

**A+ ARTS ACADEMY
(A COMPONENT UNIT OF REYNOLDSBURG CITY SCHOOL DISTRICT)
FRANKLIN COUNTY, OHIO**

**BASIC FINANCIAL STATEMENTS
For The Fiscal Year Ended June 30, 2012**



Dave Yost • Auditor of State

Governing Board
A+ Arts Academy
270 South Napoleon Avenue
Columbus, Ohio 43213

We have reviewed the *Independent Accountants' Report* of the A+ Arts Academy, Franklin County, prepared by Kennedy Cottrell Richards LLC, for the audit period July 1, 2011 through June 30, 2012. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them. In conjunction with the work performed by the Independent Public Accountant, the Auditor of State is issuing the following:

Ohio Revised Code § 2921.42(A)(4) states that no public official shall knowingly have an interest in the profits or benefits of a public contract entered into by or for the use of the political subdivision or governmental agency or instrumentality with which the public official is connected.

Ohio Revised Code § 2921.42(C) states that this section does not apply to a public contract in which a public official, member of a public official's family, or one of a public official's business associates has an interest, when all of the following apply:

- (1) The subject of the public contract is necessary supplies or services for the political subdivision or governmental agency or instrumentality involved;
- (2) The supplies or services are unobtainable elsewhere for the same or lower cost, or are being furnished to the political subdivision or governmental agency or instrumentality as part of a continuing course of dealing established prior to the public official's becoming associated with the political subdivision or governmental agency or instrumentality involved;
- (3) The treatment accorded the political subdivision or governmental agency or instrumentality is either preferential to or the same as that accorded other customers or clients in similar transactions;
- (4) The entire transaction is conducted at arm's length, with full knowledge by the political subdivision or governmental agency or instrumentality involved, of the interest of the public official, member of the public official's family, or business associate, and the public official takes no part in the deliberations or decision of the political subdivision or governmental agency or instrumentality with respect to the public contract.

88 East Broad Street, Fifth Floor, Columbus, Ohio 43215-3506
Phone: 614-466-4514 or 800-282-0370 Fax: 614-466-4490

www.ohioauditor.gov

On December 5, 2005 the Board of Directors of the A+ Arts Academy approved to enter into a contract with K & M Kleening Service, Inc. to provide cleaning services for the Academy. The President of K & M Kleening Service, Inc. is Morris Berkley and the Chief Financial Officer is Carolyn Berkley. Carolyn Berkley is the Superintendent of A+ Arts Academy and Morris Berkley is her husband.

The minutes for the December 5, 2005 Board of Director meeting documented that the Academy solicited and collected bids for cleaning services and the bid was award to the lowest bidder, K & M Kleening Service, Inc. The Academy employed the services of K & M Kleening from December 2005 through fiscal year 2012. Documentation was provided to support that the contract was for necessary services; that for 2005, the services were unobtainable elsewhere for the same or lower cost; that the treatment accorded the Academy was the same as that accorded other customers in similar transactions and that the Academy's board members had full knowledge that Ms. Berkley is the CFO, and her husband is the President of K & M Kleening Service, Inc. During fiscal year 2012 the Academy paid K & M Kleening Services, Inc. \$30,598. However, there was no evidence to support that beyond 2005 bids were solicited in subsequent years to ensure that the Academy continued to obtain the lowest cost for these services. The Academy should use some objective price comparison and provide adequate notice to other supplies of the same services in a fair and impartial purchasing process.

A referral will be sent to the Ohio Ethics Commission regarding this matter.

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

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

April 30, 2013

A+ Arts Academy
(A Component Unit of Reynoldsburg City School District)
FRANKLIN COUNTY, OHIO

TABLE OF CONTENTS

Independent Accountants' Report	1
Management's Discussion and Analysis	3
Basic Financial Statements:	
Statement of Net Assets- Cash Basis	7
Statement of Receipts, Disbursements and Changes in Net Assets- Cash Basis	8
Notes to the Basic Financial Statements	9
Schedule of Federal Awards Receipts and Expenditures	22
Notes to the Federal Awards Receipts and Expenditures Schedule	23
Independent Accountants' Report on Internal Control over Financial Reporting and on Compliance and Other matters required by <i>Government Auditing Standards</i>	24
Independent Accountants' Report On Compliance with Requirements Applicable to Each Major Federal Program and Internal Control Over Compliance Required by OMB Circular A-133	26
Schedule of Findings	28
Summary Schedule of Prior Audit Findings	32
Independent Accountants' Report on Applying Agreed upon Procedures	33

This page intentionally left blank.

INDEPENDENT ACCOUNTANTS' REPORT

A+ Arts Academy
Franklin County
270 South Napoleon Avenue
Columbus, Ohio 43213

To the Governing Board:

We have audited the accompanying basic financial statements of the A+ Arts Academy, Franklin County (the Academy), a component unit of the Reynoldsburg City School District, as of and for the year ended June 30, 2012, 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.

Ohio Administrative Code § 117-2-03 (B) requires the Academy to prepare its annual financial report in accordance with accounting principles generally accepted in the United States of America. However, as discussed in Note 2, the accompanying financial statements and notes follow the cash accounting basis. This is a comprehensive basis of accounting other than generally accepted accounting principles. The accompanying financial statements and notes omit assets, liabilities, fund equities, and disclosures that, while material, we cannot determine at this time.

In our opinion, the financial statements referred to above present fairly, in all material respects, the cash financial position of A+ Arts Academy, as of June 30, 2012, and the respective changes in its cash basis financial position for the year then ended in conformity with the accounting basis Note 2 describes.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 11, 2012, 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.

Accounting principles generally accepted in the United States of America require this presentation to include *Management's discussion and analysis*, as 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 have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any other assurance.

We conducted our audit to opine on the financial statements that collectively comprise the Academy's basic financial statements taken as a whole. The Schedule of Federal Awards Receipts and Expenditures provides additional information required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. The Schedule of Federal Awards Receipts and Expenditures is management's responsibility, and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. This schedule was subject to the auditing procedures we applied to the basic financial statements. We also applied certain additional procedures, including comparing and reconciling this information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, in accordance with auditing standards generally accepted in the United States of America. In our opinion, this information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



Kennedy Cottrell Richards LLC
December 11, 2012

A+ Arts Academy
(A Component Unit of Reynoldsburg City School District)
Franklin County, Ohio

Management's Discussion and Analysis
For the Year Ended June 30, 2012
(Unaudited)

The management's discussion and analysis of A+ Arts Academy (the "Academy") financial performance provides an overall review of the Academy's financial activities for the fiscal year ended June 30, 2012. The intent of this discussion and analysis is to look at the Academy's financial performance as a whole. Readers should also review the basic financial statements and the notes to the basic financial statements to enhance their understanding of the Academy's financial performance.

