases are depreciated 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:

Description	Useful Lives
Furniture and Equipment	5-20 years
Computer Technology	5 years
Leasehold Improvements	12 years

H. Net Assets

Net assets represent the difference between assets and liabilities. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by Academy or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. The Academy applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net assets are available. As of June 30, 2009, there were no net assets restricted for enabling legislation.

The statement of net assets reports no restricted net assets related to federal grant receipts and $114,498 invested in capital assets.

I. Operating Revenues and Expenses

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

J. Estimates

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

K. Economic Dependency

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

Note 3 – Changes in Accounting Principles

There were no changes in accounting principles implemented during 2009 that would have a material effect on the financial statements.

Note 4 - Deposits

Custodial credit risk is the risk that, in the event of a bank failure, the Academy's deposits may not be returned. The Academy does not have a deposit policy for custodial credit risk. At June 30, 2009, the bank balance of Academy's deposits was $63,591. The bank balance was covered by federal depository insurance. There are no significant statutory restrictions regarding the deposit and investment of funds by the nonprofit corporation.

Note 5 – Receivables

At June 30, 2009, the Academy had intergovernmental receivables, in the amount of $136,178. The receivables are expected to be collected within one year.

Grant	Amount
Title I	$70,947
School Counselor Grant	14,354
National School Lunch Program	6,407
IDEA B	39,683
Title II A	519
Title IV A	3,608
Title V A	660
Total Intergovernmental Receivables	$136,178

Note 6 – Capital Assets

The capital asset activity for the fiscal year ended June 30, 2009, was as follows:

	Balance June 30, 2008	Additions	Deletions	Balance June 30, 2009
Depreciable Capital Assets				
Furniture & Equipment	$72,448	0	0	$72,448
Computer Technology	96,309	0	0	96,309
Leasehold Improvements	0	21,053	0	21,053
Less Accumulated Depreciation				
Furniture & Equipment	(8,598)	(3,821)	0	(12,419)
Computer Technology	(43,339)	(19,262)	0	(62,601)
Leasehold Improvements	0	(292)	0	(292)
Capital Assets, Net	$116,820	($2,322)	$0	$114,498

Note 7 – Risk Management

The Academy is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2009, the Academy contracted with the Hartford Casualty Insurance Company. The types and amounts of coverage provided are as follows:

General Liability:	
Each Occurrence	$1,000,000
Aggregate Limit	2,000,000
Products - Completed Operations Aggregate Limit	2,000,000
Medical Expense Limit - Any One Person/Occurrence	10,000
Damage to Rented Premises - Each Occurrence	300,000
Personal and Advertising Injury	1,000,000
Business Personal Property	303,200
Automobile Liability:	
Combined Single Limit	1,000,000
Excess/Umbrella	
Each Occurrence	3,000,000
Aggregate Limit	3,000,000

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

Note 8 – Purchased Services

For the year ended June 30, 2009, purchased service expenses were for the following services:

Purchased Services	Amount
Personnel Services	$1,146,970
Building Services	93,788
Food Services	124,869
Student Services	17,264
Staff and Administrative Services	294,049
Professional Services	11,642
Sponsor Services	27,967
Advertising	17,848
Total	$1,734,397

Note 9 – Defined Benefit Pension Plans

The Academy has contracted with Mosaica Education, Inc. to provide employee services. However, these contracted services do not relieve the Academy of the obligation for remitting pension contributions. The retirement systems consider the School as the Employer-of-Record and the Academy is ultimately responsible for remitting retirement contributions to each of the systems noted below.

A. School Employees Retirement System

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

Funding Policy
Plan members are required to contribute 10% of their annual covered salary and the Academy is required to contribute 14% of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS' Retirement Board. The Retirement Board acting with the advice of the actuary, allocates the employer contribution rate among four of the funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund) of the System. For fiscal year ending June 30, 2009, the allocation to pension and death benefits is 9.09%. The remaining 4.91% of the 14% employer contribution rate is allocated to the Health Care and Medicare B Funds. The School District's contributions to SERS for the years ended June 30, 2009, 2008, and 2007 were $9,450, $10,740 and $15,732 respectively, which equaled the required contributions each year.

