



**CLEVELAND ACADEMY OF SCHOLARSHIP TECHNOLOGY AND
LEADERSHIP ENTERPRISE
CUYAHOGA COUNTY**

INITIAL AUDIT

FOR THE PERIOD ENDED JUNE 30, 2005



**Auditor of State
Betty Montgomery**

CLEVELAND ACADEMY OF SCHOLARSHIP, TECHNOLOGY AND LEADERSHIP ENTERPRISE
CUYAHOGA COUNTY

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Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

Cleveland Academy of Scholarship, Technology and Leadership Enterprise
Cuyahoga County
1729 Superior Avenue
Cleveland, Ohio 44114

To the Governing Board:

We have audited the accompanying financial statements of the business-type activities of Cleveland Academy of Scholarship Technology and Leadership Enterprise, Cuyahoga County, (the School), as of and for the period ended June 30, 2005, which collectively comprise the School's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the School's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to reasonably assure whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities, of Cleveland Academy of Scholarship Technology and Leadership Enterprise, Cuyahoga County, as of June 30, 2005, and the respective changes in financial position and cash flows, where applicable, thereof for the period ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 5, 2006, on our consideration of the School'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 School Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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

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

Betty Montgomery
Auditor of State

June 5, 2006

**CLEVELAND ACADEMY OF SCHOLARSHIP, TECHNOLOGY & LEADERSHIP ENTERPRISE
CUYAHOGA COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE PERIOD ENDED JUNE 30, 2005
UNAUDITED**

The discussion and analysis of the Cleveland Academy of Scholarship, Technology & Leadership Enterprise's financial performance provides an overall review of the School's financial activities for the period ended June 30, 2005. The intent of this discussion and analysis is to look at the School'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 School's financial performance.

The Management's Discussion and Analysis (MD&A) is an element of the new reporting model adopted by the Governmental Accounting Standard Board (GASB) in their Statement No. 34 Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments issued June, 1999. Since the period 2005 was the first of the School's existence, comparative information is not available.

Financial Highlights

- The School had net assets of \$118,949 as of June 30, 2005.
- Total assets at period end were \$197,572 and total liabilities were \$78,623.
- The School had operating revenues for the period 2005 of \$853,044 and operating expenses for the period 2005 of \$862,517.

Using this Financial Report

This report consists of three parts, the MD&A, the basic financial statements, and notes to those statements. The basic financial statements include a statement of net assets, a statement of revenues, expenses and changes in net assets, and a statement of cash flows.

Statement of Net Assets

The statement of net assets includes all assets and liabilities, both short-term and long-term using the accrual basis of accounting and economic resources measurement 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 School's net assets as of June 30, 2005. Since this is the School's first period of existence, comparisons to the fiscal year 2004 are not available. In future years, when the prior-year information is available, a comparative analysis of district-wide data will be present.

**(Table 1)
Net Assets**

	<u>2005</u>
Assets	
Current Assets	<u>\$197,572</u>
Liabilities	
Current Liabilities	<u>78,623</u>
Net Assets	
Restricted Net Assets	76,667
Unrestricted (Deficit)	42,282
Total Net Assets	<u><u>\$118,949</u></u>

**CLEVELAND ACADEMY OF SCHOLARSHIP, TECHNOLOGY & LEADERSHIP ENTERPRISE
CUYAHOGA COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE PERIOD ENDED JUNE 30, 2005
UNAUDITED
(Continued)**

Table 2 shows the changes in net assets for the period 2005. Since this is the School's first period of existence, comparisons to the fiscal year 2004 are not available. In future years, when the prior-year information is available, a comparative analysis of district-wide data will be present.

**(Table 2)
Change in Net Assets**

	2005
Operating Revenues:	
State Foundation	\$844,441
Disadvantaged Pupil Impact Aid	8,603
Total Operating Revenues	853,044
Non-Operating Revenues:	
Federal and State Grants	128,265
Interest	157
Total Non-Operating Revenues	128,422
Total Revenues	981,466
 Operating Expenses	
Salaries	259,695
Fringe Benefits	41,956
Purchased Services	316,296
Rent	93,968
Materials and Supplies	150,602
Total Expenses	862,517
Change in Net Assets	118,949
Net Assets Beginning of Period	0
Net Assets End of Period	\$118,949

Debt Administration

The School did not have any outstanding debt at June 30, 2005.

