CLEVELAND ACADEMY OF SCHOLARSHIP TECHNOLOGY AND LEADERSHIP ENTERPRISE

CUYAHOGA COUNTY

REGULAR AUDIT

FOR THE FISCALYEAR ENDED JUNE 30, 2006

YEAR AUDITED UNDER GAGAS: 2006

CAUDILL & ASSOCIATES CPA's

725 5TH Street
Portsmouth, Ohio 45662

Mary Taylor, CPA
Auditor of State

Board of Directors
Cleveland Academy of Scholarship Technology and Leadership Enterprise
1729 Superior Avenue
Cleveland, Ohio 44114

We have reviewed the *Independent Auditor's Report* of the Cleveland Academy of Scholarship Technology and Leadership Enterprise, Cuyahoga County, prepared by Caudill & Associates, CPA's, for the audit period July 1, 2005 through June 30, 2006. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

Mary Taylor

Mary Taylor, CPA
Auditor of State

December 22, 2008

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

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CAUDILL & ASSOCIATES, CPA's
725 5th Street
Portsmouth, Ohio 45662

Independent Auditor's Report

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

To the Board of Directors:

We were engaged to audit 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 year ended June 30, 2006, 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.

We were not able to obtain sufficient documentation during testing of cash, capital assets, accrued wages and benefits, accounts payable, non-payroll expenses and payroll expenses. Also, large unexplained variances could not be explained by management during the audit and we did not obtain a representation letter and attorney letters from the school's management.

Because of the significance of the matters stated in the preceding paragraph, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on the financial statements referred to in the first paragraph for the year ended June 30, 2006.

The Management's Discussion and Analysis on pages 2 through 5 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards,* we have also issued our report dated December 15, 2008, 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 Auditing Standards* and should be read in conjunction with this report in considering the results or our audit.

Caudill & Associates, CPA's

Caudill & Associates, CPA's
December 15, 2008

The discussion and analysis of the Cleveland Academy of Scholarship, Technology and Leadership Enterprise's financial performance provides an overall review of the School's financial activities for the fiscal year ended June 30, 2006. 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.

Financial Highlights

- The School had net assets of $425,498 as of June 30, 2006.

- Total assets at fiscal year-end were $450,094 and total liabilities were $24,596.

- The School had operating revenues for fiscal year 2006 of $1,248,392 and operating expenses $1,138,819.

Using this Financial Report

This annual report consists of a series of financial statements and notes to those statements.

The statement of net assets and the statement of revenues, expenses, and change in net assets reflect how the School did financially during fiscal year 2006. These statements include all assets and liabilities using the accrual basis of accounting similar to that which is used by most private-sector companies. This basis of accounting considers all of the current fiscal years' revenues and expenses regardless of when cash is received or paid.

These statements report the School's net assets and change in those assets. This change in net assets is important because it tells the reader whether the financial position of the School has increased or decreased from the prior fiscal year. Over time, these increases and/or decreases are one indicator of whether the financial position is improving or deteriorating.

Table 1 provides a summary of the School's net assets for fiscal years 2005 and 2006.

(Table 1)
Net Assets

	2005	2006	Change
Assets:			
Current Assets	$197,572	$142,842	($54,730)
Capital Assets, Net	0	307,252	307,252
Total Assets	197,572	450,094	252,522
Liabilities:			
Current Liabilities	78,623	24,596	(54,027)
Net Assets:			
Invested in Capital Assets	0	307,252	307,252
Restricted Net Assets	76,667	62,652	(14,015)
Unrestricted	42,282	55,594	13,312
Total Net Assets	$118,949	$425,498	$306,549

Capital assets increased $307,252 as the School purchased capital assets for the first time as an increase in enrollment gave the School the financial resources to purchases capital assets. Liabilities decreased by $54,027 mainly in accounts payable due to the timing of when invoices were paid. The increase in total net assets was $306,549, which was the result of the fiscal year 2006 reporting of capital asset additions.

Table 2 shows the changes in net assets for fiscal years 2005 and 2006.

