

Arts and Science Preparatory Academy
Cuyahoga County, Ohio

Audited Financial Statements

For the Fiscal Year Ended
June 30, 2014



Dave Yost • Auditor of State

Board of Trustees
Arts and Science Preparatory Academy
2711 Church Avenue
Cleveland, Ohio 44113

We have reviewed the *Independent Auditor's Report* of the Arts and Science Preparatory Academy, Cuyahoga County, prepared by Rea & Associates, Inc., for the audit period July 1, 2013 through June 30, 2014. 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 Arts and Science Preparatory Academy is responsible for compliance with these laws and regulations.

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

Dave Yost
Auditor of State

June 8, 2015

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**ARTS AND SCIENCE PREPARATORY ACADEMY
CUYAHOGA COUNTY, OHIO**

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March 25, 2015

To the Board of Trustees
Arts and Science Preparatory Academy
Cuyahoga County, Ohio
2711 Church Avenue
Cleveland, Ohio 44113

INDEPENDENT AUDITOR'S REPORT

Report on the Financial Statements

We have audited the accompanying financial statements of the Arts and Science Preparatory Academy, Cuyahoga County, Ohio (the "Academy") as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Academy'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 an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *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 Academy'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 Academy'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 opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Academy, as of June 30, 2014, and the changes in financial position and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 15, the Academy has closed operations effective June 30, 2014.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3-7 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 March 25, 2015, on our consideration of the Academy'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 Academy's internal control over financial reporting and compliance.

Hea & Associates, Inc.

Medina, Ohio

**ARTS AND SCIENCE PREPARATORY ACADEMY
CUYAHOGA COUNTY, OHIO**

*MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2014*

The discussion and analysis of the Arts and Science Preparatory Academy's (the "Academy") financial performance provides an overall review of the Academy's financial activities for the fiscal year ended June 30, 2014. Readers should also review the basic financial statements and notes to enhance their understanding of the Academy's financial performance.

Highlights

The Academy finished its eighth year of operations during fiscal year 2014 serving Kindergarten through eighth grade. Enrollment varied during fiscal 2014 but finished the year with 111 students.

Key highlights for fiscal year 2014 are as follows:

- Net position decreased \$456,297.
- Operating expenses accounted for \$1,469,559 of the total expenses of \$1,604,151.
- Operating revenues accounted for \$874,032 of the total revenues of \$1,147,854.
- Academy had an operating loss of \$595,527 of which \$273,822 was alleviated by non-operating federal grants. The Academy was able to utilize the majority of the Federal Grant allocations for fiscal year 2014.
- The Academy effectively closed operations at June 30, 2014.

Overview of the Financial Statements

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

Financial Analysis of the Academy as a Whole

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

The following tables represent a summary of the Academy's condensed financial information for 2014 derived from the statement of net position and the statement of revenues, expenses and changes in net position.

**ARTS AND SCIENCE PREPARATORY ACADEMY
CUYAHOGA COUNTY, OHIO**

*MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2014
(Continued)*

Table 1 provides a summary of Academy's net position for 2014 compared to 2013:

Table 1
Net Position

	2014	2013	Change
<u>Assets:</u>			
Current Assets	\$144,962	\$254,494	(\$109,532)
Capital Assets (net)	29,049	30,162	(1,113)
Total Assets	<u>174,011</u>	<u>284,656</u>	<u>(110,645)</u>
<u>Liabilities:</u>			
Current Liabilities	2,516,584	861,025	1,655,559
Long-Term Liabilities	-	1,309,907	(1,309,907)
	<u>2,516,584</u>	<u>2,170,932</u>	<u>345,652</u>
<u>Net Position:</u>			
Invested in Capital Assets	29,049	30,162	(1,113)
Unrestricted	<u>(2,371,622)</u>	<u>(1,916,438)</u>	<u>(455,184)</u>
Total Net Position	<u><u>(\$2,342,573)</u></u>	<u><u>(\$1,886,276)</u></u>	<u><u>(\$456,297)</u></u>

Total net position decreased \$456,297. The cause of the decrease was primarily related to the trend of declining enrollment since 2010 and the Board's desire to continue to offer programming that would be attractive to the families of the area and to offer services and student staff ratios necessary to accelerate learning of students faster than the traditional single grade level gains. The goal of this investment was to grow enrollment to be closer to the capacity of the facility at which point the school would generate surpluses on an annual basis sufficient to eliminate accumulated deficits.

