



Dave Yost • Auditor of State

**THE ARTS ACADEMY
LORAIN COUNTY
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Dave Yost • Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

Ashe Culture Center
Attn: Jorethia Chuck, Representative
2125 Superior Avenue
Cleveland, OH 44114

To The Arts Academy and the Sponsor:

We were engaged to audit the accompanying basic financial statements of The Arts Academy, Lorain County (the Academy), as of and for the year ended June 30, 2010. These financial statements are the responsibility of the Academy's management.

The Academy did not retain or present for examination sufficient competent evidence to support the student full-time equivalencies reported to the Ohio Department of Education (ODE) which supports the Foundation Revenue received.

The Academy failed to provide evidence to support Salary, Wage and Fringe Benefit Expenses, Student Activity and Miscellaneous Revenue, Operating and Capital Leases, Accounts Payable, Accrued Wages and Benefits Payable, Payroll Liability and Loans Payable balances.

They also did not maintain documentation to support the disclosures related to the items listed in paragraphs two and three above.

The amounts reported on the Statement of Cash Flows were unsupported.

The Academy did not retain minutes or provide evidence of meetings of the Board of Directors.

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* require us to obtain written representations from management. Management has not provided the Auditor of State written representations, including but not limited to, management's responsibility for preparing the financial statements in conformity with the Academy's accounting basis; the availability of original financial records and related data, the completeness and availability of all minutes of the legislative or other bodies and committee meetings, management's responsibility for the Academy's compliance with laws and regulations; the identification and disclosure to the Auditor of State of all laws, regulations, and provisions of contracts and grant agreements directly and materially affecting the determination of financial statement amounts and; the presence or absence of regulations, and provisions of contracts and grant agreements, and compliance with any debt covenants.

The Academy was closed on June 30, 2011 by the Ohio Department of Education due to inability to find a new sponsor.

Since the Academy did not provide sufficient evidential matter as described in paragraphs two through seven above, the scope of our auditing procedures was not sufficient to enable us to express, and we do not express, an opinion of these financial statements referred to above for the year ended June 30, 2010.

During the year ended June 30, 2010, the Academy suffered a net loss in the amount of \$309,668 and accumulated a total net asset deficit of \$239,813.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 21, 2011, on our consideration of the Academy's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing.

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

Dave Yost
Auditor of State

December 21, 2011

**THE ARTS ACADEMY
LORAIN COUNTY**

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

Our discussion and analysis of The Arts Academy's (the Academy's) financial performance provides an overall review of the Academy's financial activities for the fiscal year ended June 30, 2010. The intent of this discussion and analysis is to look at the Academy's' financial performance as a whole; readers should also review the basic financial statements and notes to the basic financial statements to enhance their understanding of the Academy's financial performance.

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

FINANCIAL HIGHLIGHTS

Key Financial Highlights for the Academy for fiscal year 2010 are as follows:

- Total assets decreased by \$28,985, or 14% from 2009.
- Total liabilities increased by \$155,583, or 60% from 2009.
- Total net assets decreased by \$184,568, or 334% from 2009.
- Total operating revenues were \$1,442,123. Total operating expenses were \$2,028,145.

USING THIS ANNUAL REPORT

This report consists of three parts: the MD&A, the basic financial statements, and notes to those basic financial 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 2010. 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 of 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 the 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, change in technology, required educational programs and other factors.

The Academy uses enterprise presentation for all of its activities.

**THE ARTS ACADEMY
LORAIN COUNTY**

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

The Statement of Net Assets answers the question of how the Academy did financially during 2010. 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 resource focus, which is similar to the accounting used by most private-sector companies. This basis of accounting takes into account all revenues and expenses during the year, regardless of when the cash is received or paid.

Table 1 provides a comparison of net assets as of June 30, 2010 with net assets as of June 30, 2009.

Table 1
Net Assets

	June 30, 2010	June 30, 2009
Assets		
Current Assets	\$ 127,958	\$ 123,763
Capital Assets, Net of Accumulated Depreciation	46,981	80,071
Total Assets	174,939	203,834
Liabilities		
Current Liabilities	350,662	259,079
Long Term Liabilities	64,000	-
Total Liabilities	414,662	259,079
Net Assets		
Invested in Capital Assets, Net of Related Debt	46,981	80,071
Restricted	-	9,000
Unrestricted	(286,794)	(144,316)
Total Net Assets	\$ (239,813)	\$ (55,245)

Total assets decreased \$28,985, or 14%, from 2009, primarily due to an increase in operating expenses. Liabilities increased \$155,583, or 60%, from 2009. This increase was mainly due to the increase in Accounts Payable.

**THE ARTS ACADEMY
LORAIN COUNTY**

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

Table 2 shows the changes in net assets for fiscal years 2010 and 2009, 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 factors include the current laws in Ohio restricting revenue growth, facility conditions, required educational programs and other factors.

Table 2

Revenues, Expenses, and Changes in Net Assets

	June 30, 2010	June 30, 2009
Operating Revenue:		
State Foundation	\$ 1,442,123	\$ 1,643,924
Total Operating Revenues	<u>1,442,123</u>	<u>1,643,924</u>
Operating Expenses:		
Salaries	894,960	862,066
Fringe Benefits	245,349	351,064
Purchased Services	652,912	639,665
Materials and Supplies	91,410	27,912
Capital Outlay	11,668	-
Depreciation	33,180	30,415
Other	98,666	43,798
Total Operating Expenses	<u>2,028,145</u>	<u>1,954,920</u>
Operating (Loss)	<u>(586,022)</u>	<u>(310,996)</u>
Non-Operating Revenues and (Expenses)		
Grants - Federal and State	214,933	156,989
Other Revenue	12,926	6,207
Interest and Fiscal Charges	-	(1,494)
Student Activities	48,495	83,784
Total Non-Operating Revenues (Expenses)	<u>276,354</u>	<u>245,486</u>
(Decrease) in Net Assets	(309,668)	(65,510)
Net Assets at Beginning of Year	(55,245)	10,265
Net Assets at End of Year	<u>\$ (364,913)</u>	<u>(55,245)</u>

Operating revenues decreased \$201,800, which represents a 12% change from 2009, primarily due to the decline in state foundation receipts, which is directly dependent upon student enrollment. Operating expenses increased by \$73,225, or 4% from 2009. The increase mainly occurred in Purchased Services and Salaries Expense.

**THE ARTS ACADEMY
LORAIN COUNTY**

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

Budgeting Highlights

Unlike other public schools located in the State of Ohio, community schools are not required to follow budgetary provisions set forth in Ohio Rev. Code Section 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 must prepare and submit a detailed budget for every fiscal year to the Board of Directors and its Sponsor. A five-year forecast is also submitted to the Ohio Department of Education, annually.

