

Academy of Arts and Sciences
Lorain County, Ohio

Audited Financial Statements

For the Fiscal Year Ended
June 30, 2014



Dave Yost • Auditor of State

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

We have reviewed the *Independent Auditor's Report* of the Academy of Arts and Sciences, Lorain County, prepared by Rea & Associates, Inc., for the audit period July 1, 2013 through June 30, 2014. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

A handwritten signature in black ink that reads "Dave Yost".

Dave Yost
Auditor of State
June 6, 2015

This page intentionally left blank.

**ACADEMY OF ARTS AND SCIENCES
LORAIN COUNTY, OHIO**

TABLE OF CONTENTS

TITLE	PAGE
Independent Auditor's Report	1
Management's Discussion and Analysis.....	3
Basic Financial Statements:	
Statement of Net Position	7
Statement of Revenues, Expenses and Changes in Net Position.....	8
Statement of Cash Flows	9
Notes to the Basic Financial Statements	11
Independent Accountants' Report On Internal Control Over Financial Reporting and On Compliance and Other Matters Based on Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	23
Schedule of Findings.....	25

THIS PAGE INTENTIONALLY LEFT BLANK

March 25, 2015

To the Board of Trustees
Academy of Arts and Sciences
Lorain County, Ohio
201 West Erie Street
Lorain, Ohio 44052

INDEPENDENT AUDITOR'S REPORT

Report on the Financial Statements

We have audited the accompanying financial statements of the Academy of Arts and Sciences, Lorain County, Ohio (the "Academy") as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Academy's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers 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 for the purpose of expressing an opinion on the effectiveness of the Academy's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

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

Emphasis of Matter

As discussed in Note 14 to the financial statements, the Academy's deficit net position (\$56,703) raises substantial doubt about its ability to continue as a going concern. Note 14 describes management's plan regarding this issue. The financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3-6 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 25, 2015, on our consideration of the Academy's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion 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.

Hea & Associates, Inc.

Medina, Ohio

**ACADEMY OF ARTS AND SCIENCES
LORAIN COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

The discussion and analysis of the Academy of Arts and Sciences' (the "Academy") financial performance provides an overall review of the Academy's financial activities for the fiscal year ended June 30, 2014. The intent of this discussion and analysis is to look at the Academy's financial performance as a whole. Readers should also review the financial statements and notes to the financial statements to enhance their understanding of the Academy's financial performance. The first year of the Academy's operations was 2006.

FINANCIAL HIGHLIGHTS

- Net position increased \$170,432.
- Enrollment increased from 237 in fiscal year 2013 to 264 in fiscal year 2014
- Total revenue increased from \$2,074,872 in fiscal year 2013 to \$2,417,076 in fiscal year 2014
- Total operating expenses (excluding interest expense) increased from \$1,845,118 in fiscal year 2013 to \$2,220,085 in fiscal year 2014
- The Academy issued \$923,000 in Short-term debt during the year.

OVERVIEW OF THE FINANCIAL STATEMENTS

The financial report consists of three parts – management's discussion and analysis, the basic financial statements, and the notes to the financial statements. These statements are organized so the reader can understand the financial position of the Academy. Enterprise accounting uses a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities are included on the statement of net position. The Statement of Net Position represents the statement of position of the Academy. The Statement of Revenues, Expenses, and Changes in Net Position presents increases (e.g., revenues) and decreases (e.g., expenses) in net position. The Statement of Cash Flows reflects how the Academy finances and meets its cash flow needs. Finally, the notes to the basic financial statements provide additional information that is essential to a full understanding of the data provided on the basic financial statements.

FINANCIAL ANALYSIS OF THE ACADEMY AS A WHOLE

The Academy is not required to present government-wide financial statements as the Academy is engaged in only business-type activities. Therefore, no condensed financial information derived from governmental-wide financial statements is included in the discussion and analysis.

The following tables represent a summary the Academy's condensed financial information for 2014 derived from the Statement of Net Position and the Statement of Revenues, Expenses and Changes in Net Position.

