



Dave Yost • Auditor of State



CLEVELAND COMMUNITY SCHOOL  
CUYAHOGA COUNTY

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# Dave Yost • Auditor of State

## INDEPENDENT ACCOUNTANTS' REPORT

Cleveland Community School  
Cuyahoga County  
1701 East 12<sup>th</sup> Street  
Cleveland, Ohio 44114

To the Board of Directors:

We were engaged to audit the accompanying financial statements of Cleveland Community School, Cuyahoga County, Ohio (The School), as of and for the year ended June 30, 2012, as listed in the table of contents. These financial statements are the responsibility of the Academy's management.

The School did not maintain sufficient documentation to support amounts recorded as capital assets or long-term liabilities.

The School also did not maintain documentation to support Defined Benefit Pension Plans and Post-Employment Benefits disclosure or the disclosures related to the items in paragraph 2 above.

Auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States/ *Government Auditing Standards* require us to obtain written representations from management. Management has not provided the Auditor of State written representations, including but not limited to, management's responsibility for preparing the financial statements in conformity with the School's accounting basis; the availability of original financial records and related data, the completeness and availability of all minutes of the legislative or other bodies and committee meetings, management's responsibility for the School's compliance with laws and regulations; the identification and disclosure to the Auditor of State of all laws, regulations, and provisions of contracts and grant agreements directly and materially affecting the determination of financial statement amounts and; the presence or absence of regulations, and provisions of contracts and grant agreements, and compliance with any debt covenants.

Since the school did not provide written representations or sufficient evidential matter as described in paragraphs two through four above, the scope of our procedures was not sufficient to enable us to express, and we do not express, an opinion of these financial statements referred to above for the year ended June 30, 2012.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 27, 2014, on our consideration of the Schools' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our engagement.

Accounting principles generally accepted in the United States of America require this presentation to include *Management's discussion and analysis*, as listed in the table of contents, to supplement the basic financial statements. Although this information is not part of the basic financial statements, the Governmental Accounting Standards Board considers it essential for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any other assurance.

A handwritten signature in black ink that reads "Dave Yost". The signature is written in a cursive style with a large, looping "D" and "Y".

**Dave Yost**  
Auditor of State

Columbus, Ohio

January 27, 2014

**CLEVELAND COMMUNITY SCHOOL  
CUYAHOGA COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

Our discussion and analysis of The Cleveland Community School (CCS) financial performance provides an overall review of CCS's financial activities for the fiscal year ended June 30, 2012. The intent of this discussion and analysis is to look at CCS'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 CCS's financial performance.

The Management's Discussion and Analysis (MD&A) is an element of the new reporting model adopted by the Governmental Accounting Standards Board (GASB) in their Statement No. 34 Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Government issued June 1999. Certain comparative information between the current year and the prior year is required to be presented in the MD&A.

**FINANCIAL HIGHLIGHTS**

Key Financial Highlights for CCS for the 2011-2012 school year are as follows:

- Total assets increased by \$37,004 or 8%.
- Total liabilities decreased by \$226,026 or 28%.
- Total net position increased by \$263,030.
- Total operating revenues were \$1,545,836. Total operating expenses were \$1,640,110.

**USING THIS ANNUAL REPORT**

This report consists of three parts: the MD&A, the basic financial statements, and notes to those statements. The basic financial statements include a Statement of Net Position, a Statement of Revenues, Expenses and Changes in Net Position, and a Statement of Cash Flows.

The Statement of Net Position and Statement of Revenues, Expenses, and Changes in Net Position reflect how CCS did financially during fiscal year 2012. These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting includes all of the current year revenues and expenses regardless of when cash is received or paid.

These statements report CCS's net position and changes in that position. This change in net position is important because it tells the reader whether the financial position of CCS has improved or diminished. The causes of this change may be the result of many factors, some financial, some not. Non-financial factors include CCS's student enrollment, per-pupil funding as determined by the State of Ohio, change in technology, required educational programs and other factors.