B. State Teachers Retirement System

Plan Description - The Academy participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement system. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3371, by calling (888) 227-7877, or by visiting the STRS Ohio web site at **www.strsoh.org**.

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

<u>Note 9 – Defined Benefit Pension Plans</u> (Continued)

B. State Teachers Retirement System (Continued)

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

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

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

The Academy's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2009, 2008 and 2007 were $97,593, $78,885 and $73,653 respectively; 99 percent has been contributed for the fiscal year 2009, and 100 percent for fiscal years 2008 and 2007. Contributions to the DC and Combined Plans for the fiscal year 2009 were $0 made by the Academy and $0 made by the plan members.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System of Ohio have an option to choose Social Security or the School Retirement System. The contribution rate is 6.2 percent of wages. As of June 30, 2009, none of the Academy's staff have elected Social Security.

<u>Note 10 – Postemployment Benefits</u>

A. School Employees Retirement System

Postemployment Benefits
In addition to a cost-sharing multiple-employer defined benefit pension plan the School Employees Retirement System of Ohio (SERS) administers two postemployment benefit plans.

Medicare Part B Plan
The Medicare B plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries as set forth in Ohio Revised Code (ORC) 3309.69. Qualified benefit recipients who pay Medicare Part B premiums may apply for and receive a monthly reimbursement from SERS. The reimbursement amount is limited by statute to the lesser of the January 1, 1999 Medicare Part B premium or the current premium. The Medicare Part B premium for calendar year 2009 was $96.40, SERS' reimbursement to retirees was $45.50.

Note 10 – Postemployment Benefits (Continued)

The Retirement Board, acting with the advice of the actuary, allocates a portion of the current employer contribution rate to the Medicare B Fund. For fiscal year 2009, the actuarially required allocation is .75%. The Academy's contributions for the years ended June 30, 2009 and 2008 were $686 and $774 respectively, which equaled the required contributions each year.

Health Care Plan
ORC 3309.375 and 3309.69 permit SERS to offer health care benefits to eligible retirees and beneficiaries. SERS' Retirement Board reserves the right to change or discontinue any health plan or program. SERS offers several types of health plans from various vendors, including HMOs, PPOs, Medicare Advantage and traditional indemnity plans. A prescription drug program is also available to those who elect health coverage. SERS employs two third-party administrators and a pharmacy benefit manager to manage the self-insurance and prescription drug plans, respectively.

The ORC provides the statutory authority to fund SERS' postemployment benefits through employer contributions. Active members do not make contributions to the postemployment benefit plans.

The Health Care Fund was established under, and is administered in accordance with Internal Revenue Code 105(e). Each year after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer 14% contribution to the Health Care Fund. For the year ended June 30, 2009, the health care allocation is 4.16%. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. Statutes provide that no employer shall pay a health care surcharge greater than 2% of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5% of the total statewide SERS-covered payroll for the health care surcharge. For fiscal year 2009, the minimum compensation level was established at $35,800. The surcharge, added to the unallocated portion of the 14% employer contribution rate is the total amount assigned to the Health Care Fund. The Academy's contributions assigned to health care for the years ended June 30, 2009, 2008, and 2007 were $4,418, $4901, and $4889, respectively.

The SERS 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 selected, qualified years of service, Medicare eligibility, and retirement status.

The financial reports of SERS' Health Care and Medicare B plans are included in its *Comprehensive Annual Financial Report.* The report can be obtained by contacting SERS, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746 or by calling toll free (800) 878-5853. It is also posted on SERS' website at www.ohsers.org under Employers/Audit Resources.

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 or by calling (888) 227-7877.

Note 10 – Postemployment Benefits (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 2009, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. The Academy's contributions for health care for the fiscal years ended June 30, 2009, 2008 and 2007 were $7,507, $6,068 and $5,663 respectively; 99 percent has been contributed for fiscal year 2009 and 100 percent for fiscal years 2008 and 2007.

Note 11 - Contingencies

A. Grants

The Academy received financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the Academy. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the Academy at June 30, 2009.

