



Mary Taylor, CPA
Auditor of State

**ACADEMY OF ARTS AND SCIENCES ACADEMY
LORAIN COUNTY
TABLE OF CONTENTS**

Independent Accountants' Report	1
Management's Discussion and Analysis	3
Statement of Net Assets as of June 30, 2006.....	7
Statement of Revenues, Expenses, and Changes in Fund Net Assets for the Fiscal Year Ended June 30, 2006	8
Statement of Cash Flows for the Fiscal Year Ended June 30, 2006	9
Notes to the Financial Statements	11
Independent Accountants' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by <i>Government Auditing Standards</i>	23
Schedule of Findings.....	25

This page left intentionally blank



Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

Academy of Arts and Sciences
Lorain County
201 West Erie Street
Lorain, Ohio 44052

We have audited the accompanying basic financial statements of the Academy of Arts and Science, Lorain County, Ohio (the Academy), as of and for the year ended June 30, 2006, as listed in the table of contents. These financial statements are the responsibility of the Academy's management. 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 the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to reasonably assure whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinion.

In our opinion, financial statements referred to above present fairly, in all material respects, the financial position of the Academy of Arts and Sciences, Lorain County, Ohio, as of June 30, 2006, and the changes in its financial position and its cash flows, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Academy suffered an operating loss in the amount of \$218,633 and a net loss in the amount of \$168,798. Management's plan in regard to these matters is described in Note 18.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 7, 2008, on our consideration of the Academy's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information accounting principles generally accepted in the United States of America requires. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measuring and presenting the required supplementary information. However, we did not audit the information and express no opinion on it.

A handwritten signature in black ink that reads "Mary Taylor". The signature is written in a cursive, flowing style.

Mary Taylor, CPA
Auditor of State

July 7, 2008

**ACADEMY OF ARTS AND SCIENCES
LORAIN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
UNAUDITED**

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

FINANCIAL HIGHLIGHTS

- Net assets decreased \$168,798.
- Operating expenses accounted for \$1,049,992 of the total expenses of \$1,054,552.
- Operating revenues accounted for \$831,359 of the Academy's funding.
- The Academy had an operating loss of \$218,633 and \$54,395 of the operating loss was alleviated by non-operating federal grants.

OVERVIEW OF THE FINANCIAL STATEMENTS

The financial report consists of three parts – Management's Discussion and Analysis, the basic financial statements, and the notes to the financial statements. These statements are organized so the reader can understand the financial position of the Academy. Enterprise accounting uses a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities are included on the Statement of Net Assets. The Statement of Net Assets represents the statement of position of the Academy. The Statement of Revenues, Expenses, and Changes in Net Assets presents increases (e.g., revenues) and decreases (e.g., expenses) in net total assets. 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 a 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 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 2006 derived from the Statement of Net Assets and the Statement of Revenues, Expenses and Changes in Net Assets.

**ACADEMY OF ARTS AND SCIENCES
LORAIN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
UNAUDITED**

Table 1 provides a summary of the Academy's net assets for 2006:

Table 1
Net Assets

	<u>2006</u>
Assets:	
Current Assets	\$ 30,527
Capital Assets	102,950
Total Assets	<u>133,477</u>
Liabilities:	
Current Liabilities	236,875
Long-term Liabilities	65,400
Total Liabilities	<u>302,275</u>
Net Assets:	
Invested in Capital Assets, Net of Related Debt	4,980
Unrestricted	<u>(173,778)</u>
Total Net Assets	<u>\$ (168,798)</u>

Results of fiscal year 2006 were an ending net asset balance of (\$168,798). The decrease is the result of an operating loss in the Academy's first year of operations. We anticipate that the Academy will have an increase in net assets for fiscal year 2007 and this trend is expected to continue through fiscal year 2008. The goal is 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. The initial loss in the first year of operations is typical for a new Academy and it is not uncommon for an Academy to not achieve positive net assets until after several years of operations due to significant start-up costs.

