



Mary Taylor, CPA  
Auditor of State



**THE ARTS ACADEMY  
LORAIN COUNTY**

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# Mary Taylor, CPA

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## INDEPENDENT ACCOUNTANTS' REPORT

The Arts Academy  
Lorain County  
4125 Leavitt Road  
Lorain, Ohio 44053

To the Board of Trustees:

We were engaged to audit the accompanying basic financial statements of the Arts Academy, Lorain County, Ohio, (the Academy) as of and for the year ended June 30, 2006, as listed in the table of contents. These financial statements are the responsibility of the Academy's management.

The Academy was unable to present accounting system reports to support the amounts presented on the accompanying financial statements. Also, the Academy was unable to present evidential matter to support any of its transactions or balances for the year ended June 30, 2006.

Since the Academy did not provide the evidence described in the above paragraph, the scope of our auditing procedures was not sufficient to enable us to express, and we do not express, an opinion on these financial statements.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 15, 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.

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 require. Since we were unable to express an opinion on the basic financial statements, we could not apply certain limited procedures to the required supplementary information. We did not audit the information and express no opinion on it.

A handwritten signature in cursive script that reads "Mary Taylor".

**Mary Taylor, CPA**  
Auditor of State

April 15, 2008

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**The Arts Academy  
Lorain County**

**Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2006  
(Unaudited)**

Our discussion and analysis of The Arts Academy's (the Academy) financial performance provides an overall review of the Academy's financial activities for the fiscal year ended June 30, 2006. The intent of this discussion and analysis is to look at the Academy's financial performance as a whole; readers should also review the basic financial statements and notes to the basic financial statements to enhance their understanding of the Academy's financial performance.

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

### **Financial Highlights**

Key Financial Highlights for the Academy for fiscal year 2006 are as follows:

- Total net assets were \$61,292. This represents a significant increase over fiscal year 2005, where net assets were \$(117,559).
- The Academy received a significant increase in foundation revenue, federal and state subsidy revenue, and classroom fee revenue in 2006, bringing total revenues for the year to \$2,410,112. Total expenses for the year were \$2,232,061.
- Total assets increased 33.7% from 2005, totaling \$146,658. Total assets are comprised of cash and cash equivalents, as well as capital assets, net of accumulated depreciation.

### **Using this Financial Report**

This financial report contains the basic financial statements of the Academy, as well as the Management's Discussion and Analysis and notes to the basic financial statements. The basic financial statements include a statement of net assets, a statement of revenues, expenses and changes in net assets, and a statement of cash flows. As the Academy reports its operations using enterprise fund accounting, all financial transactions and accounts are reported as one activity, therefore the entity wide and the fund presentation information is the same.

### **Statement of Net Assets**

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

The Arts Academy  
Lorain County

Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2006  
(Unaudited)

This statement reports the Academy's net assets and changes in them. The change in net assets provides the reader a tool to assist in determining whether the Academy's financial health is improving or deteriorating. The reader will need to consider other nonfinancial factors such as state revenue, student enrollment growth, and facility conditions in arriving at their conclusion regarding the overall health of the Academy.

Table 1 provides a summary of the Academy's net assets for fiscal years 2006 and 2005.

	Table 1 Net Assets	
	<u>2006</u>	<u>2005</u>
Current Assets	\$ 35,446	\$ 26,705
Capital Assets, Net	<u>111,212</u>	<u>82,959</u>
Total Assets	146,658	109,664
Current Liabilities	48,819	174,461
Due in More than One Year	<u>36,547</u>	<u>52,762</u>
Total Liabilities	\$ 85,366	\$ 227,223
Net Assets:		
Invested in Capital Assets, net	74,665	82,959
Unrestricted	<u>(13,373)</u>	<u>(200,518)</u>
Total Net Assets	<u>\$ 61,292</u>	<u>\$ (117,559)</u>

The positive portion of the Academy's total assets reflects its investment in capital assets net of related debt. The Academy uses capital assets to provide services; consequently, these assets are not available for future spending.