CCS uses enterprise presentation for all of its activities.

**CLEVELAND COMMUNITY SCHOOL  
CUYAHOGA COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

**STATEMENT OF NET POSITION**

The Statement of Net Position answers the question of how CCS did financially during 2012.

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

Table 1 provides a summary of the School's net position for fiscal years 2011 and 2012.

**Table 1  
Statement of Net position**

	<u>2012</u>	<u>2011</u>	<u>Change</u>
<b>Assets</b>			
Current Assets	\$234,632	\$135,881	\$98,751
Capital Assets, Net of Accumulated Depreciation	<u>279,156</u>	<u>340,903</u>	<u>(61,747)</u>
<i>Total Assets</i>	<u><u>513,788</u></u>	<u><u>476,784</u></u>	<u><u>37,004</u></u>
<b>Liabilities</b>			
Current Liabilities	96,817	261,843	(165,026)
Long Term Liabilities	<u>497,279</u>	<u>558,279</u>	<u>(61,000)</u>
<i>Total Liabilities</i>	<u><u>594,096</u></u>	<u><u>820,122</u></u>	<u><u>(226,026)</u></u>
<b>Net position</b>			
Invested in Capital Assets, net of related debt	279,156	340,903	(61,747)
Unrestricted	<u>(359,464)</u>	<u>(684,241)</u>	<u>324,777</u>
<b>Total Net position</b>	<u><u>(\$80,308)</u></u>	<u><u>(\$343,338)</u></u>	<u><u>\$263,030</u></u>

Net position increased to (\$80,308), a significant increase which resulted from the School having a receivable from Villaview Community as opposed to a payable last year. Capital Assets, net of depreciation, changed as a result of depreciation expense. Liabilities decreased from 2011 as fewer accounts payable were recognized and another year was paid on the outstanding debt.

**CLEVELAND COMMUNITY SCHOOL  
CUYAHOGA COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION**

Table 2 shows the changes in net position for fiscal years 2011 and 2012, as well as a listing of revenues and expenses. This change in net position is important because it tells the reader that, for the CCS as a whole, the financial position of the CCS has improved or diminished. The cause of this may be the result of many factors, some financial, some not. Non-financial factors include the current laws in Ohio restricting revenue growth, facility conditions, required educational programs and other factors.

	<b>Table 2 – Change in Net Position</b>		
	<b>2012</b>	<b>2011</b>	<b>Change</b>
<b>Revenues</b>			
Operating revenues:			
Foundation payments	\$1,545,836	\$1,326,789	\$219,047
Other operating revenues	0	751	(751)
Non-operating revenues:			
Net debt forgiveness	0	484,227	(484,227)
Federal and state grants	357,304	563,565	(206,261)
Total revenues	1,903,140	2,375,332	(472,192)
<b>Expenses</b>			
Operating expenses:			
Salaries	532,654	445,280	87,374
Fringe benefits	25,050	255,185	(230,135)
Purchased services	839,135	888,582	(49,447)
Materials and supplies	68,646	56,048	12,598
Depreciation	61,747	61,747	0
Other expenses	112,878	62,382	50,496
Total Expenses	1,640,110	1,769,324	(129,214)
Change in Net position	263,030	606,008	(\$342,978)
Beginning Net position	(343,338)	(949,346)	
Ending Net position	(\$80,308)	(\$343,338)	

**CLEVELAND COMMUNITY SCHOOL  
CUYAHOGA COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

Total revenues were down between years as a result of the debt forgiveness in 2011. The School saw foundation revenue increase while grant revenue decreased during 2012 as compared to 2011. The FTE counts increased just over fourteen between the two fiscal years.

**BUDGETING HIGHLIGHTS**

Unlike other public schools located in the State of Ohio, community schools are not required to follow budgetary provisions set forth in Ohio Rev. Code Chapter 5705, unless specifically provided in the community school's contract with its sponsor.

