



**LORAIN PREPARATORY ACADEMY
LORAIN COUNTY**

REGULAR AUDIT

FOR THE PERIOD OF DECEMBER 1, 2006 THROUGH JUNE 30, 2007



Mary Taylor, CPA
Auditor of State

**LORAIN PREPARATORY ACADEMY
LORAIN COUNTY**

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Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

Lorain Preparatory Academy
Lorain County
3038 Leavitt Road
Lorain, Ohio 44052

To the Board of Directors:

We have audited the accompanying basic financial statements of the Lorain Preparatory Academy, Lorain County, Ohio (the Academy), as of and for the period December 1, 2006 through June 30, 2007, as listed in the table of contents. These financial statements are the responsibility of the Academy's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Lorain Preparatory Academy, Lorain County, Ohio, as of June 30, 2007, and the changes in its financial position and its cash flows for the period December 1, 2006 through June 30, 2007 in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 17 to the financial statements, the Academy is experiencing certain financial difficulties. Note 17 describes management's plans regarding these issues.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 4, 2008, on our consideration of the Academy's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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

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

Mary Taylor, CPA
Auditor of State

April 4, 2008

**LORAIN PREPARATORY ACADEMY
LORAIN COUNTY**

*MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE PERIOD DECEMBER 1, 2006 THROUGH JUNE 30, 2007
UNAUDITED*

The discussion and analysis of the Lorain Preparatory Academy, (the "Academy") financial performance provides an overall review of the Academy's financial activities for the period December 1, 2006 through June 30, 2007. The intent of this discussion and analysis is to look at the Academy's financial performance as a whole. Readers should also review the financial statements and notes to the financial statements to enhance their understanding of the Academy's financial performance. The first year of the Academy's operations was fiscal year 2007. The School began accepting students and community school foundation revenue in December of 2006. However, the Academy did receive start-up grants before December 1, 2006.

Highlights

- Net assets increased \$19,636.
- Operating expenses accounted for \$472,387 of the total expenses of \$477,313.
- Operating revenues accounted for \$487,274 of the Academy's funding.
- The Academy had operating income of \$14,887. In addition, the Academy received non-operating state grants totaling \$9,675. The Academy was able to utilize the majority of state and federal grant allocations for fiscal year 2007.

Overview of the Financial Statements

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

Financial Analysis of the Academy as a Whole

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

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*MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE PERIOD DECEMBER 1, 2006 THROUGH JUNE 30, 2007
UNAUDITED
(Continued)*

Table 1 provides a summary of Academy's net assets for 2007:

Net Assets	
	<u>2007</u>
<u>Assets:</u>	
Current Assets	\$49,690
Capital Assets	<u>31,890</u>
Total Assets	<u>81,580</u>
 <u>Liabilities:</u>	
Current Liabilities	53,180
Long-Term Liabilities	<u>12,333</u>
Total Liabilities	<u>65,513</u>
 <u>Net Assets:</u>	
Invested in Capital Assets, Net of Related Debt	4,978
Unrestricted	<u>11,089</u>
Total Net Assets	<u><u>\$16,067</u></u>

Results as of June 30, 2007 indicate an ending net asset balance of \$16,067, an increase of \$19,636. The increase is the result of operating income collected in the Academy during 2007. We anticipate that the Academy will have a decrease in net assets for fiscal year 2008 and 2009, but should have an increase in net assets in fiscal year 2010. The goal is to grow enrollment to be closer to the capacity of the facility at which point the school would generate surpluses on an annual basis sufficient to eliminate accumulated deficits. The initial losses are typical for a new Academy which may not typically achieve positive net assets until the third or fourth year of operations due to significant start-up costs.

**LORAIN PREPARATORY ACADEMY
LORAIN COUNTY**

*MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE PERIOD DECEMBER 1, 2006 THROUGH JUNE 30, 2007
UNAUDITED
(Continued)*

Table 2 reflects the changes in net assets for fiscal year 2007.