Financial Highlights

Key financial highlights for the Academy during fiscal year 2012 are as follows:

- Net Assets of the Academy were \$273,748 at fiscal year-end, an increase of \$56,021 in comparison with the prior year.

Using the Basic Financial Statements

This annual report is presented in a format consistent with the presentation requirements of Governmental Accounting Standards Board Statement No. 34, as applicable to the Academy's cash basis of accounting.

Report Components

The statement of net assets and the statement of cash receipts, disbursements, and changes in net assets provide information about the Academy as a whole.

The management's discussion and analysis is intended to serve as an introduction to the Academy's basic financial statements. The Academy's basic financial statements are comprised of two components: the financial statements and the notes to the financial statements.

The statement of net assets and the statement of cash receipts, disbursements, and changes in net assets reflect how the Academy did financially during the fiscal year. The change in net assets is important because it tells the reader whether the cash position of the Academy has increased or decreased during the period.

The notes to the financial statements are an integral part of the basic financial statements and provide expanded explanation and detail regarding the information reported in the statements.

A+ Arts Academy
(A Component Unit of Reynoldsburg City School District)
Franklin County, Ohio

Management's Discussion and Analysis
For the Year Ended June 30, 2012
(Unaudited)

Basis of Accounting

The basis of accounting is a set of guidelines that determine when financial events are recorded. The Academy has elected to present its financial statements using the cash basis of accounting. This basis of accounting is a basis of accounting other than accounting principles generally accepted in the United States of America (GAAP). Under the Academy's cash basis of accounting, receipts and disbursements are recorded when cash is received or paid.

As a result of using the cash basis of accounting, certain assets and their related revenues (such as accounts receivable) and certain liabilities and their related expenses (such as accounts payable) are not recorded in the financial statements. Therefore, when reviewing the financial information and discussion within this report, the reader must keep in mind the limitations resulting from the use of the cash basis of accounting.

Table 1 provides a summary of the Academy's net assets for fiscal year 2012 compared to those reported for fiscal year 2011.

Table 1
Net Assets

	2012	As Resated 2011
Assets:		
Current assets	\$ 273,748	\$ 217,727
Total Assets	273,748	217,727
Net Assets:		
Restricted	30,908	33,638
Unrestricted	242,840	184,089
Total Net Assets	\$ 273,748	\$ 217,727

In fiscal year 2011, the Academy prepared its basic financial statements in accordance with accounting principles generally accepted in the United States of America. However, in fiscal year 2012 the Academy decided to prepare the financial statements on the cash basis of accounting. The fiscal year 2011 amounts for tables 1 and 2 have been restated to reflect the change in the basis of accounting.

A+ Arts Academy
(A Component Unit of Reynoldsburg City School District)
Franklin County, Ohio

Management's Discussion and Analysis
For the Year Ended June 30, 2012
(Unaudited)

The total net assets increased \$56,021 during the fiscal year. The following table demonstrates the details of this increase.

Table 2
Change in Net Assets

	2012	As Restated 2011
Operating Receipts:		
State Foundation	\$ 1,924,987	\$ 1,596,557
Tuition and Fees	22,461	20,079
Charges for Services	5,607	6,607
Extracurricular	45,041	32,733
Other	11,973	43,078
Total Receipts	2,010,069	1,699,054
Operating Disbursements:		
Personal Services	1,539,408	1,346,122
Purchased Services	668,201	528,729
Materials and Supplies	189,806	135,252
Other	59,580	37,769
Capital Outlay	46,182	113,059
Total Operating Disbursements	2,503,177	2,160,931
Non-Operating Receipts/Disbursements		
Federal and State Grants	617,491	665,085
Donations	968	3,230
Principal Payments	(36,901)	(34,610)
Interest Payments	(32,429)	(33,253)
Total Non-Operating Receipts/Disbursements	549,129	600,452
Change in Net Assets	56,021	138,575
Net Assets Beginning of Year, as Restated	217,727	79,152
Net Assets End of Year	\$ 273,748	\$ 217,727

The significant increases in State Foundation receipts and Total Operating Disbursements are the result of the Academy's 14% increase in enrollment from fiscal year 2011 to fiscal year 2012.

A+ Arts Academy
(A Component Unit of Reynoldsburg City School District)
Franklin County, Ohio

Management's Discussion and Analysis
For the Year Ended June 30, 2012
(Unaudited)

Budget Highlights

Unlike other public schools located in the State of Ohio, community schools are not required to follow the budgetary provisions set forth in Ohio Rev. Code Chapter 5705, unless specifically provided by the Academy's contract with its Sponsor. The contract between the Academy and its Sponsor prescribes an annual budget requirement as part of preparing a five year forecast, which is updated on an annual basis.

Debt

As of fiscal year-end, the Academy had \$770,784 outstanding for a mortgage loan. The Academy paid \$36,901 on the debt during the fiscal year. See Note 7 for more information.

Current Financial Related Activities

The Academy is sponsored by the Reynoldsburg City School District. The Academy is reliant upon State and Federal Foundation monies to offer quality educational services to students. In order to continually provide learning opportunities to the Academy's students, the Academy will apply resources to best meet the needs of its students. It is the intent of the Academy to apply for other State and Federal funds that are made available to finance its operations.

Contacting the Academy's Financial Management

This financial report is designed to provide our clients 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 questions about this report or need additional financial information contact Michelle White, Treasurer, A+ Arts Academy, 7244 East Main Street, Reynoldsburg, Ohio 43068.

A+ ARTS ACADEMY
(A Component Unit of Reynoldsburg City School District)
FRANKLIN COUNTY, OHIO

STATEMENT OF NET ASSETS - CASH BASIS
JUNE 30, 2012

Assets:

Current Assets	
Equity in Pooled Cash and Cash Equivalents	\$ 273,748
Total Assets	<u>273,748</u>

Net Assets:

Restricted for:	
Food Service Program	1,783
Federally Funded Programs	29,125
Unrestricted	<u>242,840</u>
Total Net Assets	<u>\$ 273,748</u>

See accompanying notes to the basic financial statements and accountant's compilation report.