The contract between CCS and its Sponsor does prescribe a budgetary process. CCS has developed a one year spending plan and a five-year forecast that is reviewed semi-annual by the Board of Trustees. The five-year forecast is also submitted to the Sponsor and the Ohio Department of Education, annually.

**CAPITAL ASSETS**

CCS has invested in capital assets, net of accumulated depreciation. No additional investments in capital asset in the fiscal year were made. Detailed information regarding capital asset activity is included in the Note 4 in the notes to the basic financial statements.

**DEBT OBLIGATIONS**

CCS has debt obligations comprised of loans totaling \$497,279 at June 30, 2012. See the note 14 to the basic financial statement for further details.

**CONTACTING CCS'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizen's, taxpayers, investors and creditors with a general overview of CCS's finances and to demonstrate accountability for the money it receives. If you have questions about this report or need additional information contact Dr. Marlaina Palmeri, President and Chief Education Officer – Believe to Achieve International, Superintendent – Cleveland Community Schools (585) 734-3210 or mpalmeri@b2a-intl.com.

**CLEVELAND COMMUNITY SCHOOL  
CUYAHOGA COUNTY, OHIO  
STATEMENT OF NET POSITION**

**AS OF JUNE 30, 2012**

**Assets:**

Current assets:

Cash and cash equivalents	\$ 15,012
Intergovernmental Receivable	59,963
Due from Villaview Community	<u>159,657</u>

Total current assets 234,632

Noncurrent assets:

Capital assets, net	<u>279,156</u>
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Total noncurrent assets 279,156

**Total Assets** 513,788

**Liabilities:**

Current liabilities

Accounts payable	25,442
Accrued wages and benefits payable	61,824
Intergovernmental payable	<u>9,551</u>

Total current liabilities 96,817

Long term debt 497,279

**Total Liabilities** 594,096

**Net Position:**

Invested in capital assets, net of related debt	279,156
Unrestricted	<u>(359,464)</u>

**Total Net Position** \$ (80,308)

See accompanying notes to the basic financial statements

**CLEVELAND COMMUNITY SCHOOL  
 CUYAHOGA COUNTY, OHIO  
 STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION**

**For the Fiscal Year Ended June 30, 2012**

<b>Operating Revenues:</b>	
Foundation payments	\$ 1,545,836
<b>Total operating revenues</b>	<u>1,545,836</u>
<b>Operating Expenses:</b>	
Salaries	532,654
Fringe benefits	25,050
Purchased services	839,135
Materials and supplies	68,646
Depreciation	61,747
Other operating expenses	112,878
<b>Total operating expenses</b>	<u>1,640,110</u>
Operating Loss	<u>(94,274)</u>
<b>Non-Operating Revenues:</b>	
Federal grants	312,442
State grants	44,862
<b>Total non-operating revenues</b>	<u>357,304</u>
<b>Change in net position</b>	263,030
Net position at beginning of year	(343,338)
Net position at end of year	<u>\$ (80,308)</u>

See accompanying notes to the basic financial statements

**CLEVELAND COMMUNITY SCHOOL  
CUYAHOGA COUNTY, OHIO  
STATEMENT OF CASH FLOWS**

**For the Fiscal Year Ended June 30, 2012**

**Increase (Decrease) in cash and cash equivalents**

**Cash flows from operating activities:**

Cash received from State of Ohio - Foundation	\$ 1,545,836
Cash payments for personal services	(606,407)
Cash payments for contract services	(1,080,147)
Cash payments for supplies and materials	(68,271.19)
Cash payments for other expenses	(112,878)
Net cash used by operating activities	<u>(321,867)</u>

**Cash flows from noncapital financing activities:**

Cash received from state and federal grants	398,035
Payment on short term loan	(35,343)
Principal paid on debt obligations	(61,000)
Net cash provided by noncapital financing activities	<u>301,692</u>

Net change in cash and cash equivalents	(20,175)
Cash and Cash Equivalents at beginning of year	35,187
Cash and Cash Equivalents at end of year	<u><u>15,012</u></u>

