

**AKROS MIDDLE SCHOOL
SUMMIT COUNTY, OHIO**

AUDIT REPORT

**FOR THE FISCAL YEARS ENDED
JUNE 30, 2013 AND 2012**

James G. Zupka, CPA, Inc.
Certified Public Accountants



Dave Yost • Auditor of State

Board of Directors
Akros Middle School
92 North Union Street
Akron, Ohio 44304

We have reviewed the *Independent Auditor's Report* of the Akros Middle School, Summit County, prepared by James G. Zupka, CPA, Inc., for the audit period July 1, 2011 through June 30, 2013. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The Akros Middle School is responsible for compliance with these laws and regulations.

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Dave Yost
Auditor of State

April 7, 2014

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**AKROS MIDDLE SCHOOL
SUMMIT COUNTY, OHIO
AUDIT REPORT
FOR THE FISCAL YEARS ENDED JUNE 30, 2013 AND 2012**

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JAMES G. ZUPKA, C.P.A., INC.
Certified Public Accountants
5240 East 98th Street
Garfield Hts., Ohio 44125

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Ohio Society of Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Akros Middle School
Akron, Ohio

We have audited the accompanying financial statements of the Akros Middle School, Summit County, Ohio (the School), as of and for the years ended June 30, 2013 and 2012, and the related notes to the financial statements, which collectively comprise the School's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the School's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Akros Middle School, Ohio's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Akros Middle School, Ohio, as of June 30, 2013 and 2012, and the changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 24, 2014, on our consideration of the Akros Middle School, Ohio's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Akros Middle School, Ohio's internal control over financial reporting and compliance.

James G. Zupka,
CPA, President

Digitally signed by James G. Zupka, CPA,
President
DN: cn=James G. Zupka, CPA, President, o=James
G. Zupka, CPA, Inc., ou=Accounting,
email=jgzcpa@sbcglobal.net, c=US
Date: 2014.02.07 14:56:52 -05'00'

James G. Zupka, CPA, Inc.
Certified Public Accountants

January 24, 2014

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MANAGEMENT'S DISCUSSION AND ANALYSIS

AKROS MIDDLE SCHOOL

Years Ended June 30, 2013 and 2012

The discussion and analysis of the Akros Middle School's (the School) financial performance provides an overall review of the School's financial activities for the fiscal years ended June 30, 2013 and 2012. The intent of this discussion and analysis is to look at the School's financial performance as a whole; readers should also review the basic financial statements and the notes to the basic financial statements to enhance their understanding of the School's financial performance.

Financial Highlights

- In total, net position increased (decreased) by (\$52,690) and \$118,271 which represents a (161.8) and 138.0 percent increase (decrease) from 2012 and 2011. This decrease is primarily due to total operating expenses exceeding total operating revenues.
- Assets increased (decreased) by (\$34,530) and \$64,917 which represents a (13.3) and 33.3 percent increase (decrease) from 2012 and 2011. This was primarily due to a decrease in other accounts receivable.
- Liabilities increased (decreased) by \$18,160 and (\$53,354) which represents a 8.0 and (19.0) percent increase from 2012 and 2011. The increase in liabilities is primarily due to the increase in current liabilities.

Using this Financial Report

This report consists of three parts, the Management's Discussion and Analysis ("MD&A"), the basic financial statements, and notes to those statements. The basic financial statements include a Statement of Net Position, a Statement of Revenues, Expenses and Changes in Net Position, and a Statement of Cash Flows.

The School uses the enterprise presentation for all of its activities.

Statement of Net Position

The Statement of Net Position answers the question of how the School did financially during 2013 and 2012. These statements include all assets and liabilities, both financial and capital, and short-term and long-term using the accrual basis of accounting and economic resources focus, which is similar to the accounting used by most private-sector companies. This basis of accounting takes into account all revenues and expenses during the year, regardless of when the cash is received or paid.

MANAGEMENT'S DISCUSSION AND ANALYSIS – CONTINUED

AKROS MIDDLE SCHOOL

Years Ended June 30, 2013 and 2012

The table below provides a summary of the School's net position for fiscal years 2013, 2012, and 2011.

Statement of Net Position			
	<u>2013</u>	<u>2012</u>	<u>2011</u>
<u>ASSETS</u>			
Current assets	\$ 116,816	\$ 141,952	\$ 74,909
Capital assets, net	108,295	117,689	119,815
Other assets	374	374	374
TOTAL ASSETS	<u>\$ 225,485</u>	<u>\$ 260,015</u>	<u>\$ 195,098</u>
<u>LIABILITIES</u>			
Current liabilities	\$ 114,865	\$ 88,543	\$ 280,804
Long-term liabilities	130,745	138,907	0
TOTAL LIABILITIES	<u>\$ 245,610</u>	<u>\$ 227,450</u>	<u>\$ 280,804</u>
<u>NET POSITION</u>			
Investment in capital assets	\$ 108,295	\$ 117,689	\$ 119,815
Unrestricted	(128,420)	(85,124)	(205,521)
TOTAL NET POSITION	<u>\$ (20,125)</u>	<u>\$ 32,565</u>	<u>\$ (85,706)</u>

Statements of Revenues, Expenses and Changes in Net Position

The table that follows shows the change in net position for fiscal years 2013, 2012, and 2011, as well as a listing of revenues and expenses. This change in net position is important because it tells the reader that, as a whole, the financial position of the School 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.