Contacting the School's Financial Management

This financial report is designed to provide our citizen's with a general overview of the School's finances and to show the School's accountability for the money it receives. If you have questions about this report or need additional information contact Phyllis Bixler, Treasurer at Cleveland Academy of Scholarship; Technology & Leadership Enterprise, 1739 Superior Avenue, Cleveland, Ohio 44114 or e-mail at www_treas@mdeca.org.

**CLEVELAND ACADEMY OF SCHOLARSHIP, TECHNOLOGY & LEADERSHIP ENTERPRISE
CUYAHOGA COUNTY**

**STATEMENT OF NET ASSETS
JUNE 30, 2005**

Assets:

Current Assets:

Cash and Cash Equivalents	\$56,769
Intergovernmental Receivable	<u>140,803</u>

Total Assets 197,572

Liabilities:

Current Liabilities:

Accounts Payable	25,655
Accrued Wages and Benefits Payable	45,054
Intergovernmental Payable	<u>7,914</u>

Total Liabilities 78,623

Net Assets:

Restricted Net Assets	76,667
Unrestricted	<u>42,282</u>

Total Net Assets \$118,949

See accompanying notes to the basic financial statements.

**CLEVELAND ACADEMY OF SCHOLARSHIP, TECHNOLOGY & LEADERSHIP ENTERPRISE
CUYAHOGA COUNTY**

**STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN NET ASSETS
FOR THE PERIOD ENDED JUNE 30, 2005**

Operating Revenues:	
State Foundation	\$844,441
Disadvantaged Pupil Impact Aid	<u>8,603</u>
Total Operating Revenues	<u>853,044</u>
Operating Expenses:	
Salaries	259,695
Fringe Benefits	41,956
Purchased Services	316,296
Rent	93,968
Materials and Supplies	<u>150,602</u>
Total Operating Expenses	<u>862,517</u>
Operating Loss	<u>(9,473)</u>
Non-Operating Revenues:	
Federal and State Grants	128,265
Interest	<u>157</u>
Total Non-Operating Revenues	<u>128,422</u>
Change in Net Assets	118,949
Net Assets Beginning of Period	<u> </u>
Net Assets End of Period	<u><u>\$118,949</u></u>

See accompanying notes to the basic financial statements.

**CLEVELAND ACADEMY OF SCHOLARSHIP, TECHNOLOGY & LEADERSHIP ENTERPRISE
CUYAHOGA COUNTY**

**STATEMENT OF CASH FLOWS
FOR THE PERIOD ENDED JUNE 30, 2005**

Increase (Decrease) in Cash and Cash Equivalents:	
Cash Flows Provided by Operating Activities:	
Cash Received from State of Ohio	\$802,621
Cash Payments to Employees for Services	(248,683)
Cash Payments to Suppliers for Goods and Services	<u>(535,211)</u>
Net Cash Provided by Operating Activities	18,727
Cash Flows from Noncapital Financing Activities:	
Federal and State Grants Received	37,885
Cash Flows for Investing Activities:	
Interest	<u>157</u>
Net Increase in Cash and Cash Equivalents	56,769
Cash and Cash Equivalents at Beginning of Period	<u> </u>
Cash and Cash Equivalents at End of Period	<u><u>\$56,769</u></u>
Reconciliation of Operating Loss to Net Cash Provided by Operating Activities:	
Operating Loss	<u>(\$9,473)</u>
Adjustments to Reconcile Operating Loss to Net Cash Provided by Operating Activities:	
Changes in Assets and Liabilities:	
Increase in Intergovernmental Receivable	(50,423)
Increase in Accounts Payable	25,655
Increase in Accrued Wages and Benefits	45,054
Increase in Intergovernmental Payable	<u>7,914</u>
Total Adjustments	<u>28,200</u>
Net Cash Provided by Operating Activities	<u><u>\$18,727</u></u>

See accompanying notes to the basic financial statements.

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**CLEVELAND ACADEMY OF SCHOLARSHIP, TECHNOLOGY & LEADERSHIP ENTERPRISE
CUYAHOGA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE PERIOD ENDED JUNE 30, 2005**

1. DESCRIPTION OF THE SCHOOL AND REPORTING ENTITY

Cleveland Academy of Scholarship, Technology & Leadership Enterprises (the School) is an Ohio Public Benefit Corporation established pursuant to Ohio Revised Code Chapters 3314 and 1702.01(P) to address the needs of students in grades 9 through 12. The School, which is part of the State's education program, is independent of any school district and is nonsectarian in its programs, admission policies, employment practices, and all other operations. The School may sue and be sued, acquire facilities as needed and contract for any services necessary for the operation of the School.