**Reconciliation of operating loss to net cash used by operating activities:**

Operating loss	(94,274)
Adjustments to reconcile operating loss to net cash provided for operating activities:	
Depreciation	61,747
Change in assets and liabilities:	
Increase in Due from Villaview Community	(159,657)
Decrease in accounts payable	(80,981)
Decrease in accrued wages and benefits	(40,875)
Decrease in intergovernmental payable	(7,827)

Net cash used by operating activities	<u><u>\$ (321,867)</u></u>
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See accompanying notes to the basic financial statements

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**CLEVELAND COMMUNITY SCHOOL  
CUYAHOGA COUNTY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

**1. DESCRIPTION OF ENTITY**

Cleveland Community School (CCS) is a nonprofit corporation established pursuant to Ohio Revised Code Chapters 3314 and 1702 to address the needs of students in kindergarten through the sixth grade. CCS qualified as an exempt organization under Section 501 (c) (3) of the Internal Revenue Code effective August 18, 2005. Management is not aware of any course of action or series of events that have occurred that might adversely affect CCS's tax-exempt status.

CCS, which is part of the State's education program, is independent of any school district and is nonsectarian in its programs, admissions policies, employment practices, and all other operations. CCS may sue and be sued, acquire facilities as needed, and contract for any services necessary for the operation of CCS.

In 2007, the CCS legally changed its name from Cleveland Lighthouse Charter Community School – East to Cleveland Community School. In 2009 the name was changed to Cleveland Community School.

On April 27, 2005 CCS was approved for operation under a contract between the governing authority of CCS and Ashe Culture Center, Inc. (the Sponsor), as their sponsor. Under the terms of the contract, the Sponsor will provide sponsorship services for a fee. The Sponsor is responsible for evaluating the performance of CCS and has the authority to deny renewal of the contract at its expiration or terminate the contract prior to its expiration. During 2011, Ashe was not renewed by the Ohio Department of Education as an eligible sponsor and the Ohio Department of Education took over the sponsorship for the school.

CCS operates under the direction of a four-member Board of Trustees. The Board is responsible for carrying out the provisions of the contract which include, but are not limited to, state mandated provisions regarding student populations, curriculum, academic goals, performance standards, admissions standards, and qualifications of teachers.

The board members of the CCS are also board members of Villaview Community School, formerly named Cleveland Lighthouse Charter Community School – West.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The basic financial Statements of the CCS 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. CCS also applies Financial Accounting Standards Board (FASB) Statements and Interpretations issued prior to November 30, 1989, provided those pronouncements do not conflict with or contradict GASB pronouncements. CCS's significant accounting policies are described below.

**A. BASIS OF PRESENTATION**

CCS's basic financial statements consist of a Statement of Net Position, a Statement of Revenues, Expenses and Changes in Fund Net Position, and a Statement of Cash Flows. Enterprise fund reporting focuses on the determination of the changes net position, financial position and cash flows.

**CLEVELAND COMMUNITY SCHOOL  
CUYAHOGA COUNTY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**A. BASIS OF PRESENTATION (CONTINUED)**

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

**B. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING**

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

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

**C. BUDGETARY PROCESS**

Unlike other public schools located in the state of Ohio, community schools are not required to follow budgetary provisions set forth in Ohio Revised Code Chapter 5705, unless specifically provided for in the schools sponsorship agreement. The contract between CCS and its Sponsor requires a budget to be adopted annually, and be reviewed on a monthly basis. The Board also develops a five year forecast which is reviewed semi-annually.

**D. CASH AND CASH EQUIVALENTS**

All monies received by CCS are maintained in a demand deposit account. For internal accounting purposes, CCS segregates its cash. CCS has no investments at June 30, 2012.

