THE ARTS ACADEMY
LORAIN COUNTY

REGULAR AUDIT

FOR THE YEAR ENDED JUNE 30, 2008

Mary Taylor, CPA
Auditor of State

THE ARTS ACADEMY
CUYAHOGA COUNTY
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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, 2008, 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 described in paragraphs three through seven, 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 failed to record deletions and depreciation.

The Academy did not provide many employee employment contracts or payroll journal reports to support salaries paid to employees.

We were unable to examine evidence supporting the amounts disclosed as related party transactions.

The Academy failed to provide original supporting documentation for many of the non payroll expenditures tested.

The Academy failed to provide documentation for other revenues and liabilities due within one year reported on the financial statements. Therefore, we were unable to obtain evidence supporting the existence and rights and obligations related to these items.

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Many of the amounts reported on the Statement of Cash Flows were misstated, including:

- Cash Flows from Operating Activities;
- Cash Flows from Capital and Related Financing Activities;
- Changes in Accounts Payable;
- Changes in Intergovernmental Payable; and
- Changes in Advance from Schools.

In addition, the pension note disclosure was inaccurately reported.

In our opinion, except for any possible effects of adjustments or changes to disclosures we may have required related to capital assets, "other revenues" and liabilities due within one year as we might have determined to be necessary if evidence were available, as noted in paragraphs three through seven above, and except for the inaccuracies of certain note disclosures and cash flow information described in paragraphs eight and nine, the financial statements referred to above present fairly, in all material respects, the financial position of the Arts Academy, as of June 30, 2008, 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.

During the year ended June 30, 2008, the Academy suffered a net loss in the amount of $30,797.

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

Mary Taylor

Mary Taylor, CPA
Auditor of State

March 10, 2010

ARTS ACADEMY
LORAIN COUNTY

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2008
(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, 2008. 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 2008 are as follows:

- Total net assets decreased by $33,322, or 76% from 2007. Liabilities increased over the prior year to $112,769, affecting the net assets at year end.

- The Academy received less funding from the state and federal governments due to decrease in enrollment, bringing operating revenues for the year to $1,841,048; a 13.78% reduction. Total operating expenses for the fiscal year were $1,903,698.

- Total assets increased from 2007 to $188,932, or 68%. 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 the Statement of Net Assets, the Statement of Revenues, Expenses and Changes in Net Assets, and the 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.

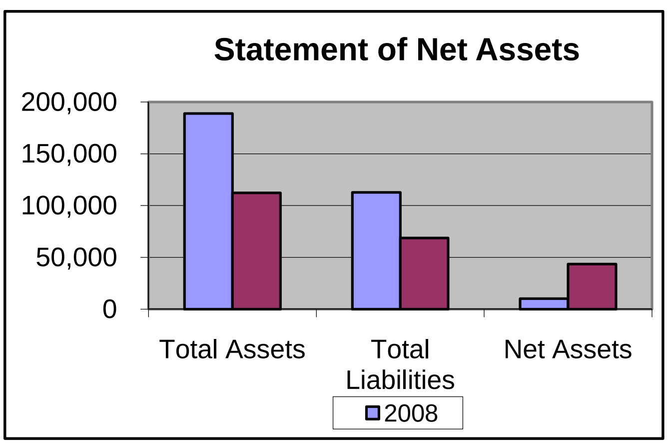
Statement of Net Assets

The Statement of Net Assets answers the question of how the Academy did financially during 2008. This statement includes all assets and liabilities, both financial and capital, and short-term and long-term using the accrual basis of accounting and economic resource focus, which is similar to the accounting used by most private-sector companies. This basis of accounting takes into account all revenues and expenses during the year, regardless of when the cash is received or paid.

Table 1 provides a summary of the Academy's net assets for fiscal years 2008 and 2007.

