THE ARTS ACADEMY
LORAIN COUNTY

REGULAR AUDIT

FOR THE YEAR ENDING JUNE 30, 2011

THE ARTS ACADEMY
LORAIN COUNTY
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Dave Yost • Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

Carl Shye, Treasurer
The Arts Academy
4125 Leavitt Road
Lorain, Ohio 44053

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, 2011. 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 the Restated Beginning of the Year Net Assets, Ending Net Assets, Salary, Wage and Fringe Benefit Expenses, Other Revenues and Accounts Receivable 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.

Since the Academy did not provide sufficient evidential matter as described in paragraphs two through five 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, 2011.

During the year ended June 30, 2011, the Academy accumulated a total net asset deficit of $74,599. The Academy was closed on June 30, 2011 by the Ohio Department of Education due to inability to find a new sponsor.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 23, 2012, 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.

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 did not audit and do not express an opinion on this information. However, we have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measuring and presenting the supplementary information. The Academy failed to accurately reflect Net Assets (Table 1) and Changes in Net Assets (Table 2). Therefore, we are unable to determine if Management's Discussion and Information conforms to Government Accounting Standards Board guidelines.

Dave Yost

Dave Yost
Auditor of State

April 23, 2012

The discussion and analysis of the Arts Academy (the Academy) financial performance provides an overall view of the Academy's financial activities for the fiscal year ended June 30, 2011. The intent of this discussion and analysis is to look at the Academy's financial performance as a whole; readers should also review the notes to the basic financial statements and financial statements to enhance their understanding of the Academy's financial performance.

Financial Highlights

- Total Assets were $ 170,484
- Total Liabilities were $245,083
- Change in Net Assets was $109,061

Using this Annual Financial Report

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

Statement of Net Assets

The Statement of Net Assets answers the question, "How did we do financially during 2011?" This statement includes all assets and liabilities, both financial and capital, and short-term and long-term using the accrual basis of accounting and economic resources focus, which is similar to the accounting used by most private-sector companies. This basis of accounting considers all of the current year's revenues and expenses regardless of when cash is received or paid.

Table 1 provides a summary of the Academy's net assets for fiscal year 2011.

Table 1

Net Assets

		June 30, 2011
Assets		
Current Assets	$	170,484
Capital Assets, Net of Accumulated Depreciation		-
Total Assets		170,484
Liabilities		
Current Liabilities		245,083
Non Current Liabilities		-
Total Liabilities		245,083
Net Assets		
Invested in Capital Assets, Net of Related Debt		-
Restricted		-
Unrestricted		(74,599)
Total Net Assets	$	(74,599)

Assets totaled $170,484 which $61,728 in cash. Liabilities totaled $199,300, leaving unrestricted net assets of ($74,599).

Table 2 shows the changes in net assets for fiscal year 2011.

Table 2

Revenues, Expenses, and Changes in Net Assets

		June 30, 2011
Operating Revenue:		
State Foundation	$	1,449,036
Poverty Based Assistance		68,714
Total Operating Revenues		1,517,750
Operating Expenses:		
Salaries		787,844
Fringe Benefits		225,216
Purchased Services		504,569
Rent		208,353
Materials and Supplies		112,088
Depreciation		-
Total Operating Expenses		1,838,070
Operating (Loss)		(320,320)
Non-Operating Revenues and (Expenses)		
Grants - Federal and State		342,117
Interest and Other Revenue		87,264
Total Non-Operating Revenues (Expenses)		429,381
(Decrease) in Net Assets		109,061
Net Assets at Beginning of Year		-
Adjustment to Beginning Net Assets		-
Adjusted Beginning Net Assets		-
Net Assets at End of Year	$	109,061

Total foundation revenue for fiscal year 2011 was $1,517,750 based on an enrollment averaging 237 students. Operating expenses were $1,838,070 with $109,061 change in net assets.

Capital Assets

The Academy had no fixed assets as of June 30, 2011.

Current Financial Issues

During the fiscal year ended June 30, 2011, there were approximately 237 students enrolled in the Academy. The Academy receives its finances mostly from state aid. Per pupil funding for this fiscal year amounted to $5,565 per student. Carl W. Shye Jr. acted as the Academy's fiscal agent.