B. Ohio Department of Education Enrollment Review

The Ohio Department of Education (ODE) conducts reviews of enrollment data and full-time equivalency (FTE) calculations made by community schools. These reviews are conducted to ensure the Academy is reporting accurate student enrollment data to the State, upon which state foundation funding is calculated. The conclusion of this review did result in state funding being adjusted for 2009 that did not have a significant impact on the 2009 financial statements.

Note 12 – Building Leases

The Academy entered into a lease agreement on September 6, 2005 for 15 years to lease a building from School Properties Company, LLC, a wholly owned subsidiary of Mosaica Education, Inc. for the use of the main building and grounds as a school facility. Mosaica Education, Inc. is a related party, as disclosed in Note 15. Rent expense for the fiscal year ended 2009 was $303,573.

The following is a schedule of the future minimum payments excluding allowable facility cost pass through, required under the operating as of June 30, 2009 and required under the executed lease agreement:

Note 12 – Building Leases (Continued)

Fiscal Year Ending June 30	Amount
2010	$ 309,643
2011	315,836
2012	322,152
2013	328,595
2014	335,167
2015 - 2019	1,779,109
Remaining 2020 - 2021	440,568
Total minimum lease payments	$ 3,831,070

Note 13 – Capital Lease-Lessee Disclosure

The Academy entered into two lease agreements in fiscal year 2006 with Relational LLC for technology equipment (computers) and furniture. The Academy's lease obligations met the criteria of a capital lease as defined by Statement of Financial Accounting Standards No. 13 "Accounting for Leases", which defines a capital lease generally as one which transfers benefits and risk of ownership to the lessee. The technology equipment and furniture have been capitalized in the amounts of $96,308 and $72,448 respectively, the present value of the minimum lease payments at the inception of the lease. As of June 30, 2009, the Academy had retired the $46,843 outstanding balance of these leases and no further obligation remains outstanding.

Note 14 –Tax Exempt Status

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

Note 15 – Related Party Transactions/Management Company

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

Per the management agreement with the Academy, Mosaica Education is entitled to a management fee that is equivalent to 12.5% of the Academy's revenues. The management fee for fiscal year 2009 was $266,789. In addition, upon termination of the agreement due to nonperformance by either party, or in the event of nonrenewal upon expiration of the agreement, the Academy must pay Mosaica Education, Inc. $100,000 per year for three consecutive years.

Note 15 – Related Party Transactions/Management Company (Continued)

Also, per the management agreement there are expenses that will be billed to the academy based on the actual cost incurred for the Academy by Mosaica Education, Inc. These expenses include rent, salaries, of Mosaica Education, Inc employees working at the Academy, and other costs related to providing educational and administration services. The total expenses paid to Mosaica Education, Inc during fiscal year 2009 were $1,316,126.

At June 30, 2009, the Academy had payables to Mosaica Education, Inc. in the amount of $868,607. The following is a schedule of payables owed to Mosaica Education, Inc.

	Amount
Payroll	$497,929
Management Fee	159,203
Finance Charges	45,552
Building Rent	152,284
Miscellaneous	13,639
Total June 30, 2009	$868,607

Note 16 – Sponsor

The Academy was approved for operation under a contract with St. Aloysius Orphanage (the Sponsor) for a period of five academic years commencing July 18, 2005. As part of this contract, the Sponsor is entitled to a maximum of 2% of the total state funds. Total amount due and paid for fiscal year 2009 was $27,967.

Note 17 – Management's Plan

For fiscal year 2009, the Academy had an operating loss of $486,133, a decrease in net assets of $72,489, and a cumulative net asset deficit of $634,355. The Academy anticipates having an additional decrease in net assets for the year ended June 30, 2010 due to lower than expected enrollment. As of January 31, 2009 the Academy's change in net asset was $(757,923) and the operating deficit was $(123,568).

Final fiscal year 2008 full-time equivalent student enrollment was 170 students and final fiscal year 2009 full-time equivalent student enrollment was 208 students. As of January 31, 2009 the full time equivalent student enrollment is 183 students.

Over time, Mosaica Education Inc. believes the anticipated increase in enrollment should allow the school to reduce its operating losses and have operating gains. Mosaica Education Inc. plans to continue efforts to increase enrollment through active advertising via print, radio, mailings and through referrals of current parents which may increase enrollment, reduce future deficits and may lead to no operating losses in future years.

