



Dave Yost • Auditor of State

FALCON ACADEMY OF CREATIVE ARTS
PORTAGE COUNTY

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Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT

Falcon Academy of Creative Arts
Portage County
1473 Saxe Road
Mogadore, Ohio 44260

To the Board of Directors:

Report on the Financial Statements

We have audited the accompanying financial statements of Falcon Academy of Creative Arts, Portage 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 preparing and fairly presenting these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes designing, implementing, and maintaining internal control relevant to preparing and fairly presenting financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to opine on these financial statements based on our audit. We audited in accordance with auditing standards generally accepted in the United States of America and the financial audit standards in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require us to plan and perform the audit to reasonably assure the financial statements are free from material misstatement.

An audit requires obtaining evidence about financial statement amounts and disclosures. The procedures selected depend on our judgment, including assessing the risks of material financial statement misstatement, whether due to fraud or error. In assessing those risks, we consider internal control relevant to the Government's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not to the extent needed to opine on the effectiveness of the Academy's internal control. Accordingly, we express no opinion. An audit also includes evaluating the appropriateness of management's accounting policies and the reasonableness of their significant accounting estimates, as well as our evaluation of overall financial statement presentation.

We believe the audit evidence we obtained is sufficient and appropriate to support our opinion.

Opinion

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

Emphasis of Matter

As discussed in Note 10 to the financial statements, the Academy's sponsor did not renew the sponsorship or building lease agreements which could result in the inability of the Academy to exist. Note 10 describes Management's plans regarding these matters. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require this presentation to include *Management's discussion and analysis*, listed in the table of contents, to supplement the basic financial statements. Although this information is not part of the basic financial statements, the Governmental Accounting Standards Board considers it essential for placing the basic financial statements in an appropriate operational, economic, or historical context. We applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, consisting of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries to the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not opine or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to opine or provide any other assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 6, 2015, on our consideration of the Academy's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine 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.



Dave Yost
Auditor of State
Columbus, Ohio

March 6, 2015

Falcon Academy of Creative Arts
Portage County, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2014
(Unaudited)

This discussion and analysis of the Falcon Academy of Creative Arts (the "Academy") financial performance provides an overall review of the Academy's financial activities for the period 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

Key financial highlights for the period ended 2014 are as follows:

- Net position totaled \$187,381, which is an increase of \$45,957 from the period ending June 30, 2013.
- Operating revenues increased \$219,912, or 20.6% from the period ending June 30, 2013 and operating expenses increased \$177,975 or 15.5%.
- A modular classroom was installed in the amount of \$126,292.
- A capital lease of \$32,736 for a portion of the new modular classroom was entered into with ModSpace.

Using this Annual Financial Report

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand the Academy as a financial whole, an entire operating entity.

Enterprise accounting uses a flow of economic resources measurement focus. With this measurement focus, all assets, deferred outflows, liabilities and deferred inflows are included on the Statement of Net Position. The Statement of Net Position represents the basic statement of position for the Academy.

The Statement of Net Position and Statement of Revenues, Expenses and Changes in Net Position provide information about the activities of the Academy, presenting an aggregate view of the Academy's finances. In the case of the Academy, there is only one fund presented.

The Statement of Cash Flows reflects how the Academy finances and meets its cash flow needs. Finally, the notes to the basic financial statements are presented.

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 government-wide financial statements is included in the discussion and analysis. The following tables represent the Academy's condensed financial information derived from the Statement of Net Position and the Statement of Revenues, Expenses and Changes in Net Position.

