



Dave Yost • Auditor of State



FALCON ACADEMY OF CREATIVE ARTS  
PORTAGE COUNTY

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# Dave Yost • Auditor of State

## INDEPENDENT AUDITOR'S REPORT

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

To the Board of Directors:

### ***Report on the Financial Statements***

We have audited the accompanying financial statements of Falcon Academy of Creative Arts, Portage County, Ohio (the Academy), as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Academy's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for preparing and fairly presenting these financial statements in accordance with the cash accounting basis Note 2 describes. This responsibility includes determining that the cash accounting basis is acceptable for the circumstances. Management is also responsible for designing, implementing and maintaining internal control relevant to preparing and fairly presenting financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditor's Responsibility***

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

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

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

**Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash financial position of Falcon Academy of Creative Arts, Portage County, Ohio, as of June 30, 2015, and the respective changes in cash financial position and where applicable, cash flows thereof for the year then ended in accordance with the accounting basis described in Note 2.

**Accounting Basis**

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. We draw attention to Note 2 of the financial statements, which describes the basis applied to these statements. The financial statements are prepared on the cash basis of accounting, which is a basis other than generally accepted accounting principles. We did not modify our opinion regarding this matter.

**Emphasis of Matter**

As discussed in Note 11 to the financial statements, during 2015, the Academy has elected to change its financial presentation to a cash basis comparable to the requirements of *Governmental Accounting Standards*. We did not modify our opinion regarding this matter.

Also, as disclosed in Note 9 to the financial statements, the Academy formally ceased operations on July 1, 2015. We did not modify our opinion regarding this matter.

**Other Matters**

*Supplemental and Other Information*

We applied no procedures to the Management's Discussion & Analysis presented on pages 3-6 of the report, and accordingly, we express no opinion or any other assurance on it.

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated January 19, 2016, on our consideration of the Academy's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Academy's internal control over financial reporting and compliance.



**Dave Yost**  
Auditor of State  
Columbus, Ohio

January 19, 2016

**Falcon Academy of Creative Arts**  
**Portage County, Ohio**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2015*  
*(Unaudited)*

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This discussion and analysis of the Falcon Academy of Creative Arts (the "Academy") financial performance provides an overall review of the Academy's financial activities for the period ended June 30, 2015. Readers should also review the basic financial statements and notes to enhance their understanding of the Academy's financial performance.

**Highlights**

Key financial highlights for the period ended 2015 are as follows:

- Net position totaled \$47,977, which is a decrease of \$91,982 from the period ending June 30, 2014.
- The Academy has suspended operations as of June 30, 2015 per board resolution.

**Using this Annual Financial Report**

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

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

The Academy has elected to present its financial statements on the cash basis of accounting. This cash basis of accounting is a comprehensive basis of accounting other than generally accepted accounting principles. The cash basis of accounting involves the measurement of cash and cash equivalents and changes in cash and cash equivalents resulting from cash receipt and disbursement transactions.

Essentially, the only assets reported on this strictly cash receipt and disbursement basis presentation in a statement of net position will be cash and cash equivalents. The *Statement of Revenues, Disbursements, and Changes in Net Position* reports cash receipts and disbursements, or in other words, the sources and uses of cash and cash equivalents. Therefore, when reviewing the financial information and discussion within this annual report, the reader should keep in mind the limitations resulting from the use of the cash basis of accounting.

The Academy is not required to present government-wide financial statements as the Academy is engaged in only business-type activities. Therefore, no condensed financial information derived from government-wide financial statements is included in the discussion and analysis. The following tables represent the Academy's condensed financial information derived from the Statement of Net Position – Cash Basis and the Statement of Receipts, Disbursements and Changes in Net Position – Cash Basis.

