



**WILSON MILITARY ACADEMY
CUYAHOGA COUNTY**

REGULAR AUDIT

FOR THE YEAR ENDED JUNE 30, 2005



**Auditor of State
Betty Montgomery**

**WILSON MILITARY ACADEMY
CUYAHOGA COUNTY**

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Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

Wilson Military Academy
Cuyahoga County
8555 Hough Avenue
Cleveland, Ohio 44106

To the Board of Trustees:

We were engaged to audit the accompanying basic financial statements of the Wilson Military Academy, Cuyahoga County, Ohio, (the Academy) as of June 30, 2005 and for the period November 1, 2004 through June 30, 2005, as listed in the table of contents. These financial statements are the responsibility of the Academy's management.

The Academy did not provide records of the capital assets owned, failed to maintain original supporting documentation which itemized and identified capital assets purchased, failed to identify the location of assets within the Academy, or develop and/or implement procedures to record capital assets additions and deletions.

The documentation provided by the Academy to support the amounts reported as salaries, fringe benefits, and accrued wages could not be verified because Board approved salary rates were not available. In addition, supervisor approved time sheets and time cards were not available, employment contracts or salary notices were not available, personal leave time was not supported by authenticated documentation, and deduction authorization forms, signed by the employees, were not on file.

The Academy did not provide original supporting documentation for all non-payroll expenditures. Consequently, we were unable to verify the accuracy, completeness and valuation of the amounts reported as expenditures for non-payroll purposes.

Since the Academy did not provide the evidence described in paragraphs two to four above, the scope of our auditing procedures was not sufficient to enable us to express, and we do not express, an opinion on these financial statements.

The notes to the financial statements do not disclose the Academy's sponsor changed in September 2005 and the Academy suspended operations for fiscal year 2006.

The Auditor of State had billed the Academy for audit services provided for fiscal year 2005. As of the date of this report, the Academy has been billed a total of \$13,508 and has yet to pay \$13,508. The outstanding amount has been referred to the Department of Education for collection from any possible future foundation payments.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 11, 2006 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 do 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.

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

Betty Montgomery
Auditor of State

October 11, 2006

**WILSON MILITARY ACADEMY
CUYAHOGA COUNTY**

**Management's Discussion and Analysis
For the Period November 1, 2004 to June 30, 2005
UNAUDITED**

The discussion and analysis of Wilson Military Academy (the Academy) financial performance provides an overall view of the Academy's financial activities for the period November 1, 2004 to June 30, 2005. The intent of this discussion and analysis is to look at the Academy's financial performance as a whole; readers should also review the notes to the basic financial statements and financial statements to enhance their understanding of the Academy's financial performance. This is the initial period of operations for the Academy.

Financial Highlights

- Total Assets were \$12,885.
- Total Liabilities were \$349,935.
- Total Net Assets were \$(325,527).

Using this Annual Financial Report

This report consists of three parts, the Management's Discussion and Analysis (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 statement of cash flows.

Statement of Net Assets

The Statement of Net Assets answers the question, "How did we do financially during 2005?" 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 resources focus, which is similar to the accounting used by most private-sector companies. This basis of accounting considers all of the current year's revenues and expenses regardless of when cash is received or paid.

Table 1 provides a summary of the Academy's net assets at June 30, 2005. As this is the initial period of operations, no comparison is made to the prior period:

<u>Net Assets</u>	
Assets	
Current Assets	\$ 12,885
Capital Assets, Net	<u>11,523</u>
Total Assets	<u><u>\$ 24,408</u></u>
Liabilities	
Current Liabilities	<u>\$ 349,935</u>
Total Liabilities	<u>349,935</u>
Net Assets	
Invested in Capital Assets	11,523
Unrestricted	<u>(337,050)</u>
Total Net Assets	<u><u>\$ (325,527)</u></u>

The Statement of Revenues, Expenses, and Changes in Net Assets shows the cost of operating expenses and the revenues offsetting those services. Table 2 shows the total amount of operating and non-operating expenses and the revenues associated with those expenses for the year. That is, it identifies the amount of operating expenses supported by State and other funding.

**WILSON MILITARY ACADEMY
CUYAHOGA COUNTY**

**Management's Discussion and Analysis
For the Period November 1, 2004 to June 30, 2005
UNAUDITED**

Operating Revenue

Foundation Payments	\$ 1,080,704
Disadvantaged Pupil Impact Aid	59,147
Special Education	62,937
Other Operating Revenue	7,844
<i>Total Operating Revenues</i>	<u>1,210,632</u>

Operating Expenses

Salaries	996,134
Fringe Benefits	178,854
Purchased Services	242,908
Materials and Supplies	43,140
Depreciation Expense	642
Judgement	75,000
Other Operating Expense	1,555
<i>Total Operating Expenses</i>	<u>1,538,233</u>

Non-Operating Revenues and (Expenses)

Operating Grants - State	5,000
Contributions and Donations	50
Interest and Fiscal Charges	(2,976)
Total Non-Operating Revenues and (Expenses)	<u>2,074</u>
Increase/(Decrease) in Net Assets	<u>\$ (325,527)</u>

State Foundation Payments, Disadvantaged Pupil Impact Aid and Special Education, as a whole, are the primary support for the Academy, representing 99.3 percent of the operating revenue. Salaries and Fringe Benefits comprise 73.4 percent of operating expenses.

