



**THE ARTS ACADEMY
LORAIN COUNTY**

REGULAR AUDIT

FOR THE YEAR ENDED JUNE 30, 2007



Mary Taylor, CPA
Auditor of State

**THE ARTS ACADEMY
LORAIN COUNTY
TABLE OF CONTENTS**

Independent Accountants' Report	1
Management's Discussion and Analysis	3
Statement of Net Assets as of June 30, 2007	7
Statement of Revenues, Expenses, and Changes in Net Assets for the Fiscal Year Ended June 30, 2007	8
Statement of Cash Flows for the Fiscal Year Ended June 30, 2007.....	9
Notes to the Financial Statements.....	11
Independent Accountants' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by <i>Government Auditing Standards</i>	21
Schedule of Findings	23
Schedule of Prior Audit Findings	30

This page intentionally left blank.



Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

The Arts Academy
Lorain County
4125 Leavitt Road
Lorain, Ohio 44053

To the Board of Directors:

We have audited the accompanying basic financial statements of The Arts Academy, Lorain County, Ohio (the Academy), as of and for the year ended June 30, 2007, 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.

Except as discussed in the following two paragraphs, 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 that our audit provides a reasonable basis for our opinion.

The Academy did not provide records of capital assets owned, failed to maintain original supporting documentation which itemized and identified capital assets purchased and the accounting records did not report deletions, depreciation or accumulated depreciation.

The Academy did not provide sufficient evidence to support student activity receipts, reflected in the Student Activity Collection revenue in the accompanying financial statements.

Many of the amounts reported on the Statement of Cash Flows were misstated.

In our opinion, except for any possible effects of such adjustments, if any, as might have been determined to be necessary had we been able to examine evidence regarding capital assets and student activity collections described in paragraphs three and four, and except for the misstatements of cash flows as described in paragraph five, the financial statements referred to above present fairly, in all material respects, the financial position of the Arts Academy, as of June 30, 2007, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Academy incurred an operating loss of \$332,687 during the year ended June 30, 2007.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 10, 2010, on our consideration of the Academy's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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

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

Mary Taylor, CPA
Auditor of State

March 10, 2010

The Arts Academy
Lorain County
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2007
(Unaudited)

Our discussion and analysis of The Arts Academy's (the Academy) financial performance provides an overall review of the Academy's financial activities for the fiscal year ended June 30, 2007. 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 notes to the basic financial statements to enhance their understanding of the Academy's financial performance.

The Management's Discussion and Analysis (MD&A) is an element of the new reporting model adopted by the Governmental Accounting Standards Board (GASB) in their Statement No. 34 Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Government issued June 1999. Certain comparative information between the current year and the prior year is required to be presented in the MD&A.

Financial Highlights

Key Financial Highlights for the Academy for fiscal year 2007 are as follows:

- Total net assets were \$43,587. This represents a notable decrease over fiscal year 2006, where net assets were \$61,292.
- The Academy received less funding from the state and federal governments due to decrease in enrollment, bringing total revenues for the year to \$2,257,552. Total expenses for the year were \$2,275,257.
- Total assets decreased from 2006, totaling \$112,294. Total assets are comprised of cash and cash equivalents, as well as capital assets, net of accumulated depreciation.

Using this Financial Report

This financial report contains the basic financial statements of the Academy, as well as the Management's Discussion and Analysis and notes to the basic financial statement. The basic financial statements include a Statement of Net Assets, a Statement of Revenues, Expenses and Changes in Net Assets, and a Statement of Cash Flows. As the Academy reports its operations using the enterprise fund accounting, all financial transactions and accounts are reported as one activity, therefore the entity wide and the fund presentation information is the same.

Statement of Net Assets

The statement of net assets answers the question, "How did we do financially during the fiscal year?" This statement includes all assets and liabilities, both financial and capital, and short-term and long-term, using the accrual basis of accounting and the economic resources focus, which is similar to the accounting used by most private-sector companies. The basis of accounting takes into account all revenues and expenses during the year, regardless of when cash is received or paid.

The Arts Academy
Lorain County
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2007
(Unaudited)

This statement reports the Academy's net assets and changes in them. The change in net assets provides the reader with a tool to assist in determining whether the Academy's financial health is improving or deteriorating. The reader will need to consider other nonfinancial factors such as student enrollment growth, and facility conditions in arriving at their conclusion regarding the overall health of the Academy.

Table 1 provides a summary of the Academy's net assets for fiscal years 2007 and 2006.

Table 1
Net Assets

	<u>2007</u>	<u>2006</u>
Current Assets	\$ 1,807	\$ 35,446
Capital Assets, Net	<u>110,487</u>	<u>111,212</u>
Total Assets	112,294	146,658
Current Liabilities	64,000	48,819
Due Within One Year	<u>4,707</u>	<u>36,547</u>
Total Liabilities	<u>68,707</u>	85,366
Net Assets:		
Invested in Capital		
Assets, net of related debt	105,780	74,665
Unrestricted	<u>(62,193)</u>	<u>(13,373)</u>
Total Net Assets	\$ 43,587	\$ 61,292

The positive portion of the Academy's total assets reflects its investments in capital assets net of related debt. The Academy uses capital assets to provide services; consequently, these assets are not available for future spending.