	2007
<u>Operating Revenues:</u>	
Community School Foundation	\$ 486,815
Charges for Services	459
Total Operating Revenues	487,274
 <u>Operating Expenses:</u>	
Building	31,500
Purchased Services	409,674
Depreciation	8,504
General Supplies	15,042
Other Operating Expense	7,667
Total Operating Expense	472,387
 Operating Income	 14,887
 <u>Non-Operating Revenues and Expenses:</u>	
Federal and State Restricted Grants	9,675
Interest Expense	(4,926)
Net Nonoperating Revenue & Expense	4,749
 Change in Net Assets	 19,636
Net Assets (Deficit) Beginning of Year	(3,569)
Net Assets End of Year	\$ 16,067

At the onset of planning for the opening of the Academy, management and the Board carefully calculated the costs and risks associated with offering a high quality educational program that would be competitive with the educational programs available at the traditional public schools and weighed those costs and risks against the enhanced educational opportunities that would be available to students. Based on that analysis, the board and its management made the decision to make an investment in the future of the children of this community, not based on a plan that was expected to generate large economic profits, but rather on a plan that is economically sustainable and that would generate dividends to the community in the form of enhanced opportunities for children and families. As a result of growing enrollment and community support, the Academy has been able to maintain a positive net asset balance. As the Governing Board makes decisions to accommodate growth over the next year or two, we anticipate that the positive net asset position will temporarily erode, but we are projecting that the Academy should return to positive net assets shortly thereafter.

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LORAIN COUNTY**

*MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE PERIOD DECEMBER 1, 2006 THROUGH JUNE 30, 2007
UNAUDITED
(Continued)*

Budgeting

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

Capital Assets and Debt Administration

Capital Assets

At the end of 2007, the Academy had \$31,890 invested in capital assets (net of accumulated depreciation) for computers, a decrease of \$8,504 or 21.05 percent. The following table shows fiscal year 2007 compared to 2006:

Capital Assets (Net of Depreciation)

	<u>June 30, 2007</u>	<u>December 1, 2006</u>	<u>Change</u>
Computer Technology	31,890	40,394	(8,504)

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

Debt

At June 30, 2007, the Academy had \$26,912 of capital lease obligations for computer equipment outstanding. Of that amount, \$14,579 is due within on year. The following table summarized the Academy's debt outstanding as of June 30, 2007.

Outstanding Debt

	<u>June 30, 2007</u>	<u>December 1, 2006</u>	<u>Change</u>
Capital Lease - Computers	26,912	39,610	(12,698)

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

Economic Factors

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

**LORAIN PREPARATORY ACADEMY
LORAIN COUNTY**

*MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE PERIOD DECEMBER 1, 2006 THROUGH JUNE 30, 2007
UNAUDITED
(Continued)*

Operations

The Academy is a public school established pursuant to Ohio Revised Code Chapter 3314. During 2007, the Academy offered education for Ohio children in third through sixth grade. The Academy is independent of any school district and is nonsectarian in its programs, admission policies, employment practices, and all other operations. The Academy may lease or acquire facilities as needed and contract for any services necessary for the operation of the Academy.

Requests For Information

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

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**LORAIN PREPARATORY ACADEMY
LORAIN COUNTY**

**STATEMENT OF NET ASSETS
JUNE 30, 2007**

Assets:

Current assets:

Cash and Cash Equivalents	\$ 23,957
Intergovernmental Receivable	15,893
Prepaid Expense	<u>9,840</u>
Total current assets	<u>49,690</u>

Noncurrent assets:

Capital Assets, net of Accumulated Depreciation	<u>31,890</u>
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Total assets	<u>81,580</u>
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Liabilities:

Current liabilities:

Accounts Payable, Trade	11,248
Accounts Payable, Related Party	27,353
Capital Leases Payable, Current Portion	<u>14,579</u>
Total current liabilities	<u>53,180</u>

Noncurrent liabilities:

Capital Leases Payable, Non Current Portion	<u>12,333</u>
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Total liabilities	<u>65,513</u>
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Net Assets

Invested in Capital Assets, Net of Related Debt	4,978
Unrestricted Net Assets	<u>11,089</u>
Total Net Assets	<u>\$ 16,067</u>

See Accompanying Notes to the Basic Financial Statements

**LORAIN PREPARATORY ACADEMY
LORAIN COUNTY**

**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
FOR THE PERIOD DECEMBER 1, 2006 THROUGH JUNE 30, 2007**

Operating Revenues:	
Community School Foundation	\$ 486,815
Charge for Services	459
Total Operating Revenues	<u>487,274</u>
Operating Expenses:	
Building	31,500
Purchased Services	409,674
Depreciation	8,504
General Supplies	15,042
Other Operating Expenses	7,667
Total Operating Expenses	<u>472,387</u>
Operating Income	<u>14,887</u>
Nonoperating Revenues and Expenses:	
Federal and State Restricted Grants	9,675
Interest Expense	(4,926)
Net Nonoperating Revenues and Expenses	<u>4,749</u>
Change in Net Assets	19,636
Net Assets (Deficit) Beginning of Year	<u>(3,569)</u>
Net Assets End of Year	<u>\$ 16,067</u>