The Academy had total revenues of \$1,215,682, and total expenses of \$1,541,209. The change in net assets for the year was a decrease of \$325,527. This decrease is a result of accrued wages and benefits incurred before June 30, 2005 but were paid in July and August of 2005. The decrease should be eliminated as student enrollment increases.

Capital Assets

At the end of period June 30, 2005, the Academy had \$11,523 (net of \$642 in accumulated depreciation) invested in furniture and equipment. Table 3 shows balances at June 30, 2005:

Capital Assets at June 30	
(Net of Depreciation)	
<hr/>	
Computers	\$ 1,404
Furniture, Fixtures, and Equipment	<u>10,119</u>
Totals	<u>\$ 11,523</u>

For more information on capital assets, see note 4 to the basic financial statements.

**WILSON MILITARY ACADEMY
CUYAHOGA COUNTY**

**Management's Discussion and Analysis
For the Period November 1, 2004 to June 30, 2005
UNAUDITED**

Current Financial Issues

The inclusion of the Lucas County Educational Service Center as the Academy's fiscal agent greatly improves its internal control structure and the quality of its financial records. During the period November 1, 2004 to June 30, 2005, there were approximately 177 students enrolled in the Academy. The Academy receives its finances mostly from state aid. Per pupil aid for this period amounted to \$5,058 per student.

Contacting the Academy's Financial Management

This financial report is designed to provide our citizen's with a general overview of the Academy's finances and to show the Academy's accountability for the money it receives. If you have questions about this report or need additional information contact Mr. Charles Britton at Wilson Military Academy, Cleveland, Ohio or e-mail at charlesbrttn@aol.com.

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Wilson Military Academy
 Cuyahoga County
 Statement of Net Assets
 As of June 30, 2005

Assets:

Current Assets:

Cash and Cash Equivalents	\$ 12,885
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Total Current Assets	12,885
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Noncurrent Assets:

Capital Assets, Net	11,523
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Total Noncurrent Assets	11,523
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Total Assets	\$ 24,408
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Liabilities:

Current Liabilities:

Accounts Payable	\$ 8,005
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Accrued Wages and Benefits Payable	253,872
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Intergovernmental Payable	88,058
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Total Current Liabilities	349,935
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Total Liabilities	349,935
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Net Assets:

Invested in Capital Assets, Net of Related Debt	11,523
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Unrestricted	(337,050)
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Total Net Assets	\$ (325,527)
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See Accompanying Notes to the Basic Financial Statements

Wilson Military Academy
 Cuyahoga County
 Statement of Revenues, Expenses and Changes in Net Assets
 For the Period November 1, 2004 to June 30, 2005

Operating Revenues:

Foundation Payments	\$ 1,080,704
Disadvantaged Pupil Impact Aid	59,147
Special Education	62,937
Other Operating Revenues	7,844
Total Operating Revenues	<u>1,210,632</u>

Operating Expenses:

Salaries	996,134
Fringe Benefits	178,854
Purchased Services	242,908
Materials and Supplies	43,140
Depreciation	642
Judgment	75,000
Other Operating Expenses	1,555
Total Operating Expenses	<u>1,538,233</u>

Operating Income (327,601)

Non-Operating Revenues and Expenses:

Operating Grants-State	5,000
Contributions and Donations	50
Interest and Fiscal Charges	<u>(2,976)</u>
Total Non-Operating Revenues and (Expenses)	<u>2,074</u>

Change in Net Assets (325,527)

Net Assets at Beginning of Year -
 Net Assets at End of Year \$ (325,527)

See Accompanying Notes to the Basic Financial Statements

Wilson Military Academy
Cuyahoga County
Statement of Cash Flows
For the Period November 1, 2004 to June 30, 2005

Increase (Decrease) in Cash and Cash Equivalents

Cash Flows from Operating Activities:

Cash Received from State of Ohio	\$ 1,202,788
Cash Received from Other Operating Sources	7,844
Cash Payments to Suppliers for Goods and Services	(278,043)
Cash Payments to Employees for Services	(742,262)
Cash Payments for Employee Benefits	(90,796)
Cash Payments for Other Operating Uses	<u>(76,555)</u>
Net Cash Provided by (Used for) Operating Activities	<u>22,976</u>

Cash Flows from Noncapital Financing Activities:

Operating Grants-State	5,000
Contributions and Donations	<u>50</u>
Net Cash Provided by (Used for) Noncapital Financing Activities	<u>5,050</u>

Cash Flows from Capital and Related Financing Activities:

Proceeds from the Sale of Notes	120,000
Payments for Capital Acquisitions	(12,165)
Principal Payments	(120,000)
Interest Payments	<u>(2,976)</u>
Net Cash Provided by (Used for) Capital and Related Financing Activities	<u>(15,141)</u>

Net Increase (Decrease) in Cash and Cash Equivalents	12,885
Cash and Cash Equivalents at Beginning of Year	<u>-</u>
Cash and Cash Equivalents at End of Year	<u><u>\$ 12,885</u></u>

Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used for) Operating Activities:

	<u>Amounts</u>
Operating Income (Loss)	(327,601)

Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by (Used for) Operating Activities:

Depreciation	642
Changes in Assets and Liabilities:	
Increase/(Decrease) in Accounts Payable	8,005
Increase/(Decrease) in Accrued Wages	253,872
Increase/(Decrease) in Intergovernmental Payable	<u>88,058</u>
Total Adjustments	<u>350,577</u>
Net Cash Provided by Operating Activities	<u><u>\$ 22,976</u></u>

See Accompanying Notes to the Basic Financial Statements

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**WILSON MILITARY ACADEMY
CUYAHOGA COUNTY**

**Notes to the Basic Financial Statements
For the Period November 1, 2004 to June 30, 2005**

1. DESCRIPTION OF THE REPORTING ENTITY

Wilson Military Academy (the Academy) is a nonprofit corporation established pursuant to Ohio Revised Code Chapters 3314 and 1702. The mission of the Academy is to develop excellence in academic and vocational achievement while providing character education to students. The Academy accomplishes this by providing programs designed to meet the needs of the whole child through a combination of progressive educational and vocational training. The Academy, which is part of the State's education program, is independent of any school district and is nonsectarian in its programs, admission policies, employment practices, and all other operations. The Academy may acquire facilities as needed and contract for any services necessary for the operation of the Academy.

The Academy was approved for operation under a contract with the Lucas County Educational Service Center (the Sponsor) for a period of five years commencing November 1, 2004. 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 sponsorship agreement states the Treasurer of the Lucas County Educational Service Center shall serve as the Chief Fiscal Officer of the Academy (See Note 10).

The Academy operates under the direction of a Governing Board. The Governing 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 Governing Board controls the Academy's one instructional/support facility staffed by 12 non-certified and 20 certificated full time teaching personnel who provide services to 176 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 a governmental nonprofit organization. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The Academy 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 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 revenues, expenses, and changes in net assets, and a statement of cash flows. Enterprise fund reporting focuses on the determination of the change in net assets, financial position, and cash flows.

B. Measurement Focus

Enterprise accounting uses a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities are included on the statements of net assets. The statement of changes in net assets presents increases (i.e., revenues) and decreases (i.e., expenses) in net total assets. The statement of cash flows provides information about how the Academy finances and meets the cash flow needs of its enterprise activities.

C. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. The Academy's financial statements are prepared using the accrual basis of accounting.

**WILSON MILITARY ACADEMY
CUYAHOGA COUNTY**

**Notes to the Basic Financial Statements
For the Period November 1, 2004 to June 30, 2005
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Basis of Accounting (Continued)

Revenues 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.

Revenues resulting from non-exchange transactions, in which the Academy receives value without directly giving equal value in return, such as grants and entitlements, are 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 expenditure requirements, in which the resources are provided to Academy on reimbursement basis.

Expenses are recognized at the time they are incurred.

D. Budgetary Process

Unlike other public schools located in the State of Ohio, community schools are not required to follow budgetary provisions set forth in Ohio Revised Code Chapter 5705, unless specifically provided in the contract between the Academy and its sponsor. The contract between the Academy and its Sponsor does prescribe an annual budget requirement in addition to preparing a five-year forecast, which is to be updated on an annual basis.

E. Cash and Cash Equivalents

All monies received by the Academy are accounted for by the Academy's fiscal agent, the Lucas County Educational Service Center. All cash received by the fiscal agent is maintained in separate bank accounts in the Academy's name. Monies for the Academy are maintained in these accounts or temporarily used to purchase short-term investments.

For the purposes of the statement of cash flows and for presentation on the statement of net assets, investments with original maturities of three months or less at the time they are purchased by the Academy are considered to be cash equivalents.

F. Intergovernmental Revenues

The Academy currently participates in the State Foundation Program and the State Special Education Program. Revenues from these programs are recognized as operating revenues in the accounting period in which all eligibility requirements are met.

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

**WILSON MILITARY ACADEMY
CUYAHOGA COUNTY**

**Notes to the Basic Financial Statements
For the Period November 1, 2004 to June 30, 2005
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

G. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2005, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expense is reported in the year in which services are consumed.

H. Capital Assets

Capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. The Academy does not maintain a capitalization policy and does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not.

All reported capital assets are depreciated. Depreciation is computed using the straight-line method over the following useful lives:

<u>Description</u>	<u>Estimated Lives</u>
Computers	5
Furniture, Fixtures and Equipment	5

I. Net Assets

Net assets represent the difference between assets and liabilities. Invested in Capital Assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets. The Academy has no debt.

J. Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activities. For the Academy, 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 Academy. Revenues and expenses not meeting this definition are reported as non-operating.

K. 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.

3. DEPOSITS AND INVESTMENTS

For the period ending June 30, 2005, the carrying amount of the Academy's deposits was \$12,885, and the bank balance was \$61,488. Of the bank balance, \$61,488 was covered by federal depository insurance.

**WILSON MILITARY ACADEMY
CUYAHOGA COUNTY**

**Notes to the Basic Financial Statements
For the Period November 1, 2004 to June 30, 2005
(Continued)**

4. CAPITAL ASSETS

Capital asset activity for the period November 1, 2004 to June 30, 2005, was as follows:

	<u>Balance</u> <u>11/1/2004</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>6/30/2005</u>
Capital Assets:				
Computers	\$ -	\$ 1,590	\$ -	\$ 1,590
Furniture and Equipment	-	10,575	-	10,575
Totals Capital Assets	-	12,165	-	12,165
Less Accumulated Depreciation:				
Furnitures, Fixtures, and Equipment	-	(642)	-	(642)
Total Accumulated Depreciation	-	(642)	-	(642)
Capital Assets, Net	<u>\$ -</u>	<u>\$ 11,523</u>	<u>\$ -</u>	<u>\$ 11,523</u>

5. RISK MANAGEMENT

A. Insurance Coverage

The Academy is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the period ending June 30, 2005, the Academy contracted with the American Premium Finance Co. and Gates Parizo Insurance Agency for commercial insurance and liability insurance.

The Academy owns no property, but leases a facility with Sunshine Limited Partnership, Thomas J. Unik Co. and Superior Lofts Building during this period. (See Note 12)

B. 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.

6. DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

The Academy contributes to the School Employees Retirement System of Ohio (SERS), a cost sharing multiple employer defined benefit pension plan administered by the School Employees Retirement Board. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3476.

**WILSON MILITARY ACADEMY
CUYAHOGA COUNTY**

**Notes to the Basic Financial Statements
For the Period November 1, 2004 to June 30, 2005
(Continued)**

6. DEFINED BENEFIT PENSION PLANS (Continued)

A. School Employees Retirement System (Continued)

For the period November 1, 2004 to June 30, 2005, plan members were required to contribute 10 percent of their annual covered salary and the Academy was required to contribute an actuarially determined rate. The employer rate for period ending June 30, 2005 was 14 percent of annual covered payroll; 10.57 percent was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS Retirement Board. The Academy's required contribution for pension obligations to SERS for the period ending June 30, 2005 was \$35,999; 63.7 percent has been contributed for period November 1, 2004 to June 30, 2005. \$13,074 is due at the period ending June 30, 2005 and is reflected as an intergovernmental payable on the Statement of Net Assets.

B. State Teachers Retirement Systems

The Academy contributes to the State Teachers Retirement System of Ohio (STRS Ohio), a cost sharing multiple employer public employee retirement system. STRS Ohio is a statewide retirement plan for licensed teachers and other agency controlled, managed and supported, in whole or in part, by the state or any political subdivision thereof.

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

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

**WILSON MILITARY ACADEMY
CUYAHOGA COUNTY**

**Notes to the Basic Financial Statements
For the Period November 1, 2004 to June 30, 2005
(Continued)**

6. DEFINED BENEFIT PENSION PLANS (Continued)

B. State Teachers Retirement Systems (Continued)

DC Plan Benefits – Benefits are established under Sections 3307.80 to 3307.89 of the Revised Code. For members who select the DC Plan, all member contributions and employer contributions at a rate of 10.5% are placed in an investment account. The member determines how to allocate the member and employer money among various investment choices. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump-sum withdrawal. Employer contributions into members' accounts are vested after the first anniversary of the first day of paid service. 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.

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

Eligible faculty of Ohio' public colleges and universities may choose to enroll in either STRS Ohio or an alternative retirement plan (ARP) offer by their employer. Employees have 120 days from their employment date to select a retirement plan.

A retiree of STRS Ohio or another Ohio public retirement system is eligible for reemployment as a teacher following the elapse of two months from the date of retirement. Contributions are made by the reemployed member and employer during the reemployment. Upon termination of reemployment or age 65, whichever comes later, the retiree is eligible for a money-purchase benefit or a lump-sum payment in addition to the original retirement allowance.

Benefits are increased annually by 3% of the original base amount for Defined Benefit Plan participants.

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

A Defined Benefit 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. A death benefit of \$1,000 is payable to the beneficiary of each deceased retired member who participated in the Defined Benefit Plan. Death benefit coverage up to \$2,000 can be purchased by participants in the DB, DC, or Combined Plans. Various other benefits are available to members' beneficiaries.

Chapter 3307 of the Revised Code provides statutory authority for member and employer contributions. Contributions rate 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.

