



Dave Yost • Auditor of State

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

INDEPENDENT ACCOUNTANTS' REPORT

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

To the Board of Directors:

We have audited the accompanying financial statements of the business-type activities of The Arts Academy Lorain, Lorain County, Ohio (the Academy), as of and for the year ended June 30, 2009, which collectively comprise the Academy's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Academy's management. Our responsibility is to express opinions on these financial statements based on our audit.

Except as described in paragraphs three and four, 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 opinions.

As disclosed in Note 4 to the Basic Financial Statements, the Academy disclosed capital assets owned. However, the Academy failed to maintain original supporting documentation to verify the accuracy of the information presented.

As disclosed in Note 9 and 10 to the Basic Financial Statements, the Academy disclosed operating and capital leases. However the Academy failed to maintain original supporting documentation to verify the accuracy of the information presented.

In our opinion, except for the effect, if any, of adjustments to financial statement amounts or revisions to disclosures that may have required for the capital assets and leases described above, the financial statements referred to above present fairly, in all material respects, the financial position of the Arts Academy, as of June 30, 2009, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 5, 2011, on our consideration of the Academy's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. 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.

The accompanying financial statements have been prepared assuming that the Academy will continue as a going concern. As discussed in Note 17 to the basic financial statements, the Academy has a net deficit \$55,245 as of June 30, 2009. In addition, as noted in Note 16, the Academy had its funding frozen in April 2011 by the Ohio Department of Education due to their inability to provide financial records. In addition, Ashe Culture Center, the Academy's sponsor, has not renewed its sponsorship of the Academy and the current agreement will expire on June 30, 2011. Under the Ohio Revised Code, a community school may not operate without a sponsor. These conditions raise substantial doubt about the Academy's ability to continue as a going concern. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

We conducted our audit to opine on the financial statements that collectively comprise the Academy's basic financial statements taken as a whole. 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. We did not audit the information and express no opinion on it.

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

Dave Yost
Auditor of State

May 5, 2011

**THE ARTS ACADEMY
LORAIN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009
(UNAUDITED)**

Our discussion and analysis of The Arts Academy's (the Academy's) financial performance provides an overall review of the Academy's financial activities for the fiscal year ended June 30, 2009. The intent of this discussion and analysis is to look at the Academy's financial performance as a whole; readers should also review the 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 2009 are as follows:

- Total assets increased by \$80,800, or 65.67% from 2008.
- Total liabilities increased by \$146,310, or 130% from 2008.
- Total net assets decreased by \$65,510, or 638% from 2008.
- Total operating revenues were \$1,643,924. Total operating expenses were \$1,954,920.

USING THIS ANNUAL REPORT

This report consists of three parts: the MD&A, the basic financial statements, and notes to those basic financial statements. The basic financial statements include a Statement of Net Assets, a Statement of Revenues, Expenses and Changes in Net Assets, and a Statement of Cash Flows.

The Statement of Net Assets and Statement of Revenues, Expenses, and Changes in Net Assets reflect how the Academy did financially during fiscal year 2009. These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting includes all of the current year revenues and expenses regardless of when cash is received or paid.

These statements report the Academy's net assets and changes in those assets. This change in net assets is important because it tells the reader whether the financial position of the Academy has improved or diminished. The causes of this change may be the result of many factors, some financial, some not. Non-financial factors include the Academy's student enrollment, per-pupil funding as determined by the State of Ohio, change in technology, required educational programs and other factors.

The Academy uses enterprise presentation for all of its activities.

**THE ARTS ACADEMY
LORAIN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009
(UNAUDITED)**

The Statement of Net Assets answers the question of how the Academy did financially during 2009. This statement includes all assets and liabilities, both financial and capital, and short-term and long-term using the accrual basis of accounting and economic resource focus, which is similar to the accounting used by most private-sector companies. This basis of accounting takes into account all revenues and expenses during the year, regardless of when the cash is received or paid.

Table 1 provides a comparison of net assets as of June 30, 2009 with net assets as of June 30, 2008.

Table 1

Net Assets		
	June 30, 2009	June 30, 2008
<u>Assets</u>		
Current Assets	\$123,763	\$12,548
Capital Assets, Net of Accumulated Depreciation	80,071	110,486
 Total Assets	 203,834	 123,034
<u>Liabilities</u>		
Current Liabilities	259,079	44,062
Long-Term Liabilities	0	68,707
 Total Liabilities	 259,079	 112,769
<u>Net Assets</u>		
Invested in Capital Assets, Net of Related Debt	80,071	41,779
Restricted	9,000	0
Unrestricted	(144,316)	(31,514)
 Total Net Assets	 (\$55,245)	 \$10,265

Total assets increased \$80,800, or 65.67%, from 2008, primarily due to an increase in cash from federal grant revenue. Liabilities increased \$146,310, or 130%, from 2008. This increase was mainly due to the increase in accounts payable.

**THE ARTS ACADEMY
LORAIN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009
(UNAUDITED)**

Table 2 shows the changes in net assets for fiscal years 2009 and 2008, as well as a listing of revenues and expenses. This change in net assets is important because it tells the reader that, for the Academy as a whole, the financial position of the Academy has improved or diminished. The cause of this may be the result of many factors, some financial, some not. Non-financial factors include the current laws in Ohio restricting revenue growth, facility conditions, required educational programs and other factors.