Contacting the Academy's Financial Management

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

The Arts Academy
Statement of Net Assets
June 30, 2011

Assets		
Current Assets:		
Cash and Cash Equivalents	$	61,728
Accounts Receivable	$	108,756
Total Current Assets		170,484
Capital Assets		-
Total Assets		170,484
Liabilities		
Current Liabilities:		
Accounts Payable		243,297
Accrued Wages and Benefits		50
Intergovernmental Payables		1,736
Total Liabilities		245,083
Net Assets		
Invested in Capital Assets		-
Unrestricted		(74,599)
Total Net Assets	$	(74,599)

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, 2011

Operating Revenues:		
State Foundation	$	1,449,036
Poverty Based Assistance		68,714
Other		87,264
Total Operating Revenues		1,605,014
Operating Expenses:		
Salaries		787,844
Fringe Benefits		225,216
Purchased Services		504,569
Rent		208,353
Materials and Supplies		112,088
Total Operating Expenses		1,838,070
Operating Loss		(233,056)
Non-Operating Revenues (Expenses):		
Federal and State Grants		342,117
Total Non-Operating Revenues (Expenses)		342,117
Increase in Net Assets		109,061
Reconciliation of Net Assets		
Net Assets (Deficit) Beginning of Year		(239,813)
Adjustment to Beginning Net Assets		56,153
Adjustmed Beginning Net Assets		(183,660)
Change in Net Assets		109,061
Net Assets End of Year	$	(74,599)

See accompanying notes to the basic financial statements.

The Arts Academy
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2011

Increase (Decrease) in Cash and Cash Equivalents	
Cash Flows from Operating Activities	
Cash Received from State of Ohio	$ 1,517,750
Cash Received from Other Operating Sources	87,264
Cash Payments to Suppliers for Goods and Services	(800,615)
Cash Payments to Employees for Services	(877,785)
Cash Payments for Employee Benefits	(223,480)
Other Cash Payments	-
Net Cash Provided by (Used in) Operating Activities	$ (296,866)
Cash Flows from Noncapital and Related Financing Activities	
Federal and State Grants	342,117
Net Cash Provided by Noncapital and Related Financing Activitites	342,117
Cash Flows from Capital Financing Activities	
Cash Payments from Notes	19,202
Net Cash Provided by (Used in) Capital Financing Activities	19,202
Net Decrease in Cash and Cash Equivalents	64,453
Cash and Cash Equivalents Beginning of Year	(2,725)
Cash and Cash Equivalents End of Year	$ 61,728
Reconciliation of Operating Gain (Loss) to Net Cash Provided by (Used in) Operating Activities	
Operating Gain (Loss)	$ (233,056)
ADJUSTMENTS TO RECONCILE OPERATING LOSS TO NET CASH USED FOR OPERATING ACTIVITIES	
Depreciation	-
(Increase) Decrease	
Accounts Payable	24,395
Accrued Wages and Benefits	(89,941)
Increase in Intergovernmental Payable	1,736
Total Adjustments	(63,810)
Net Cash Provided by (used in) Operating Activities	$ (296,866)

See accompanying notes to the basic financial statements.

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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR JUNE 30, 2011

1. Description of the Reporting Entity

The Arts Academy (the Academy) is a nonprofit corporation established pursuant to Ohio Revised Code Chapters 3314 and 1702. The Academy's mission is to provide an orderly and supportive environment whereby students experience preparations for college, career and life. The Academy operates on a foundation, which fosters character building for all students, parents and staff members. The Academy, which is part of the State's education program, is independent of any school district and nonsectarian in its programs, admission policies, employment practices, and all other operations. The Academy may acquire facilities as needed and contract or any services necessary for the operation of the Academy.

The Academy was approved for operation under a contract with the Ashe Culture Center, Inc. (the Sponsor) for a period of four years commencing on 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 Governing Board is responsible for carrying out the provisions of the contract, which include but are not limited to, state-mandated provisions regarding student population, curriculum, academic goals, performance standards, admission standards, and qualifications of teachers.

2. Summary of Significant Accounting Policies

The basic financial statements of the Academy have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to a governmental nonprofit organization. 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 August 30, 1989 provided they do not conflict with or contradict GASB pronouncements. The Academy does not apply FASB statements and interpretations issued after November 30, 1989. The more significant of the Academy's accounting policies are described below.

A. Basis of Presentation

The Academy's basic financial statements consist of a Statement of Net Assets, a Statement of Revenues, Expenses, and Changes in Net Assets, and a Statement of Cash Flows. The Academy uses enterprise accounting to maintain its financial records during the fiscal year. Enterprise fund reporting focuses on the determination of the change in net assets, financial position, and cash flows.

B. Measurement Focus

Enterprise accounting uses a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities are included on the Statement of Net Assets. The Statement of Revenues, Expenses, and Changes in Net Assets present increases and decreases in net total assets. The Statement of Cash Flows provides information about how the Academy finances and meets its cash flow needs.

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.

Revenues resulting from non-exchange transactions, in which each party gives and receives essentially equal value, are recorded on the accrual basis when the exchange takes place.

Revenues resulting from non-exchange transactions, in which the Academy receives value without directly giving equal value in return, such as grants and entitlements, are 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 expenditure requirements, in which the resources are provided to the Academy on reimbursement basis.

Expenses are recognized at the time they are incurred.

D. Budgetary Process

Unlike other public schools located in the State of Ohio, community schools are not required to follow budgetary provisions set forth in Ohio Revised Code Chapter 5705, unless specifically provided in the contract between the Academy and its sponsor. The contract between the Academy and its Sponsor does prescribe an annual budget requirement in addition to preparing a five-year forecast, which is to be updated on an annual basis.