Falcon Academy of Creative Arts
Portage County, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2014
(Unaudited)

Table 1 provides a summary of the Academy's net position as of June 30, 2014 and 2013 as follows:

Table 1
Net Position at June 30

	<u>2014</u>	<u>2013</u>
Assets		
Current and Other Assets	\$ 165,720	\$ 221,283
Capital Assets	<u>162,617</u>	<u>47,226</u>
Total Assets	<u>328,337</u>	<u>268,509</u>
Liabilities		
Current Liabilities	123,456	127,085
Long Term Liabilities	<u>17,500</u>	<u>0</u>
Total Liabilities	<u>140,956</u>	<u>127,085</u>
Net Position		
Net Investment in Capital Assets	145,117	47,226
Restricted for Other Purposes	7	7
Unrestricted	<u>42,257</u>	<u>94,191</u>
Total Net Position	<u>\$ 187,381</u>	<u>\$ 141,424</u>

Total assets were \$328,337 of which \$139,959 is cash. Cash decreased \$68,716 from the period ending June 30, 2013 mainly due to an increase in services purchased through Field Schools. Capital assets showed a net increase \$115,391 through the purchase of leasehold improvements. Liabilities increased \$13,871 over the prior period due to a decrease in payables for services offset by an increase in long term liabilities for a lease on the modular classroom.

Net investment in capital assets represents a portion of the Academy's net position for the fiscal year 2014. Capital assets include leasehold improvements, furniture, fixtures and equipment. Capital assets are used to provide services to students and are not available for future spending. See Note 4 of the notes to the basic financial statements for more detailed information on the Academy's capital assets.

Falcon Academy of Creative Arts
Portage County, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2014
(Unaudited)

Table 2 shows the changes in net position for the year ended June 30, 2014 and the period ended June 30, 2013 as well as a listing of revenues and expenses.

Table 2
Changes in Net Position

	2014	2013
Revenues		
Operating Revenues	\$ 1,287,078	\$ 1,067,166
Non-Operating Revenues	88,657	78,912
Total Revenues	1,375,735	1,146,078
Operating Expenses		
Purchased Services	1,208,334	1,035,804
Materials and Supplies	42,549	45,922
Depreciation	10,901	5,088
Other	67,994	64,989
Total Operating Expenses	1,329,778	1,151,803
Change in Net Position	45,957	(5,725)
Net Position, Beginning of Year	141,424	147,149
Net Position, End of Year	\$ 187,381	\$ 141,424

The Statement of Revenues, Expenses and Changes in Net Position shows the cost of operating expenses and the revenues offsetting those services. Table 2 shows the total amount of operating and non-operating expenses and the revenues associated with those expenses for the year. That is, it identifies the amount of operating expenses supported by State and other funding. The dependence upon State foundation revenues for operating activities is apparent. State and Federal sources are by far the primary support for the Academy.

Operating revenues increased \$219,912 over the period ending June 30, 2013 mainly due to an increase in State foundation revenue as a result of increased enrollment.

Non-operating revenue increased \$9,745 mainly due to an increase in state and federal grants.

Operating expenses increased \$177,975 mainly due to an increase in purchased services provided by Field Schools.

Falcon Academy of Creative Arts
Portage County, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2014
(Unaudited)

Budgeting

The Academy is not required to follow the budgetary provision set forth in Ohio Revised Code Chapter 5705 but is required to submit a five year budget forecast as required by Ohio Revised Code Section 5705.391.

Capital Assets

The Academy had \$162,617 invested in capital assets (net of accumulated depreciation) for the period ended June 30, 2014. The following table shows 2014 and 2013 balances:

Table 3
Capital Assets (Net)

	<u>2014</u>	<u>2013</u>
Leasehold Improvements	\$ 134,119	\$ 15,430
Furniture, Fixtures, and Equipment	<u>28,498</u>	<u>31,796</u>
Totals	<u>\$ 162,617</u>	<u>\$ 47,226</u>

See Note 4 of the notes to the basic financial statements for more detailed information on the Academy's capital assets.

Debt

The outstanding debt for the Academy was \$17,500 for a capital lease for a modular classroom. See Note 5 for additional details.