Table 2

Revenues, Expenses, and Changes in Net Assets	2009	2008
<u>Operating Revenue/Expense</u>		
Revenue		
Foundation Payments	\$1,643,924	\$1,737,524
Total Operating Revenues	1,643,924	1,737,524
Expense		
Salaries	862,066	809,572
Fringe Benefits	351,064	351,453
Purchased Services	639,665	593,915
Materials and Supplies	27,912	48,227
Depreciation	30,415	0
Capital Outlay	0	3,371
Miscellaneous Expense	43,798	97,160
Total Operating Expenses	1,954,920	1,903,698
Net Operating Loss	(310,996)	(166,174)
<u>Non-Operating Revenue/Expense</u>		
Interest and Fiscal Charges	(1,494)	0
Student Activities	83,784	47,889
Federal Grants	156,989	31,853
Other Revenue	6,207	55,635
Total Non-Operating Revenue/Expense	245,486	135,377
<u>Net Assets</u>		
Change in Net Assets	(65,510)	(30,797)
Net Assets at Beginning of Year	10,265	41,062
Net Assets at End of Year	(\$55,245)	\$10,265

Operating revenues decreased \$93,600, which represents a 5.38% change from 2008, primarily due to the decline in state foundation receipts, directly dependent upon student enrollment. Operating expenses increased by \$51,222, or 2.69% from 2008. The increase mainly occurred in Purchased Services.

**THE ARTS ACADEMY
LORAIN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009
(UNAUDITED)**

Budgeting Highlights

Unlike other public schools located in the State of Ohio, community schools are not required to follow budgetary provisions set forth in Ohio Rev. Code Section 5705, unless specifically provided in the community school's contract with its sponsor.

The contract between the Academy and its Sponsor does prescribe a budgetary process. The Academy must prepare and submit a detailed budget for every fiscal year to the Board of Directors and its Sponsor. A five-year forecast is also submitted to the Ohio Department of Education, annually.

Capital Assets

The Academy has \$80,071 invested in capital assets, net of accumulated depreciation. These assets were purchased with federal resources through the Academy's participation in grant awards, as well as from general funding sources. No additional investments in capital asset in the fiscal year were made.

Debt Obligations

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

Contacting the Academy's Financial Management

This financial report is designed to provide our citizens, taxpayers, investors and creditors with a general overview of the Academy's finances and to demonstrate accountability for the money it receives. If you have questions about this report or need additional information, contact Alexis Rainbow, Head of Schools, 4125 Leavitt Road, Lorain, Ohio 44053.

The Arts Academy
Statement of Net Assets
June 30, 2009

ASSETS:

Current Assets:

Cash and Cash Equivalents	\$97,605
Prepaid Expenses	9,000
Loans Receivable	17,158

Total Current Assets 123,763

Noncurrent Assets:

Capital Assets (Net of Accumulated Depreciation)	80,071
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Total Assets 203,834

LIABILITIES:

Current Liabilities:

Accounts Payable	105,661
Accrued Wages and Benefits	84,711
Lease Payable	4,707
Due Within One Year	64,000

Total Current Liabilities 259,079

Total Liabilities 259,079

NET ASSETS:

Invested in Capital Assets	80,071
Restricted	9,000
Unrestricted (Deficit)	(144,316)

Total Net Assets (\$55,245)

See accompanying notes to the basic financial statements

The Arts Academy
Statement of Revenues, Expenses and Change in Net Assets
For the Fiscal Year Ended June 30, 2009

OPERATING REVENUES:	
State Foundation	\$1,643,924
	1,643,924
 OPERATING EXPENSES:	
Salaries	862,066
Fringe Benefits	351,064
Purchased Services	639,665
Materials and Supplies	27,912
Depreciation	30,415
Miscellaneous	43,798
	1,954,920
Total Operating Expenses	1,954,920
Operating Income/(Loss)	(310,996)
 NON-OPERATING REVENUES (EXPENSES)	
Interest and Fiscal Charges	(1,494)
Student Activities	83,784
Other Revenue	6,207
Federal Grants	156,989
	245,486
Total Non-Operating Cash Receipts	245,486
Change in Net Assets	(65,510)
Net Assets, Beginning of Year	10,265
	10,265
Net Assets, End of Year	(\$55,245)
	(\$55,245)

See accompanying notes to the basic financial statements

The Arts Academy
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2009

CASH FLOWS FROM OPERATING ACTIVITIES:

Cash Received from State of Ohio	\$1,643,924
Cash Payments to Suppliers for Goods and Services	(617,397)
Cash Payments to Employees for Services and Benefits	(1,128,419)
Other Cash Payments	(43,798)

Net Cash Used for Operating Activities	(145,690)
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CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:

Interest and Fiscal Charges	(1,494)
Federal Grants Received	156,989
Other Revenue	6,207
Student Activities	83,784

Net Cash Provided by Noncapital Financing Activities	245,486
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Net Increase in Cash and Cash Equivalents	99,796
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Cash and Cash Equivalents at Beginning of Year	(2,191)
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Cash and Cash Equivalents at End of Year	\$97,605
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**RECONCILIATION OF OPERATING LOSS TO NET CASH
USED FOR OPERATING ACTIVITIES**