**ACADEMY OF ARTS AND SCIENCES
LORAIN COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

The following table provides a summary of the Academy's net position for 2014 as compared to 2013:

	<u>2014</u>	<u>2013</u>	<u>Change</u>
Assets:			
Current Assets	\$ 359,169	\$ 65,454	\$ 293,715
Capital Assets	<u>82,544</u>	<u>98,907</u>	<u>(16,363)</u>
Total Assets	<u>441,713</u>	<u>164,361</u>	<u>277,352</u>
Liabilities:			
Current Liabilities	<u>498,416</u>	<u>391,496</u>	<u>(106,920)</u>
Total Liabilities	<u>498,416</u>	<u>391,496</u>	<u>(106,920)</u>
Net Position:			
Invested in Capital Assets	82,544	98,907	(16,363)
Restricted for Other Purposes	-	30	(30)
Unrestricted	<u>(139,247)</u>	<u>(326,072)</u>	<u>186,825</u>
Total Net Position	<u>\$ (56,703)</u>	<u>\$ (227,135)</u>	<u>\$ 170,432</u>

Results of fiscal year 2014 indicate an ending deficit net position of \$56,703, an increase of \$170,432 from fiscal year 2013. The Academy's enrollment increased from 237 in 2013 to 264 in 2014, an 11% increase. In addition, enrollment as of March 2015 is 186. The goal is to grow enrollment to be closer to the capacity of the facility at which point the school would generate surpluses on an annual basis sufficient to eliminate accumulated deficits.

**ACADEMY OF ARTS AND SCIENCES
LORAIN COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

The following table reflects the changes in net position for the fiscal year 2014 as compared to 2013:

	2014	2013	Change
Operating Revenues:			
State Aid	\$ 2,001,201	\$ 1,699,566	\$ 301,635
Miscellaneous	2,951	6,580	(3,629)
Total Operating Revenues	<u>2,004,152</u>	<u>1,706,146</u>	<u>298,006</u>
Operating Expenses:			
Purchased Services	2,058,138	1,753,528	304,610
Depreciation	16,363	8,842	7,521
General Supplies	126,259	66,106	60,153
Other Operating Expenses	19,325	16,642	2,683
Total Operating Expenses	<u>2,220,085</u>	<u>1,845,118</u>	<u>374,967</u>
Operating Loss	<u>(215,933)</u>	<u>(138,972)</u>	<u>(76,961)</u>
Nonoperating Revenues and Expenses:			
Federal and State Restricted Grants	412,924	368,726	44,198
Interest Expense	(26,559)	(30,543)	3,984
Net Nonoperating Revenues and Expenses	<u>386,365</u>	<u>338,183</u>	<u>48,182</u>
Change in Net Position	170,432	199,211	(28,779)
Net Position Beginning of Year	(227,135)	(426,346)	199,211
Net Position End of Year	<u>\$ (56,703)</u>	<u>\$ (227,135)</u>	<u>\$ 170,432</u>

At the onset of planning for the opening of the Academy, management and the board carefully calculated the costs and risks associated with offering a high quality educational program that would be competitive with the educational programs available at the traditional public schools and weighed those costs and risks against the enhanced educational opportunities that would be available to students. Based on that analysis, the board and its management made the decision to make an investment in the future of the children of this community, not based on a plan that was expected to generate economic profits, but rather on a plan that is economically sustainable and that would generate dividends to the community in the form of enhanced opportunities for children and families. Resources for the necessary programs in excess of those available from funding sources came from delaying payment on invoices from the Academy's management company for management services, other operating expenses and invoices for payroll of Academy staff. Revenues and expenses both increased based on the increase in enrollment, and the extra costs of staffing to educate the additional students.

**ACADEMY OF ARTS AND SCIENCES
LORAIN COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

BUDGET

Unlike other public schools located in the State of Ohio, community schools are not required to follow budgetary provision set forth in the Ohio Revised Code Chapter 5705, other than the development of a five year forecast. The Academy's contract with its sponsor also requires an annual financial plan.

CAPITAL ASSETS AND DEBT ADMINISTRATION

At the end of fiscal year 2014, the Academy had \$82,544, net of accumulated depreciation, invested in capital assets. The following is a summary of the Academy's capital assets at June 30:

	<u>2014</u>	<u>2013</u>
Furniture and Equipment	\$ 74,284	\$74,284
Computers	104,659	104,659
Less: Accumulated Depreciation	<u>(96,399)</u>	<u>(80,036)</u>
Net Capital Assets:	<u>\$82,544</u>	<u>\$98,907</u>

See Note 5 for further information.

At the end of fiscal year 2014, the Academy had \$287,911 in short-term debt. The Academy issued \$923,000 in short-term debt during the year to finance operating activities. The following is a summary of the Academy's outstanding short-term debt at June 30:

	<u>2014</u>	<u>2013</u>
Note Payable	<u>\$287,911</u>	<u>\$0</u>

See Note 15 for further information.

ECONOMIC FACTORS

The Academy is experiencing financial difficulty; see Note 14 to the basic financial statements for further information.

OPERATIONS

The Academy is a nonprofit corporation established pursuant to Ohio Revised Code Chapter 1702. The Academy offers education for Ohio children in Kindergarten through third grade. The Academy is independent of any school district and is nonsectarian in its programs, admission policies, employment practices, and all other operations. The Academy may lease or acquire facilities as needed and contract for any services necessary for the operation of the Academy.