Based on the analysis that was done at the time the decision was made to open the school, the Board and its management made the decision to make an investment in the future of the children of this community, not based on a plan that was expected to generate economic profits, but rather on a plan that is economically sustainable and that would generate dividends to the community in the form of enhanced opportunities for children and families. Resources for the necessary programs have been made available by delaying payment on invoices from the Academy's management company for management services, other operating expenses and invoices for payroll for the Academy's staff.

**ARTS AND SCIENCE PREPARATORY ACADEMY
CUYAHOGA COUNTY, OHIO**

*MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2014
(Continued)*

Table 2 reflects the changes in net position for fiscal year 2014 as compared to 2013.

Table 2
Change in Net Position

	2014	2013	Change
<u>Operating Revenues:</u>			
State Aid	\$873,541	\$1,182,363	(\$308,822)
Charges for Services and Miscellaneous	491	164	327
<u>Non-Operating Revenues:</u>			
Federal/State Restricted Grants	273,822	453,246	(179,424)
Total Revenues	1,147,854	1,635,773	(487,919)
<u>Operating Expenses:</u>			
Purchased Services	1,369,638	1,744,396	(374,758)
Depreciation	12,174	10,605	1,569
General Supplies	47,130	40,153	6,977
Other Operating Expense	40,617	21,288	19,329
<u>Non-Operating Expenses:</u>			
Interest	134,592	121,393	13,199
Total Expenses	1,604,151	1,937,835	(333,684)
Change in Net Position	(\$456,297)	(\$302,062)	(\$154,235)

The fiscal year 2014 decrease in revenues is primarily due to a decrease in enrollment.

Budgeting

Unlike other public schools located in the State of Ohio, community schools are not required to follow budgetary provision set forth in the Ohio Revised Code Chapter 5705, other than the development of a five year forecast. The Academy's contract with its sponsor also requires an annual financial plan.

**ARTS AND SCIENCE PREPARATORY ACADEMY
CUYAHOGA COUNTY, OHIO**

*MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2014
(Continued)*

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2014, the Academy had \$29,049 invested in capital assets (net of accumulated depreciation) for computer and other equipment, a decrease of \$1,112. The following table shows fiscal year 2014 compared to 2013:

Capital Assets at June 30 (Net of Depreciation)

	2014	2013	Change
Furniture & Equipment	\$ 23,275	\$ 23,919	\$ (644)
Computers	5,774	642	5,132
Leasehold Improvements	-	5,600	(5,600)
	\$ 29,049	\$ 30,161	\$ (1,112)

The decrease reflects the depreciation expense of \$12,174 for the year, exceeding additions of \$11,062. For further information regarding the Academy's capital assets, refer to Note 5 of the basic financial statements.

Debt

At June 30, 2014, the Academy had \$1,252,080 of long term debt outstanding to Mosaica Education, Inc., a related party (see Note 12), all of which is shown as a current liability due to the Academy effectively closing operations at June 30, 2014. The following table summarizes the Academy's debt outstanding as of June 30, 2014, for further information; refer to Note 14 of the Basic Financial Statements.

Long Term Obligations

	2014	2013	Change
Promissory Note	\$ 1,252,080	\$ 1,350,092	\$ (98,012)

Economic Factors

As discussed further in Note 15, the Academy effectively closed operations at June 30, 2014.

**ARTS AND SCIENCE PREPARATORY ACADEMY
CUYAHOGA COUNTY, OHIO**

*MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2014
(Continued)*

Operations

Arts and Science Preparatory Academy is a nonprofit corporation established pursuant to Ohio Revised Code Chapter 1702. During 2014, the Academy offered education for Ohio children in kindergarten through eighth grade. The Academy is independent of any school district and is nonsectarian in its programs, admission policies, employment practices, and all other operations. The Academy may lease or acquire facilities as needed and contract for any services necessary for the operation of the Academy.

Requests for Information

This financial report is designed to provide citizens, taxpayers, investors, and creditors with a general overview of the Academy's finances and to show the Academy's accountability for the money it receives. If you have any question concerning this report, please contact the administrative office of Arts and Science Preparatory Academy, 2711 Church Avenue, Cleveland, Ohio 44113.