Capital Assets

The Academy has \$46,981 invested in capital assets, net of accumulated depreciation. These assets were purchased with federal resources through the Academy's participation in grant awards, as well as from general funding sources. No additional investments in capital asset in the fiscal year were made.

Debt Obligations

The Academy makes and receives loans from their family of schools to meet operational needs in a situation where the cash flow is low. Loans are also made from other interested parties which are included in the loans payable or receivable to the schools. These loans are considered collectable. For more information on these loans see Note 13 to the notes to the basic financial statements.

Contacting the Academy's Financial Management

This financial report is designed to provide our citizens, taxpayers, investors and creditors with a general overview of the Academy's finances and to demonstrate accountability for the money it receives. If you have questions about this report or need additional information, contact Carl Shye, Treasurer, 5844 Central College Road, New Albany, OH 43054.

The Arts Academy
Statement of Net Assets
June 30, 2010

Assets

Current Assets:

Due From Arts West	\$ 127,958
Total Current Assets	<u>127,958</u>

Capital Assets	<u>46,891</u>
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Total Assets	<u>174,849</u>
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Liabilities

Current Liabilities:

Accounts Payable	218,902
Bank Account	2,725
Accrued Wages and Benefits	89,541
Garnishment	450
Payroll liabilities	32,044
Short Term Rainbow	7,000
Long Term Liabilities	<u>64,000</u>

Total Liabilities	414,662
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Net Assets

Invested in Capital Assets	46,981
Unrestricted	<u>(286,794)</u>

Total Net Assets	<u>\$ (239,813)</u>
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See accompanying notes to the basic financial statements.

The Arts Academy
Statement of Revenues, Expenses and Changes in Net Assets
For the Fiscal Year Ended June 30, 2010

Operating Revenues:	
State Foundation	\$ 1,442,123
Total Operating Revenues	<u>1,442,123</u>
Operating Expenses:	
Salaries	894,960
Fringe Benefits	245,349
Purchased Services	652,912
Materials and Supplies	91,410
Depreciation	33,180
Capital Outlay	11,668
Other	98,665
Total Operating Expenses	<u>2,028,145</u>
Operating Loss	(586,022)
Non-Operating Revenues (Expenses):	
Student Activities	48,495
Other Reveune	12,926
Grants Federal and State	214,933
Total Non-Operating Revenues (Expenses)	<u>276,354</u>
Decrease in Net Assets	<u>(309,668)</u>
Net Assets Beginning of Year	(55,245)
Net Assets End of Year	<u><u>\$ (364,913)</u></u>

See accompanying notes to the basic financial statements.

**The Arts Academy
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2010**

Increase (Decrease) in Cash and Cash Equivalents

Cash Flows from Operating Activities

Cash Received from State of Ohio	\$ 1,457,780
Cash Received from Other Operating Sources	-
Cash Payments to Suppliers for Goods and Services	(91,410)
Cash Payments to Employees for Services	(734,711)
Cash Payments for Employee Benefits	(192,334)
Other Cash Payments	(729,890)
	<hr/>

Net Cash Provided by (Used in) Operating Activities \$ (290,565)

Cash Flows from Noncapital and Related Financing Activities

Federal and State+A56 Grants	207,202
Student Activities	48,495
Other Revenue	5,000
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Net Cash Provided by Noncapital and Related Financing Activities 260,698

Cash Flows from Capital Financing Activities

Loan Alexis Rainbow	7,000
	<hr/>

Net Cash Provided by (Used in) Capital Financing Activities 7,000

Net Decrease in Cash and Cash Equivalents (22,867)

Cash and Cash Equivalents Beginning of Year

97,605

Cash and Cash Equivalents End of Year

\$ 74,738

Reconciliation of Operating Gain (Loss) to Net Cash Provided by (Used in) Operating Activities

Operating Gain (Loss) \$ (247,205)

ADJUSTMENTS TO RECONCILE OPERATING LOSS TO NET CASH USED FOR OPERATING ACTIVITIES

Depreciation	33,180
(Increase) Decrease	
Accounts Payable	113,141
Accrued Wages and Benefits	4,830
Loans Receivable	7,000
Prepaid Expenses	(9,000)
Total Adjustment	<hr/> 149,151

Net Cash Provided by (used in) Operating Activities

\$ (98,054)

See accompanying notes to the basic financial statements.

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**THE ARTS ACADEMY
LORAIN COUNTY**

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

1. DESCRIPTION OF THE SCHOOL AND REPORTING ENTITY

The Arts Academy (the Academy) is a non-profit corporation established pursuant to Ohio Revised Code Chapters 1702 and 3314. The Academy is an approved tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code. Management is not aware of any course of action or series of events that have occurred that might adversely affect the Academy's tax-exempt status. The Academy's objective is to use the Lorain community to form partnerships for student learning. Individualized programs are used to meet student's needs. Parents and students are included in all decision-making. The Academy, which is a 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 acquire facilities as needed and contract for any services necessary for the operation of the school.

The Academy was approved for operation under contract with the Ashe Culture Center, Inc. (The Sponsor) or a period of four years commencing June 28, 2005. The contract was renewed through June 30, 2011. The Sponsor is responsible for evaluating the performance of the Academy and has the authority to deny renewal of the contract at its expiration or terminate the contract prior to its expiration.

The Academy operates under the direction of a four-member Governing Board. The Board is responsible for carrying out the provisions regarding student population, curriculum, academic goals, performance standards, admission standards, and qualification of teachers.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the Academy have been prepared in conformity with generally accepted accounting principles 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. The Academy does not apply FASB statements 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 change in net assets; and a statement of cash flows.

The Academy uses enterprise accounting to report its financial activities. Enterprise accounting focuses on the determination of operating income, changes in net assets, financial position, and cash flows.

**THE ARTS ACADEMY
LORAIN COUNTY**

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment is determined by measurement focus. Under this measurement focus, all assets and all liabilities are included on the balance sheet. The operating statement presents increases (e.g., revenues) and decreases (e.g., expenses) in net total assets.

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting is used for reporting purposes. Revenues are recognized when they are 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, unless specifically provided for in the Academy's sponsorship agreement. The contract between the Academy and its Sponsor requires a detailed budget for each year of the contract.

D. Cash

All monies received by the Academy are maintained in a demand deposit account. For internal accounting purposes, the Academy segregates its cash. The Academy has no investments.

E. 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 these estimates.

F. Capital Assets

Capital assets are capitalized at cost and updated for additions and retirements during the year. Donated capital assets are recorded at their fair values as of the dates received. The Academy maintains a capitalization threshold of \$5,000. The Academy does not possess any infrastructure. Improvements are capitalized, the cost 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. Depreciation of furniture and equipment is computed using the straight-line method over an estimated useful life of five years.