A+ ARTS ACADEMY
(A Component Unit of Reynoldsburg City School District)
FRANKLIN COUNTY, OHIO

STATEMENT OF RECEIPTS, DISBURSEMENTS AND CHANGES
 IN NET ASSETS - CASH BASIS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2012

Operating Receipts:	
State Foundation	\$ 1,924,987
Tuition and Fees	22,461
Charges for Services	5,607
Extracurricular	45,041
Other	11,973
Total Operating Receipts	<u>2,010,069</u>
Operating Disbursements:	
Salaries and Wages	1,267,171
Fringe Benefits	272,237
Purchased Services	668,201
Materials and Supplies	189,806
Other	59,580
Capital Outlay	46,182
Total Operating Disbursements	<u>2,503,177</u>
Operating Loss	<u>(493,108)</u>
Non-Operating Receipts (Disbursements):	
Federal and State Grants	617,491
Donations	968
Principal Payments	(36,901)
Interest Payments	(32,429)
Total Non-Operating Receipts (Disbursements)	<u>549,129</u>
Change in Net Assets	56,021
Net Assets Beginning of Year, as Restated	217,727
Net Assets End of Year	<u><u>\$ 273,748</u></u>

See accompanying notes to the basic financial statements and accountant's compilation report.

1. Description of the Academy:

The A+ Arts Academy, Franklin County, Ohio (the “Academy”), is a nonprofit corporation established pursuant to Ohio Revised Code Chapters 3314 and 1702 to maintain and provide an Academy exclusively for any educational, literary, scientific and related teaching service. The Academy’s objective is to deliver a unique opportunity for students who show a strong interest or talent in the visual arts which can be delivered to students in grades K - 8. It is to be operated in cooperation with the public schools to provide an appreciation of the visual arts through studies of its history, theory and design. The Academy, which is part of the State’s education program, is nonsectarian in its programs, admissions policies, employment practices, and all other operations. The Academy may acquire facilities as needed and contract for any services necessary for the operation of the school.

The Academy was approved for operation under a contract with the Reynoldsburg City School District (the “Sponsor”) for a period of five academic years commencing after July 1, 2009. 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 is considered a component unit of the Sponsor for reporting purposes, in accordance with Governmental Accounting Standards Board (GASB) Statement No. 14, “The Financial Reporting Entity” as amended by GASB Statement No. 39, “Determining Whether Certain Organizations Are Component Units”.

The Academy operates under the direction of a self-appointed seven-member Governing Board. The Board is responsible for carrying out the provisions of the contract, which include, but are not limited to, State mandated provisions regarding student population, curriculum, academic goals, performance standards, admission standards and qualifications of teachers. The Board controls the Academy’s two instructional/support facilities staffed by 17 non-certified staff members and 29 certified full time teaching personnel who provide services to 286 students.

The Academy’s management believes these financial statements present all activities in which the Academy is financially accountable.

2. Summary of Significant Accounting Policies:

As discussed further in the Basis of Accounting section of this note, these financial statements are presented on a cash basis of accounting. This cash basis of accounting differs from accounting principles generally accepted in the United States of America (GAAP). Generally accepted accounting principles include all relevant Governmental Accounting Standards Board (GASB) pronouncements, which have been applied to the extent they are applicable to the cash basis of accounting. In addition, Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, have been applied, to the extent they are applicable to the cash basis of accounting, unless those pronouncements conflict with or contradict GASB pronouncements, in which case GASB prevails. The Academy does not apply FASB pronouncements issued after November 30, 1989. Following are the more significant of the Academy’s accounting policies.

2. Summary of Significant Accounting Policies (Continued):

A. Basis of Presentation

The Academy uses a single enterprise presentation for its financial statements. The Academy's basic financial statements consist of a statement of net assets and a statement of receipts, disbursements, and changes in net assets.

The Academy's statements distinguish operating transactions from nonoperating transactions. Operating receipts generally result from exchange transactions such as charges for services directly relating to the Academy's principal services. Operating disbursements include costs of sales and services and administrative costs. All other receipts and disbursements are reported as nonoperating.

B. 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 cash basis of accounting. Receipts are recorded in the Academy's financial records and reported in the financial statements when cash is received rather than when earned and disbursements are recorded when cash is paid rather than when a liability is incurred.

As a result of the use of this cash basis of accounting, certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services not yet collected) and certain liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid, and accrued expenses and liabilities) are not recorded in these financial statements.

C. Budgetary Process

Unlike other public schools located in the State of Ohio, community schools are not required to follow budgetary provisions set forth in Ohio Revised Code Chapter 5705, except House Bill 364, which took effect April 8, 2003, added Ohio Revised Code Section 3314.03 (11)(d), which states that community schools must comply with Ohio Revised Code Section 5705.391. This requires each community school to submit to the Ohio Department of Education (ODE) a five year forecast no later than October 31 of each year.

D. Cash and Investments

For purposes of the presentation on the statement of net assets, investments with an original maturity of three months or less at the time they are purchased by the Academy are presented on the financial statements as cash equivalents. Investments with an initial maturity of more than three months at the time they are purchased are reported as investments.

Investments are reported as assets. Accordingly, purchases of investments are not recorded as disbursements, and sales of investments are not recorded as receipts. Gains or losses at the time of sale are recorded as receipts or negative receipts (contra revenue), respectively.

During fiscal year 2012, the Academy had no investments.

2. Summary of Significant Accounting Policies (Continued):

E. Restricted Assets

Assets are reported as restricted when limitations on their use change the normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors or laws or other governments, or are imposed by law through constitutional provisions or enabling legislation. The Academy had no restricted assets at fiscal year-end.

F. Inventory and Prepaid Items

The Academy reports disbursements for inventory and prepaid items when paid. These items are not reflected as assets in the accompanying financial statements.

G. Capital Assets

Acquisitions of property, plant and equipment are recorded as disbursements when paid. These items are not reflected as assets in the accompanying financial statements.

H. Interfund Receivables/Payables

The Academy reports advances-in and advances-out for interfund loans. These items are not reflected as assets and liabilities in the accompanying financial statements.

I. Accumulated Leave

In certain circumstances, such as upon leaving employment or retirement, employees are entitled to cash payments for unused leave. These items are not reflected as liabilities in the accompanying financial statements.

J. Employer Contributions to Cost-Sharing Pension Plans

The Academy recognizes the disbursement for employer contributions to cost-sharing pension plans when they are paid. As described in Notes 8 and 9, the employer contributions include portions for pension benefits and for postretirement health care benefits.