E. Cash and Cash Equivalents

All monies received the Academy are accounted for the Academy's Treasurer. All cash received by the Academy is maintained in separate bank accounts in the Academy's name.

For the purpose of the Statement of Cash Flows and for presentation on the Statement of Net Assets, investments with original maturities of three months or less at the time they are purchased by the Academy are considered to cash equivalents.

F. Intergovernmental Revenues

The Academy currently participates in the State Foundation Basic Aid Program and the State Special Education Program. Revenues from these programs are recognized as operation revenues in the accounting period in which all eligibility requirements are met.

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

2. Summary of Significant Accounting Policies (Continued)

F. Intergovernmental Revenues (Continued)

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.

G. Capital Assets

Capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. The Academy maintains a capitalization threshold of $5,000. The Academy does not possess any infrastructure. Improvements are capitalized; the costs of normal; maintenance and repairs that do not add to the value of the assets or materially extend asset's life are not capitalized.

All reported capital assets are depreciated. Depreciation is computed using the straight-line method over the following useful lives:

Leasehold improvements	5-15 years
Equipment	5 years

H. Net Assets

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

Net assets reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Academy or through external restrictions imposed by creditors, grantors, or laws or regulation of other governments. The Academy first applies restricted resources when an expense is incurred for purposes for which both restricted and in restricted net assets are available. The Academy did not have any restricted net assets at fiscal year end.

An adjustment of $56,153 was made to beginning net assets as previously reported. This adjustment was necessary for capital assets ($46,891), payroll liabilities ($32,044), short term loans ($7,000) and long-term loans ($64,000) which could not be supported by appropriate documentation.

I. Operating Revenues and Expenses

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

2. Summary of Significant Accounting Policies (Continued)

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 nearly 100% 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.

3. Changes in Accounting Principles

For fiscal year 2011, the Academy has implemented Governmental Accounting Standards Board (GASB) Statement No. 53, "Accounting and Financial Reporting for Derivative Instruments", Statement No. 57, "OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans", and Statement No. 58, "Accounting and Financial Reporting for Chapter 9 Bankruptcies".

GASB Statement No. 53 addresses the recognition, measurement, and disclosure of information regarding derivative instruments entered into by state and local governments. It requires governments to measure derivative instruments, with the exception of synthetic guaranteed investment contracts that are fully benefit-responsive, at fair value in the economic resources measurement focus financial statements. The implementation of this statement did not result in any changes to the financial statements.

GASB Statement No. 57 addresses issues related to the use of the alternative measurement method and the frequency and timing of measurements by employers that participate in agent multiple-employer or postemployment benefit (OPEB) plans (that is, agent employers). The requirements in this statement will allow more agent employers to use the alternative measurement method to produce actuarially based information for financial reporting and clarify that OPEB measures reported by agent multiple-employer OPEB plans and the participating employers should be determined at the same minimum frequency and as of a common date to improve the consistency of reporting with regard to funded status and funding progress information. The implementation of this statement did not result in any changes to the financial statements.

GASB Statement No. 58 provides accounting and financial reporting guidance for governments that have petitioned for protection from creditors by filing for bankruptcy under Chapter 9 of the United State Bankruptcy Code. The requirements in this statement will provide more consistent recognition, measurement, display, and disclosure guidance for governments that file for Chapter 9 bankruptcy. The implementation of this statement did not result in any changes to the financial statements.

4. Deposits

At fiscal year end June 30, 2011, the book value of the Academy's deposits was $ 61,728 and the bank balance was $140,050. Based on the criteria described in GASB Statement No. 40 "Deposits and Investment Risk Disclosure," as of June 30, 2011, all of the bank balance was covered by the Federal Depository Insurance Corporation.

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

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

5. Capital Assets and Debt

The Academy had no capital assets or Debt as of June 30, 2011.

6. Risk Management

A. Insurance Coverage

The Academy is exposed to various risks of loss related to torts; thefts of, damage to, and destruction of assets; errors and omissions; injuries to employees, and natural disasters. During the fiscal year ending June 30. 2011, the Academy contracted for the following insurance coverage:

Coverage Provided by Pinkney-Perry Insurance Company:

General Liability:	
Each Occurrence	$2,000,000
Aggregate	$1,000,000

There has not been a significant reduction in coverage from the prior year. Settled claims have not exceeded the commercial coverage in any of the past three years.