**ACADEMY OF ARTS AND SCIENCES
LORAIN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
UNAUDITED
(Continued)**

Table 2 reflects the changes in net assets for the fiscal year 2006:

Table 2
Change in Net Assets

	2006
Operating Revenues:	
Community School Foundation	\$ 829,451
Charge for Services	1,908
Total Operating Revenues	831,359
Operating Expenses:	
Building	113,466
Purchased Services	769,158
Depreciation	2,539
General Supplies	103,736
Other Operating Expenses	61,093
Total Operating Expenses	1,049,992
Operating Loss	(218,633)
Nonoperating Revenues and Expenses:	
Federal and State Restricted Grants	54,395
Interest Expense	(4,560)
Net Nonoperating Revenues and Expenses	49,835
Change in Net Assets	(168,798)
Net Assets Beginning of Year	-
Net Assets End of Year	\$ (168,798)

At the onset of planning for the opening of the Academy, management and the board carefully calculated the costs and risks associated with offering a high quality educational program that would be competitive with the educational programs available at the traditional public schools and weighed those costs and risks against the enhanced educational opportunities that would be available to students. Based on that analysis, 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 large 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 came from delaying payment on invoices from the Academy's management company for management services, other operating expenses and invoices for payroll of Academy staff.

**ACADEMY OF ARTS AND SCIENCES
LORAIN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
UNAUDITED
(Continued)**

BUDGET

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

CAPITAL ASSETS AND DEBT ADMINISTRATION

At the end of FY 2006, the Academy had \$102,950 net of accumulated depreciation invested in capital assets. A summary of the Academy's capital assets at June 30, 2006:

Furniture and Equipment	\$74,284
Computers	31,205
Less: Accumulated Depreciation	<u>(2,539)</u>
Net Capital Assets:	<u><u>\$102,950</u></u>

The Academy acquired \$105,489 of computer equipment and furniture in fiscal year 2006.

At June 30, 2006, the Academy had \$97,970 of capital lease obligations for furniture and technology outstanding. Of that amount \$32,570 is due within on year. For further information regarding the Academy's debt, refer to Note 13 to the basic financial statements.

ECONOMIC FACTORS

Management is not currently aware of any facts, decisions or conditions that have occurred that are expected to have a significant effect on the financial position or results of operations.

OPERATIONS

The Academy is a nonprofit corporation established pursuant to Ohio Revised Code Chapter 1702. The Academy offers education for Ohio children in kindergarten through fifth 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 our 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 questions concerning this report, please contact Michael Troper, Controller of the Academy, 3333 Chippewa Drive, Columbus, Ohio 43204.

**ACADEMY OF ARTS AND SCIENCES
LORAIN COUNTY**

**STATEMENT OF NET ASSETS
JUNE 30, 2006**

Assets:

Current assets:

Cash and Cash Equivalents	\$	6,885
Intergovernmental Receivable		20,475
Prepaid Expense		3,167
Total current assets		30,527

Non-current assets:

Capital Assets, net of Accumulated Depreciation		102,950
---	--	---------

Total assets

\$ 133,477

Liabilities:

Current liabilities:

Accounts Payable, Trade	\$	47,123
Accounts Payable, Related Party		152,784
Deferred Revenue		4,398
Capital Leases Payable, Current Portion		32,570
Total current liabilities		236,875

Non-current liabilities:

Capital Leases Payable, Non Current Portion		65,400
---	--	--------

Total liabilities

302,275

Net Assets

Invested in Capital Assets, Net of Related Debt		4,980
Unrestricted		(173,778)
Total Net Assets	\$	(168,798)

See Accompanying Notes to the Basic Financial Statements

**ACADEMY OF ARTS AND SCIENCES
LORAIN COUNTY**

**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

Operating Revenues:	
Community School Foundation	\$ 829,451
Charge for Services	1,908
Total Operating Revenues	<u>831,359</u>
Operating Expenses:	
Building	113,466
Purchased Services	769,158
Depreciation	2,539
General Supplies	103,736
Other Operating Expenses	61,093
Total Operating Expenses	<u>1,049,992</u>
Operating Loss	<u>(218,633)</u>
Nonoperating Revenues and Expenses:	
Federal and State Restricted Grants	54,395
Interest Expense	(4,560)
Net Nonoperating Revenues and Expenses	<u>49,835</u>
Change in Net Assets	(168,798)
Net Assets Beginning of Year	-
Net Assets End of Year	<u>\$ (168,798)</u>

See Accompanying Notes to the basic Financial Statements

**ACADEMY OF ARTS AND SCIENCES
LORAIN COUNTY
STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

CASH FLOWS FROM OPERATING ACTIVITIES

Foundation Receipts	\$ 829,451
Charges for Services	1,908
Cash Payments to Suppliers for Goods and Services	(858,513)
Net Cash Used for Operating Activities	<u>(27,154)</u>