Operating Loss	(\$310,996)
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**ADJUSTMENTS TO RECONCILE OPERATING LOSS TO NET
CASH USED FOR OPERATING ACTIVITIES**

Depreciation	30,415
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Change in Assets and Liabilities:

Increase in Accounts Payable	61,599
Increase in Accrued Wages and Benefits	84,711
Increase in Lease Payable	4,707
Decrease in Due Within One Year	(4,707)
Increase in Prepaid Expenses	(9,000)
Increase in Loans Receivable	(2,419)

Total Adjustments	165,306
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Net Cash Used for Operating Activities	(\$145,690)
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See accompanying notes to the basic financial statements

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**THE ARTS ACADEMY
LORAIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

1. DESCRIPTION OF THE SCHOOL AND REPORTING ENTITY

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

The Academy was approved for operation under contract with the Ashe Culture Center, Inc. (The Sponsor) or a period of four years commencing June 28, 2005 and ending on April 15, 2009. The contract was renewed through 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 four-member Governing Board. The Board is responsible for carrying out the provisions regarding student population, curriculum, academic goals, performance standards, admission standards, and qualification of teachers.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Basis of Presentation

The Academy's basic financial statements consist of a statement of net assets; a statement of revenues, expenses, and change in net assets; and a statement of cash flows.

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

**THE ARTS ACADEMY
LORAIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Measurement Focus and Basis of Accounting

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

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting is used for reporting purposes. Revenues are recognized when they are earned, and expenses are recognized when they are incurred.

C. Budgetary Process

Unlike other public schools located in the state of Ohio, community schools are not required to follow budgetary provisions set forth in Ohio Revised Code Chapter 5705, unless specifically provided for in the Academy's sponsorship agreement. The contract between the Academy and its Sponsor requires a detailed budget for each year of the contract.

D. Cash

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

E. Estimates

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

F. Capital Assets

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

**THE ARTS ACADEMY
LORAIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

G. Intergovernmental Revenues

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

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

Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the Academy must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the Academy on a reimbursement basis.

The Academy also participates in various federal and state programs through the Ohio Department of Education.

Under the above programs the Academy received \$1,800,913 this fiscal year.

H. Compensated Absences

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

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

I. Accrued Liabilities

Obligations incurred but unpaid at June 30 are reported as accrued liabilities in the accompanying financial statements. These liabilities consisted of accounts payable, accrued wages and benefits, leases payable and due within one year, totaling \$259,079 at June 30, 2009.

J. Exchange and Non-Exchange Transactions

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

**THE ARTS ACADEMY
LORAIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

K. Net Assets

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

L. Operating Revenues and Expenses

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

3. CASH AND CASH EQUIVALENTS

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

The Academy maintains its cash balances at one financial institution located in Ohio. The balances are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$100,000, per qualifying account. At June 30, 2009, the book amount of the Academy's deposits was \$97,605 and the bank balance was \$132,920.

The Academy had no deposit policy for custodial risk beyond the requirement of state statute. Ohio law requires that deposits either be insured or be protected by eligible securities pledged to and deposited either with the Academy or a qualified trustee by the financial institution as security for repayment or by a collateral pool of eligible securities deposited with a qualified trustee to secure repayment of all public monies deposited in the financial institution whose market value shall be at least 105% of deposits being secured. At June 30, 2009, none of the bank balance was exposed to custodial credit risk.

**THE ARTS ACADEMY
LORAIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009
(Continued)**

4. CAPITAL ASSETS

For the period ending June 30, 2009, the Academy's capital assets consisted of the following:

	Capital Assets			
	Beginning Balance July 1, 2008	Additions	Deletions	Ending Balance June 30, 2009
Computer and Equipment	\$184,342	\$0	\$0	\$184,342
Total Capital Assets	184,342	0	0	184,342
Less: Accumulated Depreciation	(73,856)	(30,415)	0	(104,271)
Net Capital Assets	<u>\$110,486</u>	<u>(\$30,415)</u>	<u>\$0</u>	<u>\$80,071</u>

5. RISK MANAGEMENT

A. Property and Liability

The Academy is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. For fiscal year 2009, The Academy contracted with Peerless Insurance and Indiana Insurance Companies to have the following insurance coverage:

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

**THE ARTS ACADEMY
LORAIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009
(Continued)**

5. RISK MANAGEMENT (Continued)

B. Worker's Compensation

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

C. Employee Medical and Dental Benefits

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

6. DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

Plan Description - The Academy contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing, multiple-employer defined benefit pension plan. SERS provides retirement, disability and survivor benefits; annual cost-of-living adjustments; and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by state statute per Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. The report can be obtained by contacting SERS, 300 E. Broad Street, Suite 100, Columbus, Ohio 43215-3746 or by calling toll free 1-800-878-5853. It is also posted on SERS' website at www.ohsers.org under Employers/Audit Resources.