See Accompanying Notes to the Basic Financial Statements

**LORAIN PREPARATORY ACADEMY
LORAIN COUNTY**

**STATEMENT OF CASH FLOWS
FOR THE PERIOD DECEMBER 1, 2006 THROUGH JUNE 30, 2007**

CASH FLOWS FROM OPERATING ACTIVITIES

Foundation Receipts	\$ 439,424
Charge for Services	459
Cash Payments to Suppliers for Goods and Services	<u>(436,875)</u>
Net Cash Provided by Operating Activities	<u>3,008</u>

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

Federal and State Grant Receipts	<u>14,551</u>
Net Cash Provided by Noncapital Financing Activities	<u>14,551</u>

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Capital Lease Principal Payments	(12,698)
Capital Lease Interest Retirement	<u>(4,926)</u>
Net Cash Used by Capital and Related Financing Activities	<u>(17,624)</u>

Net Decrease in Cash and Cash Equivalents	(65)
Cash and Cash Equivalents - Beginning of the Year	<u>24,022</u>
Cash and Cash Equivalents - Ending of the Year	<u>\$ 23,957</u>

Reconciliation of Operating Income to Net Cash Provided by Operating Activities

Operating Income	\$ 14,887
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Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities

Depreciation	8,504
Changes in Assets and Liabilities:	
Increase in Intergovernmental Receivable	(15,893)
Increase in Prepaid Expense	(9,840)
Decrease in Accounts Payable, Trade	(22,003)
Increase in Accounts Payable, Related Party	<u>27,353</u>
Net Cash Provided by Operating Activities	<u>\$ 3,008</u>

Noncash operating activities

The Academy's management company paid \$27,353 for operating expenses on behalf of the Academy.

See Accompanying Notes to the Basic Financial Statements

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**LORAIN PREPARATORY ACADEMY
LORAIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE PERIOD DECEMBER 1, 2006 THROUGH JUNE 30, 2007**

Note 1 - Description of the School

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

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

Ohio Revised Code Section 3314.02 (E) states in part that the Academy operates under the direction of a Governing Board that consists of not less than five individuals who are not owners or employees, or immediate relatives or owners or employees of any for-profit firm that operate or manage the Academy for the Governing Board. The Board is responsible for carrying out the provisions of the contract that include, but are not limited to, state-mandated provisions regarding student population, curriculum, academic goals, performance standards, admission standards, and qualifications of teachers. The Academy's Governing Board also serves as the Board for the Academy of Arts and Sciences.

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

Note 2 - Summary of Significant Accounting Policies

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

A. Basis of Presentation

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

B. Measurement Focus

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

**LORAIN PREPARATORY ACADEMY
LORAIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE PERIOD DECEMBER 1, 2006 THROUGH JUNE 30, 2007
(Continued)**

Note 2 - Summary of Significant Accounting Policies (Continued)

C. Basis of Accounting

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

D. Budgetary Process

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

E. Cash and Cash Equivalents

Cash received by the Academy is reflected as "Cash and Cash Equivalents" on the statement of net assets. The Academy had no investments during the fiscal year ended June 30, 2007.

F. Prepaid Items

The Academy records payments made to vendors for services that will benefit periods beyond June 30, 2007, as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expense is reported in the year in which services are consumed.

G. Capital Assets

The Academy's capital assets during fiscal year 2007 consisted of computers. All capital assets are capitalized at cost and updated for additions and retirements during the fiscal year. Donated capital assets are recorded at their fair market values as of the date received. The Academy maintains a capitalization threshold of one thousand five hundred dollars. The Academy does not have any infrastructure. Improvements are capitalized. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized.

**LORAIN PREPARATORY ACADEMY
LORAIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE PERIOD DECEMBER 1, 2006 THROUGH JUNE 30, 2007
(Continued)**

Note 2 - Summary of Significant Accounting Policies (Continued)

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

<u>Description</u>	<u>Useful Lives</u>
Computer Technology	5 years

H. Net Assets

Net assets represent the difference between assets and liabilities. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by Academy or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. The Academy applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net assets are available. As of June 30, 2007, there were no net assets restricted by enabling legislation.

The statement of net assets reports \$4,978 invested in capital assets net of related debt.

At December 1, 2006 the Academy had received federal public charter grant receipts in the amount of \$28,898 and incurred start up costs for purchase of classroom materials, furniture, and other equipment in the amount of \$32,467. As a result the Academy had beginning of the period deficit net asset balance of (\$3,569).

I. Operating Revenues and Expenses

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

J. Estimates

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

K. Economic Dependency

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

Note 3 – Changes in Accounting Principles

There were no changes in accounting principals implemented during 2007 that would have a material effect on the financial statements.