REQUESTS FOR INFORMATION

This financial report is designed to provide our citizens, taxpayers, investors and creditors with a general overview of the academy's finances and to show the Academy's accountability for the money it receives. If you have any questions concerning this report, please contact administrative office of Academy of Arts and Sciences, 201 West Erie St., Lorain, Ohio 44502.

**ACADEMY OF ARTS AND SCIENCES
LORAIN COUNTY, OHIO**

**STATEMENT OF NET POSITION
JUNE 30, 2014**

Assets:

Current Assets:

Cash and Cash Equivalents	\$ 245,181
Intergovernmental Receivable	94,988
Prepaid Expenses	19,000
Total Current Assets	<u>359,169</u>

Noncurrent Assets:

Capital Assets, net of Accumulated Depreciation	82,544
Total Noncurrent Assets	<u>82,544</u>

Total Assets

441,713

Liabilities:

Current Liabilities:

Accounts Payable, Trade	139,944
Accounts Payable, Related Party	70,561
Short-term Debt	287,911
Total Current Liabilities	<u>498,416</u>

Total Liabilities

498,416

Net Position:

Net Invested in Capital Assets	82,544
Unrestricted	(139,247)
Total Net Position	<u>\$ (56,703)</u>

See Accompanying Notes to the Basic Financial Statements

**ACADEMY OF ARTS AND SCIENCES
LORAIN COUNTY, OHIO**

**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

Operating Revenues:	
State Aid	\$ 2,001,201
Miscellaneous	2,951
Total Operating Revenues	<u>2,004,152</u>
 Operating Expenses:	
Purchased Services	2,058,138
Depreciation	16,363
General Supplies	126,259
Other Operating Expenses	19,325
Total Operating Expenses	<u>2,220,085</u>
 Operating Loss	 <u>(215,933)</u>
 Nonoperating Revenues and Expenses:	
Federal and State Restricted Grants	412,924
Interest Expense	(26,559)
Net Nonoperating Revenues and Expenses	<u>386,365</u>
 Change in Net Position	 170,432
Net Position Beginning of Year	<u>(227,135)</u>
Net Position End of Year	<u><u>\$ (56,703)</u></u>

See Accompanying Notes to the basic Financial Statements

**ACADEMY OF ARTS AND SCIENCES
LORAIN COUNTY, OHIO**

**STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

CASH FLOWS FROM OPERATING ACTIVITIES

State Aid Receipts	\$	2,001,201
Other Operating Receipts		4,391
Cash Payments to Suppliers for Goods and Services		<u>(2,399,686)</u>
Net Cash Used for Operating Activities		<u>(394,094)</u>

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

Federal and State Grants Receipts		374,758
Short-term Proceeds		923,000
Short-term Principal Payments		(635,089)
Short-term Interest Payments		(24,882)
Short-term Financing Payments		<u>(1,678)</u>
Net Cash Provided by Noncapital Financing Activities		<u>636,109</u>

Net Increase in Cash and Cash Equivalents		242,015
Cash and Cash Equivalents - Beginning of Year		3,166
Cash and Cash Equivalents - End of Year	\$	<u>245,181</u>

Reconciliation of Operating Loss to Net Cash Used for Operating Activities

Operating Loss	\$	(215,933)
----------------	----	-----------

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

Depreciation		16,363
Changes in Assets and Liabilities:		
Decrease in Accounts Receivable		1,440
Increase in Prepaid Expenses		(14,974)
Increase in Accounts Payable, Trade		88,922
Decrease in Accounts Payable, Related Party		<u>(269,912)</u>
Net Cash Used for Operating Activities	\$	<u>(394,094)</u>

See Accompanying Notes to the Basic Financial Statements

THIS PAGE INTENTIONALLY LEFT BLANK

**ACADEMY OF ARTS AND SCIENCES
LORAIN COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

Note 1 - Description of the School

The Academy of Arts and Sciences (the "Academy") is a nonprofit corporation established pursuant to Ohio Revised Code Chapter 3314. The Academy offers education for Ohio children in kindergarten through third grade. The Academy is independent of any school district and is nonsectarian in its programs, admission policies, employment practices, and all other operations. The Academy may lease or acquire facilities as needed and contract for any services necessary for the operation of the Academy. The Academy is a federally recognized 501(c)(3) nonprofit corporation established pursuant to Ohio Revised Code Chapter 1702.

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

The Academy operates under the direction of a Governing Board that consists of not less than five individuals who are not owners or employees, or immediate relatives or owners or employees of any for-profit firm that operate or manage the Academy for the Governing Board. The Board is responsible for carrying out the provisions of the contract that include, but are not limited to, state-mandated provisions regarding student population, curriculum, academic goals, performance standards, admission standards, and qualifications of teachers.