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

**THE ARTS ACADEMY
LORAIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009
(Continued)**

6. DEFINED BENEFIT PENSION PLANS (Continued)

B. State Teachers Retirement System

Plan Description – The School contributes to the State Teachers Retirement System of Ohio (STRS Ohio), which is a cost-sharing, multiple-employer public employee retirement system. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report, which may be obtained by writing to STRS Ohio, 275 East Broad Street, Columbus, Ohio 43215-3771, by calling (888) 227-7877, or by visiting the STRS Ohio website at www.strsoh.org.

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

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

Funding Policy – For the fiscal year ended June 30, 2009, plan members were required to contribute 10 percent of their annual covered salaries. The Sponsor was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations with the remainder being used to fund health care benefits. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

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

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System have an option to choose Social Security or the School Employees Retirement System/State Teachers Retirement System. As of June 30, 2009, no members of the Board of Education have elected Social Security. The Board's liability is 6.2 percent of wages.

**THE ARTS ACADEMY
LORAIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009
(Continued)**

7. POSTEMPLOYMENT BENEFITS

A. School Employees Retirement System

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

Medicare Part B

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

The Retirement Board, acting with the advice of the actuary, allocates a portion of the current employer contribution rate to the Medicare B Fund, For fiscal 2009, the actuarial required allocation is .75 percent. The Schools contributions for the years ended June 30, 2009, 2008 and 2007 were \$1,769, \$3,864 and \$3,238, respectively. 42.53 percent has been contributed for fiscal year 2009 and 100 percent has been contributed for fiscal years 2008 and 2007.

Health Care Plan

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

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

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

**THE ARTS ACADEMY
LORAIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009
(Continued)**

7. POSTEMPLOYMENT BENEFITS (Continued)

Health Care Plan (Continued)

The SERS Retirement Board establishes the rules for the premiums paid by the retirees for health care coverage for themselves and their dependents or their surviving beneficiaries. Premiums vary depending on the plan selected, qualified years, Medicare eligibility, and retirement status.

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

B. School Teachers Retirement System

Plan Description – The School contributes to the cost-sharing, multiple-employer defined benefit Health Plan administered by STRS Ohio for eligible, certificated retirees and their beneficiaries who participated in the defined benefit or combined pension plans offered by STRS Ohio. Benefits include hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare Part B premiums. Benefit provisions and the obligations to contribute are established by STRS Ohio based on authority granted by State statute. The Plan is included in the financial report of STRS Ohio. Interested parties can view the most recent Comprehensive Annual Financial Report by visiting www.strsoh.org or by requesting a copy by calling (888) 227-7877.

Funding Policy – Ohio law authorizes STRS Ohio to offer the Health Plan and gives the STRS Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Health Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for postemployment health care may be deducted from employer contributions. For fiscal year 2009, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. The School's contributions for health care for the fiscal years ended June 30, 2009 and 2008 were \$6,112 and \$3,345, respectively. 55.12 percent has been contributed for fiscal year 2009 and 100 percent has been contributed for fiscal year 2008.

8. CONTINGENCIES

A. Grants

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

**THE ARTS ACADEMY
LORAIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009
(Continued)**

8. CONTINGENCIES (Continued)

B. State Funding

The Ohio Department of Education conducts reviews of enrollment and Full-Time Equivalency calculations made by the Academy. These reviews are conducted to ensure the Academy is reporting accurate student enrollment data to the State, upon which State funding is calculated. The conclusions of this review could result in the State funding being adjusted. The Academy does not anticipate any material adjustment for fiscal year 2009, as a result of such review.

9. OPERATING LEASES

A. Educational Facilities Lease

The Academy entered into a lease agreement with the Church on the North Coast, 4125 Leavitt Road, Lorain Ohio (the Church) for specific portions of the church property consisting of classrooms, gymnasium, kitchen indoor/outdoor common areas, parking lots and playground facilities. The lease commenced on August 1, 2006 which terminated on July 31, 2008. The Academy renewed this lease for two additional years. The Academy paid the Church \$235,054 during fiscal year 2009.

B. MT Business Technologies

The Academy entered into an operating lease commencing July 27, 2004 for term of 36 months for a copier. The copier owned by MT Business Technologies. The lease may be renewed continuously for consecutive months after the end of the term. The Academy paid \$9,882 in operating lease payments for the fiscal year ended.

10. CAPITAL LEASES

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

Capital assets of \$184,342 have been recorded, which represents the present value of the minimum lease payments at time of acquisition. The amount reflected on the statement of net assets represents the present value, less accumulated depreciation. The following is a schedule of the future minimum lease payments required under the capital leases and the present value of the minimum lease payments as of June 30, 2009.

Capital Lease Payments

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

**THE ARTS ACADEMY
LORAIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009
(Continued)**

11. SPONSORSHIP AGREEMENT

The Academy contracted with Ashe Culture Center Inc. as its sponsor and oversight services as required by law. Sponsorship fees are calculated as three percent of state funds received by Academy from the State of Ohio. For the fiscal year ended June 30, 2009 the Academy paid sponsorship fees totaling \$49,470.

12. ACCOUNTING SERVICES

The Academy entered into a contract with L.E.D. Consulting, Inc. to provide treasurer services, as defined by the contract. The Academy paid a monthly fee of \$5,000 for the duration of the agreement effective until terminated by mutual agreement of the parties. The Academy paid \$60,000 for these services for the fiscal year ending June 30, 2009, and \$63,839 for other accounting services, a special engagement, the repayment of advances to the school by L.E.D. Consulting, Inc. and prepayment of treasurer services. These services included reimbursements for postage and Federal Express services.