Table 1
Statement of Net Assets

	2008	2007
Assets		
Current Assets	$ 110,083	$ 1,807
Capital Assets, Net of Accumulated Depreciation	78,849	110,487
Total Assets	188,932	112,294
Liabilities		
Current Liabilities	44,062	64,000
Due Within One Year	68,707	4,707
Total Liabilities	112,769	68,707
Net Assets		
Investment in Capital Assets, Net of Related Debt	41,779	105,780
Unrestricted	(31,514)	(62,193)
Total Net Assets	$ 10,265	$ 43,587



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 increased due to a decrease to total liabilities in 2007 and the purchase of more musical equipment.

Table 2 shows the changes in net assets for the fiscal years ended June 30, 2008 and 2007, as well as revenues and expenses.

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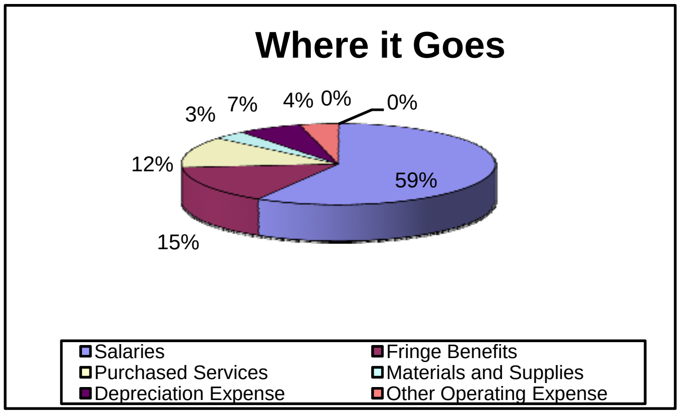
Statement of Revenues, Expenses and Changes in Net Assets

Table 2 shows the changes in net assets for fiscal years 2008 and 2007, as well as a listing of revenues and expenses. This change in net assets is important because it tells the reader that, for the Academy as a whole, the financial position of the Academy has improved or diminished. The cause of this may be the result of many factors, some financial, some not. Non-financial factors include the current laws in Ohio restricting revenue growth, facility conditions, required educational programs and other factors.

Table 2
Change in Net Assets

	2008	2007
Operating Revenue :		
State Foundation	$1,737,524	$ 1,938,070
Student Activity Collections	47,889	197,324
Other	55,635	
Total Operating Revenues	1,841,048	2,135,394
Operating Expenses :		
Salaries	809,572	995,967
Fringe Benefits	351,453	461,649
Purchased Services	593,915	688,222
Materials and Supplies	48,227	43,273
Capital Outlays	3,371	482
Depreciation Expense		31,638
Other Operating Expense	97,160	49,526
Total Operating Expenses	1,903,698	2,270,757
Operating Loss	(62,650)	(135,363)
Non-Operating Revenues and (Expenses):		
Grants – State & Federal	31,853	122,158
Interest		(4,500)
Total Non-Operating Revenues and (Expenses)	31,853	117,658
Increase (Decrease) in Net Assets	$ (30,797)	$ (17,705)

The Academy's total revenues decreased significantly in 2008, with decrease in State Foundations receipts for the fiscal. All revenue sources decline is affected by the decreased enrollment experienced in the fiscal year. Expenses were reduced by $367,059 to counter act the decline in enrollment and minimize the affect on Net Assets, while operating revenue decreased by $294,346.



BUDGETING HIGHLIGHTS

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 Chapter 5705, unless specifically provided in the community school's contract with its sponsor.

The contract between the Academy and its Sponsor requires a five year forecast at least annually, and is also submitted to the Sponsor and the Ohio Department of Education, annually.

CAPITAL ASSETS

The Academy maintains a capitalization threshold of $1,000. At June 30, 2008 the Academy had invested $184,342 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 (Note 4).

ARTS ACADEMY -WEST

The Academy has advanced Arts Academy –West $14,739 to increase its cash flow to meet payroll and other obligations. This advance is considered collectable and is recorded in the Statement of Net Assets as an asset entitled "Advance to Schools".

CONTACTING THE ACADEMY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizen's, taxpayers, investors and creditors with a general overview of the Academy's finances and to demonstrate accountability for the money it receives. If you have questions about this report or need additional information contact Mr. Edward E. Dudley, Sr. CPA, MBA, of LED Consulting, 676 Brook Hollow, Gahanna, Ohio 43230 or e-mail at ed@eddudleycpa.com.