MANAGEMENT’S DISCUSSION AND ANALYSIS – CONTINUED

AKROS MIDDLE SCHOOL

Years Ended June 30, 2013 and 2012

Change in Net Position

<u>OPERATING REVENUES</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>
Foundation payments	\$ 844,535	\$ 943,927	\$ 617,955
Other	20,689	132,034	948
<u>NON-OPERATING REVENUES</u>			
State and federal grants	246,787	400,082	420,386
Investment Income	88	14	0
Other	485	40,703	0
TOTAL REVENUES	<u>1,112,584</u>	<u>1,516,760</u>	<u>1,039,289</u>
<u>OPERATING EXPENSES</u>			
Salaries	651,736	653,238	460,747
Retirement	34,092	7,890	49,540
Insurance	6,939	28,729	12,135
Rent	136,400	204,600	160,600
Purchased services	171,740	185,059	226,631
Materials and supplies	70,579	211,881	164,437
Utilities	25,780	40,931	16,263
Depreciation	19,930	17,102	12,691
Other operating expenses	48,078	49,059	21,951
TOTAL OPERATING EXPENSES	<u>1,165,274</u>	<u>1,398,489</u>	<u>1,124,995</u>
CHANGE IN NET POSITION	<u>\$ (52,690)</u>	<u>\$ 118,271</u>	<u>\$ (85,706)</u>

The primary reason for the decrease in overall revenues from 2012 was due to expiration of the Federal start-up grants received for the first two years of the School’s financial assistance.

The primary reason for the increase in overall revenues from the 2011 was due to an increase in state foundation payments. The increases in salaries and rent were the main reasons operating expenses increased in 2012.

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 Revised Code Chapter 5705, unless specifically provided in the community school’s contract with its Sponsor. The contract between the School and the sponsor, the St. Aloysius Orphanage, does not prescribe a budgetary process for the School.

MANAGEMENT'S DISCUSSION AND ANALYSIS – CONTINUED

AKROS MIDDLE SCHOOL

Years Ended June 30, 2013 and 2012

Capital Assets

At the end of fiscal years 2013, 2012, and 2011 the School had \$108,295, \$117,689, and \$119,815, respectively, invested in computers and software, furniture and equipment, land improvements and leasehold improvements (net of depreciation), which represented a decrease of \$9,394 from 2012, and an decrease of \$2,126 from 2011. The table below shows the Capital Assets by category.

	Capital Assets (Net of Depreciation)		
	2013	2012	2011
Computers and Software	\$ 1,890	\$ 2,769	\$ 3,648
Furniture and Equipment	39,933	55,486	53,466
Land Improvements	2,616	2,768	2,922
Leasehold Improvements	63,856	56,666	59,779
	<u>\$ 108,295</u>	<u>\$ 117,689</u>	<u>\$ 119,815</u>

For more information on capital assets, see Note B in the Notes to the Basic Financial Statements.

Current Financial Issues

The School received revenue for 123 students in 2013 (a decrease from 126 in 2012) and continues to enroll students on a daily basis. State law governing community schools allows for the School to have open enrollment across traditional school district boundaries. The School receives its support almost entirely from State Aid. Per pupil revenue from State Aid for the School averaged \$6,866 in fiscal year 2013 with increase in State Basic Aid planned in fiscal year 2014. The School anticipates receiving federal title grants in future school years.

The School contracted with the St. Aloysius Orphanage as its sponsor. State law allows sponsors to assess the schools up to 3 percent of State revenues as an oversight fee, a cost that was not incurred through the sponsorship by ODE. St. Aloysius Orphanage charged 3 percent of State Aid to be paid by the School for fiscal years 2013 and 2012.

Contacting the School's Financial Management

This financial report is designed to provide our readers with a general overview of the School's finances and to show the School's accountability for the money it receives. If you have questions about this report or need additional information, contact Ray Conser, Director for the Akros Middle School, 265 Park Street, Akron, Ohio 44304 or e-mail at rconser@akros4kids.org.