13. LOANS RECEIVABLE

Often the Academy receives or distributes monies from or to its sister school to assist in maintaining cash flow to operate the respective academy. At June 30, 2009, the Academy is owed \$17,158 from its sister school, The Arts Academy West, for loans it gave. There is no formal repayment schedule. The monies are returned when resources are available. This amount is reported in the Statement of Net Assets as Loans Receivable.

L.E.D. Consulting, Inc. also lent the Academy monies to ensure continued operation when cash flow was low or negative. L.E.D Consulting, Inc. has lent the Academy monies throughout the year which was repaid as of June 30, 2009.

14. PURCHASED SERVICES

Purchased service expenses during fiscal year 2009 were as follows:

Type	Amount
Professional and Technical Services	\$295,607
Property Services	262,562
Utilities	16,215
Communications	27,274
Contractual Trade Services	33,364
Pupil Transportation	4,643
Total	<u>\$639,665</u>

**THE ARTS ACADEMY
LORAIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009
(Continued)**

15. RELATED PARTIES

Exception Psychological Services provided student evaluations and assessments for the Academy's students under a contract. The owner of Exceptional Psychological Services is Dr. Jorethia Chuck, wife of Dr. Kwa David Whitaker, the Academy's Sponsor. Dr. Chuck received \$9,460.

The Titus Group, Inc. is owned by Alexis Rainbow, Head of School, and was paid \$7,000 during fiscal year 2009.

Rainbow Art Immersion, LLC is owned by Alexis Rainbow, the founder and Head of School of the Academy. The Academy paid Rainbow Arts Immersion, LLC, \$37,868 for services rendered under the contract.

Andre Street Financial Consultant is owned by Andre Street, brother of Ronald D. Street, Dean of Students of The Arts Academy. The Academy paid Andre Street Financial Consultant, \$22,521 for services rendered.

16. SUBSEQUENT EVENTS

In April 2011, the Academy had its funding frozen by the Ohio Department of Education due to their inability to provide financial records. In addition, Ashe Culture Center, the Academy's sponsor, has not renewed its sponsorship of the Academy and the current agreement will expire on June 30, 2011. Pursuant to the Ohio Revised Code, the Academy may not operate without a sponsor.

17. POSSIBLE FINANCIAL DISTRESS

As of June 30, 2009, the Academy had a net deficit of \$55,245. In addition, as noted in Note 16, the Academy had its funding frozen in April 2011, by the Ohio Department of Education due to their inability to provide financial records. In addition, Ashe Culture Center, the Academy's sponsor, has not renewed its sponsorship of the Academy and the current agreement will expire on June 30, 2011. The Academy is aware of these situations and is currently in the process of obtaining financial records from its sponsor and Treasurer and is in pursuit of a new sponsor. Pursuant to the Ohio Revised Code, the Academy may not operate without a sponsor.



Dave Yost • Auditor of State

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

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

To the Board of Directors:

We have audited the financial statements of the business-type activities of The Arts Academy, Lorain County (the Academy) as of and for the year ended June 30, 2009, and have issued our report thereon dated May 5, 2011, wherein we qualified our report because we were unable to determine the effect, if any, of adjustments that may have been required if we had sufficient evidence to support capital assets or leases on the financial statement or disclosures. In addition, the Ohio Department of Education terminated the Academy's funding in April, 2011, and the Academy's sponsor will not extend its sponsorship agreement after June 30, 2011. Ohio law prohibits community schools from operating without a sponsor. Therefore, our report expressed substantial doubt about the Academy's ability to continue as a going concern. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. Therefore, we cannot assure that we have identified all deficiencies, significant deficiencies or material weaknesses. However, as described in the accompanying schedule of findings we identified certain deficiencies in internal control over financial reporting, that we consider material weaknesses and other deficiencies we consider to be significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and timely corrected. We consider findings 2009-001 through 2009-004 described in the accompanying schedule of findings to be material weaknesses.

**Internal Control Over Financial Reporting
(Continued)**

A significant deficiency is a deficiency, or a combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider findings 2009-05 and 2009-06 described in the accompanying schedule of findings to be significant deficiencies.

Compliance and Other Matters

As part of reasonably assuring whether the Academy's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed an instance of noncompliance or other matters we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as items 2009-001, 2009-003, 2009-005, 2009-006, 2009-007 and 2009-008.

We also noted certain matters not requiring inclusion in this report that we reported to the Academy's management in a separate letter dated May 5, 2011.

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, the Community School's sponsor, and others within the Academy. We intend it for no one other than these specified parties.