**LORAIN PREPARATORY ACADEMY
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE PERIOD DECEMBER 1, 2006 THROUGH JUNE 30, 2007
(Continued)**

Note 4 - Deposits

Custodial credit risk is the risk that, in the event of a bank failure, the Academy's deposits may not be returned. The Academy does not have a deposit policy for custodial credit risk. At June 30, 2007 the bank balance of Academy's deposits was \$31,682. The bank balance was covered by federal depository insurance up to \$100,000. There are no significant statutory restrictions regarding the deposit and investment of funds by the nonprofit corporation.

Note 5 – Receivables

At June 30, 2007, the Academy had intergovernmental receivables, in the amount of \$15,893, due from the Ohio Department of Education for an adjustment in the final full time equivalency count for determining the 2007 state foundation award. The receivables are expected to be collected within one year.

Note 6 - Capital Assets

Capital asset activity for the period December 1, 2006 through June 30, 2007, was as follows:

	<u>December 1, 2006</u>	<u>Additions</u>	<u>Deletions</u>	<u>June 30, 2007</u>
Depreciable Capital Assets				
Computer Technology	\$42,520	0	0	\$42,520
Less Accumulated Depreciation				
Computer Technology	(2,126)	0	(8,504)	(10,630)
Capital Assets, Net	<u>\$40,394</u>	<u>\$0</u>	<u>(\$8,504)</u>	<u>\$31,890</u>

Note 7 - Risk Management

The Academy is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2007, the Academy contracted with the Hartford Casualty Insurance Company. The types and amounts of coverage provided are as follows:

**LORAIN PREPARATORY ACADEMY
LORAIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE PERIOD DECEMBER 1, 2006 THROUGH JUNE 30, 2007
(Continued)**

Note 7 - Risk Management (Continued)

General Liability:	
Each Occurrence	\$1,000,000
Aggregate Limit	2,000,000
Products - Completed Operations Aggregate Limit	2,000,000
Medical Expense Limit - Any One Person/Occurrence	10,000
Damage to Rented Premises - Each Occurrence	1,000,000
Personal and Advertising Injury	1,000,000
Automobile Liability:	
Combined Single Limit	1,000,000

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

Note 8 – Purchased Services

For the year ended June 30, 2007, purchased service expenses were as follows:

Service	Amount
Personnel	\$238,140
Management Fee	65,332
Professional Fees	36,000
Food Service	25,726
Sponsor Fee	13,948
Advertising	7,842
IT/Telephone	6,230
Consulting	6,026
Professional Development	3,316
Other Services	2,831
Building Maintenance	2,767
Nursing Services	916
Travel	600
Total	<u>\$409,674</u>

**LORAIN PREPARATORY ACADEMY
LORAIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE PERIOD DECEMBER 1, 2006 THROUGH JUNE 30, 2007
(Continued)**

Note 9 – Defined Benefit Pension Plans

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

A. School Employees Retirement System

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

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 with the remainder being used to fund health care benefits; for fiscal year 2007, 10.68 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The Academy's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2007 was \$2,653; 59 percent has been contributed for fiscal year 2007.

B. State Teachers Retirement System of Ohio

The Academy participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement system. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3371, by calling (614) 227-4090, or by visiting the STRS Ohio web site at www.strsoh.org.

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member 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 Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan. Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one time irrevocable decision to transfer their account balances from the existing DB Plan into the DC Plan or the Combined Plan. This option expired on December 31, 2001. Benefits are established by Chapter 3307 of the Ohio Revised Code.

**LORAIN PREPARATORY ACADEMY
LORAIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE PERIOD DECEMBER 1, 2006 THROUGH JUNE 30, 2007
(Continued)**

Note 9 – Defined Benefit Pension Plans (Continued)

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

For the fiscal year ended June 30, 2007, plan members were required to contribute 10 percent of their annual covered salaries. The Academy was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal year 2006, the portion used to fund pension obligations was also 13 percent. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The Academy's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2007 was \$21,274; 100 percent has been contributed for fiscal year 2007. No employees contribute to the DCP and CP Plans.

Note 10 – Postemployment Benefits

The Academy provides comprehensive health care benefits to retired teachers and their dependents through the State Teachers Retirement System of Ohio (STRS Ohio), and to retired non-certified employees and their dependents through the School Employees Retirement System (SERS). Benefits include hospitalization, physicians' fees, prescription drugs and partial reimbursement of monthly Medicare premiums. Benefit provisions and the obligations to contribute are established by the Systems based on authority granted by State statute. Both systems are on a pay-as-you-go basis.