STATEMENTS OF NET POSITION

AKROS MIDDLE SCHOOL

		June 30,	
		2013	2012
<u>ASSETS</u>			
CURRENT ASSETS			
Cash and cash equivalents		\$ 61,799	\$ 76,701
State and federal grants receivable		36,041	10,129
Accounts receivable, other		0	50,440
Due from related party		18,976	3,333
Prepaid expense		0	1,349
	TOTAL CURRENT ASSETS	<u>116,816</u>	<u>141,952</u>
PROPERTY AND EQUIPMENT			
Computer equipment		4,394	4,394
Furniture and equipment		77,767	77,767
Land improvements		3,062	3,062
Leasehold improvements		72,795	62,259
		<u>158,018</u>	<u>147,482</u>
Less: accumulated depreciation		(49,723)	(29,793)
	TOTAL PROPERTY AND EQUIPMENT, NET	<u>108,295</u>	<u>117,689</u>
OTHER ASSETS			
Deposits		374	374
	TOTAL ASSETS	<u>225,485</u>	<u>260,015</u>
 <u>LIABILITIES AND NET POSITION</u>			
CURRENT LIABILITIES			
Accounts payable		32,715	6,504
Due to related party		0	18,519
Accrued wages and benefits		48,413	54,989
Accrued expenses		25,575	0
Current portion of long-term debt		8,162	8,531
	TOTAL CURRENT LIABILITIES	<u>114,865</u>	<u>88,543</u>
LONG-TERM LIABILITIES			
Note payable - related party		130,745	138,907
	TOTAL LIABILITIES	<u>245,610</u>	<u>227,450</u>
NET POSITION			
Investment in capital assets		108,295	117,689
Unrestricted net position		(128,420)	(85,124)
	TOTAL NET POSITION	<u>\$ (20,125)</u>	<u>\$ 32,565</u>

STATEMENTS OF REVENUES, EXPENSES, AND
CHANGES IN NET POSITION

AKROS MIDDLE SCHOOL

	Years ended June 30,	
	2013	2012
<u>OPERATING REVENUES</u>		
Foundation payments	\$ 844,535	\$ 943,927
Other	20,689	132,034
	<hr/>	<hr/>
TOTAL OPERATING REVENUES	865,224	1,075,961
	<hr/>	<hr/>
<u>OPERATING EXPENSES</u>		
Salaries	651,736	653,238
Retirement	34,092	7,890
Insurance	6,939	28,729
Rent	136,400	204,600
Purchased services	171,740	185,059
Materials and supplies	70,579	211,881
Utilities	25,780	40,931
Depreciation	19,930	17,102
Other operating expenses	48,078	49,059
	<hr/>	<hr/>
TOTAL OPERATING EXPENSES	1,165,274	1,398,489
	<hr/>	<hr/>
OPERATING LOSS	(300,050)	(322,528)
	<hr/>	<hr/>
<u>NON-OPERATING REVENUES (EXPENSES)</u>		
State and federal grants	246,787	400,082
Investment income	88	14
Other income	485	40,703
	<hr/>	<hr/>
	247,360	440,799
	<hr/>	<hr/>
CHANGE IN NET POSITION	(52,690)	118,271
	<hr/>	<hr/>
NET POSITION AT BEGINNING OF YEAR	32,565	(85,706)
	<hr/>	<hr/>
NET POSITION AT END OF YEAR	\$ (20,125)	\$ 32,565
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STATEMENTS OF CASH FLOWS

AKROS MIDDLE SCHOOL

<u>Increase (Decrease) in Cash and Cash Equivalents</u>	<u>Years ended June 30,</u>	
	<u>2013</u>	<u>2012</u>
Cash flows from operating activities:		
Cash received from State of Ohio	\$ 818,622	\$ 950,985
Cash payments to employees for services and benefits	(699,343)	(700,517)
Cash payments to suppliers for goods and services	(378,772)	(642,492)
Cash payments for other operating expenses	(48,078)	(49,059)
Other operating revenues	21,174	40,703
Net cash used in operating activities	<u>(286,397)</u>	<u>(400,380)</u>
Cash flows from noncapital financing activities:		
State and federal grants	246,787	400,082
Investment income	88	14
Net cash provided by noncapital financing activities	<u>246,875</u>	<u>400,096</u>
Cash flows from capital and related financing activities:		
Cash payments by a related party	(8,102)	(40,638)
Cash payments for capital acquisitions	(10,536)	(14,976)
Cash payments for debt	(8,531)	(8,531)
Cash payments for payroll liability for next year	1,349	20,863
Cash receipts (payments) for fraud loss	50,440	(50,440)
Cash received from a related party, net of repayment	0	138,907
Net cash provided by capital and related financing activities	<u>24,620</u>	<u>45,185</u>
Net (decrease) increase in cash and cash equivalents	(14,902)	44,901
Cash and cash equivalents at beginning of year	<u>76,701</u>	<u>31,800</u>
Cash and cash equivalents at end of year	<u>\$ 61,799</u>	<u>\$ 76,701</u>
Reconciliation of operating loss to net cash used in operating activities:		
Operating loss	<u>\$ (300,050)</u>	<u>\$ (322,528)</u>
Adjustments to reconcile operating loss to net cash used for operating activities:		
Depreciation	19,930	17,102
(Increase) decrease in assets:		
Accounts receivable	(25,912)	(39,672)
Increase (decrease) in liabilities:		
Accounts payable	26,211	1,329
Accrued wages and benefits	(6,576)	(56,611)
Total adjustments	<u>13,653</u>	<u>(77,852)</u>
Net cash used in operating activities	<u>\$ (286,397)</u>	<u>\$ (400,380)</u>

NOTES TO FINANCIAL STATEMENTS

AKROS MIDDLE SCHOOL

June 30, 2013 and 2012

NOTE A – DESCRIPTION OF THE SCHOOL AND REPORTING ENTITY

The Akros Middle School (the School) is a not-for-profit 501(c)(3) corporation established pursuant to Ohio Revised Code Chapters 3314 and 1702 to educate students in grades six through eight. The School, which is 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 School may sue and be sued, acquire facilities as needed, and contract for any services necessary for the operation of the School. Management is not aware of any course of action or series of events that have occurred that might adversely affect the School's tax-exempt status.