6. Risk Management (Continued)

B. Workers' Compensation

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

7. Defined Benefit Pension Plans

A. School Employees Retirement System

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

Funding Policy – Plan members are required to contribute 10 percent of their annual covered salary and the Academy is required to contribute at an actuarially determined rate. The current Academy rate is 14 percent of annual covered payroll. A portion of the Academy's contribution is used to fund pension obligations and death benefits respectively. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to a statutory maximum amount of 10 percent for plan members and 14 percent for employers. Chapter 3309 of the Ohio Revised Code provides statutory authority for member and employer contributions. The Academy's required contributions for pension obligations and death benefits to SERS for the fiscal years ended June 30, 2009, 2008, and 2007 were $21,439, $48,013 and $40,755, respectively; 100 percent has been contributed for fiscal years 2008 and 2009.

B. State Teachers Retirement System of Ohio

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

7. Defined Benefit Pension Plans (Continued)

B. State Teachers Retirement System of Ohio

New members have choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers a annual retirement allowance based on final average salary times a percentage that varies based on years of service, or al allowance based on a member's lifetime contributions and earned interest matched by STRS Ohio funds divided by an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump sum withdrawal. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. The DB portion of the Combined Plan payment is payable to a member on or after age 60; the DC portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50. Benefits are established by Chapter 3307 of the Ohio Revised Code.

A DB or Combined Plan member with five or more years credited service who become disabled may qualify for a disability benefit. Eligible spouses and dependents of the 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 fiscal year 2010, 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. 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 $79,458, $46,827 and $6,066, respectively; 55.12 percent has been contributed for fiscal yeas 2009, 2010 and 100 percent has been contributed for 2008 and 2007.

8. Postemployment Benefits

A. School Employees Retirement System

Plan Description – The Academy participates in two cost-sharing, multiple employer postemployment benefit plans administered by the School Employees Retirement System (SERS) for non-certified retirees and their beneficiaries, a Health Care Plan and a Medicare Part B Plan. The Health Care Plan includes hospitalization and physician's fees through seve3ral types of plans including HMO's, PPO's, Medicare Advantage, and traditional indemnity plans. A prescription drug program is also available to those who elect health coverage. SERS employs two third-party administrators and a pharmacy benefit manager to manage the self-insurance and prescription drug plans, respectively. The Medicare Part B premiums for calendar year 2010 was $96.40 and SERS' reimbursement to retirees was $45.50. Benefit provisions and the obligations to contribute are established by the System based on authority granted by state statute. The financial reports of both Plans are included in the SERS Comprehensive Annual Financial Report which is available by contacting SERS at 300 East Broad St. Suite 100, Columbus, Ohio 43215-3746. It is also posted on the SERS' Ohio website, www.ohsers.org, under *Employers/Audit Resources.*

Funding Policy – State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Sections 105(e). For 2011, 0.46 percent of covered payroll was allocated to health care. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned.

Statutes provide that no employer shall pay a health care surcharge greater than 2.0 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the statewide SERS-covered payroll for the health care surcharge. For fiscal year 2011, the actuarially determined amount was $35,800.

Active members do not contribute to the postemployment benefit plans. The Retirement Board establishes the rules for the premiums paid by the retirees for health care coverage for themselves and their dependents or for their surviving beneficiaries. Premiums vary depending on the plan selected, qualified years of service, Medicare eligibility and retirement status.

The Academy's contributions for health care (including surcharge) for the fiscal years ended June 30, 2011, 2010 and 2009 were $14,302, $4,211 and $37,652, respectively; 100 percent has been contributed fiscal years 2011, 2010 and 2009.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For fiscal year 2011, this actuarially required allocation was 0.76 percent of covered payroll. The Academy's contributions for Medicare Part B for the fiscal years ended June 30, 2011, 2010 and 2009 were $7,151 $6,957, $6,788; 100 percent has been contributed for fiscal years, 2011, 2010 and 2009.

8. Postemployment Benefits (Continued)

B. State Teachers Retirement System of Ohio

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

Funding Policy – Ohio law authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For 2011, SATRS 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, 2011, 2010 and 2009 were $7,151, $15,965, $13,465, respectively; 100 percent has been contributed for fiscal years 2011, 2010 and 2009.

9. Fiscal Agent

The Academy entered into a contract with Carl W. Shye Jr. to serve as the Chief Fiscal Officer of the Academy. As part of this agreement, the Academy shall compensate Mr. Shye $60,000 per year. The contract with the Treasurer also specifies that charges for additional services may be charged. The Academy paid the Treasurer an additional $1,500 for services above the contract.

The Treasurer shall perform all of the following functions while serving as the Chief Fiscal Officer of the Academy:

- Work with Board Treasurer and/or the Business Manager
- Receipt all Academy funds and makes investments;
- Disburse Academy funds upon receipt of a written order and appropriate invoice documentation of designated school official(s);
- Prepare payroll, maintenance of earnings records and deductions records;
- Prepare state and federal reports and issue W-2's and 1099's as well as prepare Federal Form 990 and other similar IRS filings;
- Record all financial transactions in accordance with state statutes and as prescribed by the Auditor of State;
- Prepare and submit on a accrual basis a monthly financial accounting of all school funds;
- Provide on-line access to the accounting records, for up to 4 designated officials;
- Prepare the annual financial statements for submission to the Auditor of State and prepare the annual GAAP conversions.