All STRS Ohio retirees who participated in the DB or Combined Plans and their dependents are eligible for health care coverage. The STRS Ohio Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. All benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS Ohio funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2007 and 2006, the STRS Ohio Board allocated employer contributions equal to one percent of covered payroll to the Health Care Stabilization Fund. For the Academy, this amount equaled \$1,636 for fiscal year 2007.

STRS Ohio pays health care benefits from the Health Care Stabilization Fund. At June 30, 2006, (the latest information available) the balance in the Fund was \$3.5 billion. For the fiscal year ended June 30, 2006, net health care costs paid by STRS Ohio were \$282,743,000 and STRS Ohio had 119,184 eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten or more years of qualifying service credit, and to disability and survivor benefit recipients. All retirees and beneficiaries are required to pay a portion of their health care premium. The portion is based on years of service, Medicare eligibility, and retirement status.

**LORAIN PREPARATORY ACADEMY
LORAIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE PERIOD DECEMBER 1, 2006 THROUGH JUNE 30, 2007
(Continued)**

Note 10 – Postemployment Benefits (Continued)

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2007, employer contributions to fund health care benefits were 3.32 percent of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2007, the minimum pay was established at \$35,800. However, the surcharge is capped at two percent of each employer's SERS salaries. For the Academy, the amount contributed to fund health care benefits, including the surcharge, during the 2007 fiscal year equaled \$825.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of the projected claims less premium contributions for the next fiscal year. Expenses for health care for the fiscal year ended June 30, 2006 (the latest information available) were \$158,751,207. At June 30, 2006, SERS had net assets available for payment of health care benefits of \$295.6 million. SERS has 59,492 participants eligible to receive health care benefits.

Note 11 - Contingencies

A. Grants

The Academy received financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the Academy. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the Academy at June 30, 2007.

B. Litigation

A lawsuit entitled *Beverly Blount-Hill, et al. v. State of Ohio, et al., Case #3:04CV197*, was filed in the US District Court, Southern District of Ohio, Western Division in October 2004. The suit alleges that the funding provisions of the Ohio Community School Act, O.R.C. Section 3314, violate both the Ohio and Federal constitution. If the funding scheme is determined to be unconstitutional, it could have financial ramifications for all community/charter schools. The case is still currently pending, and the effect of this suit, if any, on the Academy cannot presently be determined.

C. Ohio Department of Education Enrollment Review

The Ohio Department of Education (ODE) conducts reviews of enrollment data and full-time equivalency (FTE) calculations made by community schools. These reviews are conducted to ensure the Academy is reporting accurate student enrollment data to the State, upon which state foundation funding is calculated. The conclusion of this review could result in state funding being adjusted. A review conducted by the Ohio Department of Education reflected the Academy is owed \$15,893 by the Ohio Department of Education. This is reported as intergovernmental receivables on the June 30, 2007 Statement of Net Assets.

**LORAIN PREPARATORY ACADEMY
LORAIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE PERIOD DECEMBER 1, 2006 THROUGH JUNE 30, 2007
(Continued)**

Note 12 – Building Leases

Beginning in January 2007, the Academy leased a portion of the building it occupied from City Center for a monthly rent of \$5,250. The Academy shared the building with the Academy of Arts and Sciences and split the rent payments equally based on the lease agreement in place between the City Center and the Academy of Arts and Sciences. The lease terminated at June 30, 2007.

See Note 18 for information regarding a lease entered into after June 30, 2007.

Note 13 – Capital Lease-Lessee Disclosure

The Academy entered into a lease agreement with Relational LLC for technology equipment (computers). The Academy's lease obligation met the criteria of a capital lease as defined by Statement of Financial Accounting Standards No. 13 "Accounting for Leases" which defines a capital lease generally as one which transfers benefits and risk of ownership to the lessee. The technology equipment has been capitalized in the amounts of \$42,520, the present value of the minimum lease payments at the inception of the lease.

The following is a schedule of the future long-term minimum lease payments required under the capital leases and the present value of the minimum lease payments are as of June 30, 2007:

<u>Year Ending June 30,</u>	<u>Amount</u>
2008	\$17,412
2009	<u>13,059</u>
Total future minimum lease payments	30,471
Less: amount representing interest	<u>(3,559)</u>
Present value of future minimum lease payments	<u>\$26,912</u>

A liability for capital lease obligations in the amount of \$26,912 is reported on the Statement of Net Assets. Of this amount, \$14,579 is a current liability due within one year and \$12,333 is a long term liability due in more than one year. The Academy made \$12,698 of principal payments to reduce the June 30, 2006 outstanding capital lease balance of \$39,610.