**E. ESTIMATES**

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

**CLEVELAND COMMUNITY SCHOOL  
CUYAHOGA COUNTY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**F. CAPITAL ASSETS**

Fixed assets are capitalized at cost. The costs of additions are capitalized and expenditures for repairs and maintenance are expensed when incurred. When property is sold or retired, the related costs and accumulated depreciation are removed from the accounts and any gain or loss is included in additions to or deductions from net position. Depreciation of fixed assets is calculated utilizing the straight-line method over the estimated useful lives of the assets. The useful lives follow:

<u>Asset</u>	<u>Useful Life</u>
Furniture, Equipment and Materials	10 years
Computers and Office Equipment	3 years
Leasehold Improvements	10 years

CCS has an asset capitalization threshold policy of \$5,000. (See Note 4)

**G. INTERGOVERNMENTAL REVENUES**

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

Grants and entitlements are recognized as non-operating revenues in the accounting period in which eligibility requirements have been met.

Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which CCS must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to CCS on a reimbursement basis.

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

Under the above programs CCS received \$1,903,140 this fiscal year.

**H. COMPENSATED ABSENCES**

Vacation is taken in a manner in which corresponds with CCS calendar; therefore CCS does not accrue vacation time as a liability. Sick days are earned at a rate of four hours per month and can be accrued up to the amount of paid personal days included in the contract year. CCS does not accept a transfer of sick days. No financial accrual for sick leave is made since unused sick leave is not paid to employees upon separation.

**CLEVELAND COMMUNITY SCHOOL  
CUYAHOGA COUNTY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**I. ACCRUED LIABILITIES**

Obligations incurred but unpaid at June 30 are reported as accrued liabilities in the accompanying financial statements. These liabilities consisted of accounts payable, accrued payroll, deferred revenue, and long term liabilities.

**J. EXCHANGE AND NON-EXCHANGE TRANSACTIONS**

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. Non exchange transactions, in which CCS receives value without directly giving equal value in return, include grants, entitlements and donations. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which CCS must provide local resources to be used for a specified purpose, and expenditures requirements, in which the resources are provided to CCS on a reimbursement basis.

**K. NET POSITION**

Net position represents the difference between assets and liabilities. Net position invested in capital assets consist of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets. Net position is reported as restricted when there are limitations imposed on their use through external restriction imposed by creditors, grantors, or law and regulations of other governments. CCS applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position is available.

**L. OPERATING REVENUES AND EXPENSES**

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

**M. INTERGOVERNMENTAL RECEIVABLES**

All receivables are considered collectible in full due to the stable condition of State programs, and the fiscal year guarantee of federal funds. Intergovernmental receivables of the CCS at June 30, 2012, of which all grant requirements had been satisfied, consisted of title funding grants which totaled \$59,963.

**N. DUE FROM VILLAVIEW COMMUNITY**

The School loaned money to Villaview throughout the year to help cover payroll and other related expenses. The amount recorded on the statement of net position is expected to be repaid within one year.

**CLEVELAND COMMUNITY SCHOOL  
 CUYAHOGA COUNTY  
 NOTES TO THE BASIC FINANCIAL STATEMENTS  
 FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

**3. CASH AND CASH EQUIVALENTS**

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

CCS maintains its cash balances at one financial institution located in Ohio. The entire bank balances are insured by the Federal Deposit Insurance Corporation (FDIC). At June 30, 2012, the book amount of CCS's deposits was \$15,012 and the bank balance was also \$15,012.

CCS had no deposit policy for custodial risk beyond the requirement of state statute. Ohio law requires that deposits either be insured or be protected by eligible securities pledged to and deposited either with CCS or a qualified trustee by the financial institution as security for repayment or by a collateral pool of eligible securities deposited with a qualified trustee to secure repayment of all public monies deposited in the financial institution whose market value shall be at least 105% of deposits being secured. At June 30, 2012, none of the bank balance was exposed to custodial credit risk.