The School was approved for operation under a year to year contract with the St. Aloysius Orphanage for a period of five years commencing with the fiscal year ended June 30, 2011.

The School operates under the direction of a self-appointing, five-member Board of Directors. The Board is responsible for carrying out the provisions of the contract, which include, but are not limited to, state-mandated provisions regarding student population, curriculum, academic goals, performance standards, admission standards, and qualifications of teachers. The Board controls the School's one instructional/support facility staffed by 4 non-certified and 17 certified full-time teaching personnel who provide services to approximately 123 students.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the School have been prepared in conformity with generally accepted accounting principles (GAAP) 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 following are the most significant of the School's accounting policies.

Basis of Presentation: 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.

NOTES TO FINANCIAL STATEMENTS—CONTINUED

AKROS MIDDLE SCHOOL

June 30, 2013 and 2012

NOTE B—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—CONTINUED

Measurement Focus and Basis of Accounting: The accounting and financial reporting treatment 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 Statement of Net Position. Operating statements present increases (e.g., revenues) and decreases (e.g., expenses) in net total position.

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

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

Cash: Cash held by the School is reflected as "cash and cash equivalents" on the statement of net position. Investments with an original maturity of three months or less at the time they are purchased are presented on the financial statements as cash equivalents. Investments with an initial maturity of more than three months are reported as investments.

Property and Equipment: Property and equipment are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. The School maintains a capitalization threshold of \$1,000, while repairs are charged to expense. The School does not possess any infrastructure and does not capitalize interest costs.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

AKROS MIDDLE SCHOOL

June 30, 2013 and 2012

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Depreciation of computer equipment, furniture and equipment, land improvements and leasehold improvements is computed using the straight-line method based on estimated useful life of 5 to 20 years. Depreciation expense for the years ended June 30, 2013 and 2012 was \$19,930 and \$17,102, respectively.

Purchased Services: The School purchased services in the amount of \$171,740 and \$185,059 for the years ended June 30, 2013 and 2012, respectively.

This includes the following at June 30:

	<u>2013</u>	<u>2012</u>
Busing and transportation fees	\$ 31,443	\$ 9,157
Professional development	28,077	48,046
Security service	935	0
Professional and legal	17,588	35,121
Maintenance services	9,546	12,096
Repairs and maintenance	3,726	2,368
Instructional purchased services	2,880	1,380
Special instructional purchased services	0	967
Other general services	77,545	75,924
	<u>\$ 171,740</u>	<u>\$ 185,059</u>

Compensated Absences: Each employee of the School is entitled to five paid sick days each year. Days not used during the year are not carried over to the following year and the School does not pay employees for unused sick days. Employees of the School do not earn vacation.

NOTES TO FINANCIAL STATEMENTS—CONTINUED

AKROS MIDDLE SCHOOL

June 30, 2013 and 2012

NOTE B—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—CONTINUED

Net Position: Net position represents the difference between assets and deferred outflows and liabilities and deferred inflows. For 2013 and 2012, the School did not have any deferred outflows and deferred inflows. The net position component "investment in capital assets," 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 position are reported as restricted when there are limitations imposed on their use either through the enabling of legislation adopted by the School or through external restrictions imposed by creditors, grantors, laws, or regulations of other governments.

The School applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net position are available.

Intergovernmental Revenue: The School currently participates in the State Foundation Program, Public Charter School Program, the State Poverty Aid Program, the State Meals Program, the EMIS Subsidy Program, the Food Service Federal Grant Programs, the IDEA Part B Program, Title I, Title II-A, Title II-D, Title IV-A, the Fiscal Stabilization Program and the Education Jobs Fund. Revenues received from these programs are recognized as non-operating revenues in the accompanying financial statements, with the exception of the State Foundation Program. Grants and entitlements 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 permitted; matching requirements, in which the School must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided on a reimbursement basis.

Accrued Liabilities: The School has recognized certain expenses due but unpaid as of June 30, 2013 and 2012. These expenses are reported as accrued liabilities in the accompanying financial statements.

Use of Estimates: The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTES TO FINANCIAL STATEMENTS—CONTINUED

AKROS MIDDLE SCHOOL

June 30, 2013 and 2012

NOTE B—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—CONTINUED

Income Taxes: The School is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code and, therefore, has made no provisions for federal income taxes in the accompanying financial statements. In addition, the School has been determined by the Internal Revenue Service not to be a “private foundation” within the meaning of Section 509(a) of the Internal Revenue Code. There was no unrelated business income for years ended June 30, 2013 and 2012. The School believes that it has appropriate support for the tax positions taken, and as such, does not have any uncertain tax positions that are material to the financial statements.