The Academy contracts with Mosaica Education, Inc., for management services including management of personnel and human resources, the program of instruction, technology, marketing, data management, purchasing, strategic planning, public relations, financial reporting, recruiting, compliance issues, budgets, contracts, and equipment and facilities. See Note 12.

Note 2 - Summary of Significant Accounting Policies

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

A. Basis of Presentation

The Academy's basic financial statements consist of a statement of net position; a statement of revenues, expenses, and changes in net position; and a statement of cash flows. The Academy uses a single enterprise presentation for its financial records. Enterprise reporting focuses on the determination of operating income, changes in net position, financial position, and cash flows.

B. Measurement Focus

The enterprise activity is accounted for using a flow of economic resources measurement focus. All assets and liabilities associated with the operation of the Academy are included on the statement of net position. The statement of revenues, expenses, and changes in net position presents increases (e.g. revenues) and decreases (e.g. expenses) in net position. The statement of cash flows reflects how the Academy finances meet its cash flow needs.

**ACADEMY OF ARTS AND SCIENCES
LORAIN COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014
(Continued)**

Note 2 - Summary of Significant Accounting Policies (Continued)

C. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. The Academy's financial statements are prepared using the accrual basis of accounting. Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. Revenue resulting from nonexchange transactions, in which Academy receives value without directly giving equal value in return, such as grants and entitlements, are recognized in the period in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the period when the resources are required to be used or the period when use is first permitted, matching requirements, in which the Academy must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the Academy on a reimbursement basis. Expenses are recognized at the time they are incurred.

D. Budgetary Process

Unlike other public schools located in the State of Ohio, community schools are not required to follow budgetary provision set forth in the Ohio Revised Code Chapter 5705, other than the development of a five year forecast. The Academy's contract with its sponsor also requires an annual financial plan.

E. Cash and Cash Equivalents

Cash received by the Academy is reflected as "Cash and Cash Equivalents" on the statement of net position. The Academy had no investments during the fiscal year ended June 30, 2014.

F. Prepaid Items

The Academy records payments made to vendors for services that will benefit periods beyond June 30, 2014, as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expense is reported in the year in which services are consumed.

G. Capital Assets

The Academy's capital assets during fiscal year 2014 consisted of computers, furniture and other equipment. All capital assets are capitalized at cost and updated for additions and retirements during the fiscal year. Donated capital assets are recorded at their fair market values as of the date received. The Academy maintains a capitalization threshold of one thousand five hundred dollars. The Academy does not have any infrastructure. Improvements are capitalized. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized.

**ACADEMY OF ARTS AND SCIENCES
LORAIN COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014
(Continued)**

Note 2 - Summary of Significant Accounting Policies (Continued)

G. Capital Assets (Continued)

All capital assets, except land and construction in progress, are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

<u>Description</u>	<u>Useful Lives</u>
Computer Technology	5 years
Furniture & Equipment	5-20 years

H. Net Position

Net position represents the difference between assets and liabilities. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by Academy or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. The Academy applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net position is available. There is no enabling legislation at June 30, 2014. Net invested in capital assets of \$82,544, is calculated at capital assets net of accumulated depreciation.

I. Operating Revenues and Expenses

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

J. Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

K. Economic Dependency

The Academy receives approximately 99% of its operating revenue from the Ohio Department of Education. Due to the significance of this revenue source, the Academy is considered to be economically dependent on the State of Ohio Department of Education.

**ACADEMY OF ARTS AND SCIENCES
LORAIN COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014
(Continued)**

Note 3 - Deposits

Custodial credit risk is the risk that, in the event of a bank failure, the Academy's deposits may not be returned. The Academy does not have a deposit policy for custodial credit risk. At June 30, 2014, the book balance was \$245,181, and the bank balance of Academy's deposits was \$265,491. \$250,000 of the bank balance was covered by federal depository insurance, while \$15,491 was exposed to custodial credit risk. There are no significant statutory restrictions regarding the deposit and investment of funds by the nonprofit corporation.

Custodial credit risk is the risk that, in the event of a bank failure, the Academy's deposits may not be returned. The Academy does not have a deposit policy for custodial credit risk. All bank deposits are collateralized with eligible securities in amounts equal to at least 105% of the carrying value of the deposits. Such collateral as permitted by the Ohio Revised Code, is held in single financial collateral pools at the 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 or as specific collateral held at the Federal Reserve Bank in the name of the Academy.

Note 4 – Receivables

At June 30, 2014, the Academy had intergovernmental receivables, in the amount of \$94,988. The receivables are expected to be collected within one year.