**Falcon Academy of Creative Arts**  
**Portage County, Ohio**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2015*  
*(Unaudited)*

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Table 1 provides a summary of the Academy's net position as of June 30, 2015 and 2014 as follows:

**Table 1**  
**Net Position - Cash Basis**

|                               | <b>2015</b> | <b>Restated<br/>2014</b> |
|-------------------------------|-------------|--------------------------|
| <b>Assets</b>                 |             |                          |
| Current and Other Assets      | \$ 47,977   | \$ 139,959               |
| Total Assets                  | \$ 47,977   | \$ 139,959               |
| <b>Net Position</b>           |             |                          |
| Restricted for Other Purposes | 7           | 7                        |
| Unrestricted                  | 47,970      | 139,952                  |
| Total Net Position            | \$ 47,977   | \$ 139,959               |

Net position decreased \$91,982, which represents a 66% decrease from fiscal year 2014.

A portion of the Academy's net position, \$7 or .01%, represents resources subject to external restrictions on how they may be used. The remaining balance of the unrestricted net position of \$47,970 may be used to meet the Academy's ongoing obligations.

A significant decrease in cash of \$91,982 was primarily due an increase in services purchased through Field Local School District.

**Falcon Academy of Creative Arts**  
**Portage County, Ohio**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2015*  
*(Unaudited)*

Table 2 shows the changes in net position for the year ended June 30, 2015 and the period ended June 30, 2014 as well as a listing of revenues and expenses.

**Table 2**  
**Changes in Net Position - Cash Basis**

|                             | <b>2015</b>  | <b>2014*</b> |
|-----------------------------|--------------|--------------|
| <b>Receipts</b>             |              |              |
| Operating Receipts          | \$ 1,336,847 | \$ 1,287,078 |
| Non-Operating Receipts      | 38,025       | 88,657       |
| Total Receipts              | 1,374,872    | 1,375,735    |
| <b>Disbursements</b>        |              |              |
| Purchased Services          | 1,384,659    | 1,208,334    |
| Materials and Supplies      | 35,091       | 42,549       |
| Depreciation                | 0            | 10,901       |
| Capital outlay              | 2,583        | 0            |
| Other                       | 36,121       | 67,994       |
| Non-Operating Disbursements | 8,400        | 0            |
| Total Disbursements         | 1,466,854    | 1,329,778    |
| Change in Net Position      | \$ (91,982)  | \$ 45,957    |

\*Excludes the restatement of changes in net position (See Note 11). Amount was not significant and would not impact the analysis.

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

Operating receipts increased approximately \$49,769 over the period ending June 30, 2014 mainly due to an increase in State foundation revenue as a result of increased enrollment.

Non-operating receipts decreased approximately \$50,632 mainly due to a decrease in state and federal grants.

Operating disbursements increased approximately \$137,076 mainly due to an increase in purchased services provided by Field Local School District.

**Falcon Academy of Creative Arts**  
**Portage County, Ohio**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2015*  
*(Unaudited)*

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**Budgeting**

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

**Contacting the Academy's Financial Management:**

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

**Falcon Academy of Creative Arts**  
**Portage County, Ohio**  
*Statement of Net Position - Cash Basis*  
*June 30, 2015*

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|  |                  |
|--|------------------|
| <b>Assets</b>                              |                  |
| Equity in pooled cash and cash equivalents | \$ 47,977        |
| <i>Total assets</i>                        | <u>47,977</u>    |
| <b>Net Position</b>                        |                  |
| Restricted for other purposes              | \$ 7             |
| Unrestricted                               | <u>47,970</u>    |
| <i>Total net position</i>                  | <u>\$ 47,977</u> |

See accompanying notes to the basic financial statements.

**Falcon Academy of Creative Arts  
Portage County, Ohio**

*Statement of Receipts, Disbursements and Changes in Net Position - Cash Basis  
For the Fiscal Year Ended June 30, 2015*