ARTS ACADEMY
LORAIN COUNTY

Statement of Net Assets
June 30, 2008

Assets	
Current Assets:	
Cash and Cash Equivalents	$ (2,191)
Advances to Schools - West	14,739
Total Current Assets	12,548
Noncurrent Assets:	
Capital Assets:	
Non-Depreciable Capital Assets	
Depreciable Capital Assets, net	110,486
Total Noncurrent Assets	110,486
Total Assets	$ 123,034
Liabilities	
Current Liabilities:	
Accounts Payable	$ 44,062
Total Current Liabilities	44,062
Long-Term Liabilities:	
Due within one year	68,707
Due within more than one year	-
Total Long-Term Liabilities	68,707
Total Liabilities	$ 112,769
Net Assets	
Investment in Capital Assets, Net of Related Debt	$ 41,779
Unrestricted	(31,514)
Total Net Assets	$ 10,265

See accompanying notes to the basic financial statements

ARTS ACADEMY
LORAIN COUNTY

Statement of Revenues,
Expenses and Changes in Fund Net Assets
For the Fiscal Year Ended June 30, 2008

Operating Revenues:	
State Foundation	$1,737,524
Student Activity Collection	47,889
Other	55,635
Total Operating Revenues	$1,841,048
Operating Expenses:	
Salaries	809,572
Fringe Benefits	351,453
Purchased Services	593,915
Materials and Supplies	48,227
Depreciation	
Capital Outlay	3,371
Other	97,160
Total Operating Expenses	1,903,698
Operating Loss	($62,650)
Non-Operating Revenues:	
Grants- Federal & State	31,853
Total Non-Operating Revenues	31,853
Change in Net Assets	(30,797)
Net Assets Beginning of Year	41,779
Net Assets End of Year	$ 10,982

See accompanying notes to the basic financial statements

ARTS ACADEMY
LORAIN COUNTY

Statement of Cash Flows
For the Fiscal Year Ended June 30, 2008

Increase (Decrease) in Cash and Cash Equivalents	
Cash Flows from Operating Activities	
Cash Received from State of Ohio	$1,785,413
Cash Received from Other Operating Sources	(1,161,025)
Cash Payments to Suppliers for Goods and Services	(549,853)
Cash Payments to Employees for Services	(97,160)
Cash Payments for Employee Benefits	(3,371)
Other Cash Payments	(49,860)
Net Cash Used for Operating Activities	(75,856)
Cash Flows from Noncapital Financing Activities	
Cash Received from Operating Grants	64,543
Cash Receivced form PSCP Grant	22,945
Net Cash Provided by Noncapital Financing Activities	87,488
Cash Flows from Capital and Related Financing Activities	
Cash Payments	(15,630)
Net Cash Provided by (Used in) Capital Financing Activities	(15,630)
Net Decrease in Cash and Cash Equivalents	(3,998)
Cash and Cash Equivalents Beginning of Year	1,807
Cash and Cash Equivalents End of Year	$ (2,191)

Reconciliation of Operating Gain (Loss) to Net Cash Provided by (Used in) Operating Activities

Operating Gain (Loss)	$	(62,650)
ADJUSTMENTS TO RECONCILE OPERATING LOSS TO NET CASH USED FOR OPERATING ACTIVITIES		
Depreciation		
Changes in Assets and Liabilities:		
Accounts Payable		1,617
Intergovernmental Payable		(11,895)
Advance from Schools		(2,927)
Net Cash Provided by (Used in) Operating Activities	$	(75,856)

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2008

1. DESCRIPTION OF THE 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 seven-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.

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 nonprofit organizations. The Governmental Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989, provided they do not conflict with or contradict GASB pronouncements. The more significant of the Academy's accounting policies are described below.