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**ARTS AND SCIENCE PREPARATORY ACADEMY
CUYAHOGA COUNTY, OHIO**

**STATEMENT OF NET POSITION
JUNE 30, 2014**

Assets:

Current assets:

Cash and Cash Equivalents	\$ 34,786
Intergovernmental Receivable	72,707
Prepaid Expense	16,537
Other Assets	20,932
Total current assets	<u>144,962</u>

Noncurrent assets:

Capital Assets, net of Accumulated Depreciation	29,049
Total noncurrent assets	<u>29,049</u>

Total assets	<u>174,011</u>
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Liabilities:

Current liabilities:

Accounts Payable, Trade	102,202
Accounts Payable, Related Party	1,162,302
Current Portion of Long-term Debt	1,252,080
Total current liabilities	<u>2,516,584</u>

Total liabilities	<u>2,516,584</u>
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Net Position

Net Invested in Capital Assets	29,049
Unrestricted	(2,371,622)
Total Net Position	<u>\$ (2,342,573)</u>

See Accompanying Notes to the Basic Financial Statements

**ARTS AND SCIENCE PREPARATORY ACADEMY
CUYAHOGA COUNTY, OHIO**

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FOR THE YEAR ENDED JUNE 30, 2014**

Operating Revenues:	
State Aid	\$ 873,541
Charge For Services	300
Miscellaneous	191
Total Operating Revenues	874,032
 Operating Expenses:	
Purchased Services	1,369,638
Depreciation	12,174
General Supplies	47,130
Other Operating Expenses	40,617
Total Operating Expenses	1,469,559
Operating Loss	(595,527)
 Nonoperating Revenues and Expenses:	
Federal and State Restricted Grants	273,822
Interest Expense	(134,592)
Net Nonoperating Revenues and Expenses	139,230
Change in Net Position	(456,297)
Net Position Beginning of Year	(1,886,276)
Net Position End of Year	\$ (2,342,573)

See Accompanying Notes to the Basic Financial Statements

**ARTS AND SCIENCE PREPARATORY ACADEMY
CUYAHOGA COUNTY, OHIO**

**STATEMENT OF CASH FLOW
FOR THE YEAR ENDED JUNE 30, 2014**

CASH FLOWS FROM OPERATING ACTIVITIES

State Aid Receipts	\$	873,541
Charge for Services		191
Other Operating Receipts		300
Cash Payments to Suppliers for Goods and Services		(974,117)
Net Cash Used for Operating Activities		(100,085)

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

Short-term Financing Payments		(65,603)
Note Payable Interest Payments		(68,988)
Note Payable Principal Retirement		(98,012)
Federal and State Grant Receipts		339,898
Net Cash Provided by Noncapital Financing Activities		107,295

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Purchase of Assets		(11,062)
Net Cash Used for Capital and Related Financing Activities		(11,062)

Net Increase in Cash and Cash Equivalents		(3,852)
Cash and Cash Equivalents - Beginning of the Year		38,638
Cash and Cash Equivalents - Ending of the Year	\$	34,786

Reconciliation of Operating Loss to Net Cash Used for Operating Activities

Operating Loss	\$	(595,527)
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Adjustments to Reconcile Operating Loss to Net Cash Used for Operating Activities

Depreciation		12,174
Changes in assets and liabilities:		
Increase in Other Assets		(20,932)
Decrease in Prepaid Expense		60,536
Increase in Accounts Payable, Trade		35,835
Increase in Accounts Payable, Related Party		407,828
Net Cash Used for Operating Activities	\$	(100,085)

See Accompanying Notes to the Basic Financial Statements

**ARTS AND SCIENCE PREPARATORY ACADEMY
CUYAHOGA COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2014**

Note 1 - Description of the School

The Arts and Science Preparatory Academy (the "Academy") is a nonprofit corporation established pursuant to Ohio Revised Code Chapter 1702. The Academy offers education for Ohio children in grades K-8. The Academy is independent of any school district and is nonsectarian in its programs, admission policies, employment practices, and all other operations. The Academy may lease or acquire facilities as needed and contract for any services necessary for the operation of the academy. The Academy is a federally recognized 501(c)(3) nonprofit corporation established pursuant to Ohio Revised Code Chapter 1702.

The Academy was approved for operation pursuant to Ohio Revised Code Chapter 3314 under a contract with St. Aloysius Orphanage (the Sponsor) for a period of five academic years commencing July 18, 2005 and ending June 30, 2012. Subsequent to June 30, 2011, the contract was extended for an additional 4 academic years ending June 30, 2015. The Sponsor is responsible for evaluating the performance of the Academy and has the authority to deny renewal of the contract at its expiration or terminate the contract prior to its expiration.

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

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

Effective June 30, 2014 the Academy closed operations.

Note 2 - Summary of Significant Accounting Policies

The financial statements of the Academy have been prepared in conformity with generally accepted accounting principals (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The 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 position; a statement of revenues, expenses, and changes in net position; and a statement of cash flows. The Academy uses a single enterprise presentation for its financial records. Enterprise reporting focuses on the determination of operating income, changes in net position, financial position, and cash flows.