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|   |                         |
|---|-------------------------|
| <b>Operating receipts</b>   |                         |
| Charges for services  | \$ 6,600                |
| State foundation payments   | 1,302,929               |
| Other operating receipts  | <u>27,318</u>           |
| <i>Total operating receipts</i>                                   | <u>1,336,847</u>        |
| <b>Operating disbursements</b>                                    |                         |
| Purchased services  | 1,384,659               |
| Materials and supplies  | 35,091                  |
| Capital outlay  | 2,583                   |
| Other operating disbursements                                     | <u>36,121</u>           |
| <i>Total operating disbursements</i>                              | <u>1,458,454</u>        |
| <i>Excess of receipts over (under) disbursements</i>              | (121,607)               |
| <b>Non operating receipts (disbursements)</b>                     |                         |
| State and Federal grants  | 38,025                  |
| Principal retirement  | <u>(8,400)</u>          |
| <i>Total non-operating receipts (disbursements)</i>               | <u>29,625</u>           |
| <i>Change in net position</i>                                     | (91,982)                |
| <i>Net position at beginning of year (Restated - See Note 11)</i> | <u>139,959</u>          |
| <i>Net position at the end of the year</i>                        | <u><u>\$ 47,977</u></u> |

See accompanying notes to the basic financial statements.

**Falcon Academy of Creative Arts**  
**Portage County, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2015*

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**NOTE 1 - DESCRIPTION OF THE ACADEMY AND REPORTING ENTITY**

Falcon Academy of Creative Arts (the “Academy”) is a nonprofit corporation established pursuant to Ohio Revised Code Sections 3314 and 1702 to educate students in kindergarten through twelfth grade. The Academy, which is part of the State’s education program, is independent of any school district and is nonsectarian in its programs, admission policies, employment practices, and all other operations. The Academy may sue and be sued, acquire facilities as needed, and contract for any services necessary for the operation of the Academy.

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

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

As discussed further in this note, these financial statements are presented on the cash basis of accounting. The 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. The Academy’s significant accounting policies are described below.

***A. Basis of Accounting***

Although required by Ohio Administrative Code Sections 117-2-03(B) to prepare its annual financial report in accordance with generally accepted accounting principles (GAAP), the Academy chooses to prepare its financial statements and notes in accordance with the cash basis of accounting. This basis of accounting is similar to the cash receipts and disbursements basis of accounting. Receipts are recognized when received in cash rather than when earned, and disbursements are recognized when paid rather than when a liability is incurred.

These statements include adequate disclosure of material matters, in accordance with the basis of accounting described in the preceding paragraph.

***B. Basis of Presentation***

Enterprise accounting is used to account for operations that are financed and operated in a manner similar to private business enterprises where the intent is that the costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges. The Academy’s basic financial statements consist of a Statement of Net Position - Cash Basis and a Statement of Receipts, Disbursements and Change in Net Position - Cash Basis.

**Falcon Academy of Creative Arts**  
**Portage County, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2015*

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

***D. Tax Exemption Status***

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

***E. Cash***

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

***F. Capital Assets and Depreciation***

Acquisitions of property, plant, and equipment are recorded as disbursements when paid. These items are not reflected as assets on the accompanying cash basis financial statements. Depreciation is not recorded on these capital assets.

***G. Intergovernmental Receipts***

The Academy currently participates in the State Foundation Program and the State Special Education Program. Receipts received from the State Foundation Program are recognized as operating receipts in the accounting period in which the entitlement is received. Receipts received from the State Special Education Program and other grants and entitlements are recognized as non-operating receipts in the accounting period in which the entitlement is received.

***H. Receipts and Disbursements***

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

***I. Implementation of New Accounting Principles***

For the fiscal year ended June 30, 2015, the Academy has implemented Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27*, 69, *Government Combinations and Disposals of Government Operations* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - An Amendment of GASB Statement No. 68*.

**Falcon Academy of Creative Arts**  
**Portage County, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2015*

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GASB Statement No. 68 requires recognition of the entire net pension liability and a more comprehensive measure of pension expense for defined benefit pensions and defined contribution pensions provided to the employees of state and local governmental employers through pension plans that are administered through trusts or equivalent arrangements. The implementation of GASB Statement No. 68 did not have an effect on the financial statements of the Academy.

GASB Statement No. 69 addresses accounting and financial reporting for government combinations (including mergers, acquisitions and transfers of operations) and disposals of government operations. The implementation of GASB Statement No. 69 did not have an effect on the financial statements of the Academy.

GASB Statement No. 71 amends paragraph 137 of GASB Statement No. 68 to require that, at transition, a government recognize a beginning deferred outflow of resources for its pension contributions, if any, made subsequent to the measurement date of the beginning net pension liability. The provisions of this Statement are required to be applied simultaneously with the provisions of Statement 68. The implementation of GASB Statement No. 71 did not have an effect on the financial statements of the Academy.