**THE ARTS ACADEMY
LORAIN COUNTY**

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

G. Intergovernmental Revenues

The Academy currently participates in the State Foundation Program; Revenues received from this program are recognized as operating revenues in the accounting period in which all eligibility requirements have been met.

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

Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the 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 participates in various federal and state programs through the Ohio Department of Education.

Under the above programs the Academy received \$1,657,056 this fiscal year.

H. Compensated Absences

Vacation is taken in a manner which corresponds with the school calendar; therefore Academy does not accrue vacation time as a liability.

Sick/personal leave benefits are earned by full-time employees at the rate of eight days per year and cannot be carried into the subsequent years. No accrual for sick time is made since unused time is not paid to employees upon employment termination.

I. Accrued Liabilities

Obligations incurred but unpaid at June 30 are reported as accrued liabilities in the accompanying financial statements. These liabilities consisted of accounts payable, accrued wages and benefits, garnishment, payroll liabilities, short and long term loans and bank account liability, totaling \$414,662 at June 30, 2010.

J. Exchange and Non-Exchange Transactions

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. Non exchange transactions, in which the Academy receives value without directly giving equal value in return, include grants, entitlements and donations. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the Academy must provide local resources to be used for a specified purpose, and expenditures requirements, in which the resources are provided to the Academy on a reimbursement basis.

**THE ARTS ACADEMY
LORAIN COUNTY**

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

K. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets consist 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 through external restriction imposed by creditors, grantors, or law and regulations of other governments. The Academy applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

L. Operating Revenues and Expenses

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

3. CASH AND CASH EQUIVALENTS

The following information classifies deposits by category of risk as defined in GASB Statement No.3 "Deposits with Financial Institutions, Investments (including Repurchase Agreements) and Reverse Repurchase Agreements," as amended by GASB Statement No.40, "Deposit, and Investment Risk Disclosures."

The Academy maintains its cash balances at one financial institution located in Ohio. The balances are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$100,000, per qualifying account. At June 30, 2010, the book amount of the Academy's deposits was (\$2,725) and the bank balance was \$47,440.

The Academy had no deposit policy for custodial risk beyond the requirement of state statute. Ohio law requires that deposits either be insured or be protected by eligible securities pledged to and deposited either with the 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 to secure repayment of all public monies deposited in the financial institution whose market value shall be at least 105% of deposits being secured. At June 30, 2010, none of the bank balance was exposed to custodial credit risk.

**THE ARTS ACADEMY
LORAIN COUNTY**

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

4. CAPITAL ASSETS

For the period ending June 30, 2010, the Academy's capital assets consisted of the following:

	Capital Assets			
	Beginning Balance July 1, 2009	Additions	Deletions	Ending Balance June 30, 2010
Computer and Equipment	\$184,342	\$0	\$0	\$184,342
Total Capital Assets	184,342	0	0	184,342
Less: Accumulated Depreciation	(104,271)	(33,180)	0	(137,451)
Net Capital Assets	<u>\$80,071</u>	<u>(\$33,180)</u>	<u>\$0</u>	<u>\$46,891</u>

5. 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 fiscal year 2010, The Academy contracted with Pinkney-Perry and several insurance companies to have the following insurance coverage:

Commercial General Liability aggregate	\$ 2,000,000
Umbrella Liability per occurrence	1,000,000
Umbrella Liability aggregate	1,000,000
Workers' Compensation and Employers' Liability	
Each Accident	1,000,000
Each Employee	1,000,000
Policy Limit	2,000,000
Other – CEO	
Each act	1,000,000
Aggregate	1,000,000
Defense Expense	100,000
Commercial Property Liability – Personal	
Property	2,000,000
Commercial General Liability per occurrence	1,000,000

**THE ARTS ACADEMY
LORAIN COUNTY**

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

5. RISK MANAGEMENT (Continued)

B. Worker's 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 and Dental Benefits

The Academy provides medical, insurance benefits through Kaiser-Permanente and dental benefits through Humana, Inc. to all full time employees. The Academy pays 50% of the monthly premium for medical insurance and no payment for dental coverage.

6. DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

Plan Description - 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, standalone financial report that includes financial statements and required supplementary information. The report can be obtained by contacting SERS, 300 E. Broad Street, Suite 100, Columbus, Ohio 43215-3746 or by calling toll free 1-800-878-5853. It is also posted on SERS' website at www.ohsers.org under Employers/Audit Resources.

Funding Policy - Plan members are required to contribute 10 percent of their annual covered salary and the School is required to contribute at an actuarially determined rate. The current school rate is 14 percent of annual covered payroll. A portion of the School's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2010, 9.09 percent of annual covered salary was the portion used to fund pension obligations. The remaining 4.91 percent of the 14 percent employer rate is allocated to the Health Care and Medicare B funds. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to a statutory maximum amount of 10 percent for plan members and 14 percent for employers. Chapter 3309 of the Ohio Revised Code provides statutory authority for member and employer contributions. The School's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2009, 2007 and 2008 were \$21,439, \$48,013 and \$40,755 respectively, of which 42.53 percent has been contributed for fiscal year 2010 and 100 percent has been contributed for fiscal years 2009 and 2008.

**THE ARTS ACADEMY
LORAIN COUNTY**

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

6. DEFINED BENEFIT PENSION PLANS (Continued)

B. State Teachers Retirement System

Plan Description – The School contributes to the State Teachers Retirement System of Ohio (STRS Ohio), which is 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, which may be obtained by writing to STRS Ohio, 275 East Broad Street, Columbus, Ohio 43215-3771, by calling (888) 227-7877, or by visiting the STRS Ohio website 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 DB plan and the DC 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 that becomes disabled may qualify for a disability benefit. Eligible spouses and dependents of these active members who die before retirement may qualify for survivor benefits. Members in the DC Plan who become disabled are entitled only to their account balance. If a member dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

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

The School's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2009, 2008 and 2007 were \$79,458, \$46,827 and \$6,066, respectively; 55.12 percent has been contributed for fiscal year 2009 and 100 percent has been contributed for 2008 and 2007.

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 have an option to choose Social Security or the School Employees Retirement System/State Teachers Retirement System. As of June 30, 2010, no members of the Board of Education have elected Social Security. The Board's liability is 6.2 percent of wages.

**THE ARTS ACADEMY
LORAIN COUNTY**

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

7. POSTEMPLOYMENT BENEFITS

A. School Employees Retirement System

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

Medicare Part B

The Medicare Part B plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries as set forth in Ohio Revised Code (ORC) 3309.69. Qualified benefits 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 premium or the current premium. The Medicare Part B premium for calendar year 2010 was \$96.40; SERS' reimbursement for retirees was \$45.50.