B. Measurement Focus

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

**ARTS AND SCIENCE PREPARATORY ACADEMY
CUYAHOGA COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2014
(Continued)**

Note 2 - Summary of Significant Accounting Policies (Continued)

C. Basis of Accounting

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

D. Budgetary Process

Unlike other public schools located in the State of Ohio, community schools are not required to follow budgetary provision set forth in the Ohio Revised Code Chapter 5705, other than the development of a five year forecast. The Academy's contract with its sponsor also requires an annual financial plan.

E. Cash and Cash Equivalents

Cash received by the Academy is reflected as "Cash and Cash Equivalents" on the statement of net position. The Academy had no investments during the fiscal year ended June 30, 2014.

F. Prepaid Items

The Academy records payments made to vendors for services that will benefit periods beyond June 30, 2014, as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expense is reported in the year in which services are consumed.

G. Capital Assets

The Academy's capital assets during fiscal year 2014 consisted of leasehold improvements, computers and other furniture and equipment. All capital assets are capitalized at cost and updated for additions and retirements during the fiscal year. Donated capital assets are recorded at their fair market values as of the date received. The Academy maintains a capitalization threshold of one thousand five hundred dollars. The Academy does not have any infrastructure. Improvements are capitalized. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized.

**ARTS AND SCIENCE PREPARATORY ACADEMY
CUYAHOGA COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2014
(Continued)**

Note 2 - Summary of Significant Accounting Policies (Continued)

G. Capital Assets (Continued)

All capital assets, except land and construction in progress, are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

<u>Description</u>	<u>Useful Lives</u>
Computers	5 years
Furniture, Fixtures, and Equipment	5-20 years
Leasehold Improvements	Life of lease

H. Net Position

Net position represents the difference between assets and liabilities. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Academy or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. The Academy applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net position is available. As of June 30, 2014, there was no net position restricted by enabling legislation. \$29,049 represents net invested in capital assets at year end which is calculated as capital assets, net of accumulated depreciation minus any outstanding debt issued for the acquisition of a capital asset.

I. Operating Revenues and Expenses

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

J. Estimates

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

K. Economic Dependency

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

**ARTS AND SCIENCE PREPARATORY ACADEMY
CUYAHOGA COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2014
(Continued)**

Note 3 - Deposits

Custodial credit risk is the risk that, in the event of a bank failure, the Academy's deposits may not be returned. The Academy does not have a deposit policy for custodial credit risk. At June 30, 2014, the book balance was \$34,786, and the bank balance of Academy's deposits was \$36,788. The bank balance was covered by federal depository insurance. There are no significant statutory restrictions regarding the deposit and investment of funds by the nonprofit corporation.

Note 4 – Receivables

At June 30, 2014, the Academy had intergovernmental receivables in the amount of \$72,707. The receivables are expected to be collected within one year.

	Amount
Title I	\$27,334
21st Century Grant	13,843
IDEA B	9,704
Race to the Top	11,150
Child Nutrition Program	10,676
Total	\$ 72,707

Note 5 - Capital Assets

Capital asset activity for the fiscal year ended June 30, 2014, was as follows:

	Balance June 30, 2013	Additions	Deletions	Balance June 30, 2014
Computers	\$ 64,901	\$ 11,062	\$ -	\$ 75,963
Furniture and Equipment	41,215	-	-	41,215
Leasehold Improvement	28,000	-	-	28,000
Total Depreciable Asssets	134,116	11,062	-	145,178
Less Accumulated Depreciation				
Computers	(67,977)	(2,212)	-	(70,189)
Furniture and Equipment	(13,578)	(4,362)	-	(17,940)
Leasehold Improvement	(22,400)	(5,600)	-	(28,000)
Total Accumulated Depreciation	(103,955)	(12,174)	-	(116,129)
Total Capital Assets, Net	\$ 30,161	\$ (1,112)	\$ -	\$ 29,049

**ARTS AND SCIENCE PREPARATORY ACADEMY
CUYAHOGA COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2014
(Continued)**

Note 6 - Risk Management

The Academy is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2014, the Academy contracted with Pashley Insurance Agency to provide insurance coverage with the Hartford Casualty Insurance Company.