Grant	Amount
Title I	\$53,661
IDEA B	9,409
Title IIA	211
Child Nutrition Program	23,553
Other	8,154
Total Intergovernmental Receivables	\$94,988

Note 5 – Capital Assets

The capital asset activity for the fiscal year ended June 30, 2014, was as follows:

	Balance June 30, 2013	Additions	Deletions	Balance June 30, 2014
Depreciable Capital Assets				
Furniture & Equipment	\$ 74,284	\$ -	\$ -	\$ 74,284
Computer Technology	104,659	-	-	104,659
Total Depreciable Capital Assets	178,943	-	-	178,943
Less Accumulated Depreciation				
Furniture & Equipment	(28,369)	(3,913)	-	(32,282)
Computer Technology	(51,667)	(12,450)	-	(64,117)
Total Accumulated Depreciation	(80,036)	(16,363)	-	(96,399)
Capital Assets, Net	\$ 98,907	\$ (16,363)	\$ -	\$ 82,544

**ACADEMY OF ARTS AND SCIENCES
LORAIN COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014
(Continued)**

Note 6 – Risk Management

The Academy is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2014, the Academy contracted with the Hartford Casualty Insurance Company.

Settled claims have not exceeded this commercial coverage in the prior three years and there have been no significant reductions in insurance coverage from the prior year.

General Liability:

Each Occurrence	\$ 1,000,000
Aggregate Limit	2,000,000
Products - Completed Operations Aggregate Limit	2,000,000
Medical Expense Limit - Any One Person/Occurrence	15,000
Damage to Rented Premises - Each Occurrence	500,000
Personal and Advertising Injury	1,000,000
Business Personal Property	447,000
Automobile Liability:	
Combined Single Limit	1,000,000
Excess/Umbrella:	
Each Occurrence	3,000,000
Aggregate Limit	3,000,000

Note 7 – Purchased Services

For the year ending June 30, 2014, purchased service expenses were for the following services:

<u>Service</u>	<u>Amount</u>
Personnel Services	\$947,245
Contracted Staff and Administrative Services	253,872
Contracted Food Service	144,889
Purchased Building and Maintenance Services	251,989
Sponsor Fee	58,919
Professional Services	388,057
Other Services	13,167
Total	<u>\$2,058,138</u>

**ACADEMY OF ARTS AND SCIENCES
LORAIN COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014
(Continued)**

Note 8 - Defined Benefit Pension Plans

The Academy has contracted with Mosaica Education, Inc. to provide employee services. However, these contracted services do not relieve the Academy of the obligation for remitting pension contributions. The retirement systems consider the School as the Employer-of-Record and the Academy is ultimately responsible for remitting retirement contributions to each of the systems noted below.

A. School Employee Retirement System

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

Funding Policy - Plan members are required to contribute 10 percent of their annual covered salary and the Academy is required to contribute 14 percent of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS' Retirement Board, The Retirement Board acting with the advice of the actuary, allocates the employer contribution rate among four of the funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund) of the System. For fiscal year ending June 30, 2014, the allocation to pension and death benefits is 13.1 percent. The remaining .9 percent of the 14 percent employer contribution rate is allocated to the Health Care and Medicare B Funds. The Academy's contributions to SERS for the years ended June 30, 2014, 2013 and 2012 were \$19,979, \$16,540 and \$12,563, respectively; which equaled the required contributions each year.

B. State Teachers Retirement System

The Academy contributes to the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement system. STRS Ohio issues a stand-alone financial report. Copies of the STRS Ohio's 2014 Comprehensive Annual Financial Report can be requested in writing to STRS Ohio, 275 E Broad St, Columbus, OH 43215-3771, by calling toll-free 1-888-227-7877, or visiting the STRS Ohio website at www.strsoh.org.

STRS Ohio is a statewide retirement plan for licensed teachers and other faculty members employed in the public schools of Ohio or any school, community school, college, university, institution or other agency controlled, managed and supported, in whole or in part, by the state of any political subdivision thereof.

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

**ACADEMY OF ARTS AND SCIENCES
LORAIN COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014
(Continued)**

Note 8 - Defined Benefit Pension Plans (Continued)

B. State Teachers Retirement System (Continued)

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

DC Plan Benefits – Benefits are established under Sections 3307.80 and 3307.89 of the Revised Code. For members who select the DC Plan, all member contributions and employer contributions at a rate of 10.5 percent are placed in an investment account. The member determines how to allocate the member and employer money among various investment choices. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump-sum withdrawal. Employer contributions into members’ accounts are vested for the first anniversary of the first day of paid service. Members in the DC Plan who become disabled are entitled only to their account balances. If a member dies before retirement benefits begin, the member’s designated beneficiary is entitled to receive the member’s account balance.