The School’s federal Return of Organization Exempt from Income Tax (Form 990) for 2010 and 2011 is subject to examination by the IRS, generally for three years after it was filed.

NOTE C—DEPOSITS AND INVESTMENTS

Deposits: At June 30, 2013 and 2012, the carrying amounts of the School’s deposits were \$61,799 and \$76,701, respectively, and the bank balances were \$73,374 and \$119,891, respectively. At June 30, 2013 and 2012, \$73,374 and \$119,891 respectively, of the bank balances were covered by the financial depository insurance.

Custodial Credit Risk: Custodial credit risk for deposits is the risk that in the event of bank failure, the School will not be able to recover deposits or collateral securities that are in the possession of an outside party. At fiscal years end June 30, 2013 and 2012, 100% of the School’s bank balances were insured and collateralized.

NOTE D—STATE AND FEDERAL GRANTS RECEIVABLE

Receivables at June 30, 2013 and 2012 consisted of state and federal grants. All state and federal grants are considered collectible in full, due to the stable condition of State programs, and the current year guarantee of federal funds.

NOTE E—RISK MANAGEMENT

Property and Liability: The School 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 years 2013 and 2012, the School contracted with Philadelphia Indemnity Insurance Companies for property and general liability insurance with a \$3,000,000 aggregate limit. Settled claims did not exceed insurance coverage in any of the past years.

Workers’ Compensation: The School 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.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

AKROS MIDDLE SCHOOL

June 30, 2013 and 2012

NOTE E – RISK MANAGEMENT – CONTINUED

Employee Medical, Dental, and Vision Benefits: The School has contracted with a private carrier to provide its full-time salaried employees medical/surgical benefits and life insurance. The School paid premiums, up to \$477 per month per employee, for this coverage.

NOTE F – DEFINED BENEFIT PENSION PLANS

School Employees Retirement System

Plan Description - The School contributes to the School Employees Retirement System (SERS), a cost-sharing multiple-employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746, by calling (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 years 2013, 2012 and 2011, 13.1%, 12.7%, and 11.81% of annual covered salary was the portion used to fund pension obligations, respectively.

The remaining 0.9% of the 14% employer contribution 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. The School's required contribution for pension obligations to SERS for the fiscal years ended June 30, 2013, 2012 and 2011, were \$11,911, 2,772 and \$1,317, respectively, 100% has been contributed for fiscal years 2013, 2012 and 2011, respectively.

State Teachers Retirement System of Ohio

Plan Description - The School participates in the State Teachers Retirement System of Ohio (STRS Ohio), which is a cost-sharing, multiple-employer defined benefit pension plan. STRS Ohio provides retirement and disability benefits to members, and death and survivor benefits to beneficiaries. STRS Ohio issues a publicly-available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to STRS Ohio, 275 East Broad Street, Columbus, OH 43215-3371, by calling (888) 227-7877, or by visiting the STRS Ohio web site at www.strsoh.org.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

AKROS MIDDLE SCHOOL

June 30, 2013 and 2012

NOTE F – DEFINED BENEFIT PENSION PLANS – CONTINUED

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 times an actuarially determined annuity factor. The DC Plan allows members to allocate all their member contributions and employer contributions equal to 10.5 percent of earned compensation among various investment accounts. 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 Plan 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 DB Plan during their fifth year of membership unless they permanently select the DC or Combined Plan. 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 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 years ended June 30, 2013 and 2012, plan members were required to contribute 10 percent of their annual covered salaries. The School was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers.

The School's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2013, 2012 and 2011, was \$43,959, \$80,188 and \$40,420; 100 percent has been contributed for fiscal years 2013, 2012 and 2011.

Social Security System

Effective July 1, 1991, all employees not otherwise covered by the SERS/STRS Ohio have an option to choose Social Security or the SERS/STRS Ohio. As of June 30, 2013, there were no members of the governing board that elected Social Security.

NOTES TO FINANCIAL STATEMENTS—CONTINUED

AKROS MIDDLE SCHOOL

June 30, 2013 and 2012

NOTE G—POST EMPLOYMENT BENEFITS

School Employees Retirement System

Plan Description - The School participates in two costs sharing multiple employer defined benefit OPEB plans administered by the School Employees Retirement System for non-certified retirees and their beneficiaries, a Health Care Plan and a Medicare Part B Plan. The Health Care Plan includes hospitalization and physicians' fees through several types of plans including HMO's, PPO's and traditional indemnity plans as well as a prescription drug program. The Medicare Part B Plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries up to a statutory limit. Benefit provisions and the obligations to contribute are established by the System based on authority granted by State statute. 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 at 300 East Broad Street, Suite 100, Columbus, OH 43215-3746. It is also posted on SERS' website at www.ohsers.org under Employers/ Audit Resources.