The School is in the process of obtaining exemption from federal income taxes as a 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 school's tax-exempt status.

The School was approved for operation under contract with the Lucas County Educational Service Center (the Sponsor) commencing October 4, 2004 and ending June 30, 2009. The Sponsor is responsible for evaluating the performance of the School and has the authority to deny renewal of the contract at its expiration or terminate the contract prior to its expiration. The School changed its sponsor to Educational Resource Consultants of Ohio, Inc in September 2005. The School contracted with Kids 2000 and Educational Management Alliance to perform extended educational services. One member of Kids 2000 also serves on the School's Governing Board. This related party transaction will be further discussed in Note 10 to the basic financial statements.

The School operates under the direction of a five-member Governing Board. The Board is responsible for carrying out the provisions of the contract which include, but are not limited to state-mandated provisions regarding student population, curriculum, academic goals, performance standards, admission standards, and qualifications of teachers.

The primary government of the School consists of one fund, several departments and the Board. School programs include general operations and student related activities of the School. The School is associated with the Metropolitan Dayton Educational Cooperative Association, which is defined as a jointly governed organization. It is a computer consortium of area schools sharing computer resources. (See Note 11)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the School have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental nonprofit organizations. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The School also applies Financial Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989, to its proprietary activities, provided they do not conflict with or contradict GASB pronouncements. The School District has elected not to apply FASB statements and interpretations issued after November 30, 1989, to its proprietary fund. The more significant of the School's accounting policies are described below.

A. Basis Of Presentation

The School's basic financial statements consists of a statement of net assets, a statement of revenues, expenses and changes in net assets, and a statement of cash flows.

**CLEVELAND ACADEMY OF SCHOLARSHIP; TECHNOLOGY & LEADERSHIP ENTERPRISE
CUYAHOGA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE PERIOD ENDED JUNE 30, 2005
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The School uses a single enterprise fund to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts.

Enterprise fund reporting focuses on the determination of the change in net assets, financial positions and cash flows. An enterprise fund may be used to account for any activity for which a fee is charged to external users for goods and services.

B. Measurement Focus

The accounting and financial reporting treatment of an entity's financial transactions is determined by the entity's measurement focus, all assets and all liabilities associated with the operation of the School are included on the statement of net assets. The statement of changes in net assets presents increases (i.e., revenues) and decreases (i.e., expenses) in net assets. The statement of cash flows provides information about how the School finances and meets the cash flow needs of its enterprise activity.

C. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. The School'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.

Non-exchange transactions, in which the School receives value without directly giving equal value in return, include grants, entitlements, and donations. Revenue from grants and entitlements 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 School must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the School on a reimbursement basis. Expenses are recognized at the time they are incurred.

D. Cash and Cash Equivalents

The School maintains an interest bearing depository account. All funds of the School are maintained in this account. This account is presented on the statement of net assets as "Cash and Cash Equivalents".

E. Net Assets

Net assets represent the difference between assets and liabilities. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the School or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. The School applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted Net Assets are available.

F. Operating Revenues and Expenses

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

**CLEVELAND ACADEMY OF SCHOLARSHIP; TECHNOLOGY & LEADERSHIP ENTERPRISE
CUYAHOGA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE PERIOD ENDED JUNE 30, 2005
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

G. Intergovernmental Revenues

The School currently participates in the State Foundation Program and the State Special Education Program. Revenues received from these programs are recognized as operating revenues in the accounting period in which all eligibility requirements have been met. Eligibility requirements include timing requirements which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements in which the School must provide local resources to be used for a specified purpose and expenditure requirements in which the resources are provided to the School on a reimbursement basis.

The amount of these grants is directly related to the number of students enrolled in the School. The Ohio Department of Education conducts reviews of enrollment data and full-time equivalency (FTE) calculations made by the School. 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 review resulted in an under payment to the School of \$50,423 and is recorded as a receivable in the financial statements.

The remaining grants and entitlements received by the School are recognized as non-operating revenues in the accounting period in which eligibility requirements have been met.

H. 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.

I. Budgetary Process

Unlike other public schools located in the State of Ohio, community schools are not required to follow budgetary provisions set forth in Ohio Revised Code Chapter 5705, except 5705.391 which requires the school to prepare a 5 year projection and submit it to the superintendent of public instruction, unless specifically provided in the contract between the School and its sponsor. The contract between the School and its Sponsor does not prescribe a budgetary process for the School; therefore no budgetary information is presented in the financial statements.