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 2010, the actuarial required allocation is .75 percent. The Schools contributions for the years ended June 30, 2009, 2008 and 2007 were \$1,769, \$3,864 and \$3,238, respectively. 42.53 percent has been contributed for fiscal year 2010 and 100 percent has been contributed for fiscal years 2009 and 2008.

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 HMO's, PPO's, Medicare Advantage, and traditional indemnity plans. A prescription drug program is also available to those who elect health coverage. SERS employs two third-party administrators and a pharmacy benefit manager to manage the self-insurance and prescription drug plans, respectively.

The ORC provides the statutory authority to fund SERS' postemployment benefits through employer contributions.

The Health Care Fund was established under, and is administered in accordance with the Internal Revenue Code 105(e). Each year after the allocation for statutorily required benefits, the retirement Board allocates the remainder of the employer 14 percent contribution to the Health Care Fund. For the year ended June 30, 2010, the health care allocation is 4.16 percent. An additional health care surcharge on employers is collected for employees earning less than the actuarially determined minimum compensation amount, pro-rated according to service credit earned. Statutes provides that no employer shall pay a health care surcharge greater than 2 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the total statewide SERS-covered payroll for the health care surcharge. For the fiscal year ending June 30, 2010, the minimum compensation level was established at \$35,800. The surcharge added to the unallocated portion of the 14 percent employer contribution rate is the total amount assigned to the Health Care Fund. The School's contributions assigned to health care for the years ended June 30, 2009 and 2008 were \$9,812 and \$14,267, respectively, of which 42.53 percent has been contributed for fiscal year 2009 and 100 percent has been contributed for fiscal year 2008.

**THE ARTS ACADEMY
LORAIN COUNTY**

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

7. POSTEMPLOYMENT BENEFITS (Continued)

Health Care Plan (Continued)

The SERS Retirement Board establishes the rules for the premiums paid by the retirees for health care coverage for themselves and their dependents or their surviving beneficiaries. Premiums vary depending on the plan selected, qualified years, 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 the SERS' website www.ohsers.org under Employers/Resources.

B. School Teachers Retirement System

Plan Description – The School contributes to the cost-sharing, multiple-employer defined benefit Health Plan administered by STRS Ohio for eligible, certificated retirees and their beneficiaries 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. Benefit provisions and the obligations to contribute are established by STRS Ohio based on authority granted by State statute. The Plan is included in the financial report of STRS Ohio. Interested parties can view the most recent Comprehensive Annual Financial Report by visiting www.strsoh.org or by requesting a copy by calling (888) 227-7877.

Funding Policy – Ohio law authorizes STRS Ohio to offer the Health Plan and gives the STRS 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 Health Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for postemployment health care may be deducted from employer contributions. For fiscal year 2010, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. The School's contributions for health care for the fiscal years ended June 30, 2010 and 2009 were \$6,112 and \$3,345, respectively. 55.12 percent has been contributed for fiscal year 2009 and 100 percent has been contributed for fiscal year 2008.

8. CONTINGENCIES

A. Grants

The Academy received financial assistance from federal and state agencies in the form of grants. Amounts received from grantor agencies are subject to audit and adjustment by the grantor. Any disallowed costs may require refunding to the grantor. Amounts which may be disallowed, if any, are not presently determinable. However, in the opinion of the Academy, any such adjustments will not have a material adverse effect on the financial position of the Academy.

**THE ARTS ACADEMY
LORAIN COUNTY**

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

8. CONTINGENCIES (Continued)

B. State Funding

The Ohio Department of Education conducts reviews of enrollment and Full-Time Equivalency calculations made by the Academy. These reviews are conducted to ensure the Academy is reporting accurate student enrollment data to the State, upon which State funding is calculated. The conclusions of this review resulted in the State funding being adjusted in the next fiscal year. The amount of the adjustment is not material for fiscal year 2010 as a result of the review.

9. OPERATING LEASES

A. Educational Facilities Lease

The Academy entered into a lease agreement with the Church on the North Coast, 4125 Leavitt Road, Lorain Ohio (the Church) for specific portions of the church property consisting of classrooms, gymnasium, kitchen indoor/outdoor common areas, parking lots and playground facilities. The lease commenced on August 1, 2006 which terminated on July 31, 2008. The Academy renewed this lease for two additional years. The Academy paid the Church \$233,100 during fiscal year 2010.

B. MT Business Technologies

The Academy entered into an operating lease commencing July 27, 2004 for term of 36 months for a copier. The copier is owned by MT Business Technologies. The lease may be renewed continuously for consecutive months after the end of the term. The Academy paid \$10,080 in operating lease payments and supplies for the fiscal year ended June 30, 2010.

10. CAPITAL LEASES

The Academy entered into six lease agreements for musical instruments. The leases meet the criteria of a capital lease as defined by Statement of Financial Accounting Standards No. 13, Accounting for Leases, which defines a capital lease generally as one "which transfers benefits and risks of ownership to the lessee".

Capital assets of \$184,342 have been recorded, which represents the present value of the minimum lease payments at time of acquisition. The amount reflected on the statement of net assets represents the present value, less accumulated depreciation. The following is a schedule of the future minimum lease payments required under the capital leases and the present value of the minimum lease payments as of June 30, 2010.

Capital Lease Payments

Total Minimum Lease Payments	\$5,267
Less: Implicit Interest	<u>(560)</u>
Present Value of Lease Payments	\$4,707

**THE ARTS ACADEMY
LORAIN COUNTY**

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

11. SPONSORSHIP AGREEMENT

The Academy contracted with Ashe Culture Center Inc. as its sponsor and oversight services as required by law. Sponsorship fees are calculated as three percent of state funds received by Academy from the State of Ohio. For the fiscal year ended June 30, 2010 the Academy paid sponsorship fees totaling \$43,564.

12. ACCOUNTING SERVICES

The Academy entered into a contract with L.E.D. Consulting, Inc. to provide treasurer services, as defined by the contract. The Academy paid a monthly fee of \$4,000 for the duration of the agreement effective until terminated by mutual agreement of the parties. The Academy paid \$44,000 for these services and \$19,049 for other accounting services for the fiscal year ending June 30, 2010. These amounts included reimbursements for postage and Federal Express services.

13. LOANS RECEIVABLE

Often the Academy receives or distributes monies from or to its sister school to assist in maintaining cash flow to operate the respective academy. At June 30, 2010, the Academy is owed \$127,958 from its sister school, The Arts Academy West, for loans it gave. There is no formal repayment schedule. The monies are returned when resources are available. This amount is reported in the Statement of Net Assets as Loans Receivable.