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer contribution of 14% of covered payroll to the Health Care Fund. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 401(h). For 2013, 2012 and 2011, 0.16%, 0.55%, and 1.43% of covered payroll was allocated to health care. In addition, employers pay a surcharge for employees earning less than an actuarially determined amount; for 2013, 2012 and 2011; this amount was \$20,525, \$35,800 and \$35,800, respectively. During fiscal years ending June 30, 2013, the School paid surcharge of \$4,879. No surcharges were paid for fiscal years 2012 and 2011.

Active employee members do not contribute to the Health Care Plan. Retirees and their beneficiaries are required to pay a health care premium that varies depending on the plan selected, the number of qualified years of service, Medicare eligibility and retirement status.

The School's contributions for health care for the fiscal years ended June 30, 2013, 2012 and 2011, were \$145, \$120 and \$860; 0.16%, 0.55%, and 1.43 has been contributed for fiscal years 2013, 2012 and 2011, respectively; 100% has been contributed for fiscal years 2013, 2012 and 2011.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For 2013, 2012 and 2011, the actuarially required allocation was 0.74%, 0.75%, and .76% of covered payroll, respectively. The School's contribution for Medicare Part B for the fiscal years ended June 30, 2013, 2012 and 2011, were \$673, \$164 and \$457, respectively; 100% has been contributed for fiscal years 2013, 2012 and 2011.

NOTES TO FINANCIAL STATEMENTS—CONTINUED

AKROS MIDDLE SCHOOL

June 30, 2013 and 2012

NOTE G—POST EMPLOYMENT BENEFITS—CONTINUED

State Teachers Retirement System

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

Funding Policy - Ohio law authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For 2013 and 2012, 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, 2013, 2012 and 2011, were \$3,381, 6,168 and \$1,965, respectively; 100% has been contributed for fiscal years 2013, 2012 and 2011.

NOTE H—CONTINGENCIES

Grants: The School received financial assistance from Federal and State agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements, and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the School at June 30, 2013.

Enrollment FTE: The Ohio Department of Education conducts reviews of enrollment and full-time equivalency (FTE) calculations made by the Schools. These reviews are conducted to ensure the Schools are reporting accurate student enrollment data to the State, upon which state foundation funding is calculated. The conclusion of this review could result in state funding being adjusted. For fiscal years 2013 and 2012 these reviews resulted in adjustments of \$21,764 and (\$3,414), respectively. This 2013 amount is reflected as State and Federal grants receivable on the School's statement of net position and will be included in the School's future foundation settlements.

Litigation: The School is party to legal proceedings. The School is of the opinion that ultimate disposition of claims will not have a material effect, if any, on the financial condition of the School.

NOTES TO FINANCIAL STATEMENTS—CONTINUED

AKROS MIDDLE SCHOOL

June 30, 2013 and 2012

NOTE I - LONG-TERM LIABILITIES

Long-term liabilities consist of the following at June 30:

	<u>2013</u>	<u>2012</u>
Note Payable, Charter Development Foundation, Inc: to cover start up payroll in FY2011, payable in monthly installments of \$1,068, including interest at 3.5% per annum. Final Payment is due January 1, 2027. The note is to be renegotiated on January 1, 2015		
	\$ 138,907	\$ 147,438
Less current maturities	<u>(8,162)</u>	<u>(8,531)</u>
	<u>\$ 130,745</u>	<u>\$ 138,907</u>

Aggregate maturities of long-term debt at June 30, 2013, are as follows:

2014	8,162
2015	8,448
2016	8,743
2017	9,050
2018	9,366
Thereafter	95,138
	<u>\$ 138,907</u>

NOTE J—RENTAL AGREEMENT

As of September 1, 2010, the School entered into a three-year lease with Charter Development Foundation, Inc. (a related party) for the use of classrooms and office space. Annual rent for the use of these facilities is \$204,600 payable in monthly installments of \$17,050. The School is responsible for paying all taxes, utilities and maintenance costs. Rental agreement was reduced to \$136,400 for FY2013.

NOTES TO FINANCIAL STATEMENTS—CONTINUED

AKROS MIDDLE SCHOOL

June 30, 2013 and 2012

NOTE J—RENTAL AGREEMENT - CONTINUED

Total rent expense was \$136,400 and \$204,600 for the years ended June 30, 2013 and 2012, respectively.

Future minimum payments as of June 30, 2013 are as follows:

	Total
2014	\$ 136,400
2015	136,400
2016	136,400
	<u>409,200</u>

NOTE K—RELATED PARTY TRANSACTIONS

The School has a lease with Charter Development Foundation, Inc., a not-for-profit organization established and managed by the developer of the school (See Note J.)

The School has a due from related party, Edge Learning, Inc., a not-for-profit organization established and managed by the developer of the school. The receivable of \$18,976 and \$3,333 resulted from the School paying expenses for Edge Learning, Inc. during fiscal year ended June 30, 2013 and 2012, respectively.