K. Accrued Liabilities and Long-Term Obligations

The Academy's cash basis financial statements do not report liabilities for accrued liabilities and long-term obligations. Proceeds of debt are reported when cash is received and principal and interest payments are reported when paid. Since recording a capital asset when entering into a capital lease is not the result of a cash transaction, neither an other financing source nor a capital outlay expenditure is reported at inception. Lease payments are reported when paid.

2. Summary of Significant Accounting Policies (Continued):

L. 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 external restrictions imposed by creditors, grantors, laws or regulations of other governments, or enabling legislation.

The Academy's policy is to first apply restricted resources when an obligation is incurred for purposes for which both restricted and unrestricted net assets are available.

None of the Academy's restricted net assets were the result of enabling legislation.

3. Change in Basis of Accounting and Restatement of Net Assets

A. Change in Basis of Accounting

For fiscal year 2012, the Academy ceased to report using accounting principles generally accepted in the United States of America and reported on the cash basis as described in Note 2B.

B. Restatement of Net Assets

The implementation of this change had the following effects on net assets of the Academy as they were previously reported.

Net Assets June 30, 2011	\$	353,769
Eliminate Current Assets		(67,036)
Eliminate Capital Assets		(1,029,821)
Eliminate Current Liabilities		177,944
Eliminate Long-Term Liabilities		782,871
Adjusted Net Assets July 1, 2011	\$	<u>217,727</u>

4. Compliance

Ohio Administrative Code, Section 117-2-03 (B), requires the Academy to prepare its annual financial report in accordance with generally accepted accounting principles. However, the Academy prepared its financial statements on a cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The accompanying financial statements omit assets, liabilities, net assets, and disclosures that, while material, cannot be determined at this time. The Academy can be fined and various other administrative remedies may be taken against the Academy.

A+ ARTS ACADEMY
Notes to the Basic Financial Statements
For The Fiscal Year Ended June 30, 2012

5. Deposits

At fiscal year-end, the carrying amount of the Academy's deposits was \$273,748 and the bank balance was \$305,749. The Academy's entire bank balance was covered by the Federal Depository Insurance Corporation.

6. Purchased Services

For the fiscal year ended June 30, 2012, purchased services disbursements were as follows:

Professional & Technical Services	\$	165,525
Property Services & Rentals		242,389
Meeting Expenses		42,933
Postage, Advertsing and Printing		20,539
Utilities		38,172
Purpil Transportation		34,961
Contracted Food Services		121,050
Other Purchased Services		2,632
Total	<u>\$</u>	<u>668,201</u>

7. Mortgage Loan Payable

Changes in the Academy's mortgage loan payable during the fiscal year was as follows:

	<u>Beginning Balance 6/30/2011</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance 6/30/2012</u>	<u>Due Within One Year</u>
Mortgage loan payable	\$ 807,685	\$ -	\$ (36,901)	\$ 770,784	\$ 20,806

Mortgage loan payable: On May 31, 2006 the Academy issued a mortgage loan in the amount of \$915,000 with an interest rate of 8.25% (variable rate) to be repaid over 30 years and it is currently at an interest rate of 3.75%. The loan was issued to purchase a building which is used as classrooms for the Academy. The debt service requirements for the mortgage loan are as follows:

<u>Fiscal Year Ended</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 20,806	\$ 28,549	\$ 49,355
2014	21,600	27,755	49,355
2015	22,424	26,931	49,355
2016	23,280	26,076	49,356
2017	24,168	25,188	49,356
2018-2022	135,394	111,384	246,778
2023-2027	163,268	83,509	246,777
2028-2032	196,881	49,896	246,777
2033-2036	162,963	11,282	174,245
Total	<u>\$ 770,784</u>	<u>\$ 390,570</u>	<u>\$ 1,161,354</u>

8. Sponsorship Agreement with Reynoldsburg City School District

The Academy has entered into a sponsorship agreement with Reynoldsburg City School District (the Sponsor), its Sponsor, whereby, the Sponsor shall receive compensation for services provided to the Academy. The Sponsor shall provide the Academy Treasurer with fiscal oversight and administrative support related to the following:

- A. Support to ensure that the financial records of the Academy are maintained in the same manner as are financial records of school districts, pursuant to rules of the Auditor of State.
- B. Compliance with the policies and procedures regarding internal financial control of the Academy.
- C. Compliance with the requirements and procedures for financial audits by the Auditor of State.

On July 1, 2011, the two parties approved an addendum to the sponsorship agreement to include a provision that calls for the Sponsor to perform all accounting services for the Academy fiscal years 2012 and 2013 for an additional fee.

During the fiscal year, the Academy paid the Sponsor of \$19,230 in sponsorship fee and \$43,000 for accounting services under this agreement. The School also paid the Sponsor \$2,622 for school furniture during fiscal year 2012.

A+ ARTS ACADEMY
Notes to the Basic Financial Statements
For The Fiscal Year Ended June 30, 2012

9. Defined Benefit Pension Plans

A. School Employees Retirement System

Plan Description - The Academy contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing multiple employer defined benefit pension plan. SERS provides retirement and disability, and survivor benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by state statute per Chapter 3309 of the Ohio Revised Code. The School Employees Retirement System issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report can be obtained on SERS' website at www.ohsers.org under Employer/Audit Resources.

Funding Policy - Plan members are required to contribute 10% of their annual covered salary and the Academy is required to contribute 14% of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS' Retirement Board. The Retirement Board acting with the advice of the actuary, allocates the employer contribution rate among four of the funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund) of the system. For fiscal year ending June 30, 2012, the allocation to pension and death benefits is 12.70%. The remaining 1.30% of the 14% employer contribution rate is allocated to the Health Care and Medicare B Funds. The Academy's contributions for pension obligation to SERS for the fiscal years ended June 30, 2012, 2011, and 2010 were \$50,051, \$37,210, and \$28,192, respectively; 100 percent has been contributed for fiscal years' 2012, 2011 and 2010. The Academy's unpaid contribution has been recorded as a liability.

B. State Teachers Retirement System

Plan Description - The Academy contributes to the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement system. STRS Ohio is a statewide retirement plan for licensed teachers and other faculty members employed in the public schools of Ohio or any school, college, university, institution or other agency controlled, managed and supported, in whole or in part, by the state or any political subdivision thereof. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3771, by calling toll-free 1-888-227-7877 or by visiting the STRS Ohio Web site at www.strsoh.org.