L.E.D. Consulting, Inc. also lent the Academy monies throughout the year to ensure continued operation when cash flow was low or negative. These loans were repaid as of June 30, 2010.

14. PURCHASED SERVICES

Purchased service expenses during fiscal year 2010 were as follows:

<u>Type</u>	<u>Amount</u>
Professional and Technical Services	\$111,919
Sponsor Fees	43,298
Occupancy	233,100
Utilities	41,858
Other Purchased Services	222,737
Total	<u><u>\$652,912</u></u>

**THE ARTS ACADEMY
LORAIN COUNTY**

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

15. RELATED PARTIES

Chuck Management provided storage space to the Academy. The owner of Chuck Management is Dr. Jorethia Chuck, Chair of the Sponsor of the Academy. The Academy paid Chuck Management \$960 for fees charged.

Rainbow Art Immersion, LLC is owned by Alexis Rainbow, the founder and Head of School of the Academy. The Academy paid Rainbow Arts Immersion, LLC, \$22,131 for services rendered under the contract.

Andre Street Financial Consultant is owned by Andre Street, brother of Ronald D. Street, Dean of Students of The Arts Academy. The Academy paid Andre Street Financial Consultant, \$2,640 for consulting, \$10,574 in payroll and \$4,183 for other services rendered.

16. SUBSEQUENT EVENTS

In April 2011, the Academy had its funding frozen by the Ohio Department of Education due to their inability to provide financial records. In addition, Ashe Culture Center, the Academy's sponsor, did not renew its sponsorship of the Academy and the current agreement expired on June 30, 2011. Pursuant to the Ohio Revised Code, the Academy may not operate without a sponsor and subsequently closed on that date. As of June 30, 2010 the Academy had a net deficit balance of \$239,813.



Dave Yost • Auditor of State

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

Ashe Culture Center
Attn: Jorethia Chuck, Representative
2125 Superior Avenue
Cleveland, OH 44114

To the Board of Directors:

We were engaged to audit the basic financial statements of the business-type activities of The Arts Academy, Lorain County (the Academy) as of and for the year ended June 30, 2010, and have issued our report thereon dated December 21, 2011, in which we disclaimed an opinion upon the financial statements because the Academy failed to provide supporting documentation to support the student full-time equivalencies reported to the Ohio Department of Education (ODE) which supports the Foundation Revenue received. They also failed to provide support for Salary, Wage and Fringe Benefit Expenses, Student Activity and Miscellaneous Revenue, Operating and Capital Leases, Accounts Payable, Accrued Wages and Benefits Payable, Payroll Liability and Loans Payable balances, the Statement of Cash Flows and the related disclosures in the accompanying basic financial statements. The Academy failed to provide written representations, retain minutes or provide evidence of meetings of the Board of Directors. We also noted the Academy closed on June 30, 2011.

Internal Control Over Financial Reporting

In planning and performing our engagement, we considered the Academy's internal control over financial reporting as a basis for designing our audit procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of opining on the effectiveness of the Academy's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the 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 was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. Therefore, we cannot assure that we have identified all deficiencies, significant deficiencies or material weaknesses. However, as described in the accompanying schedule of findings we identified certain deficiencies in internal control over financial reporting, that we consider material weaknesses.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and timely corrected. We consider findings 2010-001 through 2010-004 and 2010-006 described in the accompanying schedule of findings to be material weaknesses.

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 we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as items 2010-001 through 2010-005 and 2010-007 through 2010-011.

The Academy's responses to the findings identified in our engagement are described in the accompanying schedule of findings. We did not audit the Academy's responses and, accordingly, we express no opinion on them.

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



Dave Yost
Auditor of State

December 21, 2011

**THE ARTS ACADEMY
LORAIN COUNTY**

**SCHEDULE OF FINDINGS
JUNE 30, 2010**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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FINDING NUMBER 2010-001

Condition of Accounting Records – Material Noncompliance and Material Weakness

Ohio Administrative Code Section 117-2-02(A) states that all local public offices shall maintain an accounting system and accounting records sufficient to enable the public office to identify, assemble, analyze, classify, record and report its transactions, maintain accountability for the related assets (and liabilities, if generally accepted accounting principles apply), document compliance with finance related legal and contractual requirements and prepare financial statements required by rule 117-2-03 of the Administrative Code.

Management is responsible for implementing and maintaining a system of controls designed to enable management to determine the accuracy of financial transactions of the Academy. Also, management is responsible for developing and maintaining complete and accurate financial records. Instead of complete and accurate financial records, we noted the following:

- The Academy did not provide a schedule of or minutes for Board meetings during the audit period;
- The Academy did not provide working papers to support the summarized trial balance;
- The Statement of Cash Flows was not presented consistently nor did it agree to the underlying financial statement data;
- The Statement of Net Assets did not agree with the Statement of Revenues, Expenses and Changes in Net Assets;
- The Academy did not provide any loan collection and repayment agreements which were approved by the Board;
- The Academy did not provide original receipt documentation to support student activity or other revenue deposits;
- An approved lease and payment schedule for a copier in the Academy's possession was not provided;
- No documentation was provided to support the \$218,902 recorded as accounts payable; and
- During our test of student withdrawals, we noted that daily student attendance records were not provided to verify that state foundation funding was properly calculated based enrollment.

During our testing of payroll disbursements, we noted the following:

- Time sheets for applicable employees were not provided;
- Contracts provided did not correlate with amounts actually paid to employees during the period;
- A complete listing of 1099's issued to independent contractors for services was not provided;
- Total wages obtained from the Paycor sheets did not match salary expense reported on the General Ledger. The general ledger indicated that payroll expenses were \$110,665 higher than the payroll reports; and
- Of contracts sampled, it was found that the Academy failed to maintain payroll contracts for employees to support \$110,832 in payroll payments made.

During our testing of nonpayroll expenditures, we noted the following:

- Checks were not always issued in sequential order;
- Complete supporting documentation was not always attached with voucher packages; and
- The Academy did not follow the contracted payment schedule for the rent arrearages.

**THE ARTS ACADEMY
LORAIN COUNTY**

**SCHEDULE OF FINDINGS
JUNE 30, 2010**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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(Continued)

FINDING NUMBER 2010-001 (Continued)

Condition of Accounting Records – Material Noncompliance and Material Weakness (Continued)

During our search for unrecorded liabilities testing, we noted the following:

- We could not determine whether three out of 17 subsequent expenditures sampled, totaling \$28,574, should have been recorded as payables due to lack of documentation; and
- One out of 17 checks tested that were actually voided appeared on the fiscal year 2011 check register as actual expenditures.