**4. CAPITAL ASSETS AND DEPRECIATION**

For the period ending June 30, 2012, CCS's capital assets consisted of the following:

	Balance 06/30/2011	Additions	Deletions	Balance 06/30/12
Capital Assets Being Depreciated:				
Leasehold Improvements	\$399,958	\$0	\$0	\$399,958
Equipment	236,575	0	0	236,575
Total Capital Assets Being Depreciated:	636,533	0	0	636,533
Less: Accumulated Depreciation				
Leasehold Improvements	(200,000)	(40,000)	0	(240,000)
Equipment	(95,630)	(21,747)	0	(117,377)
Total Accumulated Depreciation	(295,630)	(61,747)	0	(357,377)
Net Capital Assets	\$340,904	(\$61,747)	\$0	\$279,156

**CLEVELAND COMMUNITY SCHOOL  
CUYAHOGA COUNTY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

**5. EDUCATIONAL FACILITY LEASE**

CCS leases its facility at Reserve Square, 1701 East 12<sup>th</sup> Street, Cleveland from Reserve Apartment, Ltd. CCS entered renewed a one year lease from July 2011 to June 2012 and entered into a new one year lease from July 2012 to June 2013. Monthly payments under the terms of the lease increase each year according to an agreed upon schedule. In fiscal year 2012, CCS paid \$172,454 in rental payments. This amount is recorded and reflected in the Statement of Revenues, Expenses and Change in Fund Net Position within purchased services.

**6. RISK MANAGEMENT**

**A. PROPERTY & LIABILITY**

CCS is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. For the fiscal year 2012, CCS contracted with Philadelphia Indemnity Insurance Company for all of its insurance.

**B. WORKERS' COMPENSATION**

CCS 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.

**C. EMPLOYEE BENEFITS**

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

**7. DEFINED BENEFIT PENSIONS PLANS**

**A. SCHOOL EMPLOYEES RETIREMENT SYSTEM OF OHIO (SERS OHIO)**

**Plan Description** – CCS contributes to the School Employees Retirement System (SERS), a cost-sharing multiple employer pension plans. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by contacting School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746, or by calling toll free 1-800-878-5853. It is also posted at the SERS' website at [www.ohsers.org](http://www.ohsers.org) under Employer/ Audit Resources.

**CLEVELAND COMMUNITY SCHOOL  
CUYAHOGA COUNTY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

**7. DEFINED BENEFIT PENSIONS PLANS (CONTINUED)**

**A. STATE TEACHERS RETIREMENT SYSTEM (STRS OHIO)**

**Funding Policy** - Plan members are required to contribute 10 percent of their annual covered salary and CCS is required to contribute 14 percent of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to a statutory maximum amount by the SERS' Retirement Board. The Retirement Board acting with the advice of the actuary, allocates the employer contribution rate among four of the funds (Pension Trust Fund, Death Benefit Fund, Medicare B and Health Care Fund.) of the System. For the fiscal year ending June 30, 2012, the allocation to pension and death benefits is 12.70 percent. The remaining 1.30 percent of the 14 percent employer contribution rate is allocated to the Health Care and Medicare B Funds. CCS contributions to SERS for the years ended June 30, 2012, 2011, and 2010 were \$30,147, \$84,473, and \$51,915, respectively, which equaled the required contributions each year.

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

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

The member may elect to receive a lifetime monthly annuity or a lump sum withdrawal. The Combined Plan offers features of both the DB Plan and the DC Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. The DB portion of the Combined Plan payment is payable to a member on or after age 60; the DC portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50. Benefits are established by Chapter 3307 of the Ohio Revised Code.

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

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**7. DEFINED BENEFIT PENSIONS PLANS (CONTINUED)**

**A. STATE TEACHERS RETIREMENT SYSTEM (STRS OHIO)**

**Funding Policy** - For the fiscal year ended June 30, 2012, plan members were required to contribute 10 percent of their annual covered salaries. CCS was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal year 2011, 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.

CCS's required contribution for pension obligations to STRS for the fiscal years ended June 30, 2012, 2011, and 2010 were \$43,044, \$99,796, and \$56,543 respectively, of which 100% has been contributed.