CASH FLOWS FROM INVESTMENT ACTIVITIES

Purchase of Assets	(105,489)
Net Cash Used for Investment Activities	<u>(105,489)</u>

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

Federal and State Grants Receipts	38,317
Management Company Advance	7,800
Net Cash Provided by Noncapital Financing Activities	<u>46,117</u>

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Capital Lease Proceeds	105,489
Capital Lease Principal Payments	(7,518)
Capital Lease Interest Payments	(3,282)
Interest and Fiscal Charges	(1,278)
Net Cash Used for Capital and Related Financing Activities	<u>93,411</u>

Net Decrease in Cash and Cash Equivalents	6,885
Cash and Cash Equivalents - Beginning of Year	-
Cash and Cash Equivalents - End of Year	<u>\$ 6,885</u>

Reconciliation of Operating Loss to Net Cash Used for Operating Activities

Operating Loss	\$ (218,633)
----------------	--------------

Adjustments to Reconcile Operating Loss to Net Cash Used for Operating Activities

Depreciation	2,539
Changes in Assets and Liabilities:	
Increase in Prepaid Expenses	(3,167)
Increase in Accounts Payable, Trade	47,123
Increase in Accounts Payable, Related Party	144,984
Net Cash Used for Operating Activities	<u>\$ (27,154)</u>

See Accompanying Notes to the Basic Financial Statements

THIS PAGE INTENTIONALLY LEFT BLANK

**ACADEMY OF ARTS AND SCIENCES
LORAIN COUNTY**

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

Note 1 - Description of the School

The Academy of Arts and Sciences (the "Academy") is a nonprofit corporation established pursuant to Ohio Revised Code Chapter 3314. The Academy offers education for Ohio children in kindergarten through fifth 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.

The Academy was approved for operation under a contract with the St. Aloysius Orphanage (the Sponsor) for a period of five academic years commencing after July 1, 2005 and ending June 30, 2010. The Sponsor is responsible for evaluating the performance of the Academy and has the authority to deny renewal of the contract at its expiration or terminate the contract prior to its expiration.

The Academy operates under the direction of a 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 operate or manage the Academy for the Governing Board. The Board is responsible for carrying out the provisions of the contract that include, but are not limited to, state-mandated provisions regarding student population, curriculum, academic goals, performance standards, admission standards, and qualifications of teachers.

The Academy contracts with Mosaica Education, Inc., for management services including management of personnel and human resources, the program of instruction, technology, marketing, data management, purchasing, strategic planning, public relations, financial reporting, recruiting, compliance issues, budgets, contracts, and equipment and facilities. See Note 16.

Note 2 - Summary of Significant Accounting Policies

The financial statements of the Academy have been prepared in conformity with generally accepted accounting principles (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 Academy also applies Financial Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989, provided they do not conflict with or contradict GASB pronouncements. The entity has elected not to apply FASB pronouncements and interpretations issued after November 30, 1989. The more significant of the Academy's accounting policies are described below.

A. Basis of Presentation

The Academy's basic financial statements consist of a Statement of Net Assets; a Statement of Revenues, Expenses, and Changes in Net Assets; 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 assets, 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 Assets. The Statement of Revenues, Expenses, and Changes in Net Assets presents increases (e.g. revenues) and decreases (e.g. expenses) in total net assets. The Statement of Cash Flows reflects how the Academy finances meet its cash flow needs.

**ACADEMY OF ARTS AND SCIENCES
LORAIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(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, unless specifically provided by the Academy's contract with its sponsor. The contract between the Academy and its sponsor, the St. Aloysius Orphanage, does not prescribe a budgetary process for the Academy.

E. Cash and Cash Equivalents

Cash received by the Academy is reflected as "Cash and Cash Equivalents" on the statement of net assets. The Academy had no investments during the fiscal year ended June 30, 2006.

F. Prepaid Items

The Academy records payments made to vendors for services that will benefit periods beyond June 30, 2006, 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 2006 consisted of capital leases for computers and other 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.

**ACADEMY OF ARTS AND SCIENCES
LORAIN COUNTY**

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

Note 2 - Summary of Significant Accounting Policies (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>
Furniture, Fixtures, and Equipment	5-20 years

H. Net Assets

Net assets represent the difference between assets and liabilities. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by 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 assets are available.

The statement of net assets reports \$4,980 invested in capital assets net of related debt.

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.