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

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

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

Funding Policy – Chapter 3307 of the Revised Code provides statutory authority for members and employer contributions. Contribution rates are established by the State Teachers Retirement Board, upon

**ACADEMY OF ARTS AND SCIENCES
LORAIN COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014
(Continued)**

Note 8 - Defined Benefit Pension Plans (Continued)

B. State Teachers Retirement System (Continued)

recommendation of its consulting actuary, not to exceed statutory maximum rates of 11 percent for members and 14 percent for employers.

Contribution requirements and the contributions actually made for the fiscal year ended June 30, 2014, were 11 percent of covered payroll for members and 14 percent for employers. Employer contributions actually paid should be disclosed in both dollar amounts and as a percentage of the employer's covered payroll for the current year and the two preceding years. Member and employer contributions actually made for DC and Combined Plan participants will be provided upon written request.

The Academy required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2014, 2013, 2012 were \$104,595, \$86,863 and \$58,840 respectively; 100 percent has been contributed for fiscal years 2014, 2013 and 2012, respectively. Contributions to the DC and Combined Plans for fiscal year 2014 were made by the Academy.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System of Ohio have an option to choose Social Security or the School Retirement System. As of June 30, 2014, none of the members of the Board of Education has elected Social Security. The contribution rate is 6.2 percent of wages.

Note 9 - Postemployment Benefits

A. School Employee Retirement System

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

Medicare Part B Plan

The Medicare Part B plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries as set forth in Ohio Revised Code (ORC) 3309.69. Qualified benefit recipients who pay Medicare Part B premiums may apply for and receive a monthly reimbursement from SERS. The reimbursement amount is limited by statute to the lesser of the January 1, 1999 Medicare Part B premium of the current premium. The Medicare Part B monthly premium for calendar year 2014 was \$104.50 for most participants, but could be as high as \$355.70 per month depending on their income. SERS' reimbursement to retirees was \$45.50.

The Retirement Board, acting with the advice of the actuary, allocates a portion of the current employer contribution rate to the Medicare Part B Fund. For fiscal year 2014, the actuarially required allocation is .76 percent. The Academy's contributions for the years ended June 30, 2014, 2013, and 2012 were \$1,085, \$934 and \$742, respectively, which equaled the required contributions each year.

Health Care Plan

ORC 3309.375 and 3309.69 permit SERS to offer health care benefits to eligible retirees and beneficiaries. SERS' Retirement Board reserves the right to change or discontinue any health plan or program. SERS offers several types of health plans from various vendors, including HMOs, PPOs,

**ACADEMY OF ARTS AND SCIENCES
LORAIN COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014
(Continued)**

Note 9 - Postemployment Benefits (Continued)

A. School Employee Retirement System (Continued)

Medicare Advantage and traditional indemnity plans. A prescription drug program is also available to those who elect health coverage. SERS employs two third-party administrators and a pharmacy benefit manager to manage the self-insurance and prescription drug plans, respectively.

The ORC provides the statutory authority to fund SERS' postemployment benefits through employer contributions. Active members do not make contributions to the postemployment benefit plans. The Health Care Fund was established under, and is administered in accordance with Internal Revenue Code § 105(e). Each year after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer 14 percent contribution to Health Care Fund. For the year ended June 30, 2014, the health care allocation is .14 percent. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. State law provides that no employer shall pay a health care surcharge greater than 2 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the total statewide SERS-covered payroll for the health care surcharge. For fiscal year 2014, the minimum compensation level was established at \$20,250. The surcharge, added to the unallocated portion of the 14% employer contribution rate is the total amount assigned to the Health Care Fund. The Academy's contributions assigned to health care for the years ended June 30, 2014, 2013, and 2012 were \$200, \$202 and \$544, respectively.

The SERS Retirement Board establishes the rules for the premiums paid by the retirees for health care coverage for themselves and their dependents or for their surviving beneficiaries. Premiums vary depending on the plan selected, qualified years of service, Medicare eligibility, and retirement status.

The financial reports of SERS' Health Care and Medicare Part B plans are included in its Comprehensive Annual Financial Report. The report can be obtained on SERS' website at www.ohsers.org under Employers/Audit Resources.

B. State Teachers Retirement System

Plan Description

STRS Ohio administers a pension plan that is comprised of: a Defined Benefit Plan; a self-directed Defined Contribution Plan, and a Combined Plan that is a hybrid of the Defined Benefit Plan and the Defined Contribution Plan.