**WILSON MILITARY ACADEMY
CUYAHOGA COUNTY**

**Notes to the Basic Financial Statements
For the Period November 1, 2004 to June 30, 2005
(Continued)**

6. DEFINED BENEFIT PENSION PLANS (Continued)

B. State Teachers Retirement Systems (Continued)

For the period November 1, 2004 to June 30, 2005, 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. The Academy's required contribution for pension obligations for the period November 1, 2004 to June 30, 2005 was \$108,858; 62.7 percent has been contributed for period November 1, 2004 to June 30, 2005. \$40,559 represents the unpaid amount at the period ending June 30, 2005 and is reflected as intergovernmental payable on the Statement of Net Assets.

STRS Ohio issues a stand-alone financial report. Copies of STRS Ohio 2005 Comprehensive Annual Financial Report will be available after January 1, 2006. Additional information or copies of STRS Ohio's 2005 Comprehensive Annual Financial Report can be requested by writing to STRS Ohio, 275 E. Board St., Columbus, Ohio 43215-3771, by calling (614) 227-4090, or by visiting the STRS Ohio Web site at www.strsoh.org.

7. POSTEMPLOYMENT BENEFITS

A. School Employees Retirement System

The Ohio Revised Code gives SERS the discretionary authority to provide postretirement health care to retirees and their dependents. Coverage is made available to service retirees with ten or more years of qualifying service credit, disability and survivor benefit recipients. Effective January 1, 2004, all retirees and beneficiaries are required to pay a portion of their health care premium. The portion is based on years of service, Medicare eligibility and retirement status. A safety net is in place for retirees whose household income falls below federal poverty levels. Premiums are reduced by 50% for those who apply.

After the allocation for basic benefits, the remainder of the employer's 14% contribution is allocated to providing health care benefits. At June 30, 2005, the healthcare allocation is 3.43 percent. 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. 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.

Health care benefits are financed on a pay-as-you-go basis. The target level for the health care reserve is 150% of annual health care expenses, before premium deduction. Gross expenses for health care at June 30, 2004 (the latest information available), were \$223,443,805, and the target level was \$335.2 million. At June 30, 2004, the Retirement System's net assets available for payment of health care benefits of \$300.8 million. The number of recipients currently receiving health care benefits is approximately 62,000.

The Retirement Board allocates employer contributions to the Health Care Stabilization Fund from which health care benefits are paid. For fiscal year June 30, 2005, the Board allocated employer contributions equal to 3.43 percent of covered payroll and adding the surcharge due to the Health Care Reserve Fund. For the Academy, the amount to fund health care benefits, including surcharge, equaled \$23,988 for the period November 1, 2004 to June 30, 2005.

**WILSON MILITARY ACADEMY
CUYAHOGA COUNTY**

**Notes to the Basic Financial Statements
For the Period November 1, 2004 to June 30, 2005
(Continued)**

7. POSTEMPLOYMENT BENEFITS (Continued)

B. State Teachers Retirement System

STRS Ohio provides access to health care coverage to retirees who participated in the Defined Benefit or Combined Plans and their dependents. Coverage under the current plan includes hospitalization, physicians' fees prescription drugs and partial reimbursement of monthly Medicare Part B premiums. Pursuant to the Revised Code (R.C.) the State Teachers Retirement Board (the Board) has discretionary authority over how much, if any, of the associated 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.

The R.C. grants authority to STRS Ohio to provide health care coverage to eligible benefit recipients, spouses and dependents. By Ohio Law, health care benefits are not guaranteed and the cost of the coverage paid from STRS Ohio funds shall be included in the employer contribution rate, currently 14% of covered payroll.

The Retirement Board allocates employer contributions to the Health Care Stabilization Fund from which health care benefits are paid. For fiscal year June 30, 2005, the Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Reserve Fund. For the Academy, this amount equaled \$5,254 for the period November 1, 2004 to June 30, 2005.

For the fiscal year ended June 30, 2004 (the latest information available) net health care costs paid by STRS Ohio were \$268,739,000. There were 111,853 eligible benefit recipients.

8. STATE SCHOOL FUNDING DECISION

On December 11, 2002, the Ohio Supreme Court issued its latest opinion regarding the State's school funding plan. The decision reaffirmed earlier decisions that Ohio's current school-funding plan is unconstitutional.

The Supreme Court relinquished jurisdiction over the case and directed "...the Ohio General Assembly to enact a school-funding scheme that is thorough and efficient..."

The Academy is currently unable to determine what effect, if any, this decision will have on its future State funding and on its financial operations.

9. CONTINGENCIES

A. Grants

The Academy receives significant financial assistance from numerous federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material effect on any of the financial statements of the individual fund types included herein or on the overall financial position of the Academy at June 30, 2005.

**WILSON MILITARY ACADEMY
CUYAHOGA COUNTY**

**Notes to the Basic Financial Statements
For the Period November 1, 2004 to June 30, 2005
(Continued)**

9. CONTINGENCIES (Continued)

B. School Funding

The Ohio Department of Education conducts reviews enrollment data and full-time equivalency (FTE) calculations made by the schools. These reviews are conducted to ensure the schools are reporting accurate student enrollment data to the State, upon which state foundation funding is calculated. ODE has not yet conducted a review of the Academy's 2005 student enrollment data and FTE calculations. For 2005, the Academy does not anticipate revenue adjustments based on the results of any such review.