Note 3 – Changes in Accounting Principles

There were no changes in accounting principles implemented during 2006 that would have a material effect on the financial statements.

**ACADEMY OF ARTS AND SCIENCES
LORAIN COUNTY**

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

Note 4 - 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, 2006, the bank balance of Academy's deposits was \$7,121. The bank balance was covered by federal depository insurance which covers deposits up to \$100,000. There are no significant statutory restrictions regarding the deposit and investment of funds by the nonprofit corporation.

Note 5 – Receivables

At June 30, 2006, the Academy had intergovernmental receivables, in the amount of \$20,475. The receivables are expected to be collected within one year.

Grant	Amount
Child Nutrition Program - Breakfast	\$ 3,881
Child Nutrition Program - Lunch	8,816
IDEA B	7,237
Title II D	541
Total Intergovernmental Receivables	\$20,475

Note 6 – Capital Assets

The capital asset activity for the fiscal year ended June 30, 2006, was as follows:

	Balance July 1, 2005	Additions (Deletions)	Depreciation Expense	Balance June 30, 2006
Depreciable Capital Assets				
Furniture & Equipment	\$0	74,284		\$74,284
Computer Technology	0	31,205		\$31,205
Less Accumulated Depreciation				
Furniture & Equipment	0	0	(978)	(\$978)
Computer Technology	0	0	(1,561)	(\$1,561)
Capital Assets, Net	\$0	\$105,489	(\$2,539)	\$102,950

**ACADEMY OF ARTS AND SCIENCES
LORAIN COUNTY**

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

Note 7 – 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 2006, the Academy contracted with the Hartford Casualty Insurance Company. The types and amounts of coverage provided are as follows:

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	10,000
Damage to Rented Premises - Each Occurrence	300,000
Personal and Advertising Injury	1,000,000
Business Personal Property	400,000
Automobile Liability:	
Combined Single Limit	1,000,000
Excess/Umbrella	
Each Occurrence	3,000,000
Aggregate Limit	3,000,000

Settled claims have not exceeded this commercial coverage and there have been no significant reductions in insurance coverage during the year.

Note 8 – Purchased Services

For the year ending June 30, 2006, purchased service expenses were for the following services:

Service	Amount
Personnel Services	\$534,427
Management Fee	106,032
IT / Telephone	17,126
Professional Contractors	8,652
Advertising	28,039
Building Maintenance	7,558
Sponsor Fee	9,308
Special Education and Nursing Services	31,731
Other Services	3,908
Professional Fees	15,624
Printing	6,753
Total:	<u>\$769,158</u>

**ACADEMY OF ARTS AND SCIENCES
LORAIN COUNTY**

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

Note 9 – 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.

A. School Employees Retirement System

The Academy contributes to the School Employees Retirement System (SERS), a cost-sharing multiple-employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746, by calling (800) 878-5853 or by visiting the SERS website at: ohsers.org.

Plan members are required to contribute 10 percent of their annual covered salary and the Academy is required to contribute at an actuarially determined rate. The current Academy rate is 14 percent of annual covered payroll. A portion of the Academy's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2006, 10.58 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The Academy's required contributions for pension obligations to SERS for the fiscal year ended June 30, 2006 was \$7,457; 100 percent of this amount has been contributed for fiscal year 2006.

B. State Teachers Retirement System

The Academy participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement system. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3371, by calling (614) 227-4090, or by visiting the STRS Ohio web site at www.strsoh.org.

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds divided by an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan. Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one time irrevocable decision to transfer their account balances from the existing DB Plan into the DC Plan or the Combined

**ACADEMY OF ARTS AND SCIENCES
LORAIN COUNTY**

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

Note 9 – Defined Benefit Pension Plans (Continued)

Plan. This option expired on December 31, 2001. Benefits are established by Chapter 3307 of the Ohio Revised Code.

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

For the fiscal year ended June 30, 2006, plan members were required to contribute 10 percent of their annual covered salaries. The Academy was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The Academy's required contribution for pension obligations for the STRS Ohio for the fiscal year ended June 30, 2006 was \$45,500; 100 percent has been contributed for fiscal year 2006. No employees contribute to the DCP and CP Plans.

Note 10 – Postemployment Benefits

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

All STRS Ohio retirees who participated in the DB or Combined Plans and their dependents are eligible for health care coverage. The STRS Ohio Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. All benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS Ohio funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2006, the STRS Ohio Board allocated employer contributions equal to one percent of covered payroll to the Health Care Stabilization Fund. For the Academy, this amount equaled \$3,500 for fiscal year 2006.