(Table 2)
Change in Net Assets

	2005	2006	Change
Operating Revenues:			
State Foundation	$844,441	$1,217,756	$373,315
Poverty Based Assistance	8,603	30,636	22,033
Total Operating Revenues	853,044	1,248,392	395,348
Non-Operating Revenues:			
Federal and State Grants	128,265	196,161	67,896
Interest	157	815	658
Total Non-Operating Revenues	128,422	196,976	68,554
Total Revenues	981,466	1,445,368	463,902
Operating Expenses:			
Salaries	259,695	411,531	151,836
Fringe Benefits	41,956	58,858	16,902
Purchased Services	316,296	358,159	41,863
Rent	93,968	262,588	168,620
Materials and Supplies	150,602	47,683	(102,919)
Total Operating Expenses	862,517	1,138,819	$276,302
Change in Net Assets	118,949	306,549	
Net Assets at Beginning of Year	0	118,949	
Net Assets at End of Year	$118,949	$425,498	

Net assets increased from 2005 to 2006, by $306,549. There was an increase in revenues of $463,902, mainly from State foundation, and an increase in expenses of $276,302, mainly from salaries and rent, from fiscal year 2005. Revenues increased due to a large increase in enrollment resulting in more foundation and grant revenues. The increase in expenses was also the result of the increase in enrollment which caused an increase in staff and programs. The increase in enrollment led to additional space needed for fiscal year 2006. The significant increase in rent and salaries was reduced by the fact that fiscal year 2005 was the first year of existence for the School incurring large amounts of expenses for materials and supplies and in fiscal year 2006 materials and supplies expenses were significantly lower. Part of the rent paid in 2006 was for 2005 rent expenses.

Capital Assets

At the end of fiscal year 2006 the School had $307,252, invested in furniture and equipment and vehicles. Table 3 shows fiscal year 2006.

(Table 3)
Capital Assets at June 30,
(Net of Depreciation)

	2006
Furniture and Equipment	$283,277
Vehicles	23,975
Totals	$307,252

For more information on capital assets see Note 5 of the notes to the basic financial statements.

Debt Administration

The School does not have any outstanding debt at June 30, 2006.

Contacting the School's Financial Management

This financial report is designed to provide our citizens 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 Carl Shye, Treasurer at Cleveland Academy of Scholarship, Technology and Leadership Enterprise, 1739 Superior Avenue, Cleveland, Ohio 44114.

CLEVELAND ACADEMY OF SCHOLARSHIP, TECHNOLOGY AND LEADERSHIP ENTERPRISE
STATEMENT OF NET ASSETS
JUNE 30, 2006

Assets:	
Current Assets:	
Cash and Cash Equivalents	$138,417
Intergovernmental Receivable	4,425
Total Current Assets	142,842
Non-Current Assets:	
Capital Assets:	
Depreciable Capital Assets, Net	307,252
Total Assets	450,094
Liabilities:	
Current Liabilities:	
Accrued Wages and Benefits Payable	15,848
Intergovernmental Payable	8,748
Total Liabilities	24,596
Net Assets:	
Invested in Capital Assets	307,252
Restricted Net Assets	62,652
Unrestricted	55,594
Total Net Assets	$425,498

See accompanying notes to the basic financial statements

CLEVELAND ACADEMY OF SCHOLARSHIP, TECHNOLOGY AND LEADERSHIP ENTERPRISE
STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN NET ASSETS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

Operating Revenues:	
State Foundation	$1,217,756
Poverty Based Assistance	30,636
Total Operating Revenues	1,248,392
Operating Expenses:	
Salaries	411,531
Fringe Benefits	58,858
Purchased Services	358,159
Rent	262,588
Materials and Supplies	47,683
Total Operating Expenses	1,138,819
Operating Income	109,573
Non-Operating Revenues:	
Federal and State Grants	196,161
Interest	815
Total Non-Operating Revenues	196,976
Change in Net Assets	306,549
Net Assets at Beginning of Year	118,949
Net Assets at End of Year	$425,498

See accompanying notes to the basic financial statements

CLEVELAND ACADEMY OF SCHOLARSHIP, TECHNOLOGY AND LEADERSHIP ENTERPRISE
STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

Increase (Decrease) in Cash and Cash Equivalents:	
Cash Flows Provided by Operating Activities:	
Cash Received from State of Ohio	$1,305,114
Cash Payments to Employees for Services	(505,060)
Cash Payments to Suppliers for Goods and Services	(694,085)
Net Cash Provided by Operating Activities	105,969
Cash Flows from Noncapital Financing Activities:	
Federal and State Grants Received	282,116
Cash Flows for Capital Financing Activities:	
Payments for Capital Acquisitions	(307,252)
Cash Flows for Investing Activities:	
Interest	815
Net Increase in Cash and Cash Equivalents	81,648
Cash and Cash Equivalents at Beginning of Year	56,769
Cash and Cash Equivalents at End of Year	$138,417
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:	
Operating Income	$109,573
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:	
Changes in Assets and Liabilities:	
Decrease in Intergovernmental Receivable	50,423
Decrease in Accounts Payable	(25,655)
Decrease in Accrued Wages and Benefits	(29,206)
Increase in Intergovernmental Payable	834
Total Adjustments	(3,604)
Net Cash Provided by Operating Activities	$105,969