C. Litigation

A suit was filed in Franklin County common Pleas Court on May 14, 2001 alleging Ohio's Community (i.e., Charter) Schools 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 18th, 2003. On August 24, 2004, 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 effect of this suit, if any, on the Academy is not presently determinable.

10. FISCAL AGENT

The Academy entered into a service agreement as part of its Sponsorship contract with the Treasurer of the Lucas County Educational Service Center to serve as the Chief Fiscal Officer of the Academy. As part of this agreement, the Academy shall compensate the Lucas County Educational Service Center two percent (2%) of the per pupil allotment paid to the Academy from the State of Ohio. Total contract payments of \$21,161 were paid during the period November 1, 2004 to June 30, 2005, and a liability in the amount of \$2,995 was accrued as a liability at the period ending June 30, 2005.

The Treasurer shall perform all of the following functions while serving as the Chief Fiscal Officer of the Academy:

- Maintain custody of all funds received by the Academy in segregated accounts separate from the Sponsor or any other Community School's funds;
- Maintain all books and accounts of the Academy;
- Maintain all financial records of the Academy and follow procedures for receiving and expending state funds, which procedures shall include that the Treasurer shall disburse money only upon receipt of a voucher signed by the Chief Administrative Officer of the Academy or that Officer's designee;
- Assist the Academy in meeting all financial reporting requirements established by the Auditor of Ohio;
- Invest funds of the Academy in the same manner as the funds of the Sponsor are invested, but the Treasurer shall not commingle the funds with any of the Sponsor or any other community school; and
- Pay obligations incurred by the Academy within a reasonable amount of time, not more than 14 calendar days after receipt of a properly executed voucher signed by the Chief Administrative Officer of the Academy so long as the proposed expenditure is within the approved budget and funds are available.

**WILSON MILITARY ACADEMY
CUYAHOGA COUNTY**

**Notes to the Basic Financial Statements
For the Period November 1, 2004 to June 30, 2005
(Continued)**

11. PURCHASED SERVICES

For the Period November 1, 2004 to June 30, 2005, purchased service expenses were payments for services rendered by various vendors, and are as follows:

Professional and Technical Services	\$ 72,789
Property Services	142,991
Travel Mileage/Meeting Expense	5,647
Communications	9,478
Utilities	11,110
Public Transportation Services	440
Other Purchased Services	<u>453</u>
Total Purchased Services	<u>\$ 242,908</u>

12. OPERATING LEASES – LESSEE DISCLOSURE

The Academy made lease payments to Sunshine Limited Partnership in the amount of \$90,000, Thomas J. Unik Co. Insurance in the amount of \$20,000 and Superior Lofts Building for \$21,000 to lease space to house the Academy. Payments made totaled \$131,000 for the period November 1, 2004 to June 30, 2005.

13. SUBSEQUENT EVENT

Loan proceeds in the amount of \$100,000 were received in July 2005 by the Academy to finance operating expenses.



**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***

Wilson Military Academy
Cuyahoga County
8555 Hough Avenue
Cleveland, Ohio 44106

We were engaged to audit the financial statements of the Wilson Military Academy, Cuyahoga County, Ohio, (the Academy) as of and for the year ended June 30, 2005 and have issued our report thereon dated October 11, 2006. Our report indicated that because of the inadequate documentation in support of the amounts reported as Capital Assets, our inability to obtain evidence of Board approval of salary and wage amounts paid to employees, and the lack of supporting documentation for payments made for non-payroll purposes we did not express an opinion on the financial statements. In addition, our report indicated the schools operation was suspended in 2006 and the audit cost has not been paid.

Internal Control Over Financial Reporting

In planning and performing our engagement, we considered the Academy'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 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 Academy'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 2005-007 through 2005-012.

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 which, we were engaged to audit, 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. We consider reportable conditions 2005-007 through 2005-012 listed above to be material weaknesses.

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 we must report under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 2005-001 through 2005-006.

We intend this report solely for the information and use of the audit committee, management, and the Board of Trustees. 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

October 11, 2006

**WILSON MILITARY ACADEMY
CUYAHOGA COUNTY
FOR THE YEAR ENDED JUNE 30, 2005**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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Even though the Academy suspended operations in September 2005, recommendations are included should the Academy reopen or a related academy open.

FINDING NUMBER	2005-001
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Annual Report of Activities

The community school governing authority is required to submit an annual report of its activities and progress in meeting the goals and standards of Ohio Revised Code Section 3314.03(A)(11)(g) (academic goals method to determine progress and performance standards to evaluate a school's success) and its financial status to the sponsor, the parents of all students enrolled in the school, and the legislative office of education oversight. The report must be submitted within four months after the end of each school year. The school must collect and provide any data that the legislative office of education oversight requests in furtherance of any study or research that the general assembly requires the office to conduct.