A. Basis of Presentation

The Academy's basic financial statements consist of a Statement of Net Assets, a Statement of Revenue, Expenses and Changes in Fund Net Asset, and a Statement of Cash Flows. Enterprise fund reporting focuses on the determination of the changes net assets, financial position and cash flows.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

A. Basis of Presentation (Continued)

Auditor of State of Ohio Bulletin No. 2000-005 requires the presentation of all financial activity to be reported within one enterprise fund for year-ending reporting purposes. Enterprise accounting is used to account for operations that are financed and operated in a manner similar to private business enterprise where the intent is that the coast (expense) of providing goods and services to the general public on a continuing basis be financed or recovered primarily through user charges.

B. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment is determined by measurement focus. Under this measurement focus, all assets and all liabilities are included on the balance sheet. The operating statement presents increases (e.g., revenues) and decreases (e.g., expenses) in net total assets.

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting is used for reporting purposes. Revenues are recognized when they are earned, and expenses are recognized when they are incurred.

C. Budgetary Process

Unlike other public schools located in the state of Ohio, community schools are not required to follow budgetary provisions set forth in Ohio Revised Code Chapter 5705, unless specifically provided for in the schools sponsorship agreement. The contract between the Academy and its Sponsor requires a five year forecast at least annually.

D. Cash and Cash Equivalents

All cash received by the fiscal agent is maintained in separate bank accounts in the name of the Academy. Monies for the Academy are maintained in these accounts or are temporarily used to purchase short-term investments. Investments of cash management pool and with original maturities of three months or less at the time they are purchased by the Academy are considered to be cash equivalents. No investments were held by the Academy at June 30, 2008.

E. 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 theses estimates.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. Capital Assets

Fixed assets are capitalized at cost. The costs of additions are capitalized and expenditures for repairs and maintenance are expensed when incurred. When property is sold or retired, the related costs and accumulated depreciation are removed from the accounts and any gain or loss is included in additions to or deductions from net assets. Fixed assets were $184,342, as of June 30, 2008 with accumulated depreciation of $73,856. Deprecation of fixed assets is calculated utilizing the straight-line method over the estimated useful life of five years.

The Academy has an asset capitalization threshold policy of $1,000. (See Note 4)

G. Intergovernmental Revenues

The Academy currently participates in the State Foundation Program; Revenues received from this program are recognized as operating revenues in the accounting period in which all eligibility requirements have been met.

Grants and entitlements are recognized as non-operating revenues in the accounting period in which 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 the resources are provided to the Academy on a reimbursement basis.

The Academy also participates in various federal and state programs through the Ohio Department of Education.

Under the above programs the Academy received $1,769,377 for the fiscal year end.

H. Compensated Absences

The Academy does not record a liability for compensated absences because its policy is not to payout accumulated leave balances upon termination of employment.

I. Accrued Liabilities

Obligations incurred but unpaid at June 30 are reported as accrued liabilities in the accompanying financial statements. As of the period end, accounts payable was $44,062.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

J. Exchange and Non-Exchange Transactions

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. Non exchange transactions, in which the Academy receives value without directly giving equal value in return, include grants, entitlements and donations. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. 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 expenditures requirements, in which the resources are provided to the Academy on a reimbursement basis.

K. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets consist 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 restriction imposed by creditors, grantors, or law and regulations of other governments. The Academy applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

L. Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activities of the Academy. For the Academy, these revenues are primarily the State Foundation program. Operating expenses are necessary costs incurred to provide the good or service that are the primary activity of the Academy. Revenue and expenses not meeting this definition are reported as non-operating.

3. CASH AND CASH EQUIVALENTS

The following information classifies deposits by category of risk as defined in GASB Statement No.3 “Deposits with Financial Institutions, Investments (including Repurchase Agreements) and Reverse Repurchase Agreements,” as amended by GASB Statement No.40, “Deposit, and Investment Risk Disclosures”.

The School maintains its cash balances at one financial institution located in Ohio. The balances are insured by the Federal Deposit Insurance Corporation (FDIC) up to $100,000, per qualifying account. At December 18, 2008, the book amount of the School’s deposits was ($2,191) and the bank balance was ($2,191).