See accompanying notes to the basic financial statements

NOTE 1 – DESCRIPTION OF THE SCHOOL AND REPORTING ENTITY

Cleveland Academy of Scholarship, Technology and Leadership Enterprises (the "School") is an Ohio Public Benefit Corporation established pursuant to Ohio Revised Code Chapter 3314 and Section 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 qualifies as an 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 contracted with Kids 2000 and Educational Management Alliance to perform extended educational services. One employee of Kids 2000 also serves on the School's Governing Board. Related party transaction are further discussed in Note 13 of the notes 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 14).

NOTE 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 provided they do not conflict with or contradict GASB pronouncements. The School has elected not to apply FASB statements and interpretations issued after November 30, 1989. The more significant of the School's accounting policies are described below.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

A. Basis Of Presentation

The School'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.

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. The enterprise activity is accounted for using a flow of economic resources 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 revenues, expenses, and 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.

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.

D. Revenues

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.

E. Expenses

Expenses are recognized at the time they are incurred.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

F. Cash and Cash Equivalents

All monies received by the School are maintained in demand deposit accounts. All funds of the School are maintained in these accounts. Total cash is presented as "Cash and Cash Equivalents" on the accompanying statement of net assets.

G. Capital Assets

Capital assets are capitalized at cost or estimated historical cost (which is determined by indexing the current replacement cost back to the year of acquisition) and updated for additions and retirements during the fiscal year. Donated capital assets are recorded at their fair market values as of the date received. The School maintains a capitalization threshold of one thousand dollars. The School does not possess any infrastructure. Per the policy at the School, no depreciation is taken in the fiscal year of acquisition. 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. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

Furniture and Equipment	5-30 years
Vehicles	10-20 years

H. Compensated Absences

Sick leave benefits are accrued as a liability using the vesting method. The liability includes the employees who are currently eligible to receive termination benefits and those the School has identified as probable of receiving payment in the future. The amount is based on accumulated sick leave and employees' wage rates at fiscal year-end, taking into consideration any limits specified in the School's termination policy. The School records a liability for accumulated unused sick leave for all employees with ten years of current service for all positions (including certified and non-certified staff). Since the School has not been in operation for ten years, there is no sick leave benefits liability.

I. Net Assets

Net assets represent the difference between assets and liabilities. Net assets, invested in capital assets, consists of capital assets, net of accumulated depreciation. 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. Restricted net assets include federal and State grants restricted to expenditures for specific purposes. The School applies restricted resources when an expense is incurred for purposes which both restricted and unrestricted net assets are available.

The government-wide statement of net assets reports $62,652 of restricted net assets, none of which is restricted by enabling legislation.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

J. 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 the 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.

K. 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 for fiscal year 2006 identified an over payment of $6,299 to the School.

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.

L. 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.

M. 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 School and its sponsor. The contract between the School and its Sponsor does not prescribe a budgetary process for the School.

NOTE 3 – CHANGES IN ACCOUNTING PRINCIPLES

For the fiscal year ended June 30, 2006, the School has implemented *GASB Statement No. 42, "Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries"*, and *GASB Statement No. 47, "Accounting for Termination Benefits."*

GASB Statement No. 42 establishes accounting and financial reporting standards for the impairment of capital assets. A capital asset is considered impaired when its service utility has declined significantly and unexpectedly. This statement also clarifies and establishes accounting requirements for insurance recoveries. The implementation of this statement had no effect on the School's financial statements for fiscal year 2006.

GASB Statement No. 47 establishes accounting and financial reporting standards for termination benefits. This statement clarifies and establishes reporting requirements for those benefits provided by employers to employees as an incentive or settlement for voluntary early termination or as a consequence of the involuntary early termination of services. The implementation of this statement had no effect on the School's financial statements for fiscal year 2006.