No evidence was provided, by the Academy, to verify the required annual report of its activities and progress in meeting the goals and standards and its financial status was published and distributed to the sponsor, the parents of all students enrolled in the Academy, and the legislative office of education oversight.

We recommend that the Academy prepare and submit the required annual report within the prescribed time frame.

FINDING NUMBER	2005-002
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Books, Records of Accounts, and Minutes

Ohio Revised Code Section 1702.15 provides in part that "Each corporation shall keep correct and complete books and records of account, together with minutes of the proceedings of its incorporators, directors, and committees of its directors or members."

The Academy failed to maintain correct and complete books and records of account, maintain files of supporting documentation for payments made and maintain a complete file of canceled checks. Due to the incomplete files of outstanding checks, the Academy was unable to provide assurance to the completeness of the expenditures records. In 45 out of 53 employees tested, Board approved employee contracts were not available and salary and wage amounts were not approved by the Board.

We recommend the Academy maintain financial records which are correct, complete, and accurate. If necessary the Academy should obtain the training necessary to maintain complete and accurate records of account.

**WILSON MILITARY ACADEMY
CUYAHOGA COUNTY
FOR THE YEAR ENDED JUNE 30, 2005
(Continued)**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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FINDING NUMBER	2005-003
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Five-Year Revenue and Expenditure Projection

Ohio Revised Code Section 3314.03(A)(15) provides that the Academy is required to 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 such 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 Revised Code. The plan may also specify for any year a percentage figure to be used for reducing the per pupil amount of the subsidy calculated pursuant to section 3317.029 of the Revised Code the school is to receive that year under 3314.08 of the Revised Code.

The Academy did not prepare the financial plan as required, consequently, the Board was not able to approve an annual spending plan or approve the assumptions of the financial management in dealing with the finances of the Academy.

We recommend the Board and Academy management review the requirements of Ohio Revised Code section 3314.03 and take the necessary steps to meet this requirement including the approval of the governing board and reviewing the appropriateness of the amounts included in the estimated budget.

FINDING NUMBER	2005-004
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Teacher Licenses

Ohio Revised Code Section 3314.03(A)(10) requires that all community school classroom teachers be licensed in accordance with Ohio Revised Code Sections 3319.22 through 3319.31, except that a community school may employ non-certified persons to teach up to twelve hours per week, pursuant to the requirements of Ohio Revised Code Section 3319.301. A permit must be issued by the Ohio Department of Education to these “noncertified” persons in order to permit them to teach.

There were thirty-five teachers and/or instructional assistant employees for the Academy during the audit period. The auditee was not able to provide copies of current teaching licenses or permits for sixteen of these employees.

We recommend the Academy review the personnel files to make sure that all pertinent licenses, permits and certificates are on file.

**WILSON MILITARY ACADEMY
CUYAHOGA COUNTY
FOR THE YEAR ENDED JUNE 30, 2005
(Continued)**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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FINDING NUMBER	2005-005
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Meeting of the Board

Ohio Revised Code Section 121.22 requires all meetings of public body to be open to the public at all times. The minutes of a regular or special meeting of any such public bodies shall be promptly recorded and open to public inspection.

Every public body shall, by rule, establish a reasonable method whereby any person may determine the time and place of all regularly scheduled meetings and the time, place, and purpose of all special meetings. A public body shall not hold a special meeting unless at least twenty-four hours advance notice was given to the news media that have requested notification, except in the event of any emergency requiring immediate official action.

Ohio Revised Code Section 149.43 requires all public records shall be promptly prepared and made available to any member of the general public at all reasonable times during regular business hours for inspection. Upon request, a person responsible for public records shall make copies available at cost, within a reasonable period of time. In order to facilitate broader access to public records, governmental units shall maintain public records in such a manner that they can be made available for inspection.

AOS could not identify policies of notifying the general public and news media of when and where Board Meetings were to be held. AOS also could not identify policies or procedures as to how records are made available or cost of copies of minutes when requested.

We recommend that the Academy develop policies and procedures to make all Board meeting minutes available for public inspection.

FINDING NUMBER	2005-006
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Tax Exempt Status

The Academy did not present documentation that it has applied to the Internal Revenue Service to obtain tax exempt status pursuant to Section 26 USC 501 (c) (3). The Academy has made no provision for any potential current or future tax liability which could result from not obtaining the § 501(c)(3) tax exempt status. Further, we found no evidence the Academy had filed any tax returns. The accompanying financial statements do not include amounts associated with an income tax liability or associated fines or penalties.

We recommend the Academy consult with qualified tax counsel to determine necessary tax filings with the Internal Revenue Service, pay any outstanding taxes due, and negotiate a settlement concerning any fees and/or penalties which may be assessed.