The above is the latest information available.

**B. SOCIAL SECURITY SYSTEM**

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System of Ohio have an option to choose Social Security or the School Retirement System. As of June 30, 2012, there were no members that elected Social Security. The contribution rate is 6.2 percent of wages.

**8. POST EMPLOYMENT BENEFITS**

**A. SCHOOL EMPLOYEE RETIREMENT SYSTEMS (SERS)**

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

**Medicare Part B**

Medicare B plan reimburse Medicare B premiums paid by eligible retirees and beneficiaries as set forth in Ohio Revised Code (ORC) 3309.69. Qualified benefits recipients who pay Medicare Part B premiums may apply for and receive a monthly reimbursement from SERS. The reimbursement amount is limited by statute to the lesser of the January 1, 1999 Medicare Part premium or the current premium. The Medicare Part B premium for calendar year 2012 was \$96.40; SERS' reimbursement for retirees was \$45.50.

The Retirement Board, acting with the advice of the actuary, allocates a portion of the current employer contribution rate to the Medicare B Fund, For fiscal 2012, the actuarial required allocation is .75 percent CCS's contributions for the years ended June 30, 2012, 2011, and 2010 were \$1,780, \$4,586, and \$4,240.

**CLEVELAND COMMUNITY SCHOOL  
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**8. POST EMPLOYMENT BENEFITS (CONTINUED)**

**A. SCHOOL EMPLOYEE RETIREMENT SYSTEMS (SERS) (CONTINUED)**

**Health Care Plan**

ORC 3309.375 and 3309.69 permit SERS to offer health care benefits to eligible retirees and beneficiaries. SERS' Retirement Board reserves the right to change or discontinue any health plan or program. SERS offers several types of health plans from various vendors, including HMO's, PPO's, Medicare Advantage, and traditional indemnity plans. A prescription drug program is also available to those who elect health coverage. SERS employs two third-party administrators and a pharmacy benefit manager to manage the self-insurance and prescription drug plans, respectively.

The ORC provides the statutory authority to fund SERS' postemployment benefits through employer contributions.

The Health Care Fund was established under, and is administered in accordance with the Internal Revenue Code 105(e). Each year after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer 14 percent contribution to the Health Care Fund. For the year ended June 30, 2012, the health care allocation is 0.55. An additional health care surcharge on employers is collected for employees earning less than the actuarially determined minimum compensation amount, pro-rated according to service credit earned.

Statutes provides that no employer shall pay a health care surcharge greater than 2 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the total statewide SERS-covered payroll for the health care surcharge.

For the fiscal year June 30, 2012, the minimum compensation level was established at \$35,800. The surcharge added to the unallocated portion of the 14 percent employer contribution rate is the total amount assigned to the Health Care Fund. CCS's contributions assigned to health care for the years ended June 30, 2012 was \$1,306.

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

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

**B. STATE TEACHERS RETIREMENT SYSTEM (STRS)**

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

**CLEVELAND COMMUNITY SCHOOL  
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**8. POST EMPLOYMENT BENEFITS (CONTINUED)**

**A. STATE TEACHERS RETIREMENT SYSTEM (STRS) (CONTINUED)**

**Funding Policy** - Ohio law authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For 2012, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. The School's contributions for health care for the fiscal years ended June 30, 2012, 2011, and 2010 were \$3,311, \$7,128, and \$4,240, respectively all of which has been contributed for all fiscal years.

The above is the latest information available.

**9. CONTINGENCIES**

**A. GRANTS**

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

**B. LITIGATION**

In August 2010, CCS and Villaview Community School were sued by Lighthouse Academies, Inc. for the past due management fees, a revolving loan and an operating loan. The suit has been settled for a fixed amount of \$300,000 payable at \$2,500 per month with no interest. The note will be satisfied in ten years and is completely the responsible of CCS with Villaview Community School retaining no obligation for repayment.