Contacting the Academy's Financial Management:

This financial report is designed to provide our citizens, investors and creditors with a general overview of the Academy's finances and to show the Academy's accountability for the money it receives. If you have any questions about this report or need additional information, contact Todd Puster, Treasurer, at Falcon Academy of Creative Arts, 1473 Saxe Road, Mogadore, Ohio 44260.

Falcon Academy of Creative Arts
Portage County, Ohio
Statement of Net Position
June 30, 2014

Assets	
<i>Current assets:</i>	
Equity in pooled cash and cash equivalents	\$ 139,959
Intergovernmental receivables	<u>25,761</u>
<i>Total current assets</i>	<u>165,720</u>
<i>Noncurrent assets:</i>	
Capital assets (Net of accumulated depreciation)	<u>162,617</u>
<i>Total assets</i>	<u>328,337</u>
Liabilities	
<i>Current liabilities:</i>	
Intergovernmental payable	<u>123,456</u>
<i>Long term liabilities:</i>	
Due within one year	8,400
Due in more than one year	<u>9,100</u>
<i>Total long term liabilities</i>	<u>17,500</u>
Net Position	
Net Investment in Capital Asset	145,117
Restricted for other purposes	7
Unrestricted	<u>42,257</u>
<i>Total net position</i>	<u><u>\$ 187,381</u></u>

See accompanying notes to the basic financial statements.

Falcon Academy of Creative Arts
Portage County, Ohio
Statement of Revenues, Expenses and Changes in Net Position
For the Fiscal Years Ended June 30, 2014

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Operating revenues	
Sales	\$ 6,840
State foundation payments	1,267,241
Other	<u>12,997</u>
<i>Total operating revenues</i>	<u>1,287,078</u>
Operating expenses	
Purchased services	1,208,334
Materials and supplies	42,549
Depreciation	10,901
Other	<u>67,994</u>
<i>Total operating expenses</i>	<u>1,329,778</u>
<i>Operating income (loss)</i>	(42,700)
Non operating revenues (expenses)	
State and Federal grants	<u>88,657</u>
<i>Total non-operating revenues (expenses)</i>	<u>88,657</u>
<i>Change in net position</i>	45,957
<i>Net position at beginning of year</i>	<u>141,424</u>
<i>Net position at the end of the year</i>	<u><u>\$ 187,381</u></u>

See accompanying notes to the basic financial statements.

Falcon Academy of Creative Arts
Portage County, Ohio
Statement of Cash Flows
For the Fiscal Years Ended June 30, 2014

Cash flows from operating activities:	
Cash received from foundation payments	\$ 1,267,241
Cash received from sales and fees	6,840
Other revenues	12,997
Cash payments for goods and services	(1,254,512)
Cash payments for other operating expenses	<u>(67,994)</u>
<i>Net cash provided by (used for) operating activities</i>	<u>(35,428)</u>
Cash flows from non-capital financing activities:	
State and Federal grants	<u>75,504</u>
Cash flows from capital and related financing activities:	
Payment of capital lease	(15,236)
Purchase of capital assets	<u>(93,556)</u>
<i>Net cash provided by (used for) capital and related financing activities</i>	<u>(108,792)</u>
<i>Net increase (decrease) in cash and cash equivalents</i>	(68,716)
<i>Cash and cash equivalents at beginning of year</i>	<u>208,675</u>
<i>Cash and cash equivalents at end of year</i>	<u><u>\$ 139,959</u></u>
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:	
Operating income (loss)	\$ (42,700)
Depreciation	10,901
Adjustments:	
Increase (decrease) in liabilities:	
Accounts payable	(5,140)
Intergovernmental payable	<u>1,511</u>
<i>Total adjustments</i>	<u>7,272</u>
<i>Net cash provided by (used for) operating activities</i>	<u><u>\$ (35,428)</u></u>

Non-Cash transaction:

During the year the Academy entered into a capital lease for modular classrooms in the amount of \$32,736.

See accompanying notes to the basic financial statements.