**WILSON MILITARY ACADEMY
CUYAHOGA COUNTY
FOR THE YEAR ENDED JUNE 30, 2005
(Continued)**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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FINDING NUMBER	2005-007
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Developing and Implementing an Effective Monitoring Control System

Monitoring controls are comprised of regular management and supervisory activities established to oversee whether management's objectives are being achieved. Effective monitoring controls should 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 transactions;
- 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 governing board, non-compliance with federal or state laws or regulations, which could result in a loss of funding from these sources, and errors or irregularities occurring in financial transactions affecting the bank reconciliations which 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.

**WILSON MILITARY ACADEMY
 CUYAHOGA COUNTY
 FOR THE YEAR ENDED JUNE 30, 2005
 (Continued)**

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

FINDING NUMBER	2005-008
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Capital Assets

We noted the following control weaknesses over capital assets:

- A capital asset accounting system, which maintains a complete capital asset listing by location, with tag or other identification numbers and other pertinent information had not been developed;
- The Academy had not developed and implemented procedures to record assets as additions when purchased and deletions when disposed of through the year;
- Invoices and supporting documentation for items was not identified; and
- The fixed asset listing provided could not be verified for completeness.

Failure to prepare timely reports or employ adequate controls over the acquisition and disposal of fixed assets could result in misappropriation of assets and/or misstatement of recorded amounts on the financial statements.

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 fixed 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.

FINDING NUMBER	2005-009
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Condition of Accounting Records

Management is responsible for implementing and maintaining a system of controls designed to enable management to determine the accuracy of financial transactions of the Academy. Also, management is responsible for developing and maintaining complete and accurate financial records. In lieu of complete and accurate financial records, we noted that the records consisted of the following:

- Supporting documentation for non-payroll expenditures was lacking or non-existent;
- No records existed of Board approval for employee salary and/or wage rates;
- Capital asset records did not exist;
- There was no evidence of the Board reviewing or approving any of the financial activity of the Academy; and
- Monies deposited were commingled and these funds were not identified on individual receipt records.

**WILSON MILITARY ACADEMY
 CUYAHOGA COUNTY
 FOR THE YEAR ENDED JUNE 30, 2005
 (Continued)**

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

FINDING NUMBER	2005-009
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Condition of Accounting Records (Continued)

We recommend the Academy develop and maintain a system of controls and financial records which exhibit the financial position of the Academy, and at a minimum, consist of the following:

- Development of a system to document approvals for expenditures made;
- Files which consist of the original invoices received for all expenditures made which cross reference to the checks prepared for the payment of the invoices (if invoices are not filed with the canceled checks);
- Files of all canceled checks returned from the bank;
- Development by management of a complete system of controls to help ensure the completeness, accuracy, and validity of the Academy's financial transactions; and,
- Evidence of review of the financial statements and supporting documentation by the Board and management.

The Academy 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.

FINDING NUMBER	2005-010
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Development and Implementation of Payroll Processing Procedures

We noted the Board did not approve salaries within its minute records and there was no record of the Boards' approval of salaries or wage rates in the payroll files of the employees. It is possible that employees could be paid incorrect amounts. Also, we noted that the Academy did not have the required Bureau of Criminal Investigation (BCI) background checks on file.

Procedures for payroll processing should include, but are not limited to:

- Approval by the Board of Trustees of all pay rates;
- Comparison of all employees' gross wages paid with the approved pay rates as documented in employee contracts; and,
- The Academy should maintain the required BCI background checks on file.

The Board should formally approve employment contracts or pay scales for all employees. Without this approval, it is possible that employees could be paid amounts which were not in accordance with the direction of the Board. Also, we recommend the Board monitor the amounts paid to employees and the maintenance of the required BCI background checks.

**WILSON MILITARY ACADEMY
CUYAHOGA COUNTY
FOR THE YEAR ENDED JUNE 30, 2005
(Continued)**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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FINDING NUMBER	2005-011
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Development and Implementation of Non-Payroll Cash Disbursements

Management should keep up to date books and records which are supported by original documentation. Informed decisions can only be made based on information which is timely, accurate, and complete.

During our testing of the non-payroll cash disbursements we noted the following deficiencies:

- The Academy did not provide original vendor invoices; and
- Canceled checks were missing.

Without original documentation we were unable to determine if the expenditures made were for proper purposes and if payments were made to the proper vendors.

We recommend the Academy maintain files which contain all original documentation as support for all financial transactions. It is imperative that all transaction be supported by competent evidential matter.

FINDING NUMBER	2005-012
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Monitoring Over Funding

The Academy suspended its operation as a community school in October 2005. The Ohio Department of Education has determined that between July 1, 2004 and September 22, 2005, the School was over funded by \$263,039, which was accounted for on the School's Foundation Report. Since the School did not earn these funds, the funds were due the Ohio Department of Education and should have been returned.

We recommend the School, the Sponsor and the Ohio Department of Education monitor any over funding and determine how the repayment will occur.

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



**Auditor of State
Betty Montgomery**

88 East Broad Street
P.O. Box 1140
Columbus, Ohio 43216-1140

Telephone 614-466-4514
800-282-0370

Facsimile 614-466-4490

WILSON MILITARY ACADEMY

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
NOVEMBER 9, 2006**