Plan Options - New members have a choice of three retirement plan options. In addition to the Defined Benefit (DB) Plan, new members are offered a Defined Contribution (DC) Plan and a Combined Plan. The DC plan allows members to allocate all their member contributions and employer contributions equal to 10.5% of earned compensation among various investment choices. The Combined Plan offers features of the DC Plan and the DB Plan. In the Combined Plan, member contributions are allocated to investment choices by the member, and employer contributions are used to fund a defined benefit payment at a reduced level from the regular DB Plan. Contributions into the DC Plan and the Combined Plan are credited to member accounts as employers submit their payroll information to STRS Ohio, generally on a biweekly basis. DC and Combined Plan members will transfer to the DB Plan during their fifth year of membership unless they permanently select the DC or Combined Plan.

9. Defined Benefit Pension Plans (Continued):

DB Plan Benefits – Plan benefits are established under Chapter 3307 of the Revised Code. Any member may retire who has (i) five years of service credit and attained age 60; (ii) 25 years of service credit and attained age 55; or (iii) 30 years of service credit regardless of age. The annual retirement allowance, payable for life, is the greater of the “formula benefit” or the “money-purchase benefit” calculation. Under the “formula benefit”, the retirement allowance is based on years of credited service and final average salary, which is the average of the member’s three highest salary years. The annual allowance is calculated by using a base percentage of 2.2% multiplied by the total number of years of service credit (including Ohio-valued purchased credit) times the final average salary. The 31st year of earned Ohio service credit is calculated at 2.5%. An additional one-tenth of a percent is added to the calculation for every year of earned Ohio service over 31 years (2.6% for 32 years, 2.7% for 33 years and so on) until 100% of final average salary is reached. For members with 35 or more years of Ohio contributing service, the first 30 years will be calculated at 2.5% instead of 2.2%. Under the “money-purchase benefit” calculation, a member’s lifetime contributions plus interest at specified rates are matched by an equal amount from other STRS Ohio funds. This total is then divided by an actuarially determined annuity factor to determine the maximum annual retirement allowance.

DC Plan Benefits – Benefits are established under Sections 3307.80 to 3307.89 of the Revised Code. For members who select the DC Plan, all member contributions and employer contributions at a rate of 10.5% are placed in an investment account. The member determines how to allocate the member and employer money among various investment choices. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump-sum withdrawal. Employer contributions into members’ accounts are vested after the first anniversary of the first day of paid service. 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.

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

A retiree of STRS Ohio or another Ohio public retirement system is eligible for reemployment as a teacher following the elapse of two months from the date of retirement. Contributions are made by the reemployed member and employer during the reemployment. Upon termination of reemployment or age 65, whichever comes later, the retiree is eligible for an annuity benefit or equivalent lump-sum payment in addition to the original retirement allowance. A reemployed retiree may alternatively receive a refund of only member contributions with interest before age 65, once employment is terminated.

Benefits are increased annually by 3% of the original base amount for DB Plan participants.

9. Defined Benefit Pension Plans (Continued):

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

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

Chapter 3307 of the Revised Code provides statutory authority for member and employer contributions. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers. Contribution requirements and the contributions actually made for the fiscal year ended June 30, 2012, were 10% of covered payroll for members and 14% for employers. The Academy's required contributions for pension obligation for the fiscal years ended June 30, 2012, 2011, and 2010 were \$131,353, \$105,412, and \$66,413, respectively; 100 percent has been contributed for fiscal years' 2012, 2011 and 2010. The Academy's unpaid contribution has been recorded as a liability.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System have an option to choose Social Security or the School Employees Retirement System /State Teachers Retirement System. At fiscal year-end, all members of the Board of Education have elected Social Security. The Board's liability is 6.2% of wages paid.

10. Postemployment Benefits

A. School Employees Retirement System

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

Medicare Part B Plan – The Medicare B plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries as set forth in Ohio Revised Code (ORC) 3309.69. Qualified benefit recipients who pay Medicare Part B premiums may apply for and receive a monthly reimbursement from SERS. The reimbursement amount is limited by statute to the lesser of the January 1, 1999 Medicare Part B premium or the current premium. The Medicare Part B monthly premium for calendar year 2012 was \$99.90 for most participants, but could be as high as \$319.70 per month depending on their income. SERS' reimbursement to retirees was \$45.50.

10. Postemployment Benefits (continued)

The Retirement Board, acting with the advice of the actuary, allocates a portion of the current employer contribution rate to the Medicare B Fund. For fiscal year 2012, the actuarially required allocation is .75%. The Academy's required contributions to the Medicare B Fund for the fiscal years ended June 30, 2012, 2011, and 2010 were \$2,477, \$2,395, and \$1,677, respectively; the Academy has contributed 100 percent for fiscal years' 2012, 2011 and 2010.

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

The ORC provides the statutory authority to fund SERS' postemployment benefits through employer contributions. Active members do not make contributions to the postemployment benefit plans.

The Health Care Fund was established under, and is administered in accordance with Internal Revenue Code 105(e). Each year after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer 14% contribution to the Health Care Fund. For the year ended June 30, 2012, the health care allocation is .55%. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. State law provides that no employer shall pay a health care surcharge greater than 2% of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5% of the total statewide SERS-covered payroll for the health care surcharge. For fiscal year 2012, the minimum compensation level was established at \$35,800. The surcharge, added to the unallocated portion of the 14% employer contribution rate is the total amount assigned to the Health Care Fund. The Academy's required contributions assigned to health care, including the surcharge, for the fiscal years ended June 30, 2012, 2011, and 2010 were \$5,631, \$8,320, and \$3,576, respectively; 100 percent has been contributed for fiscal years' 2012, 2011 and 2010.

The SERS Retirement Board establishes the rules for the premiums paid by the retirees for health care coverage for themselves and their dependents or for their surviving beneficiaries. Premiums vary depending on the plan selected, qualified years of service, Medicare eligibility, and retirement status. The financial reports of SERS' Health Care and Medicare B plans are included in its *Comprehensive Annual Financial Report*. The report can be obtained on SERS' website at www.ohsers.org under Employers/Audit Resources.