Note 14 –Tax Exempt Status

The Academy has not obtained tax-exempt status under Section 501(C)(3) of the Internal Revenue Code.

Note 15 – Related Party Transactions/Management Company

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

**LORAIN PREPARATORY ACADEMY
LORAIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE PERIOD DECEMBER 1, 2006 THROUGH JUNE 30, 2007
(Continued)**

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

Per the management agreement with the Academy, Mosaica Education is entitled to a management fee that is equivalent to 12.5% of the Academy's revenues. The management fee for fiscal year 2007 was \$65,332.

Also, per the management agreement there are expenses that will be billed to the Academy based on the actual costs incurred for the Academy by Mosaica Education, Inc. These expenses include rent, salaries of Mosaica Education, Inc. employees working at the Academy, and other costs related to providing educational and administrative services. The total expenses paid to Mosaica Education, Inc. during fiscal year 2007 were \$259,971.

At June 30, 2007, the Academy had payables to Mosaica Education in the amount of \$27,353. The following is a schedule of payables to Mosaica Education, Inc.

	<u>Amount</u>
Payroll	\$21,506
Management Fee	4,082
Miscellaneous	<u>1,765</u>
Total June 30, 2007	<u><u>\$27,353</u></u>

Note 16 – Sponsor

The Academy was approved for operation under a contract with St. Aloysius Orphanage (the Sponsor) for a period of five academic years commencing July 1, 2005. As part of this contract, the Sponsor is entitled to a maximum of 3% of the total state funds. Total amount due and paid for fiscal year 2007 was \$13,948.

Note 17 – Financial Difficulties and Subsequent Events

Although the Academy had a net asset balance of \$16,067 and operating income of \$14,887 at June 30, 2007, the Academy anticipates an operating loss of approximately \$300,000 for the year ended June 30, 2008 due to lower than expected enrollment. As of March 31, 2008 the Academy's change in net assets was (\$248,363) and the deficit net asset balance was (\$232,296).

The final fiscal year 2007 full-time student enrollment was 73 students. The full-time equivalents student enrollment as of March of 2008 is 105 students.

Over time, management believes the anticipated increase in enrollment should allow the school to reduce its operating losses and have operating gains. Management plans to increase enrollment through active advertising via print, radio, mailings and through referrals of current parents which may increase enrollment, reduce future deficits and may lead to no operating losses in future years. Management has been very successful in increasing enrollment at its other community schools in Ohio.

**LORAIN PREPARATORY ACADEMY
LORAIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE PERIOD DECEMBER 1, 2006 THROUGH JUNE 30, 2007
(Continued)**

Note 17 – Financial Difficulties and Subsequent Events (Continued)

In September 2007, the Academy entered into an agreement with Lorain-Leavitt Properties, LLC, a wholly owned subsidiary of Mosaica Education, Inc for use of the grounds as a school facility. Mosaica Education, Inc. is a related party, as disclosed in Note 15. The lease agreement terminates on June 30, 2008 and has a base rent of \$1 for the entire term of the lease. In addition, in July 2007, the Academy entered into a sub-lease agreement with the Columbus Humanities Arts and Technology Academy for the use of thirteen modular buildings. The lease has a base rental rate of \$16,253 per month and terminates on August 2, 2009. The lease also assigns the Academy the right to purchase the modulars at the end of the lease at fair market value. Base rent expense for the fiscal year ended 2007 was \$31,500.

Future minimum lease payments under the newly executed sub-lease agreement for the modulars are as of July 1, 2007:

Fiscal Year Ending June 30	Amount
2008	\$195,041
2009	195,041
2010	32,507
Total minimum lease payments	<u>\$422,589</u>

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Mary Taylor, CPA

Auditor of State

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

Lorain Preparatory Academy
Lorain County
3038 Leavitt Road
Lorain, Ohio 44052

To the Board of Directors:

We have audited the basic financial statements of the Lorain Preparatory Academy, Lorain County, Ohio (the Academy), as of and for the period December 1, 2006 through June 30, 2007, and have issued our report thereon dated April 4, 2008 wherein we noted the Academy is experiencing certain financial difficulties. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

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

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

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

We consider the following deficiencies described in the accompanying schedule of findings to be significant deficiencies in internal control over financial reporting: 2007-002 and 2007-003.

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

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and accordingly, would not necessarily disclose all significant deficiencies that are also material weaknesses. However, of the significant deficiencies described above, we believe findings 2007-002 and 2007-003 are also material weaknesses.

We also noted certain internal control matters that we reported to the Academy's management in a separate letter dated April 4, 2008.