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Falcon Academy of Creative Arts
Portage County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2014

NOTE 1 - DESCRIPTION OF THE SCHOOL AND REPORTING ENTITY

Falcon Academy of Creative Arts (the “Academy”) is a nonprofit corporation established pursuant to Ohio Revised Code Sections 3314 and 1702 to educate students in kindergarten through twelfth grade. The Academy, 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 Academy may sue and be sued, acquire facilities as needed, and contract for any services necessary for the operation of the Academy.

The Academy is currently operating under a successor sponsor contract with the Board of Education of the Field Local School District (the “Sponsor”). The contract covers the period July 1, 2012 through June 30, 2015. The Academy operates under a five-member Board of Directors (the “Board”). The Board is responsible for carrying out the provisions of the contract which includes, but is not limited to, state mandated provisions regarding student population, curriculum, academic goals, performance standards, admission standards, and qualifications of teachers.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Academy have been prepared in conformity with generally accepted accounting principles as applied to governmental nonprofit organizations. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The Academy’s significant accounting policies are described below.

A. 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.

B. 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 deferred outflows, liabilities and deferred inflows, are included on the Statement of Net Position. Operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in net position. Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made. The accrual basis of accounting is utilized for reporting purposes. Revenues are recognized when they are earned, and expenses are recognized when they are incurred.

C. Unearned Revenues

Unearned revenue arises when assets are recognized before revenue recognition criteria have been satisfied.

Falcon Academy of Creative Arts
Portage County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2014

D. 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 Section 5705, unless specifically provided in the Academy's contract with the Sponsor. The contract between the Academy and the Sponsor, the Board of Education of the Field Local School District, does not prescribe a budgetary process for the Academy. However, the Academy is required to submit a five year budget forecast as required by Ohio Revised Code Section 5705.391.

E. Tax Exemption Status

The Academy is a non-profit organization that, in the opinion of legal counsel, is exempt from federal income taxes due to the Academy's status as an integral part of its sponsoring political subdivision, the Field Local School District.

F. Cash

Cash received by the Academy is maintained in a demand deposit account.

G. Capital Assets and Depreciation

Capital assets are capitalized at cost and updated for additions and retirements during the year. The Academy capitalized individual assets that cost at least \$5,000. The Academy does not possess any infrastructure and does not capitalize interest costs.

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

Depreciation of leasehold improvements, furniture, fixtures and equipment is computed using the straight-line method over estimated useful lives of five to twenty years.

Depreciation expense for 2014 was \$10,901.

H. Net Position

Net position represent the difference between assets and deferred outflows, and liabilities and deferred inflows. Net investment in capital assets consist of capital assets, net of accumulated depreciation. Net position is reported as restricted when there are limitations imposed on their use through external restrictions imposed by creditors, grantors or laws or regulations of other governments. The Academy applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position are available.

Falcon Academy of Creative Arts
Portage County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2014

I. Intergovernmental Revenues

The Academy currently participates in the State Foundation Program and the State Special Education Program. Revenues received from the State Foundation Program are recognized as operating revenues in the accounting period in which all eligibility requirements have been met. Revenues received from the State Special Education Program and other 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 Academy must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the Academy on a reimbursement basis.

The Academy participates in the Rural Community School Grant Program through the Ohio Department of Education. The Academy received \$22,812 in revenue under this program for the period ended June 30, 2014.

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 these estimates.

NOTE 3 - DEPOSITS

State statutes classify monies held by the Academy into three categories.

Active deposits are public deposits necessary to meet current demands on the treasury. Such monies must be maintained either as cash in the Academy treasury, in commercial accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts, or in money market deposit accounts.

Inactive deposits are public deposits that the Board of Directors has identified as not required for use within the current two year period of designation of depositories. Inactive deposits must either be evidenced by certificates of deposit maturing not later than the end of the current period of designation of depositories, or by savings or deposit accounts including, but not limited to, passbook accounts.