Net Assets of the Academy have significantly increased due to a decrease to total liabilities in 2006.

Table 2 shows the changes in net assets for the fiscal years ended June 30, 2006 and 2005, as well as revenues and expenses.



**The Arts Academy  
Lorain County**

**Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2006  
(Unaudited)**

Table 2  
Changes in Net Assets

	<u>2006</u>	<u>2005</u>
Operating Revenues:		
Foundation payments	\$1,744,212	\$1,156,208
Classroom Fees	175,415	87,976
Food Service	1,814	2,434
Other Operating Revenues	152,891	144,030
Non-Operating Revenues:		
Federal and State subsidies	<u>336,580</u>	<u>33,950</u>
Total Revenues	\$2,410,912	\$ 1,423,998
Operating Expenses:		
Salaries & Wages	360,534	645,364
Fringe Benefits	197,999	157,929
Purchased Services	1,340,195	519,460
Materials & Supplies	183,616	107,342
Depreciation	26,074	16,144
Miscellaneous	113,796	82,663
Non-Operating Expenses:		
Interest expense	<u>9,847</u>	<u>12,655</u>
Total Expenses	\$2,232,061	\$1,541,557
Change in Net Assets	\$ 178,851	\$( 117,559)

The Academy's total revenues increased significantly in 2006, with increases to foundation revenue, federal and state subsidies, as well as an increase to classroom fees - all of which are directly related to increase in total student enrollment. This increase in enrollment also resulted in an increase in total expenses which were incurred to provide services to students.

**Capital Assets**

The Academy maintains a capitalization threshold of \$1,000. At June 30, 2006 the Academy had invested \$153,430 in capital assets, and had reported \$42,218 in accumulated depreciation. Additional information regarding capital asset activity is included in the notes to the basic financial statements (Note 2).

**Debt Activity**

At June 30, 2006, the Academy had \$36,547 in long term debt liabilities related to capital leases. Note 10 summarizes all long term liabilities.

**The Arts Academy  
Lorain County**

**Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2006  
(Unaudited)**

**Restrictions and Other Limitations**

The future financial stability of the Academy is not without challenges.

The first challenge is the state economy. The Academy does not receive any funds from taxes. The primary source of funding is the state foundation program. An economic slowdown in the state could result in budgetary cuts to education, which would have a negative impact on the Academy.

The second challenge facing the Academy is the future of state funding. On October 6, 2004, a suit was filed in the US District Court challenging the funding of charter schools under Equal Protection, Due Process and claims violation of a right to vote on the bodies administering public schools. The Academy is unable to determine what effect, if any, this suit might have on future funding from the State.

**Contacting the Academy**

This financial report is designed to provide a general overview of the finances of The Arts Academy and to show the Academy's accountability for the monies it receives to all vested and interested parties, as well as meeting the annual reporting requirements of the State of Ohio. Any questions about the information contained within this report or requests for additional financial information should be directed to The Arts Academy, Attn: Mr. Andre Street, 4125 Leavitt Road, Lorain, Ohio 44053.

**The Arts Academy  
Lorain County  
Statement of Net Assets  
as of June 30, 2006**

**Assets**

**Current Assets**

Cash and Investments	\$ 35,446
Total Current Assets	<u>35,446</u>

**Non-Current Assets**

Fixed assets (Net of Accumulated Depreciation)	<u>111,212</u>
Total Assets	<u>\$ 146,658</u>

**Liabilities**

**Current Liabilities**

Accounts Payable	\$ 48,819
Total Current Liabilities	<u>48,819</u>

**Long-Term Liabilities**

Due within one year	31,779
Due within more than one year	<u>4,768</u>
Total Long-Term Liabilities	<u>36,547</u>
Total Liabilities	<u>85,366</u>

**Net Assets**

Invested in Capital Assets, Net of related Debt	74,665
Unrestricted	<u>(13,373)</u>
Total Net Assets	<u>61,292</u>

The accompanying Notes are an integral part of the Financial Statements

**The Arts Academy  
Lorain County  
Statement of Revenues, Expenses,  
and Changes in Fund Net Assets  
for the Fiscal Year ended June 30, 2006**