### **NOTE 3 - DEPOSITS**

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

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

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

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

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

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

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;

**Falcon Academy of Creative Arts**  
**Portage County, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2015*

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

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

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

**Falcon Academy of Creative Arts**  
**Portage County, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2015*

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

***Deposits***

At fiscal year end June 30, 2015, the carrying value of the Academy's deposits totaled \$47,977 and the bank balances of the deposits totaled \$67,302. All of the bank balance was covered by federal depository insurance.

**NOTE 4 - LESSEE DISCLOSURE**

The Academy has entered into a lease for a modular classroom. The lease was early terminated effective June 30, 2015 and no further payments were due subsequent to June 30, 2015, due to the Academy suspending operations.

Lease payments were paid from the general fund.

**NOTE 5 - PURCHASED SERVICES**

For the year ended June 30, 2015 purchased service disbursements were payments for services rendered by various vendors as follows:

|                                 |                            |
|---------------------------------|----------------------------|
|                                 | 2015                       |
| Services purchased from sponsor | <u>\$ 1,260,794</u>        |
| Other purchased services        | <u>123,865</u>             |
|                                 | <u><u>\$ 1,384,659</u></u> |

**NOTE 6 - CONTRACT WITH FIELD LOCAL SCHOOL DISTRICT**

The Community School Sponsorship Contract between Falcon Academy of Creative Arts and Field Local School District (LSD) provided for payments that the Academy had to make to the Field LSD during fiscal year 2015. These payments totaled \$1,260,794, were for sponsor fee, supplies, facility use, and reimbursement of personnel costs for the services of Field LSD employees who work directly with Falcon Academy of Creative Arts.

**Falcon Academy of Creative Arts**  
**Portage County, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2015*

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**NOTE 7 - RISK MANAGEMENT**

***Property and Liability***

The Academy is exposed to various risks of loss related to torts; theft or damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2015, the Academy contracted with a commercial insurance carrier for general liability insurance. There is a \$2,500 deductible and a \$1 million limit per occurrence and a general aggregate limit of \$2 million. There has been no significant reduction in insurance coverage and no claims resulting from these risks have been made since the initial fiscal year of operations.

**NOTE 8 - CONTINGENCIES**

***A. Grants***

The Academy received financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the Academy at June 30, 2015.

***B. Full-Time Equivalency***

The Ohio Department of Education conducts reviews of enrollment data and full-time equivalency (FTE) calculations made by the schools. These reviews are conducted to ensure the schools are reporting accurate student enrollment data to the State, upon which state foundation funding is calculated. The fiscal year 2015 review resulted in a calculation of an overpayment to the Academy in the amount of \$17,598.

**NOTE 9 – SUBSEQUENT EVENT**

Effective July 1, 2015 the Governing Board passed a resolution to suspend operations of the Academy as a result of the inability to locate facilities affordable enough to operate the Academy. The previous leased space with the Sponsor was not renewed as of June 30, 2015.

**NOTE 10 – COMPLIANCE**

Ohio Administrative Code, Section 117-2-03(B), requires the Academy to file annual financial reports, which are prepared using generally accepted accounting principles (GAAP). For fiscal year 2015, the Academy prepared financial statements that, although formatted similar to financial statements prescribed by Governmental Accounting Standards Board Statement No. 34, report on the basis of cash receipts and cash disbursements, rather than GAAP. The accompanying financial statements and notes omit assets, deferred outflows of resources, liabilities, deferred inflows of resources, net position, and disclosures that, while material, cannot be determined at this time. Pursuant to Ohio Rev. Code, Section 117.38, the Academy may be fined and subject to various other administrative remedies for its failure to file the required financial report.