Interim deposits are deposits of interim monies. Interim monies are those monies which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories. Interim deposits must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit or by savings or deposit accounts.

Protection of Academy's deposits is provided by the Federal Deposit Insurance Corporation (FDIC), by eligible securities pledged by the financial institution as security for repayment, by surety company bonds deposited with the Treasurer by the financial institution or by a single collateral pool established by the financial institution to secure the repayment of all public monies deposited with the institution.

Falcon Academy of Creative Arts
Portage County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2014

Interim monies to be deposited or invested in the following securities:

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least 2% and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in these divisions are made only through eligible institutions;
6. The State Treasurer's investment pool (STAR Ohio);
7. Certain banker's acceptance and commercial paper notes for a period not to exceed one hundred eighty days from the purchase date in an amount not to exceed 25% of the interim monies available for investment at any one time; and,
8. Under limited circumstances, corporate debt interests rated in either of the two highest classifications by at least two nationally recognized rating agencies.

Investments in stripped principal or interest obligations reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the Academy, and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the Treasurer or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

Falcon Academy of Creative Arts
Portage County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2014

Custodial credit risk for deposits is the risk that in the event of bank failure, the government's deposits may not be returned to it. Protection of Academy cash and deposits is provided by the Federal Deposit Insurance Corporation, as well as qualified securities pledged by the institution holding the assets. By law, financial institutions must collateralize all uninsured public deposits. The face value of the pooled collateral must equal at least 105% of uninsured public funds deposited. Collateral is held by trustees including the Federal Reserve Bank and designated third party trustees of the financial institutions.

Custodial credit risk for an investment is the risk that in the event of failure of the counterparty, the Academy will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. These securities, held by the counterparty and not in the Academy's name, must be obligations of or guaranteed by the United States and mature or be redeemable within five years of the date of the related repurchase agreement. The Academy's investment in repurchase agreement is collateralized by underlying securities pledged by the investment's counterparty, not in the name of the Academy. Ohio law requires the market value of the securities subject to repurchase agreements must exceed the principal value of the securities subject to a repurchase agreement by 2%. The Academy's policy is to invest money with financial institutions that are able to abide by the laws governing insurance and collateral of public funds.

Deposits

At fiscal year end June 30, 2014, the carrying value of the Academy's deposits totaled \$139,959 and the bank balances of the deposits totaled \$181,090. All of the bank balance was covered by federal depository insurance.

NOTE 4 - CAPITAL ASSETS AND DEPRECIATION

A summary of the Academy's capital assets at June 30, 2014, follows:

	Balance 6/30/13	Additions	Reductions	Balance 6/30/14
<i>Capital assets being depreciated</i>				
Leasehold improvements	\$ 17,389	\$ 126,292	\$ 0	\$ 143,681
Furniture, fixtures and equipment	38,284	0	0	38,284
	<u>55,673</u>	<u>126,292</u>	<u>0</u>	<u>181,965</u>
<i>Accumulated depreciation</i>				
Leasehold improvements	(1,959)	(7,603)	0	(9,562)
Furniture, fixtures and equipment	(6,488)	(3,298)	0	(9,786)
	<u>(8,447)</u>	<u>(10,901)</u>	<u>0</u>	<u>(19,348)</u>
Capital assets, net	<u>\$ 47,226</u>	<u>\$ 115,391</u>	<u>\$ 0</u>	<u>\$ 162,617</u>

Falcon Academy of Creative Arts
Portage County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2014

NOTE 5 - CAPITAL LEASES-LESSEE DISCLOSURE

The Academy has entered into a lease for a modular classroom. This lease meets the criteria of a capital lease as they transfer benefits and risks of ownership to the lessee.

Capital assets acquired by the leases have been capitalized in the amount of \$32,736. A corresponding liability was recorded in the statement of net position and is reduced for each required principal payment.

Lease payments are paid from the general fund.