<b>Operating Revenues</b>	
Classroom fees	\$ 175,415
Foundation Payments	1,744,212
Food service	1,814
Other Operating Revenues	152,891
Total Operating Revenues	<u>2,074,332</u>
<b>Operating Expenses</b>	
Salaries & Wages	380,534
Fringe Benefits	197,999
Purchased Services	1,340,195
Materials & Supplies	183,616
Depreciation	26,074
Miscellaneous	113,796
Total Operating Expenses	<u>2,222,214</u>
Operating Income	(147,882)
<b>Non-Operating Revenues and (Expenses)</b>	
Interest Earnings	0
State subsidies	0
Federal subsidies	336,580
Interest Expense	(9,847)
Total Non-Operating Revenues and (Expenses)	<u>326,733</u>
Net Income	178,851
Net Assets Beginning of Year	(117,559)
Net Assets End of Year	<u>\$ 61,292</u>

The accompanying Notes are an integral part of the Financial Statements

The Arts Academy  
Lorain County  
Statement of Cash Flows  
for the Fiscal Year ended June 30, 2006

<b>Cash Flows from Operating Activities</b>	
Cash received from sales	\$ 175,415
Cash received from Foundation Payments	1,744,212
Cash received from Other Operating Revenues	154,705
Cash payments for personal services	(653,779)
Cash payments for contract services	(1,282,084)
Cash payments for supplies and materials	(270,007)
Cash payments for Miscellaneous	(115,912)
Net Cash Provided By/(Used for) Operating Activities	<u>(247,450)</u>
<b>Cash Flows from Noncapital Financing Activities</b>	
Cash from Federal & State Subsidies	336,580
Net Cash from Noncapital Financing Activities	<u>336,580</u>
<b>Cash Flows from Capital and Related Financing Activities</b>	
Payments for Capital Acquisitions	(70,542)
Payments for Interest on Capital Acquisitions	(9,847)
Net Cash Used for Capital and Related Financing Activities	<u>(80,389)</u>
<b>Cash Flows from Investing Activities</b>	
Interest on cash and cash equivalents	<u>0</u>
Net cash from investing activities	<u>0</u>
Net increase in cash and cash equivalents :	8,741
Cash and cash equivalents at beginning of year	26,705
Cash and cash equivalents at end of year	<u>\$ 35,446</u>
<b>Reconciliation of Operating Income to Net Cash Provided By (Used for) Operating Activities</b>	
Operating Income	(147,882)
<b>Adjustments to Reconcile Operating Income to Net Cash Provided by (Used for ) Operating Activities</b>	
Depreciation	26,074
Changes in Assets and Liabilities:	
Accounts Receivable	0
Accounts Payable	(37,409)
Accrued Wages and Benefits	(59,568)
Payable to State Pension Systems	(8,340)
Intergovernmental payable	(20,325)
Total Adjustments	<u>(99,568)</u>
Net cash provided (used) by operating activities	<u>\$ (247,450)</u>

The accompanying Notes are an integral part of the Financial Statements

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THE ARTS ACADEMY  
LORAIN COUNTY

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

**I. Description of the School and Reporting Entity**

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

The Academy was approved for operation under contract with the Ashe Culture Center, Inc. (the Sponsor) for a period of five years commencing July 27, 2005 and shall terminate on June 30, 2010. The Sponsor is responsible for evaluating the performance of the Academy and has the authority to deny renewal of the contract at its expiration or terminate the contract prior to its expiration.

The Academy operates under the direction of a seven-member Governing Board. The Board is responsible for carrying out the provisions of the contract, which includes, but is not limited to, state-mandated provisions regarding student population, curriculum, academic goals, performance standards, admission standards, and qualification of teachers. The Board controls the Academy's instructional/support facility staffed by nine classified and eleven certified full time personnel who provide services to 232 students.