Net Assets of the Academy have significantly decreased due to the purchase of more musical equipment.

Table 2 shows the changes in net assets for the fiscal years ended June 30, 2007 and 2006, as well as revenues and expenses.

The Arts Academy
Lorain County
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2007
(Unaudited)

Table 2
Changes in Net Assets

	<u>2007</u>	<u>2006</u>
Operating Revenues:		
Foundation payments	\$1,938,070	\$1,744,212
Classroom Fees	-	175,415
Food Service	-	1,814
Other Operating Revenues	-	152,891
Non-Operating Revenues:		
Student Activity Collection	197,324	-
Federal and State subsidies	<u>122,158</u>	<u>336,580</u>
Total Revenues	2,257,552	2,410,912
Operating Expenses:		
Salaries & Wages	995,967	360,534
Fringe Benefits	461,649	197,999
Purchased Services	688,222	1,340,195
Materials & Supplies	43,273	183,616
Depreciation	31,638	26,074
Miscellaneous	46,160	113,796
Other Objects	3,366	-
Capital Outlay	482	-
Non-Operating Expenses:		
Interest Expense	<u>4,500</u>	<u>9,847</u>
Total Expenses	2,275,257	2,232,061
Change in Net Assets	\$ <u>(17,705)</u>	\$ <u>178,851</u>

The Academy's total revenues decreased significantly in 2007, with decreases to federal and state subsidies, as well as an decrease to classroom fees – all of which are directly related to decreases in total student enrollment.

Capital Assets

The Academy maintains a capitalization threshold of \$5,000. At June 30, 2007 the Academy had invested \$184,343 in capital assets, and had reported \$73,856 in accumulated depreciation. Additional information regarding capital asset activity is included in the notes to the basic financial statements (See Note IV).

Debt Activity

At June 30, 2007 the Academy had \$4,707 in long term debt liabilities related to capital leases. Note IX summarizes all long term liabilities.

The Arts Academy
Lorain County
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2007
(Unaudited)

Restrictions and Other Limitations

The future financial stability of the Academy is not without challenges.

One such challenge is the state of the economy. The Academy does not receive any funds from taxes. The primary source of funding is the state foundation program. Economic slowdown in the state could result in budgetary cuts to education, which would have a negative impact on the Academy.

Contacting the Academy

This financial report is designed to provide a general overview of the finances of the Arts Academy and to show the Academy's accountability for the monies it receives to all vested and interested parties, as well as meeting the annual reporting requirements of the State of Ohio. Any questions about the information contained within this report or requests for additional financial information should be directed to LED Consulting, 4200 Regents Street Suite 200, Columbus, Ohio 43219, or by phone at (614) 337-8122.

The Arts Academy
Lorain County
Statement of Net Assets
As of June 30, 2007

<hr/> <hr/>	
Assets	
Current Assets	
Cash and Cash Equivalents:	\$ 1,807
Total current assets	<u>1,807</u>
Noncurrent Assets	
Capital Assets, net of accumulated depreciation:	
Musical instruments	<u>110,487</u>
<i>Total Assets</i>	<u><u>112,294</u></u>
Liabilities	
Accounts Payable	64,000
Long-Term Liabilities:	
Due Within One Year	<u>4,707</u>
<i>Total Liabilities</i>	<u><u>68,707</u></u>
Net Assets	
Invested in capital assets, Net of related debt	105,780
Unrestricted (Deficit)	<u>(62,193)</u>
<i>Total Net Assets</i>	<u><u>\$ 43,587</u></u>

The accompanying notes are an integral part of the financial statements

The Arts Academy
Lorain County
Statement of Revenues, Expenses, and Changes in Net Assets
For the Fiscal Year Ended June 30, 2007

Operating revenues:	
Foundation payments	\$ 1,938,070
<i>Total operating revenues</i>	<u>1,938,070</u>
Operating expenses:	
Salaries and wages	995,967
Employee benefits	461,649
Purchased services	688,222
Supplies and materials	43,273
Capital outlay	482
Other objects	3,366
Miscellaneous	46,160
Depreciation	<u>31,638</u>
<i>Total operating expenses</i>	<u>2,270,757</u>
<i>Operating income</i>	<u>(332,687)</u>
Nonoperating revenues:	
Student activity collection	197,324
Federal subsidies	<u>122,158</u>
<i>Total nonoperating revenues</i>	<u>319,482</u>
Nonoperating expenses:	
Interest expense	<u>4,500</u>
<i>Total nonoperating expenses</i>	4,500
<i>Change in net assets</i>	(17,705)
<i>Net Assets - Beginning of Year</i>	<u>61,292</u>
<i>Net Assets - End of Year</i>	<u><u>\$ 43,587</u></u>

The accompanying notes are an integral part of the financial statements

The Arts Academy
Lorain County
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2007