9. Fiscal Agent (Continued)

- Provide reports on services for the Academy administrators to present to the Board and assist the Board Treasurer and/or Business Manager in preparing other financial statements;
- Prepare bi-monthly reports as required by ODE and/or the Academy's sponsor;
- Assist in the preparation of the five-year forecast and ensure the report is submitted in a format approved by ODE;
- Assist the administrators in completing the CCIP budget.

10. Purchased Services

For the Fiscal year ended June 30, 2011, purchased service expenses were payments for servicers rendered by various vendors, and are as follows:

Professional & Technical fees	$223,913
Legal services	59,754
Title I Professional Development	38,512
Other	182,390
Total	$504,569

11. Compensated Absences

After three months of service, employees begin to accumulate personal/sick time at the rate of 4 hours for each pay period of continuous service. Employees accumulate no more than eighty hours of personal/sick leave time during any calendar year. All personal/sick time that has accumulated during an employee's contract period cannot be carried forward past the end of the contract period. In the event an employee has unused accumulated personal/sick leave upon termination of his or her employment with the Academy, the employee forfeits 70% of the unused personal/sick leave balance and is paid 30% of the unused personal/sick leave balance and is paid 30% of the unused accumulated personal/sick leave based upon the current rate of pay subject to all applicable payroll deductions.

12. Contingencies

A. Grants

The Academy receives significant financial assistance from numerous 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 agreement and are subject to an audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund.

B. School Funding

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

13. Management Company

Rainbow Arts Immersion, LLC is owned by Alexis Rainbow, the founder and Head of School of the Academy. The Academy paid Alexis Rainbow and Rainbow Arts Immersion, LLC $214,627 for services rendered under the contract.

14. Management Plan

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, 2011, the Academy had a net deficit of $ 74,599.

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

Carl Shye, Treasurer
The Arts Academy
4125 Leavitt Road
Lorain, Ohio 44053

To The Arts Academy and the Sponsor:

We were engaged to audit the basic financial statements of The Arts Academy, Lorain County (the Academy) as of and for the year ended June 30, 2011, and have issued our report thereon dated April 23, 2012, 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. The Academy also failed to provide evidence to support the Restated Beginning of the Year Net Assets, Ending Net Assets, Salary, Wage and Fringe Benefit Expenses, Other Revenues, Accounts Receivable, the Statement of Cash Flows and the related disclosures in the accompanying basic financial statements. 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 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 2011-001 through 2011-003, 2011-006, 2011-009 and 2011-010 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 engagement 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 2011-001 through 2011-005, 2011-007 through 2011-011.

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

Dave Yost
Auditor of State

April 23, 2012

SCHEDULE OF FINDINGS
JUNE 30, 2011

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

FINDING NUMBER 2011-001

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 receipts so that timely depositing could be verified;
- The Academy omitted the required supplementary information of the prescribed guidelines;
- The Academy did not provide documentation showing that the Sponsor performed any on-site visits;
- The Academy did not provide School Option Enrollment System Reports, Student Withdrawal forms signed by parents, Student Attendance Records, or Student Enrollment Forms; and
- The Academy did not have a list of authorized users for debit cards. Supporting documentation was also not provided for many of the items resulting in several findings for recovery.

During our testing of non-payroll expenditures, we noted the following:

- Checks were not always issued in sequential order;
- Complete supporting documentation was not always attached with voucher packages;
- 8 out of 60 instances in which cancelled checks were not provided;
- 3 out of 60 instances in which supporting documentation was not provided;
- 1 out of 60 instances in which the cancelled check did not agree to the check register and/or supporting documentation;
- 2 out of 60 instances, totaling $45, in which the Academy paid late fees or bounced check fees; and
- 3 out of 60 instances in which sales tax was paid by the Academy.

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

- 7 out of 13 instances where the contract was not signed by both parties;
- 1 out of 13 instances where the retirement participation form was not included;
- 4 out of 13 instances where other deduction forms were required but not provided; and
- The Academy was able to provide time cards for hourly employees; however, The Academy was not able to provide board approved rates for substitutes or bus drivers.

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

FINDING NUMBER 2011-001 (Continued)

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

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, Restated Beginning of the Year Net Assets, Ending Net Assets, Salary, Wage and Fringe Benefit Expenses, Other Revenues, Accounts Receivable balances 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 increased the chances of theft and other fraudulent activities and led to a disclaimer opinion.

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 2011-002

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.

For the audit period of July 1, 2010 through June 30, 2011, 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.

As a result, State Foundation payments totaling $1,517,750 in fiscal year 2011 were unsubstantiated.