STRS Ohio pays health care benefits from the Health Care Stabilization Fund. At June 30, 2006, (the latest information available) the balance in the Fund was \$3.5 billion. For the fiscal year ended June 30, 2006, net health care costs paid by STRS Ohio were \$282,743,000 and STRS Ohio had 119,184 eligible benefit recipients.

**ACADEMY OF ARTS AND SCIENCES
LORAIN COUNTY**

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

Note 10 – Postemployment Benefits (Continued)

For SERS, coverage is made available to service retirees with ten or more years of qualifying service credit, and to disability and survivor benefit recipients. All retirees and beneficiaries are required to pay a portion of their health care premium. The portion is based on years of service, Medicare eligibility, and retirement status.

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2006, employer contributions to fund health care benefits were 3.42 percent of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2006, the minimum pay was established at \$35,800. However, the surcharge is capped at two percent of each employer's SERS salaries. For the Academy, the amount contributed to fund health care benefits, including the surcharge, during the fiscal year 2006 equaled \$2,410.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of the projected claims less premium contributions for the next fiscal year. Expenses for health care for the fiscal year ended June 30, 2006 were \$158,751,207. At June 30, 2006, SERS had net assets available for payment of health care benefits of \$295.6 million. SERS has 59,492 participants eligible to receive health care benefits.

Note 11 - 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, 2006.

B. Litigation

A lawsuit, *Beverly Blount-Hill, et al. v. State of Ohio, et. Al., Case #3:04CV197* was filed in the US District Court, Southern District of Ohio, Western Division on October 6, 2004, which challenges the funding of charter schools under Equal Protection, Due Process and claims violation of a right to vote on the bodies administering public schools. The case is still pending. The effect of this suit, if any, on the Academy is not presently determinable.

C. Full Time Equivalency

The Ohio Department of Education conducts reviews of enrollment data and full-time equivalency (FTE) calculations made by community 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 conclusions of this review could result in state funding being adjusted. A review conducted by the Ohio Department of Education reflected the Academy is owed \$7,057 by the Ohio Department of Education. This is recognized as foundation funding revenue in the June 30, 2007 financial records.

**ACADEMY OF ARTS AND SCIENCES
LORAIN COUNTY**

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

Note 12 – Building Leases

The Academy leases its premises on a month to month basis and may elect to terminate the lease with 180 days written notice. The base rent is \$10,500 per month. In January 2007, another community school assumed one half of the Academy's lease payments. The other community school relocated in September 2007 and the Academy resumed full payment of the base rent. This lease terminates at the end of the 2006-07 school year. Future minimum lease obligations through the end of the lease term total \$82,917.

Note 13 – Long Term Debt

Changes in the Academy's long-term obligations during fiscal year 2006 were as follows:

	Balance 6/30/2005	Additions	Reductions	Balance 6/30/2006	Amount Due Within One Year
Capital Leases Payable	\$ -	\$ 105,489	\$ (7,518)	\$ 97,970	\$ 32,570

Note 14 – Capital Lease-Lessee Disclosure

The Academy entered into three lease agreements in fiscal year 2006 with Relational LLC for technology equipment (computers) and furniture. The Academy's lease obligations met the criteria of a capital lease as defined by Statement of Financial Accounting Standards No. 13 "Accounting for Leases". The technology equipment and furniture have been capitalized in the amounts of \$31,205 and \$74,283 respectively, the present value of the minimum lease payments at the inception of the lease.

The following is a schedule of the future long-term minimum lease payments required under the capital leases and the present value of the minimum lease payments are as follows:

<u>Year Ending</u> <u>June 30</u>	<u>Technology</u>	<u>Furniture</u>
2007	\$12,780	\$30,421
2008	12,780	30,421
2009	<u>9,585</u>	<u>20,281</u>
Total future minimum lease payments	35,145	81,123
Less: amount representing interest	<u>(6,075)</u>	<u>(12,223)</u>
Present value of future minimum lease payments	<u>\$29,070</u>	<u>\$68,900</u>

A liability for capital lease obligations in the amount of \$97,970 is reported on the Statement of Net Assets. Of this amount, \$32,570 is a current liability due within one year and \$65,400 is a long-term liability due in more than one year.