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

General Liability:	
Each Occurrence	\$ 1,000,000
Aggregate Limit	2,000,000
Products - Completed Operations Aggregate Limit	2,000,000
Medical Expense Limit - Any One Person/Occurrence	15,000
Damage to Rented Premises - Each Occurrence	500,000
Personal and Advertising Injury	1,000,000
Automobile Liability:	
Combined Single Limit	1,000,000
Business Personal Property	449,300
Excess/Umbrella Liability:	
Each Occurrence	3,000,000
Aggregate Limit	3,000,000

Note 7 – Purchased Services

For the fiscal year ended June 30, 2014, purchased service expenses were as follows:

<u>Service</u>	<u>Amount</u>
Personnel	\$553,379
Staff and Administrative Services	153,586
Food Services	73,670
Building Services	332,239
Student Services	29,650
Sponsor Fee	25,690
Professional Services	186,784
Advertising	14,640
Total	<u><u>\$1,369,638</u></u>

Note 8 - Defined Benefit Pension Plans

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

**ARTS AND SCIENCE PREPARATORY ACADEMY
CUYAHOGA COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2014
(Continued)**

Note 8 - Defined Benefit Pension Plans (Continued)

A. School Employee Retirement System

Plan Description - The Academy contributes to the School Employees Retirement System (SERS), a cost-sharing multiple-employer 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. That report can be obtained 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 Academy is required to contribute 14 percent of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS' Retirement Board, The Retirement Board acting with the advice of the actuary, allocates the employer contribution rate among four of the funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund) of the System. For fiscal year ending June 30, 2014, the allocation to pension and death benefits is 12.7 percent. The remaining 1.3 percent of the 14 percent employer contribution rate is allocated to the Health Care and Medicare B Funds. The Academy's contributions to SERS for the years ended June 30, 2014, 2013 and 2012 were \$13,716, \$12,620 and \$12,494, respectively; which equaled the required contributions each year.

B. State Teachers Retirement System

The Academy contributes to the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement system. STRS Ohio issues a stand-alone financial report. Copies of the STRS Ohio's 2014 Comprehensive Annual Financial Report can be requested in writing to STRS Ohio, 275 E Broad St, Columbus, OH 43215-3771, by calling toll-free 1-888-227-7877, or visiting the STRS Ohio website at www.strsoh.org.

STRS Ohio is a statewide retirement plan for licensed teachers and other faculty members employed in the public schools of Ohio or any school, community school, college, university, institution or other agency controlled, managed and supported, in whole or in part, by the state of any political subdivision thereof.

Plan Options - New members have a choice of three retirement plan options. In addition to the Defined Benefit (DB) Plan, new members are offered a Defined Contribution (DC) Plan and a Combined Plan. 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 choices. The Combined Plan offers features of the DC Plan and the DB Plan. In the Combined Plan, member contributions are allocated to investment choices by the member, and employer contributions are used to fund a defined benefit payment at a reduced level from the regular DB Plan. Contributions into the DC Plan and the Combined Plan are credited to member accounts as employers submit their payroll information to STRS Ohio, generally on a biweekly basis. 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.

DB Plan Benefits – Plan benefits are established under Chapter 3307 of the Revised Code. Any member may retire who has (i) five years of service credit and attained age 60; (ii) 25 years of service credit and attained age 55; (iii) 30 years of service credit regardless of age. The annual retirement allowance, payable for life, is the greater of the "formula benefit" or the "money-purchase benefit" calculation. Under the "formula benefit", the retirement allowance is based on years of credited service and final average salary, which is the average of the member's three highest salary years. The annual allowance is

**ARTS AND SCIENCE PREPARATORY ACADEMY
CUYAHOGA COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2014
(Continued)**

Note 8 - Defined Benefit Pension Plans (Continued)

B. State Teachers Retirement System (Continued)

calculated by using a base percentage of 2.2 percent multiplied by the total number of years of service credit (including Ohio-value purchased credit) times the final average salary. The 31st year of earned Ohio service credit is calculated at 2.5 percent. An additional one-tenth of a percent is added to the calculation or every year of Ohio service over 31 years (2.6 percent for 32 years, 2.7 percent for 33 years and so on) until 100 percent of final average salary is reached. For members with 35 or more years of Ohio contributing service, the first 30 years will be calculated at 2.5 percent instead of 2.2 percent. Under the "money-purchase benefit" calculation, a member's lifetime contributions plus interest at specified rates are matched by an equal amount from other STRS Ohio funds. This total is then divided by an actuarially determined annuity factor to determine the maximum annual retirement allowance.

DC Plan Benefits – Benefits are established under Sections 3307.80 and 3307.89 of the Revised Code. For members who select the DC Plan, all member contributions and employer contributions at a rate of 10.5 percent are placed in an investment account. The member determines how to allocate the member and employer money among various investment choices. 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. Employer contributions into members' accounts are vested for the first anniversary of the first day of paid service. Members in the DC Plan who become disabled are entitled only to their account balances. If a member dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

Combined Plan Benefits – Member contributions are allocated by the member, and employer contributions are used to fund a defined benefit payment. A member's defined benefit is determined by multiplying 1 percent of the member's final average salary by the member's years of service credit. The defined benefit portion of the Combined Plan payment is payable to a members on or after age 60. The defined contributions portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50.