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

FINDING NUMBER 2011-003

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;
- 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 2011-004

Closing Procedures – Material Noncompliance

Ohio Rev. Code Section 3314.015(E) requires the Ohio Department of Education to adopt procedures for use by a community school governing authority and sponsor when the school permanently closes and ceases operation. The guidance covers requirements of law, including aspects of federal and state funding requirements; actions taken and not taken by sponsors in the past; as well as relevant information which may be needed at some future point, after a school closes.

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

FINDING NUMBER 2011-004 (Continued)

Closing Procedures – Material Noncompliance (Continued)

Ohio Rev. Code Section 3314.03 (D) states the contract shall specify the duties of the sponsor which shall be in accordance with the written agreement entered into with the department of education under division (B) of section 3314.015 of the Revised Code and shall include the following: (6) Have in place a plan of action to be undertaken in the event the community school experiences financial difficulties or closes prior to the end of a school year. When the school closes the following actions should be taken:

- Notify ODE that the school is closing and send the board resolution or an official sponsor notice from the superintendent or CEO within 24 hours of the action which includes the date of closing the school.
- Notify parents that the school is closing through a formal letter from the school GA and the sponsor superintendent or CEO within 24 hours of the action.
- Notify the Ohio State Teachers Retirement System and School Employees Retirement System.
- The Sponsor shall take control of and secure all school records, property, and assets immediately when the school closes. This includes the following:
    1. Student records shall be put into order and transcript materials produced immediately;
    2. A final FTE review shall be requested while student records are on site at the closed school and original student records shall be retained for the final state audit;
    3. Copies of student records shall be provided by the school's Chief Administrative Officer to all resident districts within seven business days of closure of the school as defined in section 3314.44 of the revised code; original records shall be sent by the sponsor to resident districts upon completion of the final state audit. In the interim, sponsors retain original records until completion of the audit; and
    4. Special education records shall be provided directly to receiving school special education administrators for all students with disabilities, particularly for students with physical needs or low incidence disabilities.
- In concert with the governing authority, notify the school's staff of the decision to close the school:
    1. Provide a clear written timeline of the closing process;
    2. Ensure that STRS and SERS contributions are current;
    3. Clarify COBRA benefits and when medical benefits end;
    4. Remind the faculty of their obligation to teach up to the date of closing or otherwise determine that the school is properly staffed up to the time of closing;
    5. Ensure that each faculty's LPDC information is current and available to teachers; and
    6. Provide sponsor contact person information to all staff.
- If the governing authority does not retain a treasurer to oversee the remaining financial activity, the sponsor shall act as or appoint a receiver to oversee the closing of the financial records in the absence of a fiscal officer.
- Keep State and Federal assets separated for purposes of disposition. Federal dollars cannot be used to pay state liabilities. Account for all school property throughout the closing process by distinguishing state from federal dollars:
    1. Review the financial records of the school;
        1. Establish the fair market value via fixed assets policy for all fixed assets;
        2. Establish check off list of purchasers with proper USAS codes, state codes, the price of each item and identify the source of the funds;
        3. Identify staff who will have legal authority for payment processes;
        4. Establish disposition plan for any remaining items; and

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

FINDING NUMBER 2011-004 (Continued)

Closing Procedures – Material Noncompliance (Continued)

5. Identify any State Facilities Commission guarantees.

- Prepare documentation for disposition of the school's fixed assets:
    1. Consistent with section 3314.051, offer real property acquired from a public school district to that school district's board first at fair market value. If the district board does not accept the offer within 60 days, dispose of the property in another lawful manner below.
    2. For Federal Title and other consolidated and competitive funds, follow EDGAR liquidation procedures in 34 CFR 80.32 including disposition for items valued at $5,000 or greater.
    3. Public Charter School Program (PCSP) assets must first be offered to other community schools with requisite board resolutions consistent with the purpose of the PCSP. If there are no takers, then an auction sale must be held to dispose of the assets along with the state funded assets:
        1. Notify Office of Community Schools, then public media (print media, radio) of the date and location of any property disposition auction;
        2. Follow EDGAR liquidation procedures in 34 CFR 80.32 for items valued at $5,000 or greater;
        3. Provide board resolutions and minutes of any assets transferred at no cost to another school;
        4. Provide OCS with a report of the property, and if available, a bill of sale; and
        5. After the above steps have been taken, any remaining assets may be offered to any public school district with documented board resolutions by the community school and the accepting district.
    4. Cafeteria equipment purchased with funds from the National School Lunch Program can only be liquidated through written guidance issued by the Office for Child Nutrition.
    5. Return to eTech hardware and software acquired with eTech grants.
- Utilize only state dollars, auction proceeds, foundation dollars and any other non-federal dollars to pay the following in order:
    1. Federal and state taxes, Medicare, Workers Compensation, and city wage tax.
    2. STRS/SERS/retirement systems and other adjustments.
    3. Teachers and Staff.
    4. Private creditors or those entities that have secured a judgment against the school, including audit preparation and audit costs.
    5. Any remaining funds shall be forwarded to ODE for redistribution to resident school districts consistent with ORC 3314.074 and Chapter 1702 of the Ohio Revised Code.
- Review and prepare the following itemized financials:
    1. Year-end financial statements and if applicable schedule of federal awards.
    2. A cash analysis for determination of the cash balance as of the closing date.
    3. Compile bank statements for the year.
    4. List of investments in paper hard copy format.
    5. List of all payables and indicate when a check to pay the liability clears the bank.
    6. List all unused checks.
    7. List any petty cash.
    8. List of bank accounts, closing the accounts once all transactions were cleared.
    9. List of all payroll reports including taxes, retirement or adjustments on employee contract.
    10. List of all accounts receivable.
    11. List of assets and their disposition.
    12. Final FTE audit information.