B. State Teachers Retirement System of Ohio

Plan Description - The Academy contributes to the cost-sharing, multiple employer postemployment benefit Health Plan (the "Plan") administered by the State Teachers Retirement System of Ohio (STRS Ohio) for eligible retirees who participated in the defined benefit or combined pension plans offered by STRS Ohio. Benefits include hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare Part B premiums. The Plan is included in the report of STRS Ohio which may be obtained by calling 1-888-227-7877, or by visiting the STRS Ohio web site at www.strsoh.org.

A+ ARTS ACADEMY
Notes to the Basic Financial Statements
For The Fiscal Year Ended June 30, 2012

10. Postemployment Benefits (continued)

Funding Policy – Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For 2012, STRS Ohio allocated employer contributions equal to 1% of covered payroll to post-employment health care. The Academy’s required contributions for health care for the fiscal years ended June 30, 2012, 2011 and 2010 were \$9,382, \$8,109, and \$5,109, respectively; 100 percent has been contributed for fiscal years’ 2012, 2011 and 2010.

11. Other Employee Benefits

A. Medical, Life, Dental and Vision Insurance Benefits

The Academy provides medical benefits through Anthem. The Academy offers individual and family health plans. The Board pays 75% of the premium amounts for single coverage. Employees pay the entire premium for family coverage.

12. Risk Management

A. Property and Liability

The Academy is exposed to various risks of loss related to torts; theft of damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Academy maintains insurance coverage for rental/theft, general liability and contents liability.

The Academy has coverage for employee dishonesty, forgery and alternation coverage and computer equipment.

<u>Coverage</u>	<u>Insurer</u>	<u>Coverage</u>	<u>Deductible</u>
Education liability:			
Each occurrence	Ohio Casualty	\$ 1,000,000	\$ -
Aggregate		2,000,000	-
Building and Contents	Ohio Casualty	1,329,468	1,000
Personal Property	Ohio Casualty	200,000	1,000

Property coverage is part of a blanket limit with a total of \$1,000 deductible per loss. There have been no claims for the past three years. There has been no significant reduction in the amount of insurance coverage from fiscal year 2011.

B. Workers’ Compensation

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

A+ ARTS ACADEMY
Notes to the Basic Financial Statements
For The Fiscal Year Ended June 30, 2012

13. Contingent Liabilities

A. Grants

Amounts grantor agencies pay to the Academy are subject to audit and adjustment by the grantor, principally the federal government. Grantors may require refunding any disallowed costs. Management cannot presently determine amounts grantors may disallow. However, based on prior experience, management believes any refunds would be immaterial.

B. State Foundation Funding

The Ohio Department of Education (ODE) 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 School does not anticipate any material adjustment for fiscal year 2012 as a result of such review.

C. Litigation

The Academy is not a party to legal proceedings that, in the opinion of management, would have a material adverse effect on the financial statements.

D. Student Attendance Data Review

The Auditor of State is currently performing a statewide review of supporting documentation for student attendance data reported to the Ohio Department of Education. The results of this review are still pending and will be reported separately to the Ohio Department of Education at a later date.

The School received financial assistance from federal and State agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. This also encompasses the Auditor of State's ongoing review of student attendance data. However, the effect of any such disallowed claims on the overall financial position of the School at June 30, 2012, if applicable, cannot be determined at this time.

14. Space Sharing Agreement

On August 11, the Academy and My Brother's Keeper, a Human Services Corp., entered into a space sharing rental agreement. The rental agreement is for administrative and classroom space located at Hermon Missionary Baptist Church in Columbus, Ohio. The Academy paid rental payments in the amount of \$159,390 during the fiscal year. This additional space is used to expand the Academy's operations to include grades K-5. The Academy has extended the lease for fiscal year 2013.

A+ ARTS ACADEMY
Notes to the Basic Financial Statements
For The Fiscal Year Ended June 30, 2012

15. Subsequent Event

On June 8, 2012, the Academy entered into a contract for the purchase of additional school space located at 220-250 Napoleon Ave, Columbus, Ohio 43213 for a purchase price of \$750,000. As of June 30, 2012, this contract is contingent upon the Academy being able to obtain suitable financing.

16. Related Party Transactions

During FY2012, the Academy contracted with K&M Kleening for cleaning services. This company is owned by Morris Berkley, Carolyn Berkley's (Superintendent of A+ Arts Academy) husband. Carolyn Berkley is also the Chief Financial Officer of K&M Kleening. During FY2012, A+ Arts Academy paid K&M Kleening \$30,598.34.

**A+ ARTS ACADEMY
FRANKLIN COUNTY, OHIO**

**SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2012**

Federal grantor/Pass through grantor/Program title	Federal CFDA Number	Grant Year	Receipts	Expenditures
<u>U.S. DEPARTMENT OF AGRICULTURE</u>				
<i>Pass-through Ohio Department of Education:</i>				
Nutrition Cluster:				
School Breakfast Program	10.553	2012	\$ 32,917	\$ 32,917
National School Lunch Program	10.555	2012	93,478	93,478
Total U.S. Department of Agriculture			<u>126,395</u>	<u>126,395</u>
<u>U.S. DEPARTMENT OF EDUCATION</u>				
<i>Pass-through Ohio Department of Education:</i>				
Title I Cluster				
School Improvement, Sub A Title I	84.010	2011	14,043	15,902
School Improvement, Sub A Title I	84.010	2012	66,542	82,146
Title I Grants to Local Education Agencies	84.010	2011	12,191	22,061
Title I Grants to Local Education Agencies	84.010	2012	203,041	195,827
Total Title I Cluster			<u>295,817</u>	<u>315,936</u>
Special Education-Grants to States	84.027	2011	(71)	1,118
Special Education-Grants to States	84.027	2012	43,114	43,161
Total Special Education- Grants to States			<u>43,043</u>	<u>44,279</u>
Safe and Drug Free Schools and Communities	84.186	2012	75,000	75,000
Total Safe and Drug Free Schools and Communities			<u>75,000</u>	<u>75,000</u>
Title II-D Technology Fund	84.318	2012	55	1,620
Total Title II-D Technology Fund			<u>55</u>	<u>1,620</u>
Title II-A - Improving Teacher Quality	84.367	2011	1,161	2,133
Title II-A - Improving Teacher Quality	84.367	2012	2,275	2,275
Total Title II-A Improving Teacher Quality			<u>3,436</u>	<u>4,408</u>
School Improvement Grants	84.377	2010	-	1,706
School Improvement Grants	84.377	2011	-	2,406
Total Title I School Improvement			<u>-</u>	<u>4,112</u>
ARRA- Race to the Top	84.395	2011	11,985	1,114
ARRA- Race to the Top	84.395	2012	11,470	11,615
Total ARRA- Race to the Top			<u>23,455</u>	<u>12,729</u>
Education Jobs Fund	84.410	2011	(10,330)	1,528
Education Jobs Fund	84.410	2012	55,098	49,758
Total Education Jobs Fund			<u>44,768</u>	<u>51,286</u>
Total U.S. Department of Education			<u>485,574</u>	<u>509,370</u>
Summer Enrichment Camp	93.558	2012	-	1,968
Total Summer Enrichment Camp			<u>-</u>	<u>1,968</u>
Total U.S. Department of Health and Human Services			<u>-</u>	<u>1,968</u>
Totals			<u>\$ 611,969</u>	<u>\$ 637,733</u>

See accompanying notes to the Schedule of Federal Awards Receipts and Expenditures.