The DB and Combined Plans offer access to health care coverage to eligible retirees who participated in the plans and their eligible dependents. Coverage under the current program includes hospitalization, physicians' fees, prescription drugs and partial reimbursement of monthly Medicare Part B premiums. By Ohio law, health care benefits are not guaranteed.

A DB or Combined Plan member with five or more years' credited service who becomes disabled may qualify for a disability benefit. Eligible spouses and dependents of members who die before retirement may qualify for survivor benefits. A death benefit of \$1,000 is payable to the beneficiary of each deceased retired member who participated in the DB Plan. Death benefit coverage up to \$2,000 can be purchased by participants in the DB, DC, or Combined Plans. Various other benefits are available to members' beneficiaries.

Funding Policy – Chapter 3307 of the Revised Code provides statutory authority for members and employer contributions. Contribution rates are established by the State Teachers Retirement Board, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 11 percent for members and 14 percent for employers.

Contribution requirements and the contributions actually made for the fiscal year ended June 30, 2014, were 11 percent of covered payroll for members and 14 percent for employers. Employer contributions actually paid should be disclosed in both dollar amounts and as a percentage of the employer's covered payroll for the current year and the two preceding years. Member and employer contributions actually made for DC and Combined Plan participants will be provided upon written request.

**ARTS AND SCIENCE PREPARATORY ACADEMY
CUYAHOGA COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2014
(Continued)**

Note 8 - Defined Benefit Pension Plans (Continued)

B. State Teachers Retirement System (Continued)

The Academy required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2014, 2013, 2012 were \$80,333, \$97,717 and \$112,605 respectively; 100 percent has been contributed for fiscal years 2014, 2013 and 2012, respectively. Contributions to the DC and Combined Plans for fiscal year 2014 were made by the Academy.

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 of Ohio have an option to choose Social Security or the School Retirement System. As of June 30, 2014, none of the members of the Board of Education has elected Social Security. The contribution rate is 6.2 percent of wages.

Note 9 - Postemployment Benefits

A. School Employee Retirement System

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

Medicare Part B Plan

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 benefit 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 B premium of the current premium. The Medicare Part B monthly premium for calendar year 2014 was \$99 for most participants, but could be as high as \$369.10 per month depending on their income. SERS' reimbursement to 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 Part B Fund. For fiscal year 2014, the actuarially required allocation is .75 percent. The Academy's contributions for the years ended June 30, 2014, 2013, and 2012 were \$775, \$745 and \$738, respectively, which equaled the required contributions each year.

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 HMOs, PPOs, 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. Active members do not make contributions to the postemployment benefit plans. The Health Care Fund was established under, and is administered in accordance with 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 Health Care Fund. For the year ended June 30, 2014, the health care allocation is .55 percent. An additional health care surcharge on employers is

**ARTS AND SCIENCE PREPARATORY ACADEMY
CUYAHOGA COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2014
(Continued)**

Note 9 - Postemployment Benefits (Continued)

A. School Employee Retirement System (Continued)

collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. State law 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 fiscal year 2014, the minimum compensation level was established at \$35,800. The surcharge, added to the unallocated portion of the 14% employer contribution rate is the total amount assigned to the Health Care Fund. The Academy's contributions assigned to health care for the years ended June 30, 2014, 2013, and 2012 were \$168, \$547 and \$541, respectively.

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

The financial reports of SERS' Health Care and Medicare Part B plans are included in its Comprehensive Annual Financial Report. The report can be obtained on SERS' website at www.ohsers.org under Employers/Audit Resources.

B. State Teachers Retirement System

Plan Description

STRS Ohio administers a pension plan that is comprised of: a Defined Benefit Plan; a self-directed Defined Contribution Plan, and a Combined Plan that is a hybrid of the Defined Benefit Plan and the Defined Contribution Plan.

Ohio law authorizes STRS Ohio to offer a cost-sharing, multiple-employer health care plan. STRS Ohio provides access to health care coverage to eligible retirees who participated in the Defined Benefit or Combined Plans. Coverage under the current program includes hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare Part B premiums.

Pursuant to Chapter 3307 of the Revised Code, the Retirement Board has discretionary authority over how much, if any, of the associate health care costs will be absorbed by STRS Ohio. All benefit recipients, for the most recent year, pay a portion of the health care costs in the form of a monthly premium.