**II. Summary of Significant Accounting Policies**

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

**1. Basis of Presentation**

The Academy uses enterprise accounting to track and report on its financial activities. Enterprise accounting is used to account for operations that are financed and operated in a manner similar to private business enterprises where the intent is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges or where it has been decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

THE ARTS ACADEMY  
LORAIN COUNTY

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2006  
(Continued)

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II. **Summary of Significant Accounting Policies (Continued)**

**2. Measurement Focus and Basis of Accounting**

The accounting and financial reporting treatment applied to a fund is determined by its 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 balance sheet. Operating statements present increases (e.g. revenues) and decreases (e.g. expenses) in net total assets.

The basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made.

The accrual basis of accounting is used for reporting purposes. Revenues are recognized when they are earned, and expenses are recognized when they are incurred. Contributions and grants are recognized when the donor makes a promise to give to the Academy that is unconditional.

**3. 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 Rev. Code Section 5705, unless specifically provided in the schools contract with 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 updated annually.

**4. Cash and cash equivalents**

All monies received by the Academy are accounted for by the Academy's fiscal agent, the Ohio Community Schools Consultants. All cash received by the fiscal agent is maintained in separate bank accounts in the name of The Arts Academy. Monies for the Academy are maintained in these accounts or are temporarily used to purchase short-term investments. Investments of the cash management pool and with original maturities of three months or less at the time they are purchased by the Academy are considered to be cash equivalents.

**5. Estimates**

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



**THE ARTS ACADEMY  
LORAIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2006  
(Continued)**

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**ii. Summary of Significant Accounting Policies (Continued)**

**6. Capital Assets and Depreciation**

Capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market value on the date received. The Academy maintains a capitalization threshold of one thousand dollars. The Academy does not possess any infrastructure.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized.

Depreciation of furniture and equipment is computed using the straight-line method over an estimated useful life of five years.

**7. Intergovernmental Revenues**

The Academy currently participates in the State Foundation Program, the State Disadvantaged Pupil Impact Aid (DPIA) Program, and the State Special Education Program, which are reflected under "State Aid" on the Statement of Revenues, Expenses and Changes in Net Assets. Revenues received from these programs are recognized as operating revenues in the accounting period in which they are earned and become measurable.

Non-exchange transactions, in which the Academy receives value without directly giving equal value in return, include grants, entitlements, and contributions. Grants, entitlements and contributions are recognized as non-operating revenues in the accounting period in which all eligibility requirements have been met.

Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted; matching requirements, in which the Academy must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the Academy on a reimbursement basis. Amounts awarded under the above programs for the 2006 school year totaled \$2,080,792.

**8. 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 school. All revenues and expenses not meeting this definition are reported as non-operating.

THE ARTS ACADEMY  
LORAIN COUNTY

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2006  
(Continued)

II. Summary of Significant Accounting Policies (Continued)

9. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use through external restrictions imposed by creditors, grantors, or laws and regulations of other governments. The Academy applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

III. Deposits and Investments

At fiscal year end June 30, 2006, the carrying amount of the Academy's deposits totaled \$35,446 and its bank balance was \$9,370. All of the bank balance was covered by the Federal Depository Insurance Corporation.

IV. Capital Assets

A summary of the Academy's capital assets as of June 30, 2006 follows:

Furniture and Equipment	\$ 153,430
Less: Accumulated Depreciation	(42,218)
Net Capital Assets	<u>\$ 111,212</u>

V. Purchased Services

Purchased Services include the following:

Professional and Technical Services	\$1,043,555
Property Services	203,349
Travel	1,305
Communications	33,278
Utilities	48,398
Contract Services	9,889
Pupil Transportation	421
Total Purchased Services	<u>\$1,340,195</u>

THE ARTS ACADEMY  
LORAIN COUNTY

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2006  
(Continued)

I. Risk Management

1. Insurance Coverage

The Academy is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. For fiscal year 2006, The Arts Academy contracted with Peerless and Indiana Insurance Companies to have the following insurance coverage:

Commercial General Liability per occurrence	\$1,000,000
Commercial General Liability aggregate	2,000,000
Umbrella Liability per occurrence	1,000,000
Umbrella Liability aggregate	1,000,000
Workers' Compensation and Employers' Liability	
Each Accident	1,000,000
Each Employee	1,000,000
Policy Limit	2,000,000
Other - CEO	
Each act	300,000
Aggregate	300,000
Defense Expense	100,000
Commercial Property Liability - Personal Property (\$1,000 deductible)	2,000,000

2. Workers' Compensation

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

3. Employee Medical, and Dental Benefits

The Academy has contracted through an independent agent to provide employee medical, dental and vision insurance to its full-time employees who work 40 or more hours per week.