**A+ ARTS ACADEMY
FRANKLIN COUNTY, OHIO**

**NOTES TO THE FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE
FISCAL YEAR JUNE 30, 2012**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

The accompanying Federal Awards Expenditures Schedule (the Schedule) reports the A+ Arts Academy's (the Academy's) federal award programs' receipts and disbursements. The schedule has been prepared on the cash basis of accounting.

NOTE B - CHILD NUTRITION CLUSTER

The Academy commingles cash receipts from the U.S. Department of Agriculture with similar State grants. When reporting expenditures on this Schedule, the Academy assumes it expends federal monies first.

NOTE C - TRANSFERS BETWEEN PROGRAM YEARS

Federal regulations require schools to obligate certain federal awards by June 30. However, with ODE's consent, schools can transfer unobligated amounts to the subsequent fiscal year's program. These transfers resulted in the Schedule reporting negative receipts. The Academy transferred the following amounts from 2011 to 2012 programs:

<u>Program Title</u>	<u>CFDA Number</u>	<u>Amount Transferred from 2011 to 2012</u>
Title I Grants to Local Educational Agencies	84.010	\$ 1,033
Special Education - Grants to States	84.027	71
Education Jobs Fund	84.410	10,330
ARRA- Race to the Top	84.365	1,000

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

A+ Arts Academy
Franklin County
270 South Napoleon Avenue
Columbus, Ohio 43213

To the Governing Board:

We have audited the financial statements of the A+ Arts Academy, Franklin County, (the Academy), a component unit of the Reynoldsburg City School District, as of and for the year ended June 30, 2012, and have issued our report thereon dated December 11, 2012, wherein we noted that the Academy reports on the cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

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

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 more than a reasonable possibility that a material misstatement of the Academy's financial statements will not be prevented, or detected and timely corrected.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider material weaknesses, as defined above.

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 we must report under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 2012-01 and 2012-02.

Independent Accountants' Report on Internal Control
Over Financial Reporting and on Compliance and
Other Matters Required by *Government Auditing Standards*
Page 2

The Academy's responses to the findings identified in our audit are described in the accompanying schedule of findings. We did not audit the Academy's responses and, accordingly, we express no opinion on them.

We did note a certain matter not requiring inclusion in this report that we reported to the Academy's management in a separate letter dated December 11, 2012.

We intend this report solely for the information and use of management, the Board of Directors, the Community School's sponsor, and federal awarding agencies and pass-through entities, and others within the Academy. We intend it for no one other than these specified parties.

A handwritten signature in cursive script that reads "Kennedy Cottrell Richards LLC".

Kennedy Cottrell Richards LLC
December 11, 2012

**INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE REQUIRED BY OMB CIRCULAR A-133**

A+ Arts Academy
Franklin County
270 South Napoleon Avenue
Columbus, Ohio 43213

To the Governing Board:

Compliance

We have audited the compliance of A+ Arts Academy, Franklin County, (the Academy), a component unit of the Reynoldsburg City School District, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133, Compliance Supplement* that could directly and materially affect each of the Academy's major federal programs for the year ended June 30, 2012. The *summary of auditor's results* section of the accompanying schedule of findings identifies the Academy's major federal programs. The Academy's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to each major federal program. Our responsibility is to opine on the Academy's compliance based on our audit.

Our compliance audit followed auditing standards generally accepted in the United States of America; the standards applicable to financial audits included in the Comptroller General of the United States' *Government Auditing Standards*; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. These standards and OMB Circular A-133 require that we plan and perform the audit to reasonably assure whether noncompliance occurred with the compliance requirements referred to above that could directly and materially affect a major federal program. An audit includes examining, on a test basis, evidence about the Academy's compliance with these requirements and performing other procedures we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Academy's compliance with these requirements.

In our opinion, the A+ Arts Academy complied, in all material respects, with the requirements referred to above that could directly and materially affect each of its major federal programs for the year June 30, 2012.

Internal Control Over Compliance

The Academy's management is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Academy's internal control over compliance with the requirements that could directly and materially affect a major federal program, to determine our auditing procedures for the purpose of expressing our opinion on compliance, and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of opining on the effectiveness of internal control over compliance. Accordingly, we have not opined on the effectiveness of the Academy's internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, when performing their assigned functions, to prevent, or to timely detect and correct, noncompliance with a federal program compliance requirement. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a federal program compliance requirement will not be prevented, or timely detected and corrected.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, we identified a certain deficiency in internal control over compliance that we consider to be a significant deficiency, described in the accompanying schedule of findings as item 2012-03. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a federal program compliance requirement that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

The Academy's response to the finding we identified is described in the accompanying schedule of findings. We did not audit the Academy's response and, accordingly, we express no opinion on it.

We intend this report solely for the information and use of management, the Board of Directors, the Community School's sponsor, others within the entity, federal awarding agencies, and pass-through entities. It is not intended for anyone other than these specified parties.