Ohio law authorizes STRS Ohio to offer a cost-sharing, multiple-employer health care plan. STRS Ohio provides access to health care coverage to eligible retirees who participated in the Defined Benefit or Combined Plans. Coverage under the current program includes hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare Part B premiums.

Pursuant to Chapter 3307 of the Revised Code, the Retirement Board has discretionary authority over how much, if any, of the associate health care costs will be absorbed by STRS Ohio. All benefit recipients, for the most recent year, pay a portion of the health care costs in the form of a monthly premium. STRS Ohio issues a stand-alone financial report. Interested parties can view the most recent *Comprehensive Annual Financial Report* by visiting www.strsoh.org or by requesting a copy by calling toll free 1-888-227-7877.

**ACADEMY OF ARTS AND SCIENCES
LORAIN COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014
(Continued)**

Note 9 - Postemployment Benefits (Continued)

B. State Teachers Retirement System (Continued)

Funding Policy

Under Ohio law, funding for post-employment health care may be deducted from employer contributions. Of the 14 percent employer contribution rate, 1 percent of covered payroll was allocated to postemployment health care for the years ended June 30, 2014, 2013, and 2012. The 14 percent employer contribution rate is the maximum rate established under Ohio law.

The Academy's contributions for health care for the fiscal years ended June 30, 2014, 2013, and 2012 were \$7,471, \$6,682 and \$4,526, respectively; 100 percent has been contributed for fiscal years 2014, 2013 and 2012, respectively.

Note 10 - Contingencies

A. Grants

The Academy received financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the Academy. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the Academy at June 30, 2014.

B. Full Time Equivalency

The Ohio Department of Education (ODE) conducts reviews of enrollment data and full-time equivalency (FTE) calculations made by community schools. These reviews are conducted to ensure the schools are reporting accurate student enrollment data to the State, upon which state foundation funding is calculated. The conclusion of this review was immaterial, and will be included in the financial activity for fiscal year 2015.

Note 11 – Building Leases

In July 2012, the Academy executed a two year lease for use of a building (approximately 15,500 sq. ft.). The lease expires on July 31, 2014. The Academy may renew for three extended terms of one year each with an escalation clause of \$0.50 per square foot each term. Monthly base rent is \$14,854. Effective August 2014, the lease was extended for another year at a monthly base rent of \$16,146. The landlord is responsible for applicable real estate taxes. Base rent expense for the fiscal year ended 2014 was \$185,364.

**ACADEMY OF ARTS AND SCIENCES
LORAIN COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014
(Continued)**

Note 12 – Related Party Transactions/Management Company

The Academy contracts with Mosaica Education, Inc. for a variety of services including management of personnel and human resources, board relations, financial management, marketing, the program of instruction, purchasing, strategic planning, public relations, financial reporting, recruiting, compliance issues, budgets, contracts, and equipment and facilities. Financial management services include, but are not limited to, financial statement and budget preparation and accounts payable and payroll preparation.

Per the management agreement with the Academy, Mosaica Education is entitled to a management fee that is equivalent to 12.5% of the Academy's revenues. The management fee for fiscal year 2014 was \$299,333.

Also, per the management agreement there are expenses that will be billed to the Academy based on the actual costs incurred on behalf of the Academy by Mosaica Education, Inc. These expenses include rent, salaries of Mosaica Education, Inc. employees working at the Academy, and other costs related to providing educational and administrative services. The total reimbursable expenses billed by Mosaica on behalf of the Academy during the fiscal year 2014 were \$1,201,355.

At June 30, 2014, the Academy had payables as follows to Mosaica.

	<u>Amount</u>
Wages and Benefits	\$75,860
Management Fee	(2,650)
Miscellaneous	(2,649)
Total June 30, 2014	<u><u>\$70,561</u></u>

Note 13 – Sponsor

The Academy was approved for operation under a contract with the St. Aloysius Orphanage (the Sponsor) for a period of five academic years commencing July 18, 2005. In July 2010, this contract was extended for an additional five academic years. As part of this contract, the Sponsor is entitled to 3% of the total state foundation funds. Total amount due and paid for fiscal year 2014 was \$58,919.

Note 14 – Management's Plan

For fiscal year 2014, the Academy had a cumulative net position deficit of \$56,703. The Academy has seen a decrease in enrollment from 264 to 186 as of March 2015. Over time, management believes that once enrollment grows steadily, it should allow the school to continue its recovery from its initial deficits.

Management plans to continue efforts to increase enrollment through active advertising via print, radio, mailings and through referrals of current parents which may increase enrollment, reduce future deficits and may lead to no operating losses in future years. Management has been successful in increasing enrollment at its other community schools in Ohio.