3. CASH AND CASH EQUIVALENTS (Continued)

The Academy had no deposit policy for custodial risk beyond the requirement of state statute. Ohio law requires that deposits either be insured or be protected by eligible securities pledged to and deposited either with the Academy or a qualified trustee by the financial institution as security for repayment or by a collateral pool of eligible securities deposited with a qualified trustee to secure repayment of all public monies deposited in the financial institution whose market value shall be at least 105% of deposits being secured. At June 30, 2008, none of the bank balance was exposed to custodial credit risk.

The total bank balance was insured by the (FDIC) up to $100,000. Deposits in excess of $100,000 are secured by pooled collateral. The School had no investments.

4. CAPITAL ASSETS AND DEPRECIATION

For the period ending June 30, 2008, the Academy's capital assets consisted of the following:

	Balance 06/30/07	Additions	Deletions	Balance 06/30/08
Capital Assets Being Depreciated:				
Furniture and Equipment	$ 184,342	$ -	$ -	184,342
Total Capital Assets Being Depreciated	184,342	-	-	184,342
Less Accumulated Depreciation:				
Furniture and Equipment	(73,856)	-	-	(73,856)
Total Accumulated Depreciation	(73,856)	-	-	(73,856)
Net Total Capital Assets	$ 110,486	$ -	$ -	$ 110,486

5. PURCHASE SERVICES

For the period of July 1, 2007 through June 30, 2008, the Academy made the following purchase services commitments.

	2009
Professional and Technical Services	168,523
Property Services	259,833
Utilities	52,473
Communications	7,676
Contractual Trade Services	97,756
Pupil Transportation	7,653
	$593,915

6. OPERATING LEASE- Lessee Disclosure

The Academy entered into an operating lease commencing July 27, 2004 for term of 36 months for a copier. The copier is owned 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 lease payment required under the operating lease as of June 30, 2008.

Year ending June 30	Copier
2008	3,600
Total	$ 3,600

7. FURTNITURE AND EQUIPMENT -CAPITAL LEASE and NOTE PAYABLE

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,

Principal payments for the fiscal year 2008 totaled $5,267.

The following is a schedule of the future minimum lease payments required under the capital leases and the present value of the minimum lease payments as of June 30, 2008.

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Total Minimum Lease Pymts:	$ 5,267
Less: Interest	(560)
Present Value Lease Pymts:	$ 4,707

The outstanding amount is reported in the Statement of Net Assets, as Long-term Liability, due within one year.

8. EDUCATINAL FACILITY LEASE

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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, a gymnasium, kitchen indoor/outdoor common areas, parking lots and playground facilities. The lease commenced on August 1, 2006 and terminates on July 31, 2008. The Academy has the option to renew this lease for two additional years. The Academy paid the Church $248,620 during fiscal year 2008. This amount is reported in the Statement of Revenues, Expenses, and Change in Fund Net Assets as "Purchase Services". See Note 5.

9. RISK MANAGEMENT

A. Property & Liability

The Academy is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. For fiscal year 2006, The Arts Academy contracted with Peerless Insurance and Indiana Insurance Co. to have the following insurance coverage:

Commercial General Liability per occurrence	$1,000,000
Commercial General Liability aggregate	2,000,000
Umbrella Liability per occurrence	1,000,000
Umbrella Liability aggregate	1,000,000
Workers' Compensation and Employers' Liability	
Each Accident	1,000,000
Each Employee	1,000,000
Policy Limit	2,000,000
Other – CEO	
Each act	1,000,000
Aggregate	1,000,000
Defense Expense	100,000
Commercial Property Liability – Personal	
Property ($1,000 deductible)	2,000,000

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. For the fiscal year 2008, the Academy contracted with Pinkney Perry Insurance Company for property and general liability insurance. The Academy also had a treasurer bond from Hanover Insurance.

A. Workers' Compensation

The Academy pays the State Worker's 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.

B. Employee Medical and Dental Benefits

The Academy provides medical, dental, vision, and life insurance benefits to most employees. Depending upon the plan chosen, the employees share the cost of the monthly premium with the Board. The premium varies with employee depending on the terms of the agreement with the employee.