Management failed to provide all support documentation, consequently we were unable to analyze, review, inspect for completeness, verify the accuracy of, or determine the existence of the Academy's financial records. As a result, we were not able to opine over certain areas of the financial statements including student full-time equivalencies reported to the Ohio Department of Education (ODE) which supports the Foundation Revenue received, Salary, Wage and Fringe Benefit Expenses, Student Activity and Miscellaneous Revenue, Operating and Capital Leases, Accounts Payable, Accrued Wages and Benefits Payable, Payroll Liability and Loans Payable balances, the Statement of Cash Flows and the related disclosures in the accompanying basic financial statements.

Failure to implement and maintain a system of controls over the Academy's financial records increases the chances of theft and other fraudulent activities.

The Academy's management has available numerous sources of information describing the process of internal controls, recordkeeping requirements and reporting procedures. It is the responsibility of management to ensure that all responsible parties have access to this literature and training sessions.

FINDING NUMBER 2010-002

Undocumented Enrollment for State Foundation Funding - Material Noncompliance – Material Weakness

Ohio Rev. Code, Section 3314.03(A)(11)(a) states that the contract between a sponsor and the governing authority must specify that the school will provide learning opportunities to a minimum of twenty five students for a minimum of nine hundred twenty hours per school year.

Enrollment numbers are submitted through the Education Management Information System (EMIS) to the Ohio Department of Education (ODE) and are used to determine the amount of State Foundation money each school receives. Ohio's State Funding Formula is a foundation program with an assumed local share of charge-off being subtracted from the basic program costs to determine the state formula aid. The basic program cost is the current year formula amount times the current year formula average daily membership plus the sum of four base funding supplements, called "building blocks." These building blocks are funding for intervention, professional development, data based decision making and professional development for data based decision making. The per pupil formula amount is set by the legislature.

**THE ARTS ACADEMY
LORAIN COUNTY**

**SCHEDULE OF FINDINGS
JUNE 30, 2010**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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(Continued)

FINDING NUMBER 2010-002 (Continued)

Undocumented Enrollment for State Foundation Funding - Material Noncompliance – Material Weakness (Continued)

For the audit period of July 1, 2009 through June 30, 2010, the Academy was unable to provide:

- Student files documenting how many students attended the school and the duration of attendance;
- Records documenting how many hours the school were in session or what type of instruction was offered and the assurance of 920 hours of instruction to each student;
- Student attendance sheets; and
- Documentation over enrollment/withdrawal dates of its students besides a School Options Enrollment System printout which could not be verified.

As a result, State Foundation payments totaling \$1,442,123 in fiscal year 2010 were unsubstantiated.

FINDING NUMBER 2010-003

Developing and Implementing an Effective Monitoring Control System – Material Noncompliance and Material Weakness

Ohio Admin. Code Section 117-2-01 (A) states that all public officials are responsible for the design and operation of a system of internal control that is adequate to provide reasonable assurance regarding the achievement of objectives for their respective public offices in certain categories. Subsection (C) (5) provides that internal control consists of the following component, among others: monitoring, which is a process that assesses the quality of internal control performance over time.

Monitoring is comprised of regular management and supervisory activities established to oversee whether management's objectives are being achieved. Effective monitoring controls assist management in assessing the quality of internal control performance over time. This process involves assessing the design and operation of controls on a timely basis and taking necessary corrective actions. Monitoring controls should assist management in identifying unexpected results and/or possible misstatements.

Some effective monitoring controls include:

- Regular review of monthly financial statements;
- Review of revenues and expenses with independently accumulated information (budgets, past performances, peer group representatives, etc.);
- Review of large or unusual fluctuations;
- Identification of unusual fluctuations;
- Comparison of financial statement position with financial projections and other internally prepared projections of financial position and operating results;
- Comparison of predefined key performance indicators based on the financial statements;
- Review of items which have been outstanding for extended periods of time (outstanding check listing for payroll and non payroll transactions);
- Monitoring compliance with grant agreements;

**THE ARTS ACADEMY
LORAIN COUNTY**

**SCHEDULE OF FINDINGS
JUNE 30, 2010**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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(Continued)

FINDING NUMBER 2010-003 (Continued)

Developing and Implementing an Effective Monitoring Control System – Material Noncompliance and Material Weakness (Continued)

- Ensuring that an adequate segregation of duties exists; and
- Review of monthly bank reconciliations by someone independent of their preparation.

The lack of effective monitoring controls led to the misallocation or misstatement of Academy funds, expenditure of funds contrary to the directives of the Board of Directors, and non-compliance with federal or state laws or regulations.

FINDING NUMBER 2010-004

Notice of Public Meetings/Records of Minutes – Material Noncompliance and Material Weakness

Ohio Rev. Code Section 121.22 (C) states that all meetings of any public body are declared to be public meetings open to the public at all times. A member of a public body must be present in person at a meeting open to the public to be considered present or to vote and for determining whether a quorum is present. The minutes of a regular or special meeting of any such public body shall be promptly prepared, filed, and maintained and shall be open to public inspection. The minutes need only reflect the general subject matter of discussions in executive sessions authorized under division (G) or (J) of this section.

Furthermore, this revised code section states that the minutes of a regular or special meeting of any public body shall be promptly prepared, filed, and maintained and shall be open to public inspection. Ohio Rev. Code Section 121.22 (F) states that every public body shall, by rule, establish a reasonable method whereby any person may determine the time and place of all regularly scheduled meetings and the time, place, and purpose of all special meetings. A public body shall not hold a special meeting unless it gives at least twenty-four hours advance notice to the news media that have requested notification, except in the event of any emergency requiring immediate official action. In the event of an emergency, the member or members calling the meeting shall notify the news media that have requested notification immediately of the time, place, and purpose of the meeting.

The following deficiencies in the Board meeting minutes were noted:

- The Academy did not provide an open meeting and meeting notification policy;
- Evidence of the approval of Board Resolutions or motions made by the Board during those meetings was not provided. This includes, but is not limited to, approval of loans and contracts made between the Academy and third parties, approval of salary resolutions and new employee contracts, approval of financial reports, budgets and forecasts or expenditures, etc.;
- There was no evidence of a public notice for any Board meeting;
- The Board did not have a designee for recording and maintaining Board meeting minutes; and
- The Academy did not provide evidence of board meetings during the fiscal year and a complete schedule of meetings held could not be provided.