Cash flows from operating activities	
Cash received from foundation payments	\$ 1,938,070
Cash payments for personal services	(1,457,616)
Cash payments for contract services	(688,222)
Cash payments for supplies and materials	(47,773)
Cash payments for miscellaneous	(30,327)
<i>Net cash provided by operating activities</i>	(285,868)
 Cash Flows from noncapital financing activities	
Cash from federal and state subsidies	90,800
Cash from student activities	197,324
<i>Net cash from noncapital financing activities</i>	288,124
 Cash Flows from capital and related financing activities	
Payments for capital acquisitions	(31,394)
Payments for interest on capital acquisitions	(4,500)
<i>Net cash from capital and related financing activities</i>	(35,894)
<i>Net decrease in cash and cash equivalents</i>	(33,638)
<i>Cash and cash equivalents at beginning of year</i>	35,446
<i>Cash and cash equivalents at end of year</i>	\$ 1,808
 Reconciliation of operating income to net cash provided by (used for) operating activities	
Operating income/(loss)	\$ (332,687)
 Adjustments to reconcile operating income to net cash provided by (used for) operating activities	
Depreciation	31,638
Changes in assets and liabilities	
Accounts payable	15,181
Total adjustments	46,819
<i>Net cash provided (used) by operating activities</i>	\$ (285,868)

The accompanying notes are an integral part of the financial statements

This page intentionally left blank.

The Arts Academy
Lorain County

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2007

I. Description of the School and Reporting Entity

The Arts Academy (the Academy) is a non-profit corporation established pursuant to Ohio Revised Code Chapters 1702 and 3314. The Academy is an approved tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code. Management is not aware of any course of action or series of events that have occurred that might adversely affect the Academy's tax-exempt status. The Academy's objective is to use the Lorain community to form partnerships for student learning. Individualized programs are used to meet student's needs. Parents and students are included in all decision-making. The Academy, which is part 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 acquire facilities as needed and contract for any services necessary for the operation of the school.

The Academy was approved for operation under contract with the Ashe Culture Center, Inc. (The Sponsor) or a period of five years commencing July 27, 2005 and shall terminate on June 30, 2010. The Sponsor is responsible for evaluating the performance of the Academy and has the authority to deny renewal of the contract at its expiration or terminate the contract prior to its expiration.

The Academy operates under the direction of a three-member Governing Board. The Board is responsible for carrying out the provisions regarding student population, curriculum, academic goals, performance standards, admission standards, and qualification of teachers. The Board controls the Academy's instruction/support facility staffed by nine classified and eleven certified full time personnel who provide services to 232 students.

II. Summary of Significant Accounting Policies

The financial statements of the Academy have been prepared in conformity with generally accepted account principals as applied to governmental non profit organizations. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental account and financial reporting principals. The Academy also applies Financial Accounting Standards Board Statements and interpretations issued on or before November 30, 1989, provided they do not conflict with or contradict GASB pronouncements. The more significant of the Academy's accounting policies are described below.

1. Basis of Presentation

The Academy uses enterprise accounting to track and report on its financial activities. Enterprise accounting is used to account for operations that are financed and operated in a manner similar to private business enterprises where the intent is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges or where it has been decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

The Arts Academy
Lorain County

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2007
Continued

II. **Summary of Significant Accounting Policies (Continued)**

2. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. Enterprise accounting uses a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities are included on the Statement of Net Assets. Operating statements present increases (e.g. revenues) and decreases (e.g. expenses) in net total assets.

The basis of accounting refers to when revenues and expenses are recognized in the account and reported in the financial statements. Basis of accounting relates to the timing of the measurements made.

The accrual basis of accounting is used for the reporting purposes. Revenues are recognized when they are earned, and expenses are recognized when they are incurred.

3. 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 Rev. Code Sections 5705, unless specifically provided in the schools contract with its sponsor. The contract between the Academy and its sponsor does not prescribe a budgetary process. However, Ohio Rev. Code Section 3314.03(A)(11)(d) requires the Academy to comply with section 5705.391(A) of the Ohio Rev. Code, which requires the Academy to prepare a five year projections of revenues and expenses.

4. Cash and Cash equivalents

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

5. Use of Estimates

In preparing the financial statements, management is sometimes required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

The Arts Academy
Lorain County

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2007
Continued

II. Summary of Significant Account Policies (Continued)

6. Capital Assets Depreciation

Capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market value on the date received. The Academy maintains a capitalization threshold of five thousand dollars. The Academy does not possess any infrastructure.

The cost of normal maintenance and repairs that do not add to the value of asset or materially extended an asset's life are not capitalized.

Depreciation of furniture and equipment is computed using the straight-line method over an estimated useful life of five years.

7. Intergovernmental Revenues

The Academy currently participates in the State Foundation Program, the Poverty Based Assistance (PBA) Program, and the State Special Education Program, which are reflected under "State Aid" on the statement of Revenues, Expenses and Changes in Net Assets. Revenues received from these programs are recognized as operating revenues in the accounting period in which they are earned and become measurable.

Non-exchange transactions, in which the Academy receives value without directly giving equal value in return, include grants, entitlements, and contributions. Grant, entitlements, and contributions are recognized as non-operations revenues in the accounting period in which all eligibility requirements have been met.

Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted; matching requirements, in which the Academy must provide local resources to be used for a specified purpose; and expenditure requirements, in which resources are provided to the Academy on a reimbursement basis. Amount awarded under the above programs for the 2007 school year totaled \$1,938,070.

8. Operating Revenues and Expenses

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

The Arts Academy
Lorain County

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2007
Continued

II. Summary of Significant Account Policies (Continued)

9. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use through external restrictions imposed by creditors, grantors, or laws and regulations of other governments.

III. Deposits and Investments

At fiscal year end June 30, 2007, the carrying amount of the Academy's deposits totaled \$1,807. Based on the criteria described GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2007, all of the Academy's bank balance was covered by the Federal Depository Insurance Corporation.

Custodial credit risk is the risk that, in the event of bank failure, the Academy's deposits may not be returned. All deposits are collateralized with eligible securities in amounts equal to at least 105 percent of the carrying value of the deposits. Such collateral, as permitted by the Ohio Revised Code, is held in single financial institution collateral pools at Federal Reserve Banks, or at member banks of the federal reserve system, in the name of the respective depository bank and pledged as a pool of collateral against all of the public deposits it holds or as specific collateral held at the Federal Reserve Bank in the name of the Academy.

IV. Capital Assets

For Fiscal Year ending June 30, 2007, the Academy's capital assets consisted of the following:

	Balance			Balance
Capital Assets Being Depreciated:	6/30/2006	Additions	Deletions	6/30/2007
Equipment and Furniture	\$153,430	\$30,913	-	\$184,343
Total Capital Assets Being Depreciated	153,430	30,913	-	184,343
Less Accumulated Depreciation:				
Equipment and Furniture	(42,218)	(31,638)	-	(73,856)
Total Accumulated Depreciation	(42,218)	(31,638)	-	(73,856)
Total Capital Assets Being Depreciated				
Net	\$111,212	\$ (725)	\$ -	\$ 110,487

The Arts Academy
Lorain County

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2007
Continued

V. Purchased Services

Purchased Services include the following:

Instructional Services	\$8,312
Special Education Inst.	\$815
Health Services	\$25
Sponsor Fees	\$17,329
Management Services	\$315,241
Professional Services	\$17,784
Repairs	\$4,404
Facility Rent	\$257,411
Equipment Leasing	\$9,478
Travel-Prof. Dev	\$3,564
Meals	\$794
Telephone	\$7,694
Postage	\$1,086
Advertising	\$3,322
Other Comm. (Internet)	\$1,865
Gas	\$15,235
Printing and Binding	\$409
Contracted Food Service	\$5,501
Student Transportation	\$2,888
Loss Insurance	\$14,363
Purchased Services – Other	<u>\$703</u>
Total Purchased Services	\$688,223

I. Risk Management

1. Workers' Compensation

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

2. Employee Medical and Dental Benefits

The Academy has contracted through an independent agent to provide employee medical, dental, and vision insurance to its full-time employees who work 40 or more hours per week.

The Arts Academy
Lorain County

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2007
Continued

VIII. Defined Benefit Pension Plans

1. School Employees Retirement System

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 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 Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the School Employees Retirement System, 300 Broad Street, Suite 100, Columbus, Ohio 43215-3746, by calling (800) 878-5853 or by visiting the SERS website at www.ohsers.org.

Plan members are required to contribute 10 percent of their annual covered salary and the Academy is required to contribute an actuarially determined rate. The current rate is 14 percent of annual covered payroll. A portion of the Academy's contribution is used to fund pension obligations with the remainder being used to fund health care benefits: for fiscal year 2007, 10.68 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS' retirement Board. The Academy's required contribution for pension obligations to SERS for the fiscal years ended June 30, 2007, 2006 and 2005 were \$136,059, \$20,152 and \$16,342, respectively. One hundred percent has been contributed.

2. State Teachers Retirement System

The Academy contributes to the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing multiple employer public retirement system administered by the State Teachers Retirement Board. STRS provides retirement and disability benefits to members and death and survivor benefits beneficiaries. Benefits are established by Chapter 3307 of the Ohio Revised Code. STRS Ohio issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the STRS Ohio 275 East Broad Street Columbus, Ohio 43215-3771 or by calling (614) 227-4090, or by visiting the STRS Ohio website at www.strsohio.org.

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that carries based on years of service, or an allowance based on member contributions and earned interest matched by the STRS Ohio funds divided by an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The Combined Plan offers features of both the DC Plan and the DB

The Arts Academy
Lorain County

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2007
Continued

2. State Teachers Retirement System (continued)

Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan.

DC and Combined Plan member wills transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan. Existing members with less than five years of service credit as of June 30, 2001, were giving the option of making one time irrevocable decision to transfer their account balances from the existing DB Plan into the DC Plan or the Combined Plan. This option expired on December 31, 2001. Benefits are established by Chapter 3307 of the Ohio Revised Code. A DB or Combined Plan member with five or more years of credited service who becomes disabled may qualify for a disability benefit. Eligible spouses and dependents of these active members who die before retirement may qualify for survivor benefits. Members in the DC Plan who become disabled are entitled only to their account balances.