VIII. Defined Benefit Pension Plans

1. School Employees Retirement System

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



THE ARTS ACADEMY  
LORAIN COUNTY

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2006  
(Continued)

VIII. Defined Benefit Pension Plans (Continued)

1. School Employees Retirement System (Continued)

Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215.

Plan members are required to contribute 10 percent of their annual covered salary and the Academy is required to contribute an actuarially determined rate. The current 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 2006, 10.58 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 statutory maximum amounts, by the SERS' Retirement Board. The Academy's required contribution for pension obligations to SERS for the fiscal years ended June 30, 2006 and 2005 were \$20,152, and \$16,342 respectively. One hundred percent has been paid for 2006 and 2005.

2. State Teachers Retirement System

The Academy contributes to the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing multiple employer public employee retirement system administered by the State Teachers Retirement Board. STRS provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. Benefits are established by Chapter 3307 of the Ohio Revised Code. STRS Ohio issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the STRS Ohio, 275 East Broad Street, Columbus, Ohio 43215-3771, or by calling (614) 227-4090, or by visiting the STRS Ohio website at [www.strsohio.org](http://www.strsohio.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. 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

THE ARTS ACADEMY  
LORAIN COUNTY

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2006  
(Continued)

**VIII. Defined Benefit Pension Plans (Continued)**

**2. State Teachers Retirement System (Continued)**

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, 2006, 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 2005, 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, 2006 and 2005 were \$91,834 and \$69,745, respectively. One hundred percent has been contributed for fiscal year 2006 and 2005.

**3. Postemployment Benefits**

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

All STRS Ohio retirees who participated in the Defined Benefit Plan or the Combined Plan 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 shall be included in the employer contribution rate, currently 14 percent of covered payroll. For fiscal year ended June 30, 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 was \$7,064.

STRS Ohio pays health care benefits from the Health Care Stabilization Fund. At June 30, 2005 (the latest information available) the balance in the Fund was \$3.3 billion. For the fiscal year ended June 30, 2005, net health care costs paid by STRS Ohio were \$254,780,000, and STRS Ohio had 115,395 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



THE ARTS ACADEMY  
LORAIN COUNTY

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2006  
(Continued)

VIII. Defined Benefit Pension Plans (Continued)

3. Postemployment Benefits (Continued)

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.

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, 2006, employer contributions to fund health care benefits were 3.42 percent of covered payroll, compared to 3.43 percent of covered payroll for fiscal year 2005. 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 2006, 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 to fund health care benefits, including the surcharge, during the 2006 fiscal year was \$6,514.

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 at June 30, 2005 (the latest information available), were \$178,221,113. At June 30, 2006, SERS had net assets available for payment of health care benefits of \$267.5 million. SERS has 58,123 participants currently receiving health care benefits.

IX. Operating Leases - Lessee Disclosure

The Academy entered into an operating lease commencing July 27, 2004 for a term of 36 months for a copier. The copier is owned by MT Business Technologies. The lease may be renewed continuously for consecutive months after the end of the term.

The following is a schedule of the future minimum payments required under the operating lease as of June 30, 2006.