NOTE 4 – DEPOSITS

Custodial credit risk for deposits is the risk that in the event of bank failure, the School will not be able to recover deposits or collateral securities that are in the possession of an outside party. At fiscal year-end, $39,275 of the School's bank balance of $139,275 was exposed to custodial credit risk because it was uninsured and collateralized with securities held by the pledging financial institution.

The School has no policy for custodial credit risk for deposits.

NOTE 5 – CAPITAL ASSETS

Capital assets activity for the fiscal year ended June 30, 2006 was as follows:

	Balance 6/30/05	Additions	Deletions	Balance 6/30/06
Capital Assets Being Depreciated:				
Furniture and Equipment	$0	$283,277	$0	$283,277
Vehicles	0	23,975	0	23,975
Total Capital Assets Being Depreciated	0	307,252	0	307,252
Less Accumulated depreciation:				
Furniture and Equipment	0	0	0	0
Vehicles	0	0	0	0
Total Accumulated Depreciation	0	0	0	0
Total Capital Assets Being Depreciated, Net	$0	$307,252	$0	$307,252

NOTE 6 - RECEIVABLES

Receivables at June 30, 2006, 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	$274
Education Technology	2,348
Innovative Programs	255
Drug Free	1,548
Total Intergovernmental Recievable	$4,425

NOTE 7 - 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 per single occurrence and $2,000,000 aggregate.

There have been no significant reductions in insurance coverage from the last fiscal year. Settled claims have not exceeded insurance coverage for the past two fiscal years.

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.

NOTE 8 - 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, by calling (800) 878-5853 or by visiting the SERS website at www.ohsers.org.

Plan members are required to contribute 10 percent of their annual covered salary and the School is required to contribute at an actuarially determined rate. The current School 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 2006, 10.58 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, 2006 and 2005, were $13,183 and $4,060, respectively; 96.07 percent has been contributed for fiscal year 2006 and 100 percent for fiscal year 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 website at www.strsoh.org.

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member 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 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The Combined Plan offers features of both the DC Plan and the DB 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.

NOTE 8 - DEFINED BENEFIT PENSION PLANS (continued)

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, 2006, 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. For fiscal year 2005, the portion used to fund pension obligations was also 13 percent. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The School's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2006 and 2005 were $37,868 and $27,422 respectively; 96.54 percent has been contributed for fiscal year 2006 and 100 percent for fiscal year 2005.

NOTE 9 - 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 funded on a pay-as-you-go basis.

All STRS Ohio 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, 2006, the STRS Ohio Board allocated employer contributions equal to one percent of covered payroll to the Health Care Stabilization Fund. For the School, this amount equaled $2,913 for fiscal year 2006.

STRS Ohio pays health care benefits from the Health Care Stabilization Fund. At June 30, 2006, the balance in the Fund was $3.5 billion. For the fiscal year ended June 30, 2006, net health care costs paid by STRS Ohio were $300,690,000 and STRS Ohio had 119,184 eligible benefit recipients.

NOTE 9 – POSTEMPLOYMENT BENEFITS (continued)

For SERS, coverage is made available to service retirees with ten or more years of qualifying service credit, and to disability and survivor benefit recipients. All retirees and beneficiaries are required to pay a portion of their health care premium. The portion is based on years of service, Medicare eligibility, and retirement status. 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, 2006, employer contributions to fund health care benefits were 3.42 percent of covered payroll, compared to 3.43 percent of covered payroll for fiscal year 2005. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2006, the minimum pay was established at $35,800. However, the surcharge is capped at two percent of each employer's SERS salaries. For the School, the amount contributed to fund healthcare benefits, including the surcharge, during the 2006 fiscal year equaled $4,261.

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 healthcare expenses. Expenses for health care for the fiscal year ended June 30, 2006 were $178,067,133. At June 30, 2006, SERS had net assets available for payment of health care benefits of $296.6 million. SERS has 58,788 participants eligible to receive health care benefits.

NOTE 10 – EMPLOYEE BENEFITS

A. Compensated Absences

The criteria for determining sick leave components are derived from State Laws. Teachers, administrators, and classified employees earn sick leave at the rate of one and one-fourth days per month. Sick leave may be accumulated up to a maximum of 120 days. Upon retirement, payment is made for one-fourth of the total accumulated and unused sick leave credit, up to a maximum of 120 days for employees.