**ACADEMY OF ARTS AND SCIENCES
LORAIN COUNTY**

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

Note 15 – Tax Exempt Status.

The Academy has applied for tax-exempt status under Section 501(c)(3) of the Internal Revenue Code. The Academy has made no provision for any potential tax liability resulting from not obtaining the Section 501(c)(3) tax-exempt status.

Note 16 – Related Party Transactions/Management Company

The Academy contracts with Mosaica Education, Inc. for a variety of services including management of personnel and human resources, board relations, financial management, marketing, 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 and budget preparation and accounts payable and payroll preparation.

Per the management agreement with the Academy, Mosaica Education is entitled to a management fee that is equivalent to 12.5% of the Academy's revenues. The management fee for fiscal year 2006 was \$106,032.

Also, per the management agreement there are expenses that will be billed to the Academy based on the actual costs incurred for the Academy by Mosaica Education, Inc. These expenses include rent, salaries of Mosaica Education, Inc. employees working at the Academy, and other costs related to providing educational and administrative services.

At June 30, 2006, the Academy had payables to Mosaica Education in the amount of \$152,784.

The following is a schedule of all expenses billed by Mosaica Education, Inc. as of June 30, 2006:

	<u>Amount</u>
Payroll and Benefits	\$93,929
Management Fee	32,308
Management Company Advance	7,800
Miscellaneous	<u>18,747</u>
Total June 30, 2006	<u><u>\$152,784</u></u>

Note 17 – Sponsor

The Academy was approved for operation under a contract with the St. Aloysius Orphanage (the Sponsor) for a period of five academic years commencing July 18, 2005. As part of this contract, the Sponsor is entitled to a maximum of 1% of the total state funds. Total amount due for fiscal year 2006 was \$9,308.

ACADEMY OF ARTS AND SCIENCES
LORAIN COUNTY

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

Note 18 – Management’s Plan

For fiscal year 2006, the Academy had a decrease in net assets of \$168,798. The Academy is expected to produce a surplus for the year ending June 30, 2007 due to higher enrollment. Over time, management believes that continued enrollment growth should allow the school to quickly recover from its first year deficit.

Management plans to increase enrollment through active advertising via print, radio, mailings and through referrals of current parents which may increase enrollment, reduce future deficits and may lead to no operating losses in future years. The Academy’s unaudited reconciled cash balance at May 31, 2008 was \$30,255. ADM enrollment at the end of May 2008 was 164. Through the end of May 2008, the Academy has reported a year to date unaudited increase in net assets in the amount of \$84,678.

THIS PAGE INTENTIONALLY LEFT BLANK



Mary Taylor, CPA

Auditor of State

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

Academy of Arts and Sciences
Lorain County
201 West Erie Avenue
Lorain, Ohio 44052

We have audited the basic financial statements of the Academy of Arts and Sciences, Lorain County, Ohio (the Academy) as of and for the year ended June 30, 2006 and have issued our report thereon dated July 7, 2008, wherein we noted the Academy suffered an operating loss in the amount of \$218,633 and a net loss in the amount of \$168,798. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and standards applicable to financial audits contained in the Controller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Academy's internal control over financial reporting to determine our auditing procedures in order to express our opinion on the basic financial statements and not to opine on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Academy's ability to record, process, summarize, and report financial data consistent with management's assertions in the financial statements. A reportable condition is described in the accompanying schedule of findings as item 2006-004.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered material weaknesses. We consider reportable condition 2006-004 listed above to be a material weakness. In a separate letter to the Academy's management dated July 7, 2008, we reported other matters involving internal control over financial reporting we did not deem reportable conditions.

Compliance and Other Matters

As part of reasonably assuring whether the Academy's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed instances of noncompliance or other matters that we must report under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 2006-001 through 2006-003. In a separate letter to the Academy's management dated July 7, 2008, we reported other matters related to noncompliance we deemed immaterial.

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

A handwritten signature in black ink that reads "Mary Taylor". The signature is written in a cursive, flowing style.