<u>Year Ending June 30,</u>	<u>Copier</u>
2007	\$ 3,600
2008	<u>3,600</u>
Total	\$ 7,200

**THE ARTS ACADEMY  
LORAIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2006  
(Continued)**

**IX. Operating Leases – Lessee Disclosure (Continued)**

The Academy entered into a lease agreement with the Church on the North Coast 4125 Leavitt Road, Lorain, Ohio (the Church) for specific portions of the church property consisting of classrooms, gymnasium, kitchen indoor/outdoor common areas, parking lots, and playground facilities. The lease commenced on August 1, 2004 and terminates on July 31, 2006. The Academy has the option to renew this lease for two additional years. The Academy paid the Church \$ 138,000 during fiscal year 2006.

**X. Capital Leases – Lessee Disclosure**

The Academy has entered into six lease agreements for musical instruments. The leases meet the criteria of a capital lease as defined by *Statement of Financial Accounting Standards No. 13, Accounting for Leases*, which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee. Capital assets of \$144,661 have been recorded, which represents the present value of the minimum lease payments at time of acquisition. The accumulated depreciation for the capital lease assets was \$39,792 at June 30, 2006. Principal payments for fiscal year 2006 totaled \$66,123. The following is a schedule of the future minimum lease payments required under the capital leases and the present value of the minimum lease payments as of June 30, 2006.

<u>Fiscal Year End June 30.</u>	<u>Lease Payments</u>
2007	\$ 36,237
2008	<u>5,267</u>
Total Minimum Lease Payments	\$ 41,504
Less Interest	<u>( 4,957)</u>
Present Value of Minimum Lease Payments	<u>\$ 36,547</u>

**XII. Tax Exempt Status**

The Academy was approved under § 501(c)(3) of the Internal Revenue Code as a tax exempt organization. Management is not aware of any course of action or series of events that might adversely affect the Academy's tax exempt status.

**XIII. Contingencies**

**1. 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 is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of The Arts 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, 2006.

THE ARTS ACADEMY  
LORAIN COUNTY

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2006  
(Continued)

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**XIII. Contingencies (Continued)**

**2. Litigation**

A suit was filed in the US District Court, Southern District of Ohio, Western Division on October 6, 2004, which challenges the funding of charter schools under Equal Protection, Due Process and claims violation of a right to vote on the bodies administering public schools. The case is pending. The effect of this suit, if any, on the Academy is not presently determinable.

**3. Full-Time Equivalency Reviews**

The Ohio Department of Education conducts reviews of enrollment data and full-time equivalency (FTE) calculations made by the Academy. These reviews are conducted to ensure the Academy is reporting accurate student enrollment data to the State, upon which state foundation funding is calculated. To date, a review of the fiscal year 2006 has not been conducted.





# 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*

The Arts Academy  
Lorain County  
4125 Leavitt Road  
Lorain, Ohio 44053

We were engaged to audit the basic financial statements of the Arts Academy, Lorain County, Ohio (the Academy) as of and for the year ended June 30, 2006 and have issued our report thereon dated April 15, 2008. Our report indicated that due to the Academy's inability to provide accounting system reports and evidential matter to support any of its transactions we did not express an opinion on the financial statements.

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

In planning and performing our engagement, we considered the Academy's internal control over financial reporting to determine our auditing procedures in order to express our opinion on the financial statements and not to opine on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Academy's ability to record, process, summarize, and report financial data consistent with management's assertions in the financial statements. The reportable condition is described in the accompanying schedule of findings as item 2006-003.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements which, we were engaged to audit, may occur and not be timely detected by employees when performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered material weaknesses. We consider the reportable condition 2006-003 listed above to be a material weakness.

The Arts Academy  
Lorain County  
Independent Accountants' Report on Internal Control over  
Financial Reporting and on Compliance and Other Matters  
Required by Government Auditing Standards

### **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 to audit and, accordingly, we do not express an opinion. The results of our tests disclosed instances of noncompliance or other matters we must report under *Government Auditing Standards* which are described in the accompanying schedule of findings and questioned costs as items 2006-001 through 2006-002.

We intend this report solely for the information and use of management and the Board of Trustees. It is not intended for anyone other than these specified parties.

A handwritten signature in cursive script that reads "Mary Taylor".