3. RECEIVABLES

Receivables at June 30, 2005, consisted of intergovernmental (Federal and State grants) receivables. All receivables are considered collectible in full and will be received within one year.

A summary of the principal items of intergovernmental receivables follows:

Title I	\$84,719
Title II-A	3,269
Title II-D	2,253
The Ohio Department of Education	50,423
Title V	139
Total Intergovernmental Receivable	<u>\$140,803</u>

**CLEVELAND ACADEMY OF SCHOLARSHIP; TECHNOLOGY & LEADERSHIP ENTERPRISE
CUYAHOGA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE PERIOD ENDED JUNE 30, 2005
(Continued)**

4. RISK MANAGEMENT

A. Property and Liability

The school 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. Buildings and contents are covered under Westfield Insurance Company with a \$1,000 deductible. Electronic data processing equipment is covered under Westfield Insurance Company with a \$1,000 deductible. The School carries liability insurance with Westfield Insurance Company of \$1,000,000 single occurrence and \$2,000,000 aggregate.

This is the School's first period of existence. During the fiscal period, the settled claims did not exceed this commercial coverage.

B. Worker's Compensation

The School pays the State Workers' Compensation System a premium for employee injury coverage. The premium is calculated by multiplying annual gross payroll by a factor calculated by the State.

5. DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

The School contributes to the School Employees Retirement System (SERS), a cost-sharing multiple employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by 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 writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746, or by calling (614) 222-5853.

Plan members are required to contribute 10 percent of their annual covered salary and the School is required to contribute at an actuarially determined rate. The current School's rate is 14 percent of annual covered payroll. A portion of the School's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2005, 10.57 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The School's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2005 was \$4,060; 91.11 percent has been contributed for fiscal period 2005.

B. State Teachers Retirement System of Ohio

The School participates in the State Teachers Retirement System of Ohio (STRS Ohio), 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 that may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3371, by calling (614) 227-4090, or by visiting the STRS Ohio Web site at www.strsoh.org.

**CLEVELAND ACADEMY OF SCHOLARSHIP; TECHNOLOGY & LEADERSHIP ENTERPRISE
CUYAHOGA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE PERIOD ENDED JUNE 30, 2005
(Continued)**

5. DEFINED BENEFIT PENSION PLANS (Continued)

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 contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5% of earned compensation into an investment account. Investment decisions are made by the member.

A member is eligible to receive a retirement benefit at age 50 and termination of employment. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan. Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one time irrevocable decision to transfer their account balances from the existing DB Plan into the DC Plan or the Combined Plan. This option expired on December 31, 2001. Benefits are established by Chapter 3307 of the Ohio Revised Code.

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

For the fiscal year ended June 30, 2005, plan members were required to contribute 10 percent of their annual covered salaries. The School was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The School's required contributions for pension obligations to the DB Plan for the fiscal years ended June 30, 2005 was \$27,422; 81.96 percent has been contributed.

6. POSTEMPLOYMENT BENEFITS

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

**CLEVELAND ACADEMY OF SCHOLARSHIP; TECHNOLOGY & LEADERSHIP ENTERPRISE
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE PERIOD ENDED JUNE 30, 2005
(Continued)**

6. POSTEMPLOYMENT BENEFITS (Continued)

All retirees who participated in the DB or Combined Plans and their dependents are eligible for health care coverage. The STRS Ohio Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. All benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS Ohio funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2005, the STRS Ohio Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. For the School, this amount equaled \$2,109 for fiscal year 2005.

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

For SERS, coverage is made available to service retirees with ten or more fiscal years of qualifying service credit, and to disability and survivor benefit recipients. All retirees and beneficiaries are required to pay a portion of their premium for health care. The portion is based on years of service, Medicare eligibility, and retirement status. Premiums may be reduced for retirees whose household income falls below the poverty level.

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2005, employer contributions to fund health care benefits were 3.43 percent of covered payroll, a decrease of 1.48 percent from fiscal year 2004. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2005, the minimum pay was established at \$27,400. However, the surcharge is capped at 2 percent of each employer's SERS salaries. For the 2005 fiscal year, School District paid \$2,271 to fund health care benefits, including the surcharge.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of the annual health care expenses. Expenses for health care for the fiscal year ended June 30, 2005, were \$178,221,113 and the target level was \$367.3 million. At June 30, 2005, SERS had net assets available for payment of health care benefits of \$267.5 million. SERS has approximately 58,123 participants currently receiving health care benefits.