Mary Taylor, CPA
Auditor of State

July 7, 2008

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

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

FINDING NUMBER	2006-001
-----------------------	-----------------

Ohio Revised Code Section 117.38 provides that each public office shall file a financial report for each fiscal year, within one hundred and fifty days for entities reporting on a GAAP basis. The Auditor of State may prescribe forms by rule or may issue guidelines, or both, for such reports. If the Auditor of State has not prescribed a rule regarding the form for the report, the public office shall submit its report on the form utilized by the public office. In part this report shall contain the following:

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

Ohio Administrative Code Section 117-2-03 (B) further clarifies the filing requirements of Ohio Revised Code Section 117.38. This section provides that all school districts, including educational service centers and community schools, shall file their annual financial reports pursuant to generally accepted accounting principles. Generally accepted accounting principles (GAAP) require the following:

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

The Academy did not file complete financial statements for the year ended June 30, 2006 until May 27, 2007.

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

Officials' Response

Originally, Mike Troper, Treasurer for the Academy, filed basic financial statements (no footnotes) with the Auditor of State on 11/20/06, within the time required by Ohio Revised Code Section 117.38 (<http://codes.ohio.gov/orc/117.38> and <http://codes.ohio.gov/orc/117.41>). Based on management's read of Section 117.38 there didn't appear to be any requirement to provide full disclosure GAAP financials and management was comfortable with that understanding because the Columbus Auditor of State group that had done the audits for 3 Columbus Schools for 2004-05 accepted the same information in November 2005 and did not identify the schools as unauditible. The Academy's Treasurer doesn't recall any communication from the Auditor of State regarding the different requirements and management believed it had met the reporting requirements up until the Academy received the Unauditible Status letter generated by the Auditor of State. Within 16 days of receiving the Unauditible Status letter, management had submitted the footnotes and GAAP financials for the Academy that the Auditor of State requested in the Unauditible Status letter.

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

(Continued)

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

FINDING NUMBER	2006-001
-----------------------	-----------------

Officials' Response (Continued)

Management now has a clear understanding of what is required and for the year ended 6/30/07, has submitted the required reporting within the timeframe required by the Auditor of State.

Auditor of State Conclusion:

The Officials are correct in that the Auditor of State did not object to annual report submissions for 2004 and 2005 lacking note disclosures. However, on March 26, 2006, the Auditor of State issued Bulletin 2006-02 to community school fiscal officers, which included the requirement:

"Entities must submit the basic financial statements, including the government-wide financial statements, the fund financial statements and the notes to the basic financial statements, Management's Discussion & Analysis, and any other required supplementary information to be considered a complete filing. The AOS will require complete filings beginning with the statements for calendar year 2005 for cities and counties and with the statements for fiscal year 2006 for schools."

FINDING NUMBER	2006-002
-----------------------	-----------------

Books, Records of Accounts, and Minutes

Ohio Revised Code Section 1702.15 provides in part, that each corporation shall keep correct and complete books and records of account, together with minutes of the proceedings of its incorporators, members, directors, and committees of the directors or members.

The Academy did not make available the minute records of the Board of Trustees, proof of Board support of the actions of the management company, and support of the Board approval of employee related transactions. In the absence of the Board minute records it is possible the directives or financial decisions of the Board may not be followed or be misinterpreted.

We recommend the Academy maintain financial records which are complete and based on the decisions of the Board of Trustees.

Officials' Response

Due to significant turnover in Academy leadership at the end of the Academy's first year of operations, official minutes of the meetings of the Academy's Board of Trustees could not be located at the Academy's site. Those minutes contained documentation of Board actions. Official minutes have since been maintained at the Academy's site. Those official minutes now contain the finance reports including statement of net assets, budget to actual revenue and expense reports, bank reconciliations, transaction lists, aged payables listing and copies of management company invoices and accompanying support.

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

(Continued)

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

FINDING NUMBER	2006-003
-----------------------	-----------------

Governing Board Membership

Ohio Rev. Code §3314.02 (E) provides in part for a Governing Board of at least five members.

Based on the information, gathered from the Management Company, the Board was comprised of four members. As a result the Academy was non-compliant with the provisions of this Ohio Revised Code section.

We recommend the Academy take the necessary steps to increase the membership of the Governing Authority to the required number of members.

Officials' Response

The membership of the Governing Board of the Academy has been increased to meet the minimum requirements of the Ohio Revised Code.