**ACADEMY OF ARTS AND SCIENCES
LORAIN COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014
(Continued)**

Note 15 – Short-term Debt

A summary of short-term obligations for the Academy at June 30, 2014, is as follows:

Charter School Capital - In September 2013, the Academy entered into an agreement with Charter School Capital to borrow against its future foundation payments. The amount borrowed was \$923,000. Total principal payments made during fiscal year end were \$635,089. The terms of the loan are amounts borrowed for a particular month's foundation payment are to be repaid over the course of the next three months following purchase. Total interest paid was \$24,882. The imputed interest rate is 18% per annum.

	Principal Outstanding			Principal Outstanding
	6/30/2013	Additions	Reductions	6/30/2014
Charter School Capital	\$ -	\$ 923,000	(\$635,089)	\$ 287,911

March 25, 2015

To the Board of Trustees
Academy of Arts and Sciences
Lorain County, Ohio
201 West Erie Street
Lorain, Ohio 44052

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Academy of Arts and Sciences, Lorain County, Ohio (the "Academy") as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Academy's basic financial statements, and have issued our report thereon dated March 25, 2015, wherein we noted the Academy had a deficit net position as of June 30, 2014, and is experiencing financial difficulties.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Academy's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Academy's internal control. Accordingly, we do not express an opinion on the effectiveness of the Academy's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. 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 deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings as item 2014-002 that we consider to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Academy's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on 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 such an opinion. The results of our tests disclosed an instance of noncompliance or other matter that is required to be reported under *Government Auditing Standards*, which is described in the accompanying schedule of findings as item 2014-001.

The Academy's Response to Findings

The Academy's response to the findings identified in our audit is described in the accompanying schedule of findings. The Academy's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Academy's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Governmental Auditing Standards* in considering the Academy's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Rea & Associates, Inc.

Medina, Ohio

**ACADEMY OF ARTS AND SCIENCES
LORAIN COUNTY, OHIO**

**SCHEDULE OF FINDINGS
JUNE 30, 2014**

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

FINDING #2014-001

Material Non-Compliance – Records Retention

Criteria: Ohio Rev. Code section 149.41 authorizes the Academy to develop its own records commission and rules. The Board of Trustees has adopted a data and records retention policy which states, in part, all records are the property of the Academy and are not removed, destroyed, mutilated, transferred or otherwise damaged or disposed of, in whole or in part, except as provided by law or under the rules adopted by the Board of Trustees. Such records shall be delivered by outgoing officials and employees to their successors and shall not be otherwise removed, transferred or destroyed unlawfully.

Condition: During the performance of audit procedures, we noted various checks in which the corresponding invoice was not maintained or could not be produced. The successor treasurer was able to contact all applicable vendors to produce a valid invoice to support the expense.

Cause: Due to turnover in the Academy’s treasurer position documents were not properly maintained and could not be located.

Potential Effect: Failure to maintain approved invoices can lead to non-compliance and improper financial reporting.

Recommendation: We recommend the Academy maintain all records in accordance with the ORC and Board of Trustee policies.

Management Response: All disbursements are now matched to a corresponding invoice and scanned into a cloud storage platform to ensure all records are maintained in accordance with board policy.

ACADEMY OF ARTS AND SCIENCES
LORAIN COUNTY, OHIO

SCHEDULE OF FINDINGS(Continued)
JUNE 30, 2014

**1. FINDINGS RELATED TO THE FINANCIAL STATEMENTS
REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (CONTINUED)**

FINDING #2014-002

Significant Deficiency – Bank Reconciliation

Criteria: A necessary step in the internal control over financial reporting is to reconcile the cash balance of the bank to the cash balance in the accounting records in a timely manner.

Condition: Bank reconciliations were not timely completed, delaying management the ability to finalize year end records and the ability to provide timely reports to the Board of Trustees to ensure accurate and timely management and oversight of the Academy's functions. In addition, this caused in delays in the completion of audit procedures resulting in numerous extension requests.

Cause: Due to the small size of the finance department, as well as the various turnover in the treasurer's position throughout the year, timely reconciliations were not performed throughout the year. Upon the appointment of the current treasurer in September 2014, all bank reconciliations have been performed timely.

Potential Effect: Without complete and timely reconciliation of the bank statements to the accounting system, the Academy's internal control is weakened, which could hinder the detection of errors or irregularities by the Academy's management in a timely manner.

Recommendation: We recommend the Academy take all steps necessary to reconcile the cash balance of the bank to the cash balance in the accounting records each month.

Management Response: Bank Accounts are now reconciled in a timely manner every month. The School Fiscal Officer reviews and signs off when completed.



Dave Yost • Auditor of State

ACADEMY OF ARTS AND SCIENCES

LORAIN COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
JUNE 18, 2015**