If member dies before retirement benefit begin, the members designated beneficiary is entitled to receive the member's account balance.

For the fiscal year ended June 30, 2007, plan members were required to contribute 10 percent of their annual covered salaries. The Academy was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The Academy's required contributions for pension obligations to STRS Ohio fiscal years ended June 30, 2007, 2006 and 2005 were \$134,580, \$91,834 and \$69,745, respectively. One hundred percent has been contributed for fiscal years 2007, 2006 and 2005.

3. Post employment Benefits

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

All STRS Ohio retirees who participated in the Defined Benefit Plan or Combined Plan and their dependents are eligible for health care coverage. The STRS Ohio Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. All benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS Ohio funds shall be included in the employer's contribution rate, currently 14 percent of covered payroll. For fiscal year ended June 30, 2007, the STRS Ohio Board allocated employer contributions equal to one percent of covered payroll to the Health Care Stabilization Fund. For the Academy, this amount was \$9,612.

STRS Ohio pays health care benefits from the Health Care Stabilization Fund. At June 30, 2005 (the latest information available) the balance in the Fund was \$3.3 billion. For the fiscal year ended June 30, 2005, net health care cost STRS Ohio were \$254,780,000, and STRS Ohio had 115,395 eligible benefit recipients.

The Arts Academy
Lorain County

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2007
Continued

3. Post employment Benefits (Continued)

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

After the allocation of basic benefits, the remainder of employer's 14 percent contribution is allocated to providing health care benefits were 3.42 percent of covered payroll, compared to 3.43 percent of covered payroll for fiscal year 2005. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2006, the minimum pay was established at \$35,800. However, the surcharge is capped at two percent of each employer's SERS salaries. For the Academy, the amount to fund health care benefits, including the surcharge, during the fiscal year was \$6,514.

The surcharge, added to the unallocated portion of the 14 percent employer's contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of the projected claims less premium contributions for the next fiscal year. Expenses for health-care at June 30, 2005, SERS has net assets available for payment of health care benefits of \$267.5 million. SERS has 58,123 participants currently receiving health care benefits.

VIII. Operating Leases – Lessee Disclosure

The Academy entered into an operating lease commencing July 27, 2004 for term of 36 months for a copier. The copier is owner by MT business Technologies. The lease may be renewed continuously for consecutive months after the end of the term.

The following is a schedule of the future minimum payment required under the operating lease as of June 30, 2007.

<u>Year Ending June 30,</u>	<u>Copier</u>
2008	<u>3,600</u>
Total	\$3,600

The Academy entered into a lease agreement with the Church on the North Coast 4125 Leavitt Road, Lorain Ohio (the Church) for specific portions of the church property consisting of classrooms, gymnasium, kitchen indoor/outdoor common areas, parking lots and playground facilities. The lease commenced on August 1, 2004 and terminates on July 31, 2006. The Academy has the option to renew this lease for two additional years. The Academy paid the Church \$257,023 during fiscal year 2007.

The Arts Academy
Lorain County

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2007
Continued

IX. Capital Leases- Lessee Disclosure

The Academy entered into six lease agreements for musical instruments. The leases meet the criteria of a capital lease as defined by Statement of Financial Accounting Standards No. 13, Accounting for Leases, "which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee, Capital assets of \$144,661 have been recorded, which represents the present value of the minimum lease payments at time of acquisition. The accumulated depreciation for the capital lease assets was \$73,856 at June 30, 2007. Principal payments for the fiscal year 2007 totaled \$ 34,597.00.

X. Tax Exempt Status

The Academy was approved under 501(c)(3) of the Internal Revenue Code as a tax exempt organization. Management is not aware of any course of action or series of events that might adversely affect the Academy's tax exempt status.

XI. Contingencies

1. 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 liability of The Arts Academy

2. Full-Time Equivalency Reviews

The Ohio Department of Education conducts reviews of enrollment data and full-time equivalency (FTE) calculations made by the Academy. These reviews are conducted to ensure the Academy is reporting accurate student enrollment data to the State, upon which state foundation funding is calculated. To date, a review of fiscal year 2007 has not been conducted.

XII. Sponsorship Fees

The Academy contracted with Ashe Cultural Center Inc. as its sponsor effective June 30, 2006. The Academy pays the Sponsor three percent of the State Aid. Total fees for the period June 30, 2007 were \$58,142. The contract is for three years ending April 14, 2009. The Sponsor is to provide oversight, monitoring and technical assistance for the Academy.

The Arts Academy
Lorain County

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2007

Continued

XIII. Related Party Transactions

Financial Accounting Standards Board (FASB) 57: "Related Party Disclosures", requires any transactions that occurred between related parties to be disclosed. The following is a list of the related party transactions that occurred:

- The Academy paid \$500 to Exceptional Psychological Services which is owned by a member of the Board of Trustees and the wife of the CEO of Ashe Cultural Center, Inc.
- Alexis Rainbow, Founder of the Academy and Head of the Academy, received \$16,000 for Arts Fusion Curriculum for development of the school curriculum.