**Falcon Academy of Creative Arts**  
**Portage County, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2015*

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**NOTE 11 – RESTATEMENT OF NET POSITION**

Net position has been restated at June 30, 2014, to change from generally accepted accounting principles to the other cash basis of accounting (OCBOA), a cash basis of accounting. The adjustments had the following effect on net position as previously reported:

|  |                   |
|--|-------------------|
| Net position, June 30, 2014                      | \$ 187,381        |
| Adjustments:                                     |                   |
| Intergovernmental receivables                    | (25,761)          |
| Capital assets (net of accumulated depreciation) | (162,617)         |
| Intergovernmental payables                       | 123,456           |
| Long term liabilities:                           |                   |
| Due within one year                              | 8,400             |
| Due in more than one year                        | 9,100             |
| Beginning net position, July 1, 2014             | <u>\$ 139,959</u> |

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# Dave Yost • Auditor of State

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

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

To the Board of Directors:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of Falcon Academy of Creative Arts, Portage County, (the Academy) as of and for the year ended June 30, 2015, and the related notes to the financial statements, and have issued our report thereon dated January 19, 2016, wherein we noted the Academy used a special purpose framework other than generally accepted accounting principles. We also noted the Academy closed as of July 1, 2015.

### ***Internal Control Over Financial Reporting***

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or combination of internal control deficiencies resulting in a reasonable possibility that internal control will not prevent or detect and timely correct a material misstatement of the Academy's financial statements. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all internal control deficiencies that might be material weaknesses or significant deficiencies. Given these limitations, we did not identify any deficiencies in internal control that we consider material weaknesses. However, unidentified material weaknesses may exist.

### ***Compliance and Other Matters***

As part of reasonably assuring whether the Academy's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, opining on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed an instance of noncompliance or other matters we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2015-001.

101 Central Plaza South, 700 Chase Tower, Canton, Ohio 44702-1509  
Phone: 330-438-0617 or 800-443-9272 Fax: 330-471-0001

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***Entity's Response to Findings***

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

***Purpose of this Report***

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

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

**Dave Yost**  
Auditor of State  
Columbus, Ohio

January 19, 2016

**FALCON ACADEMY OF CREATIVE ARTS  
PORTAGE COUNTY**

**SCHEDULE OF FINDINGS  
JUNE 30, 2015**

|   |
|---|
| <b>2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS<br/>REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS</b> |
|---|

**Financial Statement Presentation**

|                       |          |
|-----------------------|----------|
| <i>Finding Number</i> | 2015-001 |
|-----------------------|----------|

NONCOMPLIANCE

Ohio Rev. Code 117.38 provides each public office shall file a financial report for each fiscal year. 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 to the form utilized by the public office.

Ohio Administrative Code Section 117-2-03 further clarifies the requirements of Ohio Rev. Code 117.38. Ohio Admin. Code Section 117-2-03(B) provides community schools shall file annual financial reports which are prepared using Generally Accepted Accounting Principles (GAAP). Pursuant to Ohio Rev. Code Section 117.38, the community school may be fined and subject to various other administrative remedies for its failure to file the required financial report using GAAP.

The Academy did not prepare its financial report in accordance with GAAP for the fiscal year ending June 30, 2015. The accompanying financial statements and notes omit assets, liabilities, fund equities, and disclosures that, while material, cannot be determined at this time.

The Academy's management made the decision to report on a cash basis as the Academy had closed as of June 30, 2015.

The Academy should review the standards and ensure the preparation of its financial reports in accordance with AICPA's Audit and Accounting Guide Audits of State and Local Governments. The Academy should ensure the financial reports are prepared in accordance with the Ohio Administrative Code and the Ohio Revised Code. Implementation of these procedures may help ensure accurate financial statements are available to the Academy's community.

**Official's Response:**

Financial statements were prepared on a cash basis solely to minimize audit costs and facilitate the timely wind down of the Falcon Academy as a corporate entity. Assets have been turned over to the Sponsor, the Field Local School District, for terminal disposition in accordance with law. The employment contracts for management personnel have expired or been suspended due to the closure of the Falcon Academy. The Governing Board has suspended meeting due to the closure and has not scheduled further meetings.

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# Dave Yost • Auditor of State

**FALCON ACADEMY OF CREATIVE ARTS**

**PORTAGE COUNTY**

**CLERK'S CERTIFICATION**

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

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
MARCH 17, 2016**