The School has a due to related party, Edge Learning, Inc., the payable of \$0 and \$18,519 resulted from Edge Learning, Inc. paying expenses for the School during fiscal year ended June 30, 2013 and 2012, respectively.

NOTE L— RECLASSIFICATIONS

Certain reclassifications have been made to the 2012 financial statements to conform to the 2013 financial statement presentation. Such reclassification had no effect on previously reported net income.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

AKROS MIDDLE SCHOOL

June 30, 2013 and 2012

NOTE M – IMPLEMENTATION OF NEW ACCOUNTING STANDARD

For fiscal year 2013, the School has implemented Governmental Accounting Standards Board (GASB) Statement No. 62, "Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989, FASB and AICPA Pronouncements." GASB Statement No. 62 incorporates into GASB's authoritative literature certain FASB and AICPA pronouncements issued on or before November 30, 1989. The implementation of this statement did not result in any change in the School's financial statements.

For fiscal year 2013, the School has implemented Governmental Accounting Standards Board (GASB) Statement No. 63, "Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position". GASB Statement No. 63 established standards for the reporting of net position which was previously referred to as net assets. The School's implementation had no effect on the amount of beginning net position.

For fiscal year 2013, the School has also implemented Governmental Accounting Standards Board (GASB) Statement No. 65, "Items Previously Reported as Assets and Liabilities". GASB Statement No. 65 established standards that reclassify, as deferred outflows of resources and deferred inflows of resources, certain items that were previously reported as assets and liabilities. The implementation of GASB Statement No. 65 did not have an effect on the financial statements of the School.

NOTE N – SUBSEQUENT EVENTS

On July 1, 2013, the School renewed the lease for an additional three years, expiring June 30, 2016. Annual rent for the use of these facilities is \$136,400 payable in monthly installments of \$11,367.

NOTE O – FINANCIAL STABILITY

The School had an operating decrease in net position of \$52,690 and deficit net position of \$20,125 at June 30, 2013. Management intends to eliminate these deficits by increasing enrollment and improving operating efficiencies.

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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

Board of Directors
Akros Middle School
Akron, Ohio

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Akros Middle School, Summit County, Ohio (the School), as of and for the years ended June 30, 2013 and 2012, and the related notes to the financial statements, which collectively comprise the Akros Middle School, Ohio's basic financial statements and have issued our report thereon dated January 24, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Akros Middle School, Ohio's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Akros Middle School, Ohio's internal control. Accordingly, we do not express an opinion on the effectiveness of the Akros Middle School, Ohio's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings and Responses, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *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 School's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying Schedule of Findings and Responses as **Finding 2012/2013-001** to be a material weakness.

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 the deficiency described in the accompanying Schedule of Findings and Responses as **Finding 2012/2013-002** to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Akros Middle School, Ohio's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on 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 such an opinion. The results of our tests disclosed an instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and which is described in the accompanying Schedule of Findings and Responses as **Finding 2012/2013-001**.

Akros Middle School, Ohio's Responses to Findings

The Akros Middle School, Ohio's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Responses. The School's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Akros Middle School, Ohio's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

James G. Zupka,
CPA, President
James G. Zupka, CPA, Inc.
Certified Public Accountants

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President
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January 24, 2014

**AKROS MIDDLE SCHOOL
SUMMIT COUNTY, OHIO
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE FISCAL YEARS ENDED JUNE 30, 2013 AND 2012**

Item Number 2012/2013-001 - Material Weakness/Noncompliance - GAAP Reporting

Statement of Condition/Criteria

Our testing of the financial statements and footnotes identified the following issues:

- ◆ GAAP report submissions were not completed within the required time period as described by Ohio Revised Code.
- ◆ New GASB pronouncements were not properly applied to the financial statements. They were subsequently adjusted in the financial statements.
- ◆ In 2013 and 2012, capital assets were overstated by \$14,590 and \$85,761, respectively, due to additions being recorded on a tax basis rather than a cost basis. The overstatements were subsequently adjusted in the financial statements.
- ◆ Accounts payable was overstated by \$8,341 in 2013, due to the recognition of building improvements that did not start until fiscal year 2014. This overstatement was subsequently corrected in the financial statements.
- ◆ In 2013 and 2012, State Foundation payments and related expenditures were overstated by \$31,758 and \$10,076, respectively, due to Foundation revenues being reported net of expenses in the financial statements. These overstatements were subsequently corrected in the financial statements.
- ◆ Accrued rent expense was overstated by \$119,350 in 2012, due to the recognition of a liability that was forgiven during the fiscal year. This was subsequently corrected in the financial statements.
- ◆ Accounts receivables were understated by \$13,915 in 2013, due to remaining grant funds being received in fiscal year 2014. This was subsequently corrected in the financial statements.
- ◆ In 2013 and 2012, accrued wages were overstated by \$15,437 and \$17,319, respectively, due to wages earned during the summer that were included in the accrued wage amount. This was subsequently corrected in the financial statements.
- ◆ The School has not implemented a GAAP Conversion Policy governing the compilation, review, and presentation of the financial statements.