9. DEFINED BENEFIT PENSIONS PLANS

A. State Teachers Retirement System of Ohio (STRS Ohio)

Plan Description – The Academy contributes to the School Employees Retirement System (SERS), a cost-sharing multiple employer pension plans. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by contacting School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746, or by calling toll free 1-800-878-5853. It is also posted at the SERS' website at www.ohsers.org under Employer/ 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 by the SERS' Retirement Board up to a statutory maximum amount 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 and Health Care Fund.) of the System. For the fiscal year ending June 30, 2009, the allocation to pension and death benefits is 9.09 percent. The remaining 4.91 percent of the 14 percent employer contribution rate is allocated to the Health Care and Medicare B Funds. The Academy contributions to SERS for the year ended June 30, 2009, 2008 and 2007 were $46,827, 6,066 and 5,706, respectively, which equaled the required contributions each year.

Plan Description – The Academy contributes to the State Teachers Retirement System of Ohio (STRS Ohio), which is a cost-sharing, multiple-employer public employee retirement system. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report, which may be obtained by writing to STRS Ohio, 275 East Broad Street, Columbus, Ohio 43215-3771, by calling (888) 227-7877, or by visiting the STRS Ohio website at www.strsoh.org.

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

The member may elect to receive a lifetime monthly annuity or a lump sum withdrawal. The Combined Plan offers features of both the DB Plan and the DC 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. The DB portion of the Combined Plan payment is payable to a member on or after age 60; the DC portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50. Benefits are established by Chapter 3307 of the Ohio Revised Code.

10. DEFINED BENEFIT PENSIONS PLANS (Continued)

B. School Employees Retirement System (SERS Ohio)

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

Funding Policy - For the fiscal year ended June 30, 2008, 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. For fiscal year 2007, the portion used to fund pension obligations was also 13 percent. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The Academy's required contribution for pension obligations to STRS for the fiscal years ended June 30, 2008, 2007 and 2006 were $48,013, $40,755 and $43,916 respectively, of which 100% has been contributed.

The above is the latest information available.

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, 2009, there were no members that elected Social Security. The contribution rate is 6.2 percent of wages.

11. DEFINED BENEFIT PENSIONS PLANS

A. School Employee Retirement Systems

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

Medicare Part B

Medicare B plan reimburse Medicare B premiums paid by eligible retirees and beneficiaries as set forth in Ohio Revised Code (ORC) 3309.69. Qualified benefits 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 premium or the current premium. The Medicare Part B premium for calendar year 2009 was $96.40; SERS' reimbursement for retirees was $45.50.

11. DEFINED BENEFIT PENSIONS PLANS (Continued)

A. School Employee Retirement Systems (Continued)

The Retirement Board, acting with the advice of the actuary, allocates a portion of the current employer contribution rate to the Medicare B Fund, For fiscal 2009, the actuarial required allocation is .75 percent The Academy's contributions for the years ended June 30, 2009, 2008 and 2007 were $3,864, $3,238, and $1,906.

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 HMO's, PPO's, 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.

The Health Care Fund was established under, and is administered in accordance with the 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 the Health Care Fund. For the year ended June 30, 2009, the health care allocation is 4.16. An additional health care surcharge on employers is collected for employees earning less than the actuarially determined minimum compensation amount, pro-rated according to service credit earned. Statutes 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 the fiscal year June 30, 2009, the minimum compensation level was established at $35,800. The surcharge added to the unallocated portion of the 14 percent 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, 2009, 2008 and 2007 were zero.

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

The financial reports of SERS' Health Care and Medicare B plans are included in its Comprehensive Annual Financial Report. The report can be obtained by contacting SERS, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746 or by calling toll free (800) 878-5853. It is also posted on the SERS' website www.ohsers.org under Employers/Audit Resources.

11. DEFINED BENEFIT PENSIONS PLANS (Continued)

B. State Teachers Retirement System

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

Funding Policy - Ohio law authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For 2008, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. The School's contributions for health care for the fiscal years ended June 30, 2008, 2007, and 2006 were $3,693, $3,155, and $3,378 respectively all of which has been contributed for all fiscal years. The above is the latest information available.