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 provision 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 an instance of noncompliance or other matters that we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2007-001.

We also noted certain noncompliance or other matters not requiring inclusion in this report that we reported to the Academy's management in a separate letter dated April 4, 2008.

The Academy's responses to the findings identified in our audit 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, and the St. Aloysius Orphanage. It is not intended for anyone other than these specified parties.



Mary Taylor, CPA
Auditor of State

April 4, 2008

**LORAIN PREPARATORY ACADEMY
LORAIN COUNTY**

**SCHEDULE OF FINDINGS
FOR THE PERIOD DECEMBER 1, 2006 THROUGH JUNE 30, 2007**

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

FINDING NUMBER 2007-001

Board Members-Noncompliance

Ohio Revised Code § 3314.02(E) states in part that each community school established under this chapter shall be under the direction of a governing authority which shall consist of a board of not less five individuals and that no person shall serve on the governing authorities of more than two start-up community schools at the same time.

As of June 30, 2007, the Academy had four individuals participating on the Board of Directors. Not only is the current number of board members insufficient to be compliant with the above Ohio Revised Code requirement, but is also a violation of the Academy's agreement with its sponsor, which also stipulates that the Academy must maintain a five-member governing board.

We recommend the Academy take steps to secure at least five governing board members that comply with all aspects of Ohio Revised Code § 3314.03(E) to act as the governing authority for the Academy. By establishing the required five-member governing board, the Academy can gain assurance that is in compliance with the ORC and sponsorship agreement requirements.

Officials' Response

The Board has recruited additional members to meet the minimum requirements of Ohio Revised Code section 3314.02(E).

FINDING NUMBER 2007-002

Board Monitoring—Significant Deficiency and Material Weakness

Mosaica Education, Inc., the Academy's management company, prepares monthly bank reconciliations and year to date and month to date budget versus actual financial reports that are presented to the Board of Directors. Since the Academy reports on a full accrual basis of accounting throughout the year the revenue and expenditures reported on the budget versus actual reports include receivable and payable amounts outstanding. However, the Board of Directors is not provided a Statement of Net Assets. Therefore, the Board of Directors could not effectively monitor the Academy's assets, liabilities, and net assets throughout the year.

In addition, the management agreement entered into with Mosaica Education, Inc. states that the following services would be provided: management of personnel and human resources, board relations, financial management, marketing, the program of instruction, purchasing, strategic planning, public relation, financial reporting, recruiting, compliance issues, budgets, contracts, and equipment and facilities. Currently the Board does not have procedures in place to monitor the services being provided by Mosaica Education, Inc.

Monitoring comprises of regular management activities established to oversee whether management's financial objectives are being achieved. Data from financial reports provided by Mosaica Education, Inc may indirectly provide assurance as to the reliability of financial reporting information if it conforms to the users' expectation. Lack of effective legislative monitoring may lead to errors, irregularities, or misappropriation of the Academy's funds.

**LORAIN PREPARATORY ACADEMY
LORAIN COUNTY**

**SCHEDULE OF FINDINGS
FOR THE PERIOD DECEMBER 1, 2006 THROUGH JUNE 30, 2007
(Continued)**

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

FINDING NUMBER 2007-002 (Continued)

Board Monitoring—Significant Deficiency and Material Weakness (Continued)

We recommend that the following items be reviewed and approved by the Board of Directors at the monthly meetings.

1. A Statement of Net Assets that reports the assets, liabilities, and net assets as of the last day of each month.
2. All invoices from Mosaica Education, Inc. and the supporting documentation of the expenses incurred by Mosaica Education, Inc. on behalf of the Academy. Supporting documentation should include payroll reports, the calculation of the management fee charged, rental agreements, and invoices of any other miscellaneous expenses billed to the Academy.

These items should be reviewed by the Board of Directors for any unusual or unexpected financial activity and for discrepancies between the Academy's Management Agreement and the actual services provided and billed by Mosaica Education, Inc. Appropriate follow-up should be made regarding any unusual balances or transactions.

Officials' Response

Although management believes that sufficient management reporting and Sponsor oversight and monitoring is occurring to assure that the Board is kept up to date, the Academy's management and administration is open to expanding the amount of data that is provided to the Board each month to better document that the Board is kept aware of what is going on at the Academy. As a part of the regular Board meeting agenda, the site administration provides a operations report known as a "CAO Report" and management presents a financial package and operations report known as an "MEI Report" as a way for Board to monitor activities and receive updates on issues of interest and concern. All contracts that are non-cancellable in nature are executed directly by the Board. In 2007-08, Management began including a statement of net assets along with the budget to actual detail financial statements and bank reconciliations that are distributed to the Board each month. Management is also now including copies of all Management Company invoices to all members of the Board each month. In the past, management provided a list of checks issued as part of the bank reconciliation support and provided explanations and further support to the Board upon request.