THE ARTS ACADEMY
LORAIN COUNTY

SCHEDULE OF FINDINGS
JUNE 30, 2010

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

(Continued)

FINDING NUMBER 2010-004 (Continued)

**Notice of Public Meetings/Records of Minutes – Material Noncompliance and Material Weakness
Continued)**

It is the Board's responsibility to oversee the Academy's operation and make decisions to ensure the Academy's goals and objectives are accomplished. The Board is responsible for determining the direction in which the Academy is heading. This occurs only after a great deal of consultation with parents, staff and students of the school to ensure that the school is providing the highest quality of education possible and a safe place in which students can learn. The Board minutes represent the official record of the Academy events and resolutions passed by the Board of Directors. Without complete minute recordings of the Board meeting proceedings, it cannot be reasonably assured that the Board is meeting its obligation to oversee the Academy.

FINDING NUMBER 2010-005

Finding For Recovery – Material Noncompliance

Ohio Rev. 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 a 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.

On July 6, 2009, check number 2943, in the amount of \$7,000 was issued and authorized by Edward Dudley, Treasurer, and made payable to LED Consulting. Of the \$7,000, the Academy was unable to provide supporting documentation for \$3,000 of this disbursement.

On July 30, 2009, check number 3006, in the amount of \$6,000 was issued and authorized by Edward Dudley, Treasurer, and made payable to LED Consulting. Of the \$6,000, the Academy was unable to provide supporting documentation for \$2,000 of this disbursement.

On June 11, 2010, check number 3360, in the amount of \$6,900 was issued and authorized by Edward Dudley, Treasurer, and made payable to LED Consulting. The Academy was unable to provide supporting documentation for this disbursement.

During fiscal year 2010, LED Consulting maintained a contract with the Academy for regular treasury services for \$48,000. LED was paid a total of \$50,000 for these services during the year. The Academy was unable to provide supporting documentation for this additional disbursement of \$2,000.

Without proper supporting documentation, it is not possible to determine if the expenditures included items that would not be considered a proper public purpose. The failure to maintain adequate support for these 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.

In accordance with the foregoing facts and pursuant to Ohio Revised Code Section 117.28, a Finding for Recovery for public monies improperly expended is hereby issued against Edward Dudley, in the amount of \$13,900 and in favor of the Arts Academy.

**THE ARTS ACADEMY
LORAIN COUNTY**

**SCHEDULE OF FINDINGS
JUNE 30, 2010**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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(Continued)

FINDING NUMBER 2010-006

Financial Reporting – Material Weakness

Sound financial reporting is the responsibility of the Treasurer and Board of Directors and is essential to ensure the information provided to the readers of the financial statements is complete and accurate.

The Academy provided multiple financial reports such as the general ledgers, payable listings and bank reconciliations that were incorrect and did not accurately reflect the Academy's financial transactions during fiscal year 2010. This resulted in the following adjustments being made to the financial statements, notes and, where applicable, to the Academy's accounting records:

- The bank balance for one of the Academy's accounts was not included in the Academy's accounting records, it was included in the records of its sister school, The Arts Academy West. In addition, the Academy included reconciling items that did not exist. These net misstatements resulted in an overstatement of the Academy's (negative) cash balance of \$77,463;
- The Academy improperly recorded state and federal grant revenue as operating foundation revenue. Adjustments totaling \$15,657 were required to reclassify the revenues; and
- The Notes to The Basic Financial Statements were not presented consistently nor did they agree to the underlying financial statement data. This resulted in adjustments to amounts reported as Cash and Cash Equivalents, Operating Leases, Sponsor Agreement, Accounting Services and Related Party Transactions.

The lack of controls over the posting of financial transactions and financial reporting resulted in errors and irregularities going undetected and decreased the reliability of financial data throughout the year.

FINDING NUMBER 2010-007

Public Records Policy – Material Noncompliance

Ohio Rev. 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 Ohio Rev. Code Section 149.43.

Pursuant to Ohio Rev. Code 149.43(B)(2), the entity shall have available a copy of its current records retention schedule at a location readily available to the public. Further, pursuant to 149.43(E)(1) all public offices shall adopt a public records policy in compliance with this section for responding to public records requests. In adopting a public records policy under this division, a public office may obtain guidance from the model public records policy developed and provided to the public office by the attorney general under section 109.43 of the Revised Code. Except as otherwise provided in this section, the policy may not limit the number of public records that the public office will make available to a single person, may not limit the number of public records that it will make available during a fixed period of time, and may not establish a fixed period of time before it will respond to a request for inspection or copying of public records, unless that period is less than eight hours.

The Academy did not provide a public records policy or a records retention policy. Failure to establish a public records policy and a records retention schedule may cause the Academy to improperly distribute or dispose of public records.

THE ARTS ACADEMY
LORAIN COUNTY

SCHEDULE OF FINDINGS
JUNE 30, 2010

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

(Continued)

FINDING NUMBER 2010-008

Adoption of Anti-Bullying Policy - Material Noncompliance

Ohio Rev. Code Sections 3313.666(A), (B), and (C), and 3314.03(A)(11)(d) require that the board of education of each city, local, exempted village, and joint vocational school district and the governing authority of each community (charter) school must adopt an anti-bullying policy in consultation with parents, school employees, school volunteers, students, and community members.

The policy must prohibit the harassment, intimidation, or bullying of any student on school property or at a school sponsored activity. It also must define the term "harassment, intimidation, or bullying" in a manner that includes the definition prescribed in Ohio Rev. Code 33.13.666(A). The code defines that term as "Any intentional written, verbal, or physical act that a student has exhibited toward another particular student more than once and the behavior both (a) Causes mental or physical harm to the other student and (b) Is sufficiently severe, persistent, or pervasive that it creates an intimidating, threatening, or abusive educational environment for the other student. The definition was extended to include (2) Violence within a dating relationship."

Each policy also must include the following additional items (Ohio Rev. Code Sections 3313.666(A), (B), and (C), and 3314.03(A)(11)(d)):

- A procedure for reporting prohibited incidents;
- A requirement that school personnel report prohibited incidents of which they are aware to the school principal or other administrator designated by the principal;
- A requirement that the parents or guardians of a student involved in a prohibited incident be notified and, to the extent permitted by state and federal law governing student privacy, have access to any written reports pertaining to the prohibited incident;
- Procedures for documenting, investigating, and responding to a reported incident;
- A requirement that the district or community school administration provide semiannual written summaries of all reported incidents to the president of the district board of education or community school governing authority, and post them on the district's or school's website (if applicable);
- A strategy for protecting a victim from additional harassment and from retaliation following a report; and
- The disciplinary procedure for a student who is guilty of harassment, intimidation, or bullying.

These items form a framework for districts and community schools to use in developing their policies. The policy must be included in student handbooks and in publications that set forth the standards of conduct for schools and students. Employee training materials must also include information on the policy.

The Academy provided a copy of the policy from their Parent and Student Handbook; however, there was no indication the Board of Directors formally adopted this policy.