12. CONTINGENCIES

A. Grants

The Academy received financial assistance from federal and state agencies in the form of grants. Amount received from grantor agencies are subject to audit and adjustment by the grantor. Any disallowed costs may require refunding to the grantor. Amount which may be disallowed, if any, are not presently determinable. However, in the opinion of the Academy, any such adjustments will not have a material adverse effect on the financial position of the Academy.

B. Litigation

There are currently no matters in litigation with the Academy as defendant.

C. Full-Time Equivalency

The Ohio Department of Education (ODE) 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. The Academy has not had a review.

13. SPONSORSHIP-ASHE CULTURE CENTER, INC.

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 Foundation. Total fees for the period June 30, 2007 were $58,059, reported in the Statement of Revenue, Expense and Changes in Fund Net Assets as "Purchase Services". The contract is for three years ending April 14, 2009. The Sponsor is to provide oversight, monitoring and technical assistance to the Academy.

14. START-UP FUNDS

The Academy began its operations on September 14, 2006. Prior to the period beginning September 14, 2006, the Academy received and spent $150,000 of state start-up grant funds from the Ohio Department of Education. These funds were used to pay for materials and supplies, purchased services and equipment to prepare the Academy for operations. At September 14, 2006, the Academy recorded $174,983 expenses to various vendors. The combination of these transactions resulted in beginning net assets at September 14, 2006 of ($64).

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, 2008, and have issued our report thereon dated March 10, 2010, wherein we noted the Academy failed to provide records of capital assets owned, failed to provide employee employment contracts or payroll journal reports of salary amounts, failed to provide evidence supporting the amounts disclosed as related party transactions, failed to provide original supporting documentation for many of the non payroll expenditures tested, failed to provide documentation for other revenues and liabilities due within one year, misstated amounts on the cash flow statements, inaccurately reported the pension note disclosure and incurred an operating loss of $30,797. Except for the scope restrictions described in the preceding sentence, 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 2008-003 through 2008-007 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 2008-003 through 2008-005 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 2008-001 through 2008-006.

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

Mary Taylor, CPA
Auditor of State

March 10, 2010

SCHEDULE OF FINDINGS
FOR THE YEAR ENDED JUNE 30, 2008

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

FINDING NUMBER	**2008-001**

Finding for Recovery

Ohio Rev. Code Section 3314.03(A)(11)(d) requires that each contract entered into between a sponsor and the governing authority of a community school shall specify that the school will comply with Section 149.43 of the Ohio Rev. Code. Ohio Rev. Code Section 149.43(B) states, in part, that all public records shall be promptly prepared and made available for inspection to a person at all reasonable times during regular business hours. In order to facilitate broader access to public records, public offices shall maintain public records in a manner that they can be made available for inspection in accordance with this division.

On August 18, 2007, a debit card registered in the name of the Academy was used to purchase items totaling $143.06 from Dave's Supermarket. The Academy did not provide any supporting documentation for this payment.

Without appropriate support documentation it is not possible to determine if the expenditures included items that would not be considered a proper public purpose. The failure to maintain adequate support for expenditures could result in a loss of accountability over the Academy's finances, making it difficult to identify errors which could go undetected, and possibly result in expenditures that are not for a proper public purpose.

Under Ohio law, any public official who either authorizes an illegal expenditure of public funds or supervises the accounts of a public office from which such illegal expenditure is made is strictly liable for the amount of this expenditure. *Steward v. National Surety Co.* (1929), 120 Ohio St. 47; 1980 Op. Att'y Gen. No. 80-074; Ohio Rev. Code Section 9.39; State, ex. rel. *Village of Linndale v. Masten* (1985), 18 Ohio St.3d 228. Public officials controlling public funds or property are liable for the loss incurred such funds or property be fraudulently obtained by another, converted, misappropriated, lost or stolen to the extent that recovery or restitution is not obtained from the persons who unlawfully obtained such funds or property. 1980 Op. Att'y Gen. No. 80-074.

In accordance with the foregoing facts and pursuant to Ohio Revise Code Section 117.28, a Finding for Recovery for public monies improperly expended is hereby issued against Andre Street, Director of Fiscal Affairs and Alexis Rainbow, Head of School, jointly and severally, in the amount of $143.06 and in favor of The Arts Academy.