Dave Yost
Auditor of State

May 5, 2011

THE ARTS ACADEMY
LORAIN COUNTY

SCHEDULE OF FINDINGS
June 30, 2009

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

FINDING NUMBER 2009-001

Condition of Accounting Records - Material Noncompliance and Material Weakness

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

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

- Liability insurance documentation for fiscal year 2009 was not retained or provided and we could not verify coverage amounts disclosed;
- A complete listing of 1099's issued to independent contractors for services was not provided;
- Capital asset records including such information as the original cost, acquisition date, voucher number, the asset type (land, building, vehicle, etc.), asset description, location, and tag number were not provided;
- An approved lease and payment schedule for a copier in the Academy's possession could not be provided;
- There was no documentation for 16 invoices, totaling \$84,754, recorded as accounts payable;
- We could not determine whether five invoices, totaling \$5,902, should have been recorded as payables;
- The Academy was only able to provide minutes for three Board meetings during the audit period;
- During our test of student withdrawals, we noted that daily student attendance records were not provided to verify that state foundation funding was properly calculated based enrollment; and
- The Sponsor contract, which was renewed for fiscal year 2010, was not retained or provided.

Management failed to provide supporting documentation, consequently we were unable to analyze, review, inspect for completeness, verify the accuracy of, or determine the existence of the Academy's financial records.

Failure to implement and maintain a system of controls over the Academy's financial records increases the chances of misstatement or fraud.

**THE ARTS ACADEMY
LORAIN COUNTY**

**SCHEDULE OF FINDINGS
June 30, 2009**

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

**FINDING NUMBER 2009-001
(Continued)**

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

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

Official's Response:

The Academy acknowledges the condition of the records, and the former Treasurer. Additionally, the Sponsor's Board of Directors was serving as the Academy's Board of Directors during the audit period and has been replaced. The Academy transitioned to a new Treasurer for fiscal year 2011. The new Treasurer has provided better interface with the management and administration of The Academy by providing access to the accounting system and accounting records sufficient to enable the board and management to identify, assemble, analyze, classify, record and report its transactions as required by Ohio Administrative Code Section 117-2-02(A).

FINDING NUMBER 2009-002

SAS 115 Financial Reporting – Material Weakness

Paragraph 15 of the Statement on Auditing Standards 115, documents that the identification by the auditor of a material misstatement in the financial statements for the period under audit that was not initially identified by the entity's internal control is a strong indicator of a material weakness even if management subsequently corrects the misstatement.

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

The following weaknesses were noted and subsequent adjustments made to the financial statements and, where applicable, to the Academy's accounting records:

- The bank balance for one of the Academy's accounts was not included in the Academy's accounting records. This resulted in an understatement of the Academy's cash balance of \$93;
- There was a \$5,000 difference in cash and cash equivalents between the amount reported in the Statement of Net Assets and the underlying accounting records;
- The accounts payable balance was reduced by a payment of \$6,000 to the Treasurer for July 2009 services. The amount should have been recorded as a prepaid asset and not a reduction of a payable. Also, twelve invoices were not recorded as accounts payables and sixteen invoices were accrued as accounts payable and no supporting documentation could be provided. The net effect of the inaccuracy was an overstatement of assets at the end of the year;
- A prepayment of building acquisition fees was expensed and not recorded as an asset at June 30, 2009. This resulted in an understatement of assets;
- A reduction of a receivable of \$7,000 from The Arts Academy West for repayment of a loan was not recorded. This resulted in an overstatement of receivables;
- The Academy understated Fringe Benefits Expense totaling \$57,380; and

**THE ARTS ACADEMY
LORAIN COUNTY**

**SCHEDULE OF FINDINGS
June 30, 2009**

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

**FINDING NUMBER 2009-002
(Continued)**

SAS 115 Financial Reporting – Material Weakness (Continued)

- The Statement of Cash Flows and the Notes to The Basic Financial Statements were not presented consistently nor agreed to the underlying financial statement data. This resulted in numerous adjustments to amounts reported.

The lack of controls over the posting of financial transactions and financial reporting can result in errors and irregularities that may go undetected and decreases the reliability of financial data throughout the year.

We recommend the Academy adopt policies and procedures for controls over recording of financial transactions and over financial reporting to help ensure the information accurately reflects the activity of the Academy and thereby increasing the reliability of the financial data throughout the year.

Official's Response:

Effective July 1, 2010, Ed Dudley and LED Consulting were relieved of their duties as Treasurer, in part due to concerns stated in this item. The Board of Directors installed a new Treasurer to address these items to ensure proper recording of financial data.

FINDING NUMBER 2009-003

Capital Assets – Material Noncompliance and Material Weakness

Ohio Admin. Code Section 117-2-02 (D)(4)(c) states that all local public offices should maintain or provide capital asset records including such information as the original cost, acquisition date, voucher number, the asset type (land, building, vehicle, etc.), asset description, location, and tag number. Local governments preparing financial statements using generally accepted accounting principles will want to maintain additional data.

Furthermore, the Academy's Capital Asset Policy states, in part, that the Academy will "maintain a comprehensive fixed assets program requiring periodic inventory of district assets". Further, the policy states, "The school board will be provided an annual report identifying equipment not accounted for. This equipment will be removed from district property records through school board action annually." The Academy did not make available capital asset records to support the amounts recorded on the financial statements. For this reason we were unable to determine if the following records had been developed and updated:

- A capital asset accounting system, which was comprised of a complete capital asset listing by location, with tag or other identification numbers and other pertinent information;
- Procedures to record assets as additions when purchased and deletions when disposed of during the year;
- Annual depreciation expense and accumulated depreciation;
- A listing of capital assets purchased with federal funds to ensure that items purchased with federal funds are used for that specific purpose; and
- Invoices and supporting documentation.