Kennedy Cottrell Richards LLC
December 11, 2012

**A+ ARTS ACADEMY
FRANKLIN COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A-133 § .505
JUNE 30, 2012**

1. SUMMARY OF AUDITOR'S RESULTS
--

(d)(1)(i)	Type of Financial Statement Opinion	Unqualified
(d)(1)(ii)	Were there any material internal control weaknesses reported at the financial statement level (GAGAS)?	No
(d)(1)(ii)	Were there any other significant deficiencies in internal control reported at the financial statement level (GAGAS)?	No
(d)(1)(iii)	Was there any reported material noncompliance at the financial statement level (GAGAS)?	Yes
(d)(1)(iv)	Were there any material internal control weaknesses reported for major federal programs?	No
(d)(1)(iv)	Were there any other significant deficiencies in internal control reported for major federal programs?	Yes
(d)(1)(v)	Type of Major Programs' Compliance Opinion	Unqualified
(d)(1)(vi)	Are there any reportable findings under § .510(a) of Circular A-133?	Yes
(d)(1)(vii)	Major Programs (list):	Title I Cluster CFDA # 84.010 Education Jobs Fund CFDA # 84.410
(d)(1)(viii)	Dollar Threshold: Type A/B Programs	Type A: > \$300,000 Type B: All others
(d)(1)(ix)	Low Risk Auditee?	No

**A+ ARTS ACADEMY
FRANKLIN COUNTY**

SCHEDULE OF FINDINGS

**JUNE 30, 2012
(Continued)**

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

FINDING NUMBER 2012-01

Noncompliance – Borrowing

Ohio Revised Code Section 3314.08(J)(1)(b) states that a school may borrow money for a term not to exceed fifteen years to acquire facilities.

The Academy entered into an agreement in a prior fiscal year to acquire facilities for a term of thirty years.

The Academy is borrowing money in excess of the fifteen year limit which is not in accordance with Ohio Revised Code Section 3314.08(J)(1)(b).

We recommend that Academy officials take steps to monitor debt and determine there is no debt contradicting Ohio Revised Code Section 3314.08(J)(1)(b) at fiscal year end.

Officials Response:

The Board has instructed the Treasurer to pay an additional \$1,000 towards the principal on this loan in order to pay off the loan before the stated thirty year term in the mortgage agreement. However, these increased payments will not pay off the loan within the required fifteen year limit. In order to comply with this Ohio Revised Code, the Board is considering gradually increasing the mortgage payments in future years.

FINDING NUMBER 2012-02

Noncompliance– Basis of Accounting

Ohio Administrative Code Section 117-2-03 (B) states “All counties, cities and school districts, including educational service centers and community schools, shall file annual financial reports which are prepared using generally accepted accounting principles.”

The Academy prepared its financial statements on a cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. To be in compliance with the Ohio Administrative Code, the Academy should use generally accepted accounting principles in future annual financial reports.

Officials Response:

The Academy will prepare GAAP basis financial statements for fiscal year 2013.

**A+ ARTS ACADEMY
FRANKLIN COUNTY**

SCHEDULE OF FINDINGS

**JUNE 30, 2012
(Continued)**

3. FINDINGS FOR FEDERAL AWARDS

Finding Number	2012-03
CFDA Title and Number	Title I - CFDA # 84.010 and 84.389
Federal Award Number/Year	2012
Federal Agency	Department of Education
Pass-Through Agency	Ohio Department of Education

Significant Deficiency: Title I Eligibility Determinations

Title I, Section 1113 of Elementary School and Secondary Education Act (ESEA) (20 USC 6313) states that Title I, Part A funds received under this part shall use funds received under this part only in a school attendance area in which the percentage of children from low-income families is at least as high as the percentage of children from low-income families in the local educational agency as a whole.

To identify eligible school attendance areas, the local educational agency shall use the same measure of poverty, which measure shall be the number of children ages 5 through 17 in poverty counted in the most recent census data approved by the Secretary, the number of children eligible for free and reduced priced lunches under the Richard B. Russell National School Lunch Act, the number of children in families receiving assistance under the State program funded under part A of title IV of the Social Security Act, or the number of children eligible to receive medical assistance under the Medicaid program, or a composite of such indicators, with respect to all school attendance areas in the local educational agency.

For fiscal year 2012, the Academy elected to measure its poverty level by the number of children eligible for free and reduced priced lunches under the Richard B. Russell National School Lunch Act.

7 CFR 245.6 provides that each child receiving free and reduced lunches must annually submit an application to the School. The School must then certify a child's family income and family size and place him/her within income eligibility standards issued by the Office of Food Nutrition Services. The application must be approved and maintained on file.

The Academy uses the Food Service Solutions computer system to determine the eligibility of students. The information from the students' Free/Reduced Applications is entered into the system which determines whether the student is ineligible, eligible for free lunches or eligible for reduced lunches. Another employee of the Academy performs a secondary review of a sample of students' applications to ensure the information was properly entered into the system and the correct eligibility determination was made, however, there is no documentation to support the secondary review.

We recommend the Academy maintain documentation of the secondary review of the free/reduced eligibility determinations.

**A+ ARTS ACADEMY
FRANKLIN COUNTY**

SCHEDULE OF FINDINGS

**JUNE 30, 2012
(Continued)**

FINDING NUMBER 2012-03 (Continued)

Officials Response and Corrective Action Plan:

The Academy will implement procedures to ensure supporting documentation related to eligibility determinations is maintained.

**A+ ARTS ACADEMY
FRANKLIN COUNTY, OHIO**

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

JUNE 30, 2012

<u>Fiscal Year</u>	<u>Finding Number</u>	<u>Finding Summary</u>	<u>Status</u>
2011	2011-01	Noncompliance Borrowing	Not Corrected. Repeated as finding 2012-01.
2011	2011-02	Noncompliance Student Enrollment and Withdrawal Policies	Corrected.
2011	2011-03	Noncompliance- Governing Board	Corrected.
2011	2010-04 and 2011-08	Non-compliance Community School Sponsorship Contract	Corrected.
2011	2011-05 and 2011-06	Noncompliance/Questioned Costs/Significant Deficiency- Payroll Disbursements	Corrected.
2011	2011-07	Significant Deficiency- Purchasing Authorization Controls	Corrected.
2011	2011-09	Significant Deficiency/ Noncompliance- Equipment Management	Corrected.
2011	2011-10	Significant Deficiency- Title I Eligibility Determinations	Partially Corrected. Repeated as finding 2012-03.

Independent Accountants' Report on Applying Agreed-Upon Procedure

Governing Board
A+ Arts Academy
Franklin County
270 South Napoleon Avenue
Columbus, Ohio 43213

To the Governing Board:

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

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

1. We noted the Academy did not amend its anti-harassment policy to include violence within a dating relationship within its definition of harassment, intimidation or bullying.

Ohio Rev. Code Section 3313.666 required the School to amend its definition by September 28, 2010.

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

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



Kennedy Cottrell Richards LLC
December 11, 2012

This page intentionally left blank.



Dave Yost • Auditor of State

A+ ARTS ACADEMY

FRANKLIN 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 14, 2013**