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

FINDING NUMBER	**2008-002**

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 that an updated five year forecast was submitted to the Ohio Department of Education before the May 31, 2008 deadline.

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.

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

FINDING NUMBER	**2008-003**

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 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.

Client's Response:

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

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

FINDING NUMBER	**2008-004**

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.

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:

- Regular review of monthly financial statements;
- 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 Directors, 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.

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

FINDING NUMBER	**2008-004**

Developing and Implementing an Effective Monitoring Control System (Continued)

Client's Response:

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

FINDING NUMBER	**2008-005**

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;
- Other Revenues records were not provided. We did not receive source documentation detailing the deposits such as Deposit Summary Reports or validated deposit slips;
- Due within one year liabilities records were not provided;
- Five out of 20 debit card transactions tested were unsupported;
- Twelve out of 20 debit card transactions tested had incorrect dates in the General Ledger;
- Three vendors out of 20 debit card transactions tested were not identified in the General Ledger;
- Payroll Journal Reports were not included for five pay periods;
- Three out of 25 employee contracts were not provided;
- Two out of 25 employees were not compensated according to their contract;
- The Academy provided the minutes for two meetings, therefore there was no evidence the Board was able to review the Academy's financial statements on a monthly basis;
- Employee individual salaries and approval to hire individual employees were not noted in the minutes; and
- The Statement of Net Assets and the Statement of Revenues, Expenses and Changes in Net Assets should reconcile to one another.

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

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

FINDING NUMBER	2008-005

Condition of Accounting Records (Continued)

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.

Client's Response:

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

FINDING NUMBER	2008-006

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 associates have 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 issue was 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 $1,480 after July 1, 2007.

This matter will be forwarded to the Ohio Ethics Commission for their review.

Client's Response:

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.

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

FINDING NUMBER	**2008-007**

Financial Reporting

Section 2200.102 and 2300.106 of the Codification of Governmental Accounting and Financial Reporting Standards provides the minimum requirements for general purpose external financial reporting as follows:

- Management's Discussion and Analysis;
- Basic financial statements which include
- Statement of Net Assets;
- Statement of Revenues, Expenditures, and Changes in Net Assets;
- Statement of Cash Flows; and
- Note disclosures

Although the Academy prepared the above noted financial statements and notes, the amounts reported on the Statement of Revenues, Expenses, and Changes in Net Assets, specifically Net Assets at the Beginning of the Year, is inaccurate. Furthermore, many of the amounts reported in the Management's Discussion and Analysis did not agree with the financial statements. Also, amounts reported on the Statement of Cash Flows, specifically Cash Flows from Operating Activities and Cash Flows from Capital and Related Financing Activities are inaccurate. We were unable to agree Adjustments to Reconcile Operating Loss to Net Cash Used for Operating Activities. Therefore, the Statement of Cash Flows does not provide accurate information about how the Academy finances and meets its operating cash flow needs.

The Notes to the Financial Statements were inaccurate. The Academy reported incorrect sponsor contract period information as well as an incorrect number of governing board members. The capitalization threshold was also incorrectly reported. Furthermore, the Academy reported state start up grant information that pertains to fiscal year 2007. In addition, the pension note disclosure was inaccurately reported.

We recommend the Academy review the note disclosures required by the Codification of Governmental Accounting and Financial Reporting Standards to ensure complete disclosures are made.

Client's Response:

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

The Client did not submit a response to finding 2008-001.

THE ARTS ACADEMY
LORAIN COUNTY

SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2008

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Plan Taken; or Finding No Longer Valid; **Explain:**
2007-001	Five Year Forecast	No	Reissued as 2008-002
2007-002	Developing and Implementing an Effective Monitoring Control System	No	Reissued as 2008-004
2007-003	Capital Assets	No	Reissued as 2008-003
2007-004	Financial Reporting	No	Reissued as 2008-007
2007-005	Condition of Accounting Records	No	Reissued as 2008-005
2007-006	Related Party	No	Reissued as 2008-006
2007-007	SAS 112	Yes	

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
MAY 20, 2010

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