In addition to regular management and administrative reporting, regular reporting from the Academy's Sponsor in regards to monthly site visits and compliance monitoring help the Board monitor operational compliance with state and federal guidelines.

FINDING NUMBER 2007-003

Monitoring of Purchased Service Expenses- Significant Deficiency and Material Weakness

The management agreement entered into with Mosaica Education, Inc. states that Mosaica Education, Inc. will manage personnel and human resources for all staff of the Academy and maintain accurate financial records pertaining to the operation of the Academy. In order to ensure accurate record keeping of payroll paid to employees and subsequently billed to the Academy as a purchased service, Mosaica Education, Inc. maintains supporting documentation for all payroll paid to employees.

The following internal control weaknesses were noted during the testing of various payroll transactions billed by Mosaica Education, Inc. to the Academy:

**LORAIN PREPARATORY ACADEMY
LORAIN COUNTY**

**SCHEDULE OF FINDINGS
FOR THE PERIOD DECEMBER 1, 2006 THROUGH JUNE 30, 2007
(Continued)**

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

FINDING NUMBER 2007-003 (Continued)

**Monitoring of Purchased Service Expenses- Significant Deficiency and Material Weakness
(Continued)**

1. The Personnel Action Forms are utilized to document the employee's standing information including but not limited to, the approved pay rate, hours to be worked, and the name of the Academy in which the employee would provide their services to, were not signed by the employee. Therefore, there is no documentation of the employee's agreement to the terms of employment.
2. Hourly employee time sheets were not reviewed and approved by the Chief Administrative Officer of the Academy before the total hours worked were reported for payroll processing.
3. There were staff members that split their services between the Lorain Preparatory Academy and the Academy of Arts and Sciences. However, time and effort documentation was not maintained to support the break down of payroll paid to staff between the Academies.

Lack of internal controls over the processing of employee payroll can lead to misappropriation of the Academy's resources for the payment of purchased service expenses that were not actually incurred by the Academy.

We recommend the following internal controls be implemented within the payroll process.

1. All Personnel Action Forms should be signed by the employees and the administrators assigned to oversee the employee's performance.
2. Each hourly employee should complete a timesheet that accurately reflects the hours worked. All timesheets should be reviewed and signed by the Chief Administrative Officer before payroll is processed.
3. For all employees that are assigned to provide services for more than one Academy, time and effort records should be maintained to support the payroll paid related to each job function.

Officials' Response

While management was under the belief that controls identified below were in place to mitigate the concerns auditors identified in this finding, recommendations for improvements to controls are welcomed and will be implemented where feasible:

1. The Personnel Action Form referred to was not intended to be signed by employee as instructions on the face of the form call for an employee signature if personal information such as name and contact information is being changed. Management issues an offer letter that identifies job title and school assignment for each new hire. The employee signs and returns the offer letter for maintenance in his/her personnel file. Management has modified the new hire packet to require signature of the employee on all Personnel Action Forms that are submitted to payroll. Although the majority of Personnel Action forms for 2007-08 will be unsigned as policy was not revised until midyear, going forward, the signatures will be available on all new Personnel Action Forms that are submitted to payroll for processing.

**LORAIN PREPARATORY ACADEMY
LORAIN COUNTY**

**SCHEDULE OF FINDINGS
FOR THE PERIOD DECEMBER 1, 2006 THROUGH JUNE 30, 2007
(Continued)**

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

FINDING NUMBER 2007-003 (Continued)

Officials' Response (Continued)

2. Although the Chief Administrative Officer does not review and sign off on each individual time sheet, the administrative assistant does and inputs the time sheet data into a payroll spreadsheet that the Chief Administrative Officer is responsible for approving prior to transmission to the payroll department. One modification to the second recommendation is that rather than having Chief Administrative Officer sign off on individual time sheets, management will require Chief Administrative Officer to provide positive affirmation that spreadsheets provided to payroll are accurate. Prior to providing that positive affirmation, time being reported will need to have been verified against employee timesheets.

3. During 2006-07, because the Academy shared a site with Academy of Arts and Sciences, shared administrative site personnel costs were split based on the number of students in each Academy. Now that the Academies operate separate sites, personnel should be maintaining service logs or following specific schedules to document which Academy they provided services to.



Mary Taylor, CPA
Auditor of State

LORAIN PREPARATORY 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
JUNE 3, 2008**