B. Medical

The School offers medical insurance through American Trust Company to full-time employees. The contribution to the monthly premium for medical insurance shall be 20 percent paid by the staff member and 80 percent paid by the Board. Monthly premiums for the medical insurance are the following:

Single:	$367 per month
Enrollee plus spouse:	$624 per month
Enrollee plus children:	$637 per month
Family:	$864 per month

NOTE 11 – LEASES

The School subleases an office facility from the Sunshine Limited Partnership, under a non-cancelable operating lease. The term of this lease began August 15, 2004 and continues through August 15, 2009. The lease payment includes use of the buildings, the cost of utilities, maintenance and, custodial and grounds services. The lease payment was $262,588 for the fiscal year ended June 30, 2006. The estimated future minimum lease payments as of June 30, 2006 are as follows:

Year Ending June 30,	Amount
2007	$160,812
2008	160,812
2009	160,812
2010	26,802
	$509,238

NOTE 12 – CONTINGENCIES

A. Grants

The School received financial assistance from federal and State agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the School. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the School at June 30, 2006.

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. This adjustment resulted in a payable of $6,299 for fiscal year 2006.

C. Litigation

A suit was filled in the US District Court, Southern District of Ohio, Western Division on October 6, 2004, which challenges the funding of charter schools under Equal Protection, Due Process, and claims violation of the right to vote on the bodies administering public schools. The case is still pending. The effect of this suit, if any, on the Cleveland Academy of Scholarship, Technology and Leadership Enterprises is not presently determinable.

NOTE 13 – RELATED PARTY TRANSACTION

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, 2006 were $50,400.

NOTE 14 – 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 $3,831 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.

NOTE 15 - COMPLIANCE

Contrary to Ohio Rev. Code Section 149.351, the School did not have supporting documentation to sufficently test receipts, expenditures, and accrued wages and benefits.

CAUDILL & ASSOCIATES, CPA's
725 5th Street
Portsmouth, Ohio 45662

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

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

To the Board of Directors:

We have audited the financial statements of The Cleveland Academy of Scholarship, Technology and Leadership Enterprise, Cuyahoga County, (the School), as of and for the year ended June 30, 2006, and have issued our report thereon dated December 15, 2008, which was disclaimed for lack of evidential matter regarding cash, capital assets, accrued wages and benefits, accounts payable, non-payroll expenses and payroll expenses. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the School's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness on the School's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the School's internal control over financial reporting.

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the School's ability to initiate, authorize, record, process, or report financial data reliably in accordance with *Generally Accepted Accounting Principles*, such that there is more than a remote likelihood that a misstatement of the School's financial statements that is more than inconsequential will not be prevented or detected by the School's internal control. The results of our tests disclosed six instances of significant internal control deficiencies that are required to be reported under *Government Auditing Standards*, which are described in the accompanying schedule of findings as items 2006-001, 2006-002, 2006-003, 2006-004, 2006-005 and 2006-006.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the School's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. We consider the following deficiencies described in the accompanying schedule of findings and responses to be material weaknesses in internal controls over financial reporting as items 2006-001, 2006-004, 2006-005, and 2006-006.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the School's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed one instance of noncompliance or other matter that is required to be reported under *Government Auditing Standards,* which is described in the accompanying schedule of findings and responses as item 2006-001.

The School's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. We did not audit the School's responses and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, Board members, School's sponsor and the Ohio Department of Education, and is not intended to be and should not be used by anyone other than these specified parties.

Caudill & Associates, CPA's

Caudill & Associates, CPA's
December 15, 2008

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

Finding No.2006-001
Noncompliance Citation/Significant Internal Control Deficiency/Material Weakness – Failure to maintain adequate supporting documentation of receipts, expenditures, and accrued wages and benefits

Ohio Rev. Code Section 149.351 states all records are property of the public office concerned and shall not be removed, destroyed, mutilated, transferred, or otherwise damaged or disposed of, in whole or in part, except as provided by law or under the rules adopted by the records commission provided for under the Ohio Rev. Code Section 149.41. Such records shall be delivered by outgoing officials and employees to their successors and shall not be otherwise removed, transferred, or destroyed unlawfully.

Adequate supporting documentation is a key control in the receipts, disbursement and accrued liability process to determine if expenditures are for their intended use and in the control process of recording of liabilities of accrued wages and benefits.