Mary Taylor, CPA

Auditor of State

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

The Arts Academy
Lorain County
4125 Leavitt Road
Lorain, Ohio 44053

To the Board of Directors:

We have audited the financial statements of The Arts Academy, Lorain County, Ohio (the Academy) as of and for the year ended June 30, 2007, and have issued our report thereon dated March 10, 2010, wherein we noted the Academy failed to provide capital asset records and failed to provide original supporting documentation for certain student activity collection receipts, misstated amounts on the Statement of Cash Flows, and incurred an operating loss of \$332,687. Except as regards capital assets and student activity collection, 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 expressing our opinion on the financial statements, but not to opine 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Academy's ability to initiate, authorize, record, process, or report financial data reliably in accordance with its applicable accounting basis, such that there is more than a remote likelihood that the Academy's internal control will not prevent or detect a more-than-inconsequential financial statement misstatement.

We consider findings 2007-002 and 2007-003 and 2007-005 through 2007-007 described in the accompanying schedule of findings to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies resulting in more than a remote likelihood that the Academy's internal control will not prevent or detect a material financial statement misstatement.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and accordingly, would not necessarily disclose all significant deficiencies that are also material weaknesses. Of the significant deficiencies described above, we believe findings number 2007-002 and 2007-003 and 2007-005 through 2007-07 are also material weaknesses.

We also noted certain internal control matters that we reported to the Academy's management in a separate letter dated March 10, 2010.

Compliance and Other Matters

As part of reasonably assuring whether the Academy's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed instances of noncompliance or other matters that we must report under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 2007-001 through 2007-006.

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 also noted certain noncompliance or other matters not requiring inclusion in this report that we reported to the Academy's management in a separate letter dated March 10, 2010.

We intend this report solely for the information and use of management, Board of Directors, and the Community School's sponsor. We intend it for no one other than these specified parties.



Mary Taylor, CPA
Auditor of State

March 10, 2010

THE ARTS ACADEMY
LORAIN COUNTY

SCHEDULE OF FINDINGS
FOR THE YEAR ENDED JUNE 30, 2007

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

FINDING NUMBER	2007-001
-----------------------	-----------------

Five Year Forecast

Ohio Revised Code Section 3314.03(A)(15) requires the Academy prepare a financial plan detailing an estimated school budget for each year of the period of the contract and specify the total estimated per pupil expenditure amount for each year. The plan shall specify the yearly base formula amount that will be used for purposes of funding calculations under section 3314.08 of the Ohio Revised Code. This base formula amount for any year shall not exceed the formula amount defined under section 3317.02 of the Ohio Revised Code.

Ohio Admin. Code Section 3301-92-04 (A) states that upon the adoption of an annual appropriation measure but no later than October thirty-first of each fiscal year, a board of education shall submit to the department of education a five-year projection of revenues and expenditures for the current fiscal year and the ensuing four fiscal years. Subsection (F) states that a board of education shall update its five-year projection between April first and May thirty-first of each fiscal year and submit it to the department of education.

There was no evidence provided of the development of a five year revenue and expenditure forecast by the Academy.

Without evidence of the updating of the forecast, the Board does not have the necessary information to develop a financial plan for the school year. It is also possible the Academy will authorize the expenditure of funds in excess of the estimated amount available

We recommend the Academy review the requirements of Ohio Revised Code Section 3314.03 and Ohio Admin. Code Section 3301-92-04 and take the necessary steps to meet these requirements, including obtaining the approval of the governing board and reviewing the appropriateness of the amounts included in the estimated budget

Client's Response:

This is being reviewed by the Board of Directors to establish and implement appropriate policies to address this.

FINDING NUMBER	2007-002
-----------------------	-----------------

Developing and Implementing an Effective Monitoring Control System

Ohio Admin. Code Section 117-2-01 (A) states that all public officials are responsible for the design and operation of a system of internal control that is adequate to provide reasonable assurance regarding the achievement of objectives for their respective public offices in certain categories. Subsection (C) (5) provides that internal control includes monitoring, which is a process that assesses the quality of internal control performance over time.

**THE ARTS ACADEMY
LORAIN COUNTY**

**SCHEDULE OF FINDINGS
FOR THE YEAR ENDED JUNE 30, 2007
(CONTINUED)**

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

FINDING NUMBER	2007-002
-----------------------	-----------------

Developing and Implementing an Effective Monitoring Control System (Continued)

Monitoring controls are comprised of regular management and supervisory activities established to oversee whether management's objectives are being achieved. Effective monitoring controls assist management in assessing the quality of internal control performance over time. This process involves assessing the design and operation of controls on a timely basis and taking necessary corrective actions. Monitoring controls should assist management in identifying unexpected results and/or possible misstatements.

Some effective monitoring controls include:

- Review of revenues and expenses with independently accumulated information (budgets, past performances, peer group representatives, etc.);
- Review of large or unusual fluctuations;
- Identification of unusual fluctuations;
- Comparison of financial statement position with financial projections and other internally prepared projections of financial position and operating results;
- Comparison of predefined key performance indicators based on the financial statements;
- Review of items which have been outstanding for extended periods of time (outstanding check listing for payroll and non payroll transactions);
- Monitoring compliance with grant agreements;
- Ensuring that an adequate segregation of duties exists; and
- Review of monthly bank reconciliations by someone independent of their preparation.