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

FINDING NUMBER 2011-004 (Continued)

Closing Procedures – Material Noncompliance Weakness (Continued)

13. Arrange for and establish a date for the Auditor of State to perform a financial closeout audit.

- The Sponsor shall continually monitor the condition of the closed school and be prepared to receive or transmit funds on behalf of the school as directed by an appropriate agency. Receipt of funds can happen more than a year after a school's closure, and the sponsor must be agile in serving as the recipient of such funds and adjustments.
    1. Receive any funds or adjustments credited to the account of the closed school;
    2. Determine if any portion of any funds or adjustments can be applied to satisfy any remaining debt; and
    3. Send all or the remaining portion of the Ohio Department of Education, Office of Policy and Payments, for final disposition.

No evidence was provided that all of the above closeout procedures were performed.

This matter will be referred to the Ohio Department of Education.

FINDING NUMBER 2011-005

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.

During fiscal year 2011, withdrawals of cash in the amount of $1,535 and $5,729 were made from The Arts Academy's Lorain National Bank General and Student Activity Bank accounts, respectively, for which supporting documentation was not on file nor was the purpose or necessity of these withdrawals documented.

In addition, during fiscal year 2011, miscellaneous debits in the amount of $30,786 and $13,864 were made from The Arts Academy’s Lorain National Bank General and Student Activity Bank accounts, respectively, for which supporting documentation was not on file, nor was the purpose or necessity of these withdrawals documented.

Without appropriate documentation, it is not possible to determine if the expenditures were made for a proper public purpose. The failure to maintain adequate support for expenditures could result in a loss of accountability over the Academy's finances, making it difficult to identify errors which could go undetected, and possibly result in expenditures that are not for a proper public purpose.

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

FINDING NUMBER 2011-005 (Continued)

Finding for Recovery – Material Noncompliance (Continued)

Under Ohio law, any public official who either authorizes an illegal expenditure of public funds or supervises the accounts of a public office from which such illegal expenditure is made is liable for the amount of this expenditure. *Steward v. National Surety* Co. (1929), 120 Ohio St. 47; 1980 Op. Att'y Gen. No 80-074; Ohio Rev. Code Section 9.39; State, ex. rel. *Village of Linndale v. Masten* (1985), 18 Ohio St.3d 228. Public officials controlling public funds or property are liable for the loss incurred such funds or property be fraudulently obtained by another, converted, misappropriated, lost or stolen to the extent that recovery or restitution is not obtained from the persons who unlawfully obtained such funds or property. 1980 Op. Att'y Gen. No. 80-074.

In accordance with the foregoing facts and pursuant to Ohio Revise Code Section 117.28, a Finding for Recovery of public monies is hereby issued against Carl Shye, Treasurer, in the amount of $51,914, and in favor of the Ohio Department of Education.

Officials Response:

As the Treasurer of the Academy, the Student Activity Bank Accounts were not under my control. The miscellaneous debits and withdraws to the General Account were made for the benefit of the Academy.

Auditor of State's Conclusion:

In response to Finding 2011-005, the Treasurer was an authorized signatory on the accounts in question during the entire 2011 fiscal year and is fiscally responsible for the financial activities of the Academy.

FINDING NUMBER 2011-006

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 2011. This resulted in the following adjustments being made to the financial statements, notes and, where applicable, to the Academy's accounting records:

- The Academy improperly recorded state and federal grant revenue as operating foundation revenue. Adjustments totaling $132,522 were required to reclassify the revenues;
- The Accounts Payable balance was understated for to amounts due to the Ohio Department of Job and Family Services. An adjustment of $45,783 was required to increase the balance;
- An adjustment of $125,401 was required to Federal and State Grants Revenues to reduce the grant revenue by checks that were returned and amounts were improperly recorded as revenues instead of reductions of the expense; and

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

FINDING NUMBER 2011-006 (Continued)

Financial Reporting – Material Weakness (continued)

- 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 Deposits, Fiscal Agent, Management Company and Management Plan.

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 2011-007

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.

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

FINDING NUMBER 2011-007 (Continued)

Adoption of Anti-Bullying Policy - Material Noncompliance (Continued)

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.

FINDING NUMBER 2011-008

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:

- 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, 2011 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.