Note 18 - Subsequent Event

An amended and restated Management Agreement was signed and approved by the Academy's Board of Directors effective August 26, 2009. The amended agreement established a schedule of payment by the Academy to Mosaica Education, Inc for the $300,000 start-up fee originally agreed upon in the February 16, 2005 Management Agreement. The amended agreement states that the start-up fee is a promissory note to be repaid with 9% interest starting July 1, 2009 and amortized through June 15, 2013 with regular equal monthly payments to be made on the fifteenth day of each month, starting with the first month after the start date. Upon any termination or expiration of this agreement by either party for any reason, the entire unpaid principle balance together with all accrued interest of the start-up note shall become due and payable by the Academy to Mosaica Education, Inc.

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*

Youngstown Academy of Excellence
Mahoning County
1408 Rigby Street
Youngstown, Ohio 44506

To the Board of Directors:

We have audited the basic financial statements of the Youngstown Academy of Excellence, Mahoning County, Ohio, (the Academy) as of and for the year ended June 30, 2009, and have issued our report thereon dated March 3, 2010 wherein we noted matters which raise substantial doubt about the Academy's ability to continue as a going concern. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

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

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.

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

We noted certain matters that we reported to the Academy's management in a separate letter dated March 3, 2010.

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www.auditor.state.oh.us

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 intend this report solely for the information and use of the management, Board of Directors and the St. Aloysius Orphanage. We intend it for no one other than these specified parties.

Mary Taylor

Mary Taylor, CPA
Auditor of State

March 3, 2010

YOUNGSTOWN ACADEMY OF EXCELLENCE
MAHONING COUNTY

SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2009

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; ***Explain***
2008-001	**Ohio Revised Code § 3314.01(B):** Board Meetings	Yes	N/A

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Mary Taylor, CPA
Auditor of State

Independent Accountants' Report on Applying Agreed-Upon Procedures

Youngstown Academy of Excellence
Mahoning County
1408 Rigby Street
Youngstown, Ohio 44506

To the Board of Directors:

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

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

1. We noted the Board adopted an anti-harassment policy at its meeting on April 10, 2008.

2. We read the policy, noting it included the following requirements from Ohio Rev. Code Section 3313.666(B):

   (1) A statement prohibiting harassment, intimidation, or bullying of any student on school property or at school-sponsored events;

   (2) A definition of harassment, intimidation, or bullying that includes the definition in division (A) of Ohio Rev. Code Section 3313.666;

   (3) A procedure for reporting prohibited incidents;

   (4) A requirement that school personnel report prohibited incidents of which they are aware to the school principal or other administrator designated by the principal;

   (5) A requirement that parents or guardians of any student involved in a prohibited incident be notified and, to the extent permitted by section 3319.321 of the Revised Code and the "Family Educational Rights and Privacy Act of 1974," 88 Stat. 571, 20 U.S.C. 1232q, as amended, have access to any written reports pertaining to the prohibited incident;

(6) A procedure for documenting any prohibited incident that is reported;

(7) A procedure for responding to and investigating any reported incident;

(8) A strategy for protecting a victim from additional harassment, intimidation, or bullying, and from retaliation following a report;

(9) A disciplinary procedure for any student guilty of harassment, intimidation, or bullying, which shall not infringe on any student's rights under the first amendment to the Constitution of the United States;

(10) A requirement that the Academy administration semiannually provide the president of the Board of Directors a written summary of all reported incidents and post the summary on its web site, if the district has a web site, to the extent permitted by section 3319.321 of the Revised Code and the "Family Educational Rights and Privacy Act of 1974," 88 Stat. 571, 20 U.S.C. 1232q, as amended.

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

This report is intended solely for the information and use of the Board of Directors, management, and the St. Aloysius Orphanage and is not intended to be and should not be used by anyone other than these specified parties.

Mary Taylor

Mary Taylor, CPA
Auditor of State

March 3, 2010

Mary Taylor, CPA
Auditor of State

YOUNGSTOWN ACADEMY OF EXCELLENCE

MAHONING COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
MAY 6, 2010