The lack of effective monitoring controls could lead to the misallocation or misstatement of Academy funds, expenditure of funds contrary to the directives of the Board of Trustees, and non-compliance with federal or state laws or regulations. This could result in a loss of funding from federal and state sources, and errors or irregularities occurring in financial transactions which affect the bank reconciliations could go undetected.

We recommend that management prepare monthly financial statements and submit them to the Board at each regularly scheduled meeting. The Board should then review these financial statements and when satisfied as to their accuracy approve them through the minute records. In addition, management should ensure that any reports required by the grantor agencies, per the terms of grant agreements, are completed accurately and filed with the respective grantor agencies in a timely manner. Management should also ensure that proper segregation of duties exists, including an independent review of the monthly bank reconciliations.

Client's Response:

This is being reviewed by the Board of Directors to establish and implement appropriate policies to address this.

**THE ARTS ACADEMY
LORAIN COUNTY**

**SCHEDULE OF FINDINGS
FOR THE YEAR ENDED JUNE 30, 2007
(CONTINUED)**

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

FINDING NUMBER	2007-003
-----------------------	-----------------

Capital Assets

Ohio Admin. Code Section 117-2-02 (D)(4)(c) states that all local public offices should maintain or provide capital asset records including such information as the original cost, acquisition date, voucher number, the asset type (land, building, vehicle, etc.), asset description, location, and tag number. Local governments preparing financial statements using generally accepted accounting principles will want to maintain additional data.

Furthermore, the Academy's Capital Asset Policy states, in part, that the Academy will "maintain a comprehensive fixed assets program requiring periodic inventory of district assets". Further, the policy states, "The school board will be provided an annual report identifying equipment not accounted for. This equipment will be removed from district property records through school board action annually."

The Academy did not make available capital asset records to support the amounts recorded on the financial statements. For this reason we were unable to determine if the following records had been developed and updated:

- A capital asset accounting system, which was comprised of a complete capital asset listing by location, with tag or other identification numbers and other pertinent information;
- Procedures to record assets as additions when purchased and deletions when disposed of during the year;
- Annual depreciation expense and accumulated depreciation;
- A listing of capital assets purchased with federal funds to ensure that items purchased with federal funds are used for that specific purpose; and
- Invoices and supporting documentation.

Without maintaining accurate and complete records of capital assets purchased it is possible the Academy could misplace assets or assets could be stolen and not be reported.

To maintain adequate safeguards over capital assets and to reduce the risk that the Academy's assets may be misstated, we recommend management develop and implement procedures to be performed throughout the year for the recording and updating of capital assets, including an individual listing of items purchased with federal funds. These procedures should include tagging all capital assets meeting the established capitalization threshold. Further, addition and disposal forms should be completed and approved by management when assets are acquired and retired. This information should then be entered into the capital asset accounting system and include such information as the tag number, location of the asset, description of the item, cost, acquisition date, and any other pertinent information. Periodic physical inventories should be performed, and the capital assets listed on the accounting system should be compared to the items on hand and any discrepancies should be investigated.

**THE ARTS ACADEMY
LORAIN COUNTY**

**SCHEDULE OF FINDINGS
FOR THE YEAR ENDED JUNE 30, 2007
(CONTINUED)**

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

FINDING NUMBER	2007-003
-----------------------	-----------------

Capital Assets (Continued)

Client's Response:

Items previously listed as capital assets, based upon board definition and requirements for what qualified to be capital assets, no longer qualified. This is being reviewed by the Board of Directors to establish and implement appropriate policies to address this.

FINDING NUMBER	2007-004
-----------------------	-----------------

Financial Report Filing

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

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

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

- Management Discussion and Analysis;
- Statement of Net Assets as prescribed by GAAP standards;
- Income and expense statement as prescribed by GAAP;
- Cash flow statement as prescribed by GAAP; and
- Notes to the financial statements as prescribed by GAAP.

The Academy has not filed its financial statements for the year ended June 30, 2007

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

**THE ARTS ACADEMY
LORAIN COUNTY**

**SCHEDULE OF FINDINGS
FOR THE YEAR ENDED JUNE 30, 2007
(CONTINUED)**

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

FINDING NUMBER	2007-004
-----------------------	-----------------

Financial Report Filing (Continued)

Client's Response:

The Academy has had several Treasurers during the life of the Academy. These Treasurers did not always present reports and records to the state. This is being reviewed by the Board of Directors to establish and implement appropriate policies to address this.

FINDING NUMBER	2007-005
-----------------------	-----------------

Condition of Accounting Records

Ohio Admin. Code Section 117-2-02(A) states that all local public offices shall maintain an accounting system and accounting records sufficient to enable the public office to identify, assemble, analyze, classify, record and report its transactions, maintain accountability for the related assets (and liabilities, if generally accepted accounting principles apply), document compliance with finance related legal and contractual requirements and prepare financial statements required by rule 117-2-03 of the Administrative Code.