In fiscal year 2006, it was found that 22% of the disbursements tested were not supported by adequate supporting documentation (invoice, receipts of payments or contractual agreements). As well, 56% of the expenditures tested did not have purchase orders approved by the Chief Financial Officer, as stipulated by the School's unofficial purchasing procedures. In addition, 100% of accrued wages and benefits were not supported with adequate supporting documentation, and could not be tested. Finally, receipts could not be tested because of inadequate supporting documentation.

The lack of adequate supporting documentation could result in funds being spent on unauthorized purchases, incorrect amounts being paid, duplication of payments and payments made to fictitious vendors and employees. The School should require that original invoices or contractual agreements be submitted and attached to the voucher before payment is made. In addition, the School should ensure that purchase orders are properly issued and approved prior to contracting or acquiring goods and services as required by the School's purchasing policy.

The School should also take steps to insure that all transactions and journal entries have adequate supporting documentation. As well, all bank statements and deposit slips should be maintained to serve as supporting documentation for the financial transactions of the School.

Client Response:

The School made no response.

Finding No.2006-002
Significant Internal Control Deficiency – Computer System Controls

Several computer system control inefficiencies were noted including the following: (1) The School does not have a formal disaster recovery plan. (2) Management does not back up financial data on a consistent basis.

During the audit period, the accounting system had to be reinstalled after a program failure that resulted in the loss of 100% of computerized financial data. No backups of the data existed, resulting in an attempt to recreate the financial transactions for the year.

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

Finding No.2006-002
Significant Internal Control Deficiency – Computer System Controls (Continued)

The lack of supporting documentation and data backup could result in misstatement of revenue, expenses, receivables, and payables.

In case of a disaster, or data failure, the School needs policies and procedures in place to recover data and minimize the effects. Backups should be consistently made and kept off-site.

Client Response:

The School made no response.

Finding No.2006-003
Significant Internal Control Deficiency – Cash Controls

The treasurer performed monthly cash reconciliations; however, the Board of Directors did not sign off on the reconciliations. Therefore, there was no evidence of their review and approval of the cash transactions performed by the treasurer.

During testing, it was noted that several copies existed of the same cash reconciliation with dissimilar amounts. Neither was approved nor signed by the Board.

Failure by the Board of Directors to review and approve all cash transactions compromises the internal control environment of the School.

The School should develop and adopt appropriate procedures to ensure that cash transactions are consistently reviewed and approved.

Client Response:

The School made no response.

Finding No.2006-004
Significant Internal Control Deficiency/Material Weakness – Bank Reconciliation Discrepancy

Monthly bank reconciliations should be performed accurately and consistently presented to the Board of Directors and documented in the minutes. Also, the corresponding ledgers should be updated to reflect the reconciliation. Inaccurate monthly reconciliations could lead to unauthorized or inaccurate transactions occurring and going undetected.

The end of fiscal year bank reconciliation did not agree to the general ledger or balance sheet. As well, outstanding checks at year end could not be traced to the subsequent bank statements.

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

Finding No.2006-004
Significant Internal Control Deficiency/Material Weakness – Bank Reconciliation Discrepancy (Continued)

The School's inability to get the books in balance with the bank may result in a misstatement of the balance sheet.

Client Response:

The School made no response.

Finding No.2006-005
Significant Internal Control Deficiency/Material Weakness – Failure to maintain a capital assets listing

Adequate capital assets inventory and listing is a key control in the School's ability to determine if capital assets are purchased and maintained for their intended use. A complete capital asset listing should be maintained at all times, updated by additions to and disposals of capital assets.

Without a proper capital assets listing, the School's capital assets will be difficult to monitor, and this could lead to the misappropriation of the School's fixed assets.

The School should take steps to insure that a complete listing of capital assets is in place and is monitored by appropriate personnel.

Client Response:

The School made no response

Finding No.2006-006
Material Weakness – Accounts Payable

The School did not maintain an accounts payable subsidiary ledger and old payables were still on the books.

Failure to properly record accounts payable could result in material misstatements in the financial statements.

The School should set up a detailed accounts payable subsidiary ledger and properly record payments to vendors on the actual date that the payments occur.

Client Response:

The School made no response.

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; **Explain**
2005-001	ORC Section 117.28 – Finding for Recovery	Yes	N/A
2005-002	Findings for Recovery	Yes	N/A
2005-003	Purchasing Procedures	No	Reissued as Finding 2006-001
2005-004	Employment Practices	Yes	N/A

Mary Taylor, CPA
Auditor of State

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
JUNE 23, 2009

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