**THE ARTS ACADEMY
LORAIN COUNTY**

**SCHEDULE OF FINDINGS
June 30, 2009**

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

(Continued)

**FINDING NUMBER 2009-003
(Continued)**

Capital Assets – Material Noncompliance and Material Weakness (Continued)

Without maintaining accurate and complete records of capital assets purchased it is possible the Academy could misplace assets or assets could be stolen and not be reported.

To maintain adequate safeguards over capital assets and to reduce the risk that the Academy's assets may be misstated, we recommend management develop and implement procedures to be performed throughout the year for the recording and updating of capital assets, including an individual listing of items purchased with federal funds.

Official's Response:

The current Board of Directors will take appropriate measures to ensure that adequate safeguards over capital assets and implement the appropriate procedures. For Fiscal Year 2010 The Academy commissioned a vendor to come in and address the capital assets.

FINDING NUMBER 2009-004

Findings for Recovery – Material Weakness

Ohio Rev. Code Section 3314.03(A)(11)(d) requires that each contract entered into between a sponsor and the governing authority of a community school shall specify that the school will comply with Section 149.43 of the Ohio Rev. Code. Ohio Rev. Code Section 149.43(B) states, in part, that all public records shall be promptly prepared and made available for inspection to a person at all reasonable times during regular business hours. In order to facilitate broader access to public records, public offices shall maintain public records in a manner that they can be made available for inspection in accordance with this division.

On August 28, 2008, check number 2527, in the amount of \$3,166, was issued and authorized by Edward Dudley, Treasurer, and made payable to LED Consulting. \$1500 of this amount was billed as "IRS Release of Levy for School." The invoice failed to specify the basis for the charge, and support such with an IRS invoice or additional documentation.

On November 12, 2008, check number 2605 in the amount of \$1,627, was issued and authorized by Edward Dudley, Treasurer, and made payable to LED Consulting. \$977 of this amount was for a stay at a hotel, the purpose of which was not documented.

On January 15, 2009, check number 2703 in the amount of \$500, was issued and authorized by Edward Dudley, Treasurer, and made payable to LED Consulting for the purchase of a \$500 Chase gift card. The Academy was unable to provide supporting documentation for \$500 of this transaction.

**THE ARTS ACADEMY
LORAIN COUNTY**

**SCHEDULE OF FINDINGS
June 30, 2009**

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

(Continued)

**FINDING NUMBER 2009-004
(Continued)**

Findings for Recovery – Material Weakness (Continued)

On February 19, 2009, check number 2767, in the amount of \$940, was issued and authorized by Edward Dudley, Treasurer, and made payable to LED Consulting. \$500 of this amount was for the purchase of a \$500 Chase gift card, the purpose of which was not documented. The Academy was unable to provide supporting documentation for \$500 of this transaction.

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

In accordance with the foregoing facts and pursuant to Ohio Revise Code Section 117.28, a Finding for Recovery for public monies improperly expended is hereby issued against the LED Consulting, in the amount of \$3,477 in favor of the Arts Academy.

Official's Response:

For these items, information has been turned over to the former treasurer for checks issued to Edward Dudley, Treasurer (LED Consulting) from Edward Dudley, Treasurer (LED Consulting) for explanation. The current Board of Directors is reviewing this issue.

FINDING NUMBER 2009-005

Notice of Public Meetings – Material Noncompliance and Significant Deficiency

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

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

THE ARTS ACADEMY
LORAIN COUNTY

SCHEDULE OF FINDINGS
June 30, 2009

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

(Continued)

**FINDING NUMBER 2009-005
(Continued)**

Notice of Public Meetings – Material Noncompliance and Significant Deficiency (Continued)

The following deficiencies in the Board meeting minutes were noted:

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

It is the Board's responsibility to oversee the Academy's operation and make decisions to ensure the Academy's goals and objectives are accomplished. The Board minutes represent the official record of the Academy events and resolutions passed by the Governance Board. Without complete minute recordings of the Board meeting proceedings, it cannot be reasonably assured that the Board is meeting its obligation to oversee the Academy.

We recommend the Academy establish an open meeting and meeting notification policy, a method to notify the public of the meetings and establish a timely method of recording the Board minutes and making them available to the public for inspection. We also recommend the Board meet on a regular basis in order to approve proceedings and to stay apprised of financial matters of the Academy.

Official's Response:

The Board of Directors from fiscal year 2009 has been replaced. Notices of Public Meetings are now made in accordance with legal requirements and Board minutes are recorded in a timely manner. The current Governing Authority conducts board meetings as required by law.

FINDING NUMBER 2009-006

Developing and Implementing an Effective Monitoring System – Material Noncompliance and Significant Deficiency

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

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

THE ARTS ACADEMY
LORAIN COUNTY

SCHEDULE OF FINDINGS
June 30, 2009

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

(Continued)

FINDING NUMBER 2009-006
(Continued)

Developing and Implementing an Effective Monitoring System – Material Noncompliance and Significant Deficiency (Continued)

Some effective monitoring includes:

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

The lack of effective monitoring could lead to the misallocation or misstatement of Academy funds, expenditure of funds contrary to the directives of the Board of Directors, and non-compliance with federal or state laws or regulations. This could result in a loss of funding from federal and state sources, and errors or irregularities occurring in financial transactions which affect the bank reconciliations could go undetected.