**Mary Taylor, CPA**  
Auditor of State

April 15, 2008

**THE ARTS ACADEMY  
LORAIN COUNTY  
FOR THE YEAR ENDED JUNE 30, 2006**

<b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS</b>
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<b>FINDING NUMBER</b>	<b>2006-001</b>
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**Financial Report Filing**

Ohio Revised Code Section 117.38 provides that each public office shall file a financial report for each fiscal year, within one hundred and fifty days for entities reporting on a GAAP basis. 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 provides that all school districts, including educational service centers and community schools, shall file their annual financial reports pursuant to 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;
- Cash flow statement as prescribed by GAAP; and,
- Notes to the financial statements as prescribed by GAAP;

The Academy did not file its financial statements for the year ended June 30, 2006.

We recommend the Academy organize its financial recordkeeping, develop tickler files as a reminder of filing dates and take all other steps necessary to file its financial statements within the prescribed time period. If these financial statements are not filed within the prescribed timetable the Academy may be assessed a late filing penalty.

<b>FINDING NUMBER</b>	<b>2006-002</b>
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**Sponsor Contract – Uniform School Accounting System**

The contract between the Arts Academy West and its sponsor, the Ashe Culture Center, requires the Academy to follow the provisions of Ohio Revised Code Section 3301.0714. This section provides for the Ohio Department of Education (ODE) to establish guidelines for a statewide Education Management Information System (EMIS). In response to the legislative mandate, ODE adopted the rule for school districts requiring the development and implementation of a statewide EMIS. Included within the EMIS system is The Uniform School Accounting System (USAS) structure involves an account number with distinct dimensions.

**THE ARTS ACADEMY  
LORAIN COUNTY  
FOR THE YEAR ENDED JUNE 30, 2006**

(Continued)

<b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS</b>
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<b>FINDING NUMBER</b>	<b>2006-002</b>
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**Sponsor Contract - Uniform School Accounting System (USAS) (Continued)**

The Uniform School Accounting System was developed to aid schools in maintaining financial records at specified minimum levels of detail.

The Academy did not present financial records consequently; we were unable to determine if the Academy was compliant with the requirement of the USAS system.

We recommend the Academy review these requirements and adhere to them as necessary in the future.

<b>FINDING NUMBER</b>	<b>2006-003</b>
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**Accurate Balances as of the Balance Sheet Date**

Management is responsible for maintaining records which accurately record the financial position of the School. During this engagement, we were unable to verify the accuracy of the amounts recorded in the financial statements.

Without accurate and complete presentation the financial position of the School cannot be determined. Also, in the absence of complete and accurate records, the School could experience losses, lose assets, and have debt amounts in excess of their ability to repay.

It is imperative that accurate and complete records which exhibit true balances be maintained. If necessary, the School management should read and study the available authoritative literature, and develop a program of recordkeeping which will provide assurance of financial statement accuracy and integrity.

**THE ARTS ACADEMY  
CUYAHOGA COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS  
JUNE 30, 2006**

Finding Number	Finding Summary	Fully Corrected	Not Corrected, Partially Corrected, Significantly Different Corrective Action Taken, or Finding No Longer Valid, <b>Explain</b>
2005-001	O.R.C. 117.38	No	Not Corrected, reissued as 2006-001
2005-002	Att'y Gen Opinion No. 82-006	No	Not able to ascertain if corrected since no records were provided for audit
2005-003	O.R.C. 1702.15	No	Not able to ascertain if corrected since no records were provided for audit.
2005-004	O.R.C. 3314.12	No	Not able to ascertain if corrected since no records were provided for audit
2005-005	O.R.C. 3314.03(A)(15)	No	Not able to ascertain if corrected since no records were provided for audit
2005-006	Develop Monitoring Controls	No	Not able to ascertain if corrected since no records were provided for audit
2005-007	Professional Service Contracts	No	Not able to ascertain if corrected since no records were provided for audit





**Mary Taylor, CPA**  
Auditor of State

**THE ARTS ACADEMY**

**LORAIN COUNTY**

**CLERK'S CERTIFICATION**

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

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
MAY 13, 2008**