The future minimum lease obligations and the net present values of these minimum lease payments as of June 30, 2014, were as follows:

Year Ending June 30,	Lease Payment
2015	\$ 8,400
2016	8,400
2017	700
Present Value of Minimum Lease Payments	\$ 17,500

NOTE 6 - PURCHASED SERVICES

For the year ended June 30, 2014 purchased service expenses were payments for services rendered by various vendors as follows:

	2014
Services purchased from sponsor	\$ 1,107,088
Other purchased services	101,246
	\$ 1,208,334

NOTE 7 - CONTRACT WITH FIELD LOCAL SCHOOL DISTRICT

The Community School Sponsorship Contract between Falcon Academy of Creative Arts and Field Local School District (LSD) provides for payments that the Academy had to make to the Field LSD during fiscal year 2014. These payments totaled \$1,145,680, including intergovernmental payables, were for sponsor fee, supplies, facility use, and reimbursement of personnel costs for the services of Field LSD employees who work directly with Falcon Academy of Creative Arts.

Falcon Academy of Creative Arts
Portage County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2014

NOTE 8 - RISK MANAGEMENT

Property and Liability

The Academy is exposed to various risks of loss related to torts; theft or damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2014, the Academy contracted with a commercial insurance carrier for general liability insurance. There is a \$2,500 deductible and a \$1 million limit per occurrence and a general aggregate limit of \$2 million. There has been no significant reduction in insurance coverage and no claims resulting from these risks have been made since the initial fiscal year of operations.

NOTE 9 - 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. 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. Full-Time Equivalency

The Ohio Department of Education conducts reviews of enrollment data 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 review in fiscal year 2014 resulted in a calculation of an overpayment to the Academy in the amount of \$86.

NOTE 10 – SUBSEQUENT EVENT

In January 2015, the Sponsor passed a resolution not to renew the sponsorship agreement with the Academy, which expires on July 31, 2015, or the building lease agreement, which expires on June 30, 2015. The Academy's Governing Board, through its attorney, is actively seeking a new sponsor. The Governing Board has made application to an Educational Service Center in a neighboring county, as well as to the Ohio Department of Education. While the Governing Board anticipates a favorable response to one or both of the applications, this cannot be assured at this time. Further, the Governing Board is in the process of locating a facility from which it can operate its education program. The search for a new school facility is ongoing. While the Governing Board believes it can secure a facility, this cannot be assured at this time.

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Dave Yost • Auditor of State

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

Falcon Academy of Creative Arts
Portage County
1473 Saxe Road
Mogadore, Ohio 44260

To the Board of Directors:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of Falcon Academy of Creative Arts, Portage County, (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 6, 2015 in which we noted the Academy's sponsor did not renew the sponsorship and building lease agreements.

Internal Control Over Financial Reporting

As part of our financial statement audit, we considered the Academy's internal control over financial reporting (internal control) to determine the audit procedures appropriate in the circumstances to the extent necessary to support our opinion on the financial statements, but not to the extent necessary to opine on the effectiveness of the Academy's internal control. Accordingly, we have not opined on it.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or combination of internal control deficiencies resulting in a reasonable possibility that internal control will not prevent or detect and timely correct a material misstatement of the Entity's financial statements. 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 internal control deficiencies that might be material weaknesses or significant deficiencies. Given these limitations, we did not identify any deficiencies in internal control that we consider material weaknesses. However, unidentified material weaknesses may exist.

Compliance and Other Matters

As part of reasonably assuring whether the Academy's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, opining on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

Purpose of this Report

This report only describes the scope of our internal control and compliance testing and our testing results, and does not opine on the effectiveness of the Academy's internal control or on compliance. This report is an integral part of an audit performed under *Government Auditing Standards* in considering the Academy's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

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

Dave Yost
Auditor of State
Columbus, Ohio

March 6, 2015



Dave Yost • Auditor of State

FALCON ACADEMY OF CREATIVE ARTS

PORTAGE COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
MAY 7, 2015**