Cause/Effect

The School is not in compliance with Ohio Revised Code regarding submission of financial statements. Also, capital assets, accounts payable, State Foundation payments and related expenditures, accrued rent expenses, accounts receivables, and accrued wages were initially reported in error.

Recommendation

We recommend that the School draft, approve, and implement a GAAP Conversion Policy. The Policy should address the School's practices for governing compiling, reviewing, and presenting the financial report of the School. We also recommend that the School disclose all revenue at gross and also separately recognize the accompanying expense in the financial statements. We also recommend that management review the draft GAAP journal entries and draft financial statements to help ensure they are supported by sufficient and accurate documentation, free of obvious errors and omissions, and consistent with the School's financial expectations. Implementation of and adherence to such procedures will assist the School in avoiding financial statement errors, and also help disclose to the reader any significant variation from the prior audit period.

Client Response

The School will implement this recommendation in fiscal year 2014.

**AKROS MIDDLE SCHOOL
SUMMIT COUNTY, OHIO
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE FISCAL YEARS ENDED JUNE 30, 2013 AND 2012
(CONTINUED)**

Item Number 2012/2013-002 - Significant Deficiency - Payroll Service

Statement of Condition/Criteria

The School contracted its processing, which is a significant accounting function, to a third party administrator. The School has not established procedures to determine whether the service organization has sufficient controls in place and is operating effectively, to ensure payroll transactions are completely and accurately processed. As such, we were unable to rely on the service organization controls in our audit and, therefore, we performed detail substantive testing to gain assurance over payroll transactions processed by the service organization.

Cause/Effect

There is a lack of assurance over payroll transactions processed by the payroll service organization.

Recommendation

We recommend that the School implement procedures to ensure the completeness and accuracy of payroll transactions processed by its third party administrator. AT Section 01, *Reporting on Controls at a Service Organization* (SSAE No. 16), prescribes standards for reporting on the processing (i.e., control and design operation) of transactions by service organizations. An unmodified Independent Service Auditor's Report on Management's Description of a Service Organization's System and the Suitability of the Design and Operating Effectiveness of Controls Report (Type 2 Service Organization Control Report (SOC 1) should provide the School with an appropriate level of assurance that payroll is being processed completely and accurately.

We also recommend that the School specify, in its contract with the third party administrator, that an annual Type 2 SOC 1 Report be issued and provided to the School within a timely manner. We recommend the School then review the report to determine the adequacy of the service organization's internal control system. The Type 2 SOC 1 Report should be conducted in accordance with the AICPA's standards by a firm that is registered and considered in good standing with the Accountancy Board of Ohio.

Client Response

The School will implement this recommendation in fiscal year 2014.

**AKROS MIDDLE SCHOOL
SUMMIT COUNTY, OHIO
SCHEDULE OF PRIOR AUDIT FINDINGS AND RECOMMENDATIONS
JUNE 30, 2013 AND 2012**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
Finding No. 2011-001	Significant Deficiency - Payroll Processing: The Academy's payroll processing was contracted to a third party and the Academy has not established procedures to determine whether the service organization has sufficient controls in place that are operating effectively to help ensure payroll transactions are completely and accurately processed.	No	Repeated as Finding 2012/2013-002

Management letter recommendations have been corrected, repeated, or procedures instituted to prevent occurrences in this audit period.

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**INDEPENDENT AUDITOR'S REPORT
ON APPLYING AGREED-UPON PROCEDURES**

Board of Directors
Akros Middle School
Akron, Ohio

To the Board of Education:

Ohio Revised 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 Akros Middle School (the School), Summit County, Ohio, has updated its anti-harassment policy in accordance with Ohio Revised 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.

1. As of our report date of January 24, 2014, the School's anti-harassment policy did not include the following requirements from Ohio Revised Code Section 3313.666(B):
 - a. A procedure for documenting any prohibited incident that is reported;
 - b. A requirement that the School administration semi-annually provide the President of the School Board a written summary of all reported incidents and post the summary on its web site. If the School has a web site, to the extent permitted by Section 3319.321 of the Revised Code and the "Family Educational Rights and Privacy Act of 1974," 88 Stat. 571, 20 U.S.C. 1232q, as amended
2. We noted that the School did not amend its anti-harassment policy to prohibit harassment, intimidation, or bullying on a school bus. We also noted that the policy did not include the electronic form and violence within a dating relationship within its definition of harassment, intimidation, or bullying. Ohio Revised Code Section 3313.666 required the School to amend its definition by September 28, 2010.

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 for the information and use of the Board and is not intended to be and should not be used by anyone other than these specified parties.

James G. Zupka,
CPA, President

Digitally signed by James G. Zupka, CPA, President
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James G. Zupka, CPA, Inc.
Certified Public Accountants

January 24, 2014

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Dave Yost • Auditor of State

AKROS MIDDLE SCHOOL

SUMMIT 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
APRIL 17, 2014**