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

FINDING NUMBER 2011-009

Federal Withholding – Material Noncompliance – Material Weakness

26 U.S.C. Section 3402 requires an employer to deduct and withhold federal income tax from the wages of any Academy employees. Circular E of the Internal Revenue Service Publication 15 requires that a form W-4 (exemptions) for federal income tax deductions be filed for each employee. If a Form W-4 is not filed by the employee, deductions are to be made as single with no dependents. Further, this publication provides that an employer is required to deduct and withhold federal income tax from the salaries and wages of their employees. Such withholdings are to be remitted to the Internal Revenue Service. 26 U.S.C. Section 3102(a) requires employers to withhold a Medicare tax from an employee's wages if the employee was hired after April 1, 1986.

The Academy did not provide proper documentation for 4 of 13 employees to substantiate the withholdings were at the correct amounts.

Due to lack of personnel records, it could not be determined if:

- Form W-4 (exemptions) were filed;
- The proper tax amounts were withheld from all personnel; and
- Withholdings were properly remitted to the Internal Revenue Service.

Therefore, we were unable to determine if the proper withholdings were included in the financial statements.

FINDING NUMBER 2011-010

State Income Tax Withholding – Material Noncompliance – Material Weakness

Ohio Revised Code Section 5747.07 states, in part, that every employer required to deduct and withhold any amount of taxes in Section 5747.06 of the Ohio Revised Code shall file a return and shall pay the amount required by law. The Academy did not provide proper documentation for 4 of 13 employees to substantiate the withholdings were at the correct amounts. Due to lack of personnel records, it could not be determined if the proper amounts were deducted and withheld for Ohio income taxes.

Therefore, we were unable to determine if the proper withholdings were included in the financial statements.

FINDING NUMBER 2011-011

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.

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

FINDING NUMBER 2011-011 (Continued)

Finding for Recovery – Material Noncompliance (Continued)

During fiscal year 2011, check numbers 3409 and 3410 in the amounts of $19,400 and $4,022, respectively, were made from The Arts Academy's Lorain National Bank General bank account, payable to LED Consulting Inc. which were not supported by a valid contract for services.

Without appropriate documentation, it is not possible to determine if the expenditures were made for a proper public purpose. The failure to maintain adequate support for expenditures could result in a loss of accountability over the Academy's finances, making it difficult to identify errors which could go undetected, and possibly result in expenditures that are not for a proper public purpose.

In accordance with the foregoing facts and pursuant to Ohio Revise Code Section 117.28, a Finding for Recovery of public monies is hereby issued against Edward Dudley, Former Treasurer, in the amount of $23,422, and in favor of the Ohio Department of Education.

Under Ohio law, any public official who either authorizes an illegal expenditure of public funds or supervises the accounts of a public office from which such illegal expenditure is made is liable for the amount of this expenditure. *Steward v. National Surety* Co. (1929), 120 Ohio St. 47; 1980 Op. Att'y Gen. No 80-074; Ohio Rev. Code Section 9.39; State, ex. rel. *Village of Linndale v. Masten* (1985), 18 Ohio St.3d 228. Public officials controlling public funds or property are liable for the loss incurred such funds or property be fraudulently obtained by another, converted, misappropriated, lost or stolen to the extent that recovery or restitution is not obtained from the persons who unlawfully obtained such funds or property. 1980 Op. Att'y Gen. No. 80-074.

Accordingly, Carl Shye, Treasurer, is jointly and severally liable in the amount of $23,422 and in favor of the Ohio Department of Education.

Official's Response:

With the exception of Finding 2011-005, the Academy did not respond to the findings reported.

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THE ARTS ACADEMY
LORAIN COUNTY

SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2011

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Plan Taken; or Finding No Longer Valid; Explain:
2010-001	Condition of Accounting records	No	Reissued as 2011-001
2010-002	Undocumented Enrollment for State Foundation Funding	No	Reissued as 2011-002
2010-003	Development and implementation of an effective monitoring control system	No	Reissued as 2011-003
2010-004	Notice of Public Meetings	Yes	
2010-005	Finding for Recovery	No	Reissued as 2011-005
2010-006	Financial Reporting	No	Reissued as 2011-006
2010-007	Public Records Policy	Yes	
2010-008	Adoption of Anti-Bullying Policy	No	Reissued as 2011-007
2010-009	Personal Information Policy	Yes	
2010-010	Filing Annual Report	No	Reissued as 2010-008
2010-011	Interest in a Public Contract	Yes	

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INDEPENDENT ACCOUNTANTS' REPORT ON APPLYING AGREED-UPON PROCEDURES

Carl Shye, Treasurer
The Arts Academy
4125 Leavitt Road
Lorain, Ohio 44053

To The Arts Academy and the Sponsor:

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.

Dave Yost

Dave Yost
Auditor of State

April 23, 2012

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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
MAY 15, 2012