STRS Ohio issues a stand-alone financial report. Interested parties can view the most recent *Comprehensive Annual Financial Report* by visiting www.strsoh.org or by requesting a copy by calling toll free 1-888-227-7877.

Funding Policy

Under Ohio law, funding for post-employment health care may be deducted from employer contributions. Of the 14 percent employer contribution rate, 1 percent of covered payroll was allocated to postemployment health care for the years ended June 30, 2014, 2013, and 2012. The 14 percent employer contribution rate is the maximum rate established under Ohio law.

The Academy's contributions for health care for the fiscal years ended June 30, 2014, 2013, and 2012 were \$6,179, \$7,517 and \$8,662, respectively; 100 percent has been contributed for fiscal years 2014, 2013 and 2012, respectively.

**ARTS AND SCIENCE PREPARATORY ACADEMY
CUYAHOGA COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2014
(Continued)**

Note 10 - Contingencies

A. Grants

The Academy received financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the Academy. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the Academy at June 30, 2014.

B. Ohio Department of Education Enrollment Review

The Ohio Department of Education (ODE) conducts reviews of enrollment data and full-time equivalency (FTE) calculations made by community schools. These reviews are conducted to ensure the Academy is reporting accurate student enrollment data to the State, upon which state foundation funding is calculated. No provision for any adjustment to the fiscal 2014 foundation revenues have been made, due to it being immaterial, and will be included in the financial activity for fiscal year 2015.

Note 11 – Building Leases

In October 2008, the Academy entered into a lease agreement for the use of a facility effective January 1, 2009. The lease term extends through June 30, 2017 for the use of approximately 24,500 sq. ft. The base rent per the original lease for fiscal 2014 was \$26,165 per month. In July 2009, the landlord made improvements to the facility with a cost of \$35,000. The Academy reimbursed the landlord the \$35,000 improvement costs over a period of seven months August 2009 through February 2012. The \$35,000 cost is capitalized as a leasehold improvement and amortized over the remaining life of the lease. The annual base rent escalates by 50 cents per square foot of rented space.

The total net rent expense for the fiscal year ended June 30, 2014 was \$254,862.

**ARTS AND SCIENCE PREPARATORY ACADEMY
CUYAHOGA COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2014
(Continued)**

Note 12 – Related Party Transactions/Management Company

The Academy shares a common Governing Board with Cleveland Arts and Social Sciences Academy.

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

Per the management agreement with the Academy, Mosaica Education, Inc. is entitled to a management fee that is equivalent to 12.5% of Academy's revenue. The management fee for fiscal year 2014 was \$143,420.

Mosaica Education, Inc. pays for certain operating expenses on behalf of the Academy and subsequently invoices the Academy for reimbursement. Such expenses include: payroll, rent and insurance. The amount invoiced for reimbursement in fiscal 2014 was \$916,620.

At June 30, 2014, the Academy had payables to Mosaica Education, Inc. in the amount of \$1,162,302.

The following is a schedule of amounts owed to Mosaica Education, Inc at June 30, 2014.

	<u>Amount</u>
Payroll	\$650,742
Management Fee	173,035
Miscellaneous	4,659
Interest/Finance Charges	259,984
Wages and Benefits Payable	37,044
Accrued Expenses	<u>36,838</u>
Total June 30, 2014	<u><u>\$1,162,302</u></u>

Note 13 – Sponsor

The Academy was approved for operation under a contract with the St. Aloysius Orphanage Council (the Sponsor) for a period of five academic years commencing July 18, 2005. Subsequent to June 30, 2011, the contract was extended for an additional four academic years that run through June 30, 2015. As part of this contract, the Sponsor is entitled to 3% of foundation revenues. Total amount due and paid for fiscal year 2014 was \$25,690.

**ARTS AND SCIENCE PREPARATORY ACADEMY
CUYAHOGA COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2014
(Continued)**

Note 14 – Long-Term Obligations

Changes in the Academy's long-term obligations during fiscal year 2014 were as follows:

	Balance 6/30/2013	Additions	Reductions	Balance 6/30/2014	Amounts Due Within One Year
Promissory Note	\$1,350,092	\$ -	\$ (98,012)	\$ 1,252,080	\$ 1,252,080

On June 30, 2012, the Academy entered into a \$1,350,092 promissory note with Mosaica Education, Inc., a related party (See Note 12) to convert a large portion of the related party accounts payable balance to a note. The note bears a variable interest rate, with an initial rate of 5% and matures June 30, 2018. Interest accrues with no payments due through March 30, 2014. Principal payments are made quarterly with the first payment starting on September 30, 2013. Due to the Academy's closure effective June 30, 2014, as disclosed in Note 15, the entire balance is shown as due within one year.