7. EMPLOYEE BENEFITS

The School carries their medical insurance through American Trust Company. The full-time Professional Staff Members contribution to the monthly premium for medical insurance shall be 20% paid by the staff member and 80% paid by the Board.

8. LEASES

The School subleases an office facility from the Sunshine Limited Partnership, under an operating lease. The term of this lease commenced August 15, 2004 through August 15, 2009. The lease payment includes use of the buildings, the cost of utilities, maintenance, custodial and grounds services. The lease payment was \$93,968 for the period ended June 30, 2005. The estimated future minimum lease payments as of June 30, 2005 are as follows:

**CLEVELAND ACADEMY OF SCHOLARSHIP; TECHNOLOGY & LEADERSHIP ENTERPRISE
CUYAHOGA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE PERIOD ENDED JUNE 30, 2005
(Continued)**

8. LEASES (Continued)

<u>Year Ending June 30,</u>	<u>Amount</u>
2006	\$128,052
2007	128,052
2008	128,052
2009	128,052
	<u>\$512,208</u>

9. CONTINGENCIES

A. Grants

Amounts received from grantor agencies are subject to audit and adjustment by the Grantor. Any disallowed costs may require refunding to the grantor. Amounts, which may be disallowed, if any, are not presently determinable. However, in the opinion of the school, any such disallowed claims will not have a material adverse effect on the financial position of the school.

B. State Funding

The Ohio Department of Education conducts reviews of enrollment data and full-time equivalency (FTE) calculations made by the schools. These reviews are conducted to insure the schools are reporting accurate student enrollment data to the state, upon which State foundation funding is calculated. These adjustment figures are now available, and the amount due the school is \$50,423.

C. Litigation

A suit was filed in Franklin County common Pleas Court on May 14, 2001 alleging Ohio's Community (i.e., Charter) School's program violates the state Constitution and state laws. On April 21, 2003, the court dismissed the counts containing constitutional claims and stayed the other counts pending appeal of the constitutional issues. The plaintiffs appealed to the Court of Appeals, the issues have been briefed and the case was heard on November 18, 2003. On August 24, 2005, the Court of Appeals rendered a decision that Community Schools are part of the state public educational system and this matter was sent to the Ohio Supreme Court. The Ohio Supreme Court accepted the appeal from the Court of Appeals for review on February 16, 2005. Oral arguments occurred November 29, 2005. The effect of this suit, if any on the Cleveland Academy of Scholarship, Technology & Leadership is not presently determinable.

10. RELATED PARTY TRANSACTIONS

The School contracted with Kids 2000 to perform extended educational services. One member of Kids 2000 also serves on the School's Governing Board. Total payments made for these services during the fiscal year ended June 30, 2005 were \$14,253.

One of the board members is the owner of the building the School leases. (see Note 8)

**CLEVELAND ACADEMY OF SCHOLARSHIP; TECHNOLOGY & LEADERSHIP ENTERPRISE
CUYAHOGA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE PERIOD ENDED JUNE 30, 2005
(Continued)**

11. JOINTLY GOVERNED ORGANIZATION

Metropolitan Dayton Educational Cooperative Association - The School is a participant in the Metropolitan Dayton Educational Cooperative Association (MDECA) which is a computer consortium. MDECA is an association of public school districts within the boundaries of Montgomery, Miami and Darke Counties and the Cities of Dayton, Troy and Greenville. The organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member school districts.

The governing board of MDECA consists of seven Superintendents of member school districts, with six of the Superintendents elected by majority vote of all member school districts except Montgomery County Educational Service Center. The seventh Superintendent is from the Montgomery County Educational Service Center. The School paid MDECA \$8,626 for services provided during the fiscal year. Financial information can be obtained from Jerry Woodyard, who serves as director, at 225 Linwood Street, Dayton, Ohio 45405.