Management is responsible for developing and maintaining complete and accurate financial records. Instead of complete and accurate financial records, we noted that the records consisted of the following:

- Capital Asset records were not provided;
- Payroll Journal Reports were not included for three pay periods; and
- No original supporting documentation was provided for Student Activity Collections. The detail listed on the Deposit Summary was obscured on 26 of 28 receipts tested. We were unable to foot the total amount deposited or determine whether cash was cash being taken out on any of the receipts.

Consequently, we were unable to analyze, review, inspect for completeness, verify the accuracy of, or determine the existence of the Academy's financial records.

Failure to implement and maintain a system of controls over the Academy's financial records increases the chances of theft and other fraudulent activities.

The Academy's management has available numerous sources of information describing the process of internal controls, recordkeeping requirements and reporting procedures. It is the responsibility of management to ensure that all responsible parties have access to this literature and training sessions.

**THE ARTS ACADEMY
LORAIN COUNTY**

**SCHEDULE OF FINDINGS
FOR THE YEAR ENDED JUNE 30, 2007
(CONTINUED)**

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

FINDING NUMBER	2007-005
-----------------------	-----------------

Condition of Accounting Records (Continued)

Client's Response:

The capital asset portion was addressed with finding 2007-003. Portions of the payroll journal were not recovered for review. Based on our record of student activity collections, these were maintained and were complete. This is being reviewed by the Board of Directors to establish and implement appropriate policies to address this.

FINDING NUMBER	2007-006
-----------------------	-----------------

Related Party Transactions

Ohio Revised Code Section 2921.42(A)(1) prohibits a public official from authorizing or using the authority or influence of the public official's office to secure a public contract in which the public official, a member of the public official's family, or any of the public official's business associate has an interest. Ohio Revised Code Section 102.03(D) prohibits a public official from authorizing or using the authority or influence of office or employment, to secure anything of value or the promise or offer of anything of value that is of such a character as to manifest a substantial and improper influence upon the public official with respect to that person's duties.

Additionally, Ohio Revised Code Section 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.

The following issues were noted during our audit:

- Exceptional Psychological Services (formerly Professional Psychological Services) is owned by Dr. Jorethia Chuck, who is the wife of Dr. Kwa David Whitaker, CEO of the Academy's sponsor, Ashe Culture Center. Exceptional Psychological Services was paid \$500 after July 1, 2006.
- Alexis Rainbow received eight payments totaling \$16,000 for Art Fusion Curriculum for development of the school curriculum. For one of these payments, we were unable to obtain support documentation or a check image.

These matters will be forwarded to the Ohio Ethics Commission for their review.

**THE ARTS ACADEMY
LORAIN COUNTY**

**SCHEDULE OF FINDINGS
FOR THE YEAR ENDED JUNE 30, 2007
(CONTINUED)**

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

FINDING NUMBER	2007-006
-----------------------	-----------------

Related Party Transactions (Continued)

Client's Response:

Alexis Rainbow was employed by the management company. Contracts entered into for curriculum design and implementation between Ms. Rainbow and the Academy were done so under competitive bidding and implemented as a cost saving action of the Board.

Dr. Chuck of Exceptional Psychological Services supplied an independent bid for providing services to the Academy. Other providers of these services were not able to provide economical bids or valued service sufficient to the Academy.

FINDING NUMBER	2007-007
-----------------------	-----------------

Statement on Auditing Standards 112 - Effects on Annual Financial Report

Sound financial reporting is the responsibility of the Treasurer and the Board of Trustees and is essential to ensure the information provided to the readers of the financial statements is complete and accurate.

The following weakness was noted and a subsequent adjustment was made to the financial statements and, where applicable, to the Academy's accounting records:

- The Academy erroneously recorded the July 2006 foundation receipt of \$165,312 at the net amount of \$150,061 as a Federal Subsidy. AOS issued a reclass for \$150,061 to decrease Federal Subsidies and increase Foundation Revenue. In addition, AOS issued an adjustment to Foundation Revenue for \$15,252 to increase this amount to gross. AOS issued an adjustment to increase Employee Benefits by \$15,252.

The lack of controls over the posting of financial transactions and financial reporting can result in errors and irregularities that may go undetected and decreases the reliability of financial data throughout the year.

We recommend the Board of Directors adopt policies and procedures for controls over recording of financial transactions and over financial reporting to help ensure the information accurately reflects the activity of the Academy and thereby increasing the reliability of the financial data throughout the year.

Client's Response:

This is being reviewed by the Board of Directors to establish and implement appropriate policies to address this.

**ARTS ACADEMY
CUYAHOGA COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2007**

<u>Finding Number</u>	<u>Finding Summary</u>	<u>Fully Corrected?</u>	Not Corrected, Partially Corrected; Significantly Different Corrective Action Plan Taken; or Finding No Longer Valid; Explain:
2006-001	Financial Report Filing	No	Reissued as 2007-004
2006-002	Sponsor Contract – Uniform School Accounting System	Yes	Corrected
2006-003	Accurate Balances as of the Balance Sheet Date	Yes	Corrected



Mary Taylor, CPA
Auditor of State

THE ARTS ACADEMY

LORAIN COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
APRIL 13, 2010**