Note 15 – Closure of Operations

Effective June 30, 2014, the Academy's Board and Sponsor were granted approval by the Ohio Department of Education to enter a closure of operations. As of March 31, 2015, the Academy had a cash balance of \$25,011 and liabilities of \$1,151,737. Once all costs and liabilities are known, the Academy will pay its final costs and any residual cash balances remaining will be remitted to the Ohio Department of Education, per Ohio Revised Code Section 3314.074.

March 25, 2015

To the Board of Trustees
Arts and Science Preparatory Academy
Cuyahoga County, Ohio
2711 Church Avenue
Cleveland, Ohio 44113

**INDEPENDENT AUDITOR'S 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**

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 Arts and Science Preparatory Academy, Cuyahoga County, Ohio (the "Academy") as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Academy's basic financial statements, and have issued our report thereon dated March 25, 2015, wherein we noted the Academy closed operations effective June 30, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Academy'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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Academy's internal control. Accordingly, we do not express an opinion on the effectiveness of the Academy's internal control.

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 entity's financial statements will not be prevented, or detected and corrected on a timely basis. 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section 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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings as item 2014-002 that we consider to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Academy's financial statements are free of 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 matter that is required to be reported under *Government Auditing Standards*, which is described in the accompanying schedule of findings as item 2014-001.

The Academy's Response to Findings

The Academy's response to the findings identified in our audit is described in the accompanying schedule of findings. The Academy's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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 Academy's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Governmental Auditing Standards* in considering the Academy's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Rea & Associates, Inc.

Medina, Ohio

**ARTS AND SCIENCES PREPARATORY ACADEMY
CUYAHOGA COUNTY, OHIO**

**SCHEDULE OF FINDINGS
JUNE 30, 2014**

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

FINDING #2014-001

Material Non-Compliance – Records Retention

Criteria: Ohio Rev. Code section 149.41 authorizes the Academy to develop its own records commission and rules. The Board of Trustees has adopted a data and records retention policy which states, in part, all records are the property of the Academy and are not removed, destroyed, mutilated, transferred or otherwise damaged or disposed of, in whole or in part, except as provided by law or under the rules adopted by the Board of Trustees. Such records shall be delivered by outgoing officials and employees to their successors and shall not be otherwise removed, transferred or destroyed unlawfully.

Condition: During the performance of audit procedures, we noted various checks in which the corresponding invoice was not maintained or could not be produced. The successor treasurer was able to contact all applicable vendors to produce a valid invoice to support the expense, except for two checks totaling in aggregate less than \$500.

Cause: Due to turnover in the Academy’s treasurer position documents were not properly maintained and could not be located.

Potential Effect: Failure to maintain approved invoices can lead to non-compliance and improper financial reporting.

Recommendation: We recommend the Academy maintain all records in accordance with the ORC and Board of Trustee policies.

Management Response: All disbursements are now matched to a corresponding invoice and scanned into a cloud storage platform to ensure all records are maintained in accordance with board policy.

**ARTS AND SCIENCES PREPARATORY ACADEMY
CUYAHOGA COUNTY, OHIO**

**SCHEDULE OF FINDINGS(Continued)
JUNE 30, 2014**

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

FINDING #2014-002

Significant Deficiency – Bank Reconciliation

Criteria: A necessary step in the internal control over financial reporting is to reconcile the cash balance of the bank to the cash balance in the accounting records in a timely manner.

Condition: Bank reconciliations were not timely completed, delaying management the ability to finalize year end records and the ability to provide timely reports to the Board of Trustees to ensure accurate and timely management and oversight of the Academy’s functions. In addition, this caused in delays in the completion of audit procedures resulting in numerous extension requests.

Cause: Due to the small size of the finance department, as well as the various turnover in the treasurer’s position throughout the year, timely reconciliations were not performed throughout the year. Upon the appointment of the current treasurer in September 2014, all bank reconciliations have been performed timely.

Potential Effect: Without complete and timely reconciliation of the bank statements to the accounting system, the Academy’s internal control is weakened, which could hinder the detection of errors or irregularities by the Academy’s management in a timely manner.

Recommendation: We recommend the Academy take all steps necessary to reconcile the cash balance of the bank to the cash balance in the accounting records each month.

Management Response: Bank Accounts are now reconciled in a timely manner every month. The School Fiscal Officer reviews and signs off when completed.

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Dave Yost • Auditor of State

ARTS AND SCIENCES PREPARATORY ACADEMY

CUYAHOGA COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
JUNE 23, 2015**