12. PURCHASED SERVICES

For the period ended June 30, 2005, purchased service expenses were payments for services rendered by various vendors as follows:

Management Services	\$ 82,274
Professional and Technical Services	83,453
Data Processing Services	98,951
Repairs and Maintenance Services	23,506
Telephone Services	5,533
Advertising	7,095
Other Purchased Services	<u>15,484</u>
Total	<u>\$316,296</u>



**Auditor of State
Betty Montgomery**

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

Cleveland Academy of Scholarship, Technology and Leadership Enterprise
Cuyahoga County
1729 Superior Avenue
Cleveland, Ohio 44114

To the Governing Board:

We have audited the financial statements the business-type activities, of Cleveland Academy of Scholarship Technology and Leadership Enterprise (the School) as of and for the period ended June 30, 2005, which collectively comprise the School's basic financial statements and have issued our report thereon dated June 5, 2006. 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 School's internal control over financial reporting to determine our auditing procedures in order to express our opinion on the financial statements and not to opine on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the School's ability to record, process, summarize, and report financial data consistent with management's assertions in the financial statements. Reportable conditions are described in the accompanying schedule of findings as items 2005-001 to 2005-004.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered material weaknesses. However, we do not believe the reportable conditions described above are material weaknesses. In a separate letter to the School's management dated June 5, 2006, we reported a matter involving internal control over financial reporting which we do not deem to be a reportable condition.

Compliance and Other Matters

As part of reasonably assuring whether the School'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 no instances of noncompliance or other matters we must report under *Government Auditing Standards*. In a separate letter to the School's management dated June 5, 2006, we reported other matters related to noncompliance we deemed immaterial.

We intend this report solely for the information and use of the management and the Governing Board. It is not intended for anyone other than these specified parties.

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

Betty Montgomery
Auditor of State

June 5, 2006

**CLEVELAND ACADEMY OF SCHOLARSHIP, TECHNOLOGY AND LEADERSHIP ENTERPRISE
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS
JUNE 30, 2005**

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

FINDING NUMBER 2005-001

Finding for Recovery – Repaid Under Audit

The School held a staff development on a cruise boat on May 25, 2005. The School paid for 25 people at \$28.16 per person totaling \$704. The School only had 9 personnel attend - 6 employees and 3 board members. This resulted in an overpayment of \$450.56.

In accordance with the foregoing facts, and pursuant to Ohio Rev. Code Section 117.28, a Finding for Recovery for public monies illegally expended is hereby issued against William Peterson, Chief Executive Officer, Mrs. Phyllis Bixler, School Treasurer, and her bonding company, Cincinnati Insurance Company, jointly and severally, and in the amount of \$450.56 in favor of the General Fund of the School. This finding was repaid under audit via check #2801, dated February 23, 2006 from the Leadership Training Institute and signed by William Peterson.

FINDING NUMBER 2005-002

Review of costs

The School received and paid an invoice from Colin Powell Leadership Academy (CPLA) in the amount of \$1,569.29 for a joint staff meeting and boat cruise in Cincinnati attended by the School's governing board members. The cost of the meeting was initially all paid by CPLA and the School.

The original hotel and boat cruise invoices determined that only \$1,169.65 was owed by the School to CPLA. A finding for recovery has been issued in the CPLA audit in the amount of \$344.72 to repay the School. This amount was repaid by CPLA via check #007196, dated May 22, 2006

The School's management should review invoices thoroughly to make certain that all expenditures are for allowable expenditures, for proper public purpose, and then be properly approved by the Governing Board. Additionally, when costs are shared among schools, due care should be taken to provide for the accurate allocation on costs among all participating entities.

FINDING NUMBER 2005-003

Purchasing Procedures

The School's purchasing procedures included the use of purchase orders with the Director's approval. However, 16 of the 32 or 50% of the purchase orders tested did not have the approval documented.

To strengthen internal controls, the School should follow its purchasing procedures which states in part, "The Purchase Order is an authorization material has been received and payment may be processed. The Purchase Order is signed by the Director of the School." This should reduce the possibility of inappropriate disbursements of funds.

FINDING NUMBER 2005-004

Employment Practices

Six of the School's seven employees had contracts but five of those were not signed by the employee or a member of the School's management. Additionally, one other employee did not have a contract. Finally, there was no evidence of hiring of any employee in the board minutes.

The hiring of all school employees should be approved by the governing board after all required checks have occurred and be recorded in the board minutes including the salary rate and period of employment. Additionally, employment contracts should be prepared and signed by the employee and the appropriate school officials to provide a basis for employee pay and benefits, and to allow the school an accurate means of knowing personnel costs.

We did not receive a response from Officials to the findings reported above.



**Auditor of State
Betty Montgomery**

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**CLEVELAND ACADEMY OF SCHOLARSHIP TECHNOLOGY AND
LEADERSHIP ENTERPRISE**

CUYAHOGA 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
JULY 18, 2006**