We recommend that management prepare monthly financial statements and submit them to the Board at each regularly scheduled meeting. The Board should then review these financial statements and when satisfied as to their accuracy approve them through the minute records. In addition, management should ensure that any reports required by the grantor agencies, per the terms of grant agreements, are completed accurately and filed with the respective grantor agencies in a timely manner. Management should also ensure that proper segregation of duties exists, including an independent review of the monthly bank reconciliations.

Official's Response:

The current Board of Directors is reviewing all policies and procedures and plans to expand and implement appropriate policies to address these items. Current Management and Treasurer's offices offer initial levels of control, through segregation of duties.

**THE ARTS ACADEMY
LORAIN COUNTY**

**SCHEDULE OF FINDINGS
June 30, 2009**

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

FINDING NUMBER 2009-007

Filing of Annual Financial Report – Material Noncompliance

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

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

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

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

The Academy did not file the June 30, 2009 financial report, which was required to be filed no later than November 30, 2009. This resulted in the maximum fine of \$750 being billed to the Academy for noncompliance with the requirement.

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

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 will be assessed a late filing penalty which is an inappropriate use of school funds.

We also recommend at the time the report is filed with the Auditor of State, the Academy, except as otherwise provided in section 319.11 of the Ohio Rev. Code, shall publish notice in a newspaper published in the political subdivision or taxing district, and if there is no such newspaper, then in a newspaper of general circulation in the political subdivision or taxing district. The notice shall state that the financial report has been completed by the public office and is available for public inspection at the Academy's central office.

THE ARTS ACADEMY
LORAIN COUNTY

SCHEDULE OF FINDINGS
June 30, 2009

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

(Continued)

FINDING NUMBER 2009-007
(Continued)

Filing of Annual Financial Report – Material Noncompliance (Continued)

Official's Response:

The former treasurer has been replaced. The new Treasurer shall submit the GAAP statements and Management's Discussion and Analysis to the Auditor's office on time and in the required format.

FINDING NUMBER 2009-008

Related Party Transactions – Material Noncompliance

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

The following issues were noted during our audit:

- Exceptional Psychological Services is owned by Dr. Jorethia Chuck, a board member and Co-Chair of sponsor of Arts Academy. Exceptional Psychological Services was paid \$9,460 during fiscal year 2009.
- The Titus Group, Inc. is owned by Alexis Rainbow, Head of School, and was paid \$7,000 during fiscal year 2009.
- Rainbow Art Immersion, LLC is owned by Alexis Rainbow, the founder of The Arts Academy- Lorain and The Arts Academy – West. The Academy paid Rainbow Arts Immersion, LLC, \$37,868 for services rendered under the contract.
- Andre Street Financial Consultant is owned by Andre Street, brother of Ronald D. Street, Dean of Students of The Arts Academy - Lorain. The Academy paid Andre Street Financial Consultant, \$22,521 for services rendered.

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

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

Official's Response: The contract for Exceptional Psychological Services was approved by the School's prior Board which was controlled by the Sponsor, Ashe Cultural Center. Dr. Chuck was not only on the School's Board at the time, she appears to be an employee of Ashe as well. The contracts and invoices for The Titus Group, Inc., Rainbow Arts Immersion, LLC and Andre Street Financial Consultant were also all approved by the School's prior Board, controlled by Ashe. Although the School is still investigating, the School believes Alexis Rainbow and Andre Street were not public officials at the time the Ashe Board approved those contracts and invoices. Additionally, even if Ms. Rainbow and/or Mr. Street were public officials, the School believes these contracts and invoices would be exempt pursuant to Ohio Rev. Code §2921.42(C).

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**THE ARTS ACADEMY
LORAIN COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2009**

<u>Finding Number</u>	<u>Finding Summary</u>	<u>Fully Corrected?</u>	Not Corrected, Partially Corrected; Significantly Different Corrective Action Plan Taken; or Finding No <u>Longer Valid</u> ; Explain:
2008-001	Finding for Recovery	No	Reissued as 2009-004
2008-002	Five Year Forecast	No	Reissued in Management Letter
2008-003	Capital Assets	No	Reissued as 2009-003
2008-004	Developing and Implementing an Effective Monitoring Control System	No	Reissued as 2009-006
2008-005	Condition of Accounting Records	No	Reissued as 2009-001
2008-006	Related Party Transactions	No	Reissued as 2009-008
2008-007	Financial Reporting	No	Reissued as 2009-007

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Dave Yost • Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT ON APPLYING AGREED-UPON PROCEDURES

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

To the Board of Directors:

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

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

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

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

This report is intended solely for the information and use of the Board and Academy's sponsor and is not intended to be and should not be used by anyone other than these specified parties.

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

Dave Yost
Auditor of State

May 5, 2011

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Dave Yost • Auditor of State

THE ARTS ACADEMY

LORAIN COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
MAY 19, 2011**