FINDING NUMBER	2006-004
-----------------------	-----------------

Development and Implementation of Payroll Processing Procedures

Mosaica Education Incorporated developed payroll policies and procedures to be followed during the payroll process at the Academy. Based on a review of these policies we noted the following:

- Approval signatures of the Regional Vice President, (RVP), Chief Administrative Offices, (CAO), or their designees were type written on the Excel spreadsheet used to record the time worked by the school employees. We were unable to verify the authenticity of who approved the payroll;
- Personnel Action Forms (PAF's) were not always signed by the RVP, CAO, and employee as required by the payroll policies and procedures. Consequently; changes were made to the payroll master file without the required authorizations;
- Payroll records provided by the controller were incomplete. The records provided did not include all Personal Action Forms for five employees;
- The Assistant Controller did not sign the Automated Data Processing (ADP) reports of payroll changes, by pay period and authorizing PAF's as required; and
- The Assistant Controller did not sign the payroll register to authenticate the reconciliation of the payroll to the general ledger.

Without the timely filing of properly completed forms, as outlined in the payroll policies and procedures, errors and omissions could occur and not be detected.

We recommend the following:

- Digital signatures be used to record approval signatures to payroll spreadsheets;

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

(Continued)

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

FINDING NUMBER	2006-004
-----------------------	-----------------

Development and Implementation of Payroll Processing Procedures (Continued)

- A designated individual be responsible for ensuring all required signatures are on the Personnel Action Forms;
- Changes to the payroll standing data, based on the provisions of the policy and procedures for payroll, should not be made until all required signatures are on the form;
- To authenticate the payroll charges of hourly employees all sign in sheets should be filed and safeguarded. When completed the sign in sheets should be signed and dated by the responsible individual and secured as evidence of the accuracy of the payroll spreadsheets prepared;
- Complete payroll records should be maintained by the controller. Based on inquiry of the payroll officer all PAF's are forwarded to the controller when complete. Without a complete set of PAF forms the controller cannot attest to the accuracy of the semi-monthly payroll;
- ADP payroll reports and PAF's should be signed by the assistant controller to verify the accuracy of the posting to the payroll files;
- The CAO or the RVP of the Academy should institute procedures to help ensure the same individual is not preparing the payroll and approving the payroll; and
- Prior to processing the payroll, the employees in the payroll department should ensure the appropriate signatures are affixed to the spreadsheets.

Although the Board contracted with Mosaica Education, Inc. to manage the Academy, the Board should review the payroll process and the final payroll amount to help verify the accuracy of the amount paid. In addition, the Board should participate in setting annual salaries and hourly wages of the employees.

Officials' Response

In response to the Auditor of State recommendations:

- Management has been having the Chief Administrative Officer forward the payroll spreadsheets with their approval of the information being submitted prior to payroll being processed. Since the payroll spreadsheets are excel files that are used for uploading pay information to ADP, management cannot use paper copies.
- The payroll accountant monitors PAFs to ensure that the required signatures are obtained prior to processing for entry into the payroll system.
- Sign in sheets that were unable to be located from the first year of operations are still missing. Site personnel are now maintaining hourly personnel time sheets and sign in logs in the administrative office.
- In the past, PAFs were submitted to the accounting office immediately upon receipt. Management has changed that procedure and payroll is submitting PAFs to accounting after the necessary salary proration calculations have been completed. That way, instead of having PAFs being released prior to accuracy verification and approval verification, the PAFs maintained in accounting match the final PAFs that are processed in payroll.
- The original journal postings maintained in accounting include the name of the accountant that posted the payroll to the accounting records.

ACADEMY OF ARTS AND SCIENCES
LORAIN COUNTY
FOR THE YEAR ENDED JUNE 30, 2006

(Continued)

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

FINDING NUMBER	2006-004
-----------------------	-----------------

Officials' Response

- The procedures that have been in place from the start of the Academy do not permit access to ADP software for anyone outside the payroll department. Accordingly, it is not possible for the site staff that prepare the payroll spreadsheets to also process payroll in ADP.
- As noted in the first recommendation response, prior to the payroll department processing payroll, they receive an e-mail verification that the Chief Administrative Officer has reviewed and approves the payroll spreadsheets as submitted.
- Management agrees that PAFs should be approved and submitted to the payroll department in a timely manner so that personnel are not performing extra duty services with the expectation of compensation without a written agreement clearly communicating the agreed upon pay and approved hours.

Auditor of State Conclusion:

We recognize that some of the above information exists only in electronic format. When information is stored only in electronic form, supervisors should sign the document electronically to document their approval. For example, supervisors can sign Excel spreadsheets by clicking on the *Tools*, *Options*, and *Security* tabs.



Mary Taylor, CPA
Auditor of State

ACADEMY OF ARTS AND SCIENCES

LORAIN COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
SEPTEMBER 30, 2008**