THE ARTS ACADEMY
LORAIN COUNTY

SCHEDULE OF FINDINGS
JUNE 30, 2010

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

(Continued)

FINDING NUMBER 2010-009

Personal Information Policy – Material Noncompliance

Ohio Rev. Code Section 1347 contains legal requirements related to personal information systems which are applicable to all state and local agencies and defines the terms and uses of this information.

Per Ohio Rev. Code Section 1347.01(E), "personal information" means any information that describes anything about a person, or that indicates actions done by or to a person, or that indicates that a person possesses certain personal characteristics, and that contains, and can be retrieved from a system by, a name, identifying number, symbol, or other identifier assigned to a person.

Per Ohio Rev. Code Section 1347.05, every state or local agency that maintains a personal information system shall perform the following duties:

- (A) Appoint one individual to be directly responsible for the system;
- (B) Adopt and implement rules that provide for the operation of the system;
- (C) Inform each of its responsible employees of all rules adopted in accordance with this section;
- (D) Specify disciplinary measures for unauthorized use of information contained in the system;
- (E) Inform a person supplying personal information if it is legally required, or if they may refuse;
- (F) Develop procedures for purposes of monitoring the accuracy, relevance, timeliness, and completeness of the personal information in this system;
- (G) Take reasonable precautions to protect personal information in the system from unauthorized modification, destruction, use, or disclosure; and
- (H) Collect, maintain, and use only personal information that is necessary and relevant to the functions that the agency is required or authorized to perform, and eliminate personal information from the system when it is no longer necessary and relevant to those functions.

We noted the Academy did not have a policy addressing the above revised code requirement. The absence of this policy could result in the misuse of personal information. We also noted that during our testing of payroll, the Academy provided us records that contained social security numbers.

FINDING NUMBER 2010-010

Filing of Annual Financial Report – Material Noncompliance

Ohio Rev. Code Section 117.38 provides that each public office shall file a financial report for each fiscal year. The report shall be certified by the proper officer or Board and filed with the Auditor of State within one hundred fifty days of the end of the fiscal year if GAAP statements are filed. The Auditor of State may prescribe forms by rule or may issue guidelines, or both, for such reports. If the Auditor of State has not prescribed a rule regarding the form for the report, the public office shall submit its report on the form utilized by the public office. In part this report shall contain the following:

Amount of collections and receipts, and accounts due from each source and amount of expenditures for each purpose.

Ohio Administrative Code Section 117-2-03(B) further clarifies the filing requirements of Ohio Revised Code Section 117.38. This section requires that community schools file annual financial reports which are prepared using generally accepted accounting principles. Generally accepted accounting principles (GAAP) require the following:

**THE ARTS ACADEMY
LORAIN COUNTY**

**SCHEDULE OF FINDINGS
JUNE 30, 2010**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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(Continued)

FINDING NUMBER 2010-010 (Continued)

Filing of Annual Financial Report – Material Noncompliance (Continued)

- Management's Discussion and Analysis;
- Balance sheet as prescribed by GAAP standards;
- Income and expense statement as prescribed by GAAP standards;
- Cash flow statement as prescribed by GAAP standards; and
- Notes to the financial statements as prescribed by GAAP standards.

The Academy did not file the June 30, 2010 financial report, which was required to be filed no later than November 30, 2010. This resulted in the maximum fine of \$750 to the Academy for noncompliance with the requirement.

In addition, Ohio Rev. Code Section 117.38 provides, in part, that "at the time the report is filed with the auditor of state, the chief fiscal officer, except as otherwise provided in Section 319.11 of the Ohio Rev. Code, shall publish notice in a newspaper published in the political subdivision or taxing district, and if there is no such newspaper, then in a newspaper of general circulation in the political subdivision or taxing district. The notice shall state that the financial report has been completed by the public office and is available for public inspection at the office of the chief fiscal officer." No evidence was provided, by the Academy, that this required notice was published. This may prevent the public from being aware of the transparency available in the Academy. By not filing their financial reports and annual notice, the Academy is not fulfilling their duties of accountability and transparency to the public.

FINDING NUMBER 2010-011

Interest in a Public Contract– Material Noncompliance

Ohio Rev. Code Section 2921.42(A)(1) prohibits a public official from authorizing or using the authority or influence of the public official's office to secure a public contract in which the public official, a member of the public official's family, or any of the public official's business associates have an interest. Additionally, Ohio Rev. Code Section 2921.42(A)(4) states that no public official shall knowingly have an interest in the profits or benefits of a public contract entered into by or for the use of the political subdivision or governmental agency or instrumentality with which the public official is connected.

The following issues were noted during our audit:

- Rainbow Arts Immersion, LLC is owned by Alexis Rainbow, founder and Head of School of the Academy. The Academy paid Rainbow Arts Immersion, LLC \$22,131 for services rendered.

As referenced above, public officials are prohibited from having an interest in a public contract.

This matter will be forwarded to the Ohio Ethics Commission for review.

**THE ARTS ACADEMY
LORAIN COUNTY**

**SCHEDULE OF FINDINGS
JUNE 30, 2010**

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

(Continued)

Official's Response:

The Academy did not respond to the findings reported.

**THE ARTS ACADEMY
LORAIN COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2010**

<u>Finding Number</u>	<u>Finding Summary</u>	<u>Fully Corrected?</u>	<u>Not Corrected, Partially Corrected; Significantly Different Corrective Action Plan Taken; or Finding No Longer Valid; Explain:</u>
2009-001	Condition of Accounting records	No	Reissued as 2010-001
2009-002	Financial Reporting	No	Reissued as 2010-006
2009-003	Capital Assets	Yes	
2009-004	Finding for Recovery	No	Reissued as 2010-005
2009-005	Notice of Public Meetings	No	Reissued as 2010-004
2009-006	Development and implementation of an effective monitoring control system	No	Reissued as 2010-003
2009-007	Filing of annual financial report	No	Reissued as 2010-010
2009-008	Related party transactions	No	Reissued as 2010-011

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Dave Yost • Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT ON APPLYING AGREED-UPON PROCEDURES

Ashe Culture Center
Attn: Jorethia Chuck, Representative
2125 Superior Avenue
Cleveland, OH 44114

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 the Board, solely to assist the Board in evaluating whether The Arts Academy (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.

We noted the Board has not adopted an anti-harassment policy in accordance with Ohio Rev. Code Section 3313.666(B).

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 and Academy's sponsor and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Dave Yost".

Dave Yost
Auditor of State

December 21, 2011

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Dave Yost • Auditor of State

THE ARTS ACADEMY

LORAIN 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
JANUARY 10, 2012