**C. FULL-TIME EQUIVALENCY**

The Ohio Department of Education (ODE) conducts reviews of enrollment data and full-time equivalency (FTE) calculations made by CCS. These reviews are conducted to ensure CCS is reporting accurate student enrollment data to the State, upon which state foundation funding is calculated. A review for the period of July 1, 2011 through June 30, 2012 has not been performed as of June 30, 2012.

**10. SPONSORSHIP- ASHE CULTURE CENTER INC.**

CCS contracted with Ashe Culture Center Inc. as its sponsor and oversight services as required by law. CCS pays the Sponsor three percent of State Aid. Sponsorship fees are calculated as three percent of state funds received by CCS from the State of Ohio. For the fiscal year ended June 30, 2012, sponsorship fees totaled \$37,571.

**CLEVELAND COMMUNITY SCHOOL  
 CUYAHOGA COUNTY  
 NOTES TO THE BASIC FINANCIAL STATEMENTS  
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**11. L.E.D. CONSULTING, INC. – Treasury Services**

CCS entered into a contract with L.E.D. Consulting, Inc. to provide treasury services, as defined by the contract. Contract provision binds CCS to pay \$5,000 per month for the duration of the agreement until terminated by mutual agreement of both parties. CCS paid \$60,000 for these services for the fiscal year ending June 30, 2012.

**12. PURCHASED SERVICES**

For the period of July 1, 2011 through June 30, 2012, CCS made the following purchase service commitments. These commitments include sponsor, management and CCIP fees, were applicable.

Professional and Technical Services	\$405,840
Communications	6,372
Property Services	209,128
Food Service	67,321
Other	<u>150,473</u>
Total Purchased	<u><u>\$839,135</u></u>

**13. RELATED PARTIES**

The members of CCS Board of Trustees are also members of the Villaview Community School.

Dr. Jorethia Chuck, wife of Dr. Kwa David Whitaker, owner of ASHE Culture Center, Inc. CCS's Sponsor during fiscal year 2011, is the owner of Exceptional Psychological Services. Exceptional Psychological Services was paid \$2,500 during fiscal year 2012.

Dionne Whitaker, daughter of Dr. Whitaker, is the owner of Kennedy Education Consultants, LTD, a company which provided lesson plans and other related services to CCS. Dionne Whitaker and Kennedy Education Consultants were paid a total of \$2,000 for these services during the year.

Brandon Whitaker, nephew of Dr. Whitaker, performs maintenance and custodial services for CCS. Payments to Brandon Whitaker totaled \$20,532.

**CLEVELAND COMMUNITY SCHOOL  
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 NOTES TO THE BASIC FINANCIAL STATEMENTS  
 FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

**14. DEBT OBLIGATIONS**

The following table summarizes the debt obligation activity for fiscal year ended June 30, 2012.

	Principal at 06/30/2011	Additions	Deletions	Principal at 06/30/12
City First Bank	\$283,279	\$0	\$36,000	\$247,279
Loan Payable – LHA	\$275,000	0	25,000	250,000
Total Debt Obligations	<u>\$558,279</u>	<u>\$0</u>	<u>\$61,000</u>	<u>\$497,279</u>

The loan payable for \$283,279 is from Charter School Development Corporation to the School for leasehold improvements made to property leased by CCS. The original amortization schedule required CCS to make principal and interest payments through 2009. At June 30, 2010, the amount was still due with no repayment schedule specified. This obligation was re-negotiated and extended during November 2010 allowing a repayment of \$3,000 at a 0% interest rate.

The loan payable for \$275,000 is a liability to LHA for unpaid management fees. At June 30, 2011, there was no repayment schedule specified. This obligation was included as part of an agreement reached in October 2011 for a fixed amount of \$275,000 payable at \$2,500 per month with no interest. The note will be satisfied in 10 years.

**15. FISCAL DISTRESS**

As of June 30, 2012, CCS had a deficit of \$80,308. The Treasurer and Board plan institute budgetary constraints which ensure discretionary expenditures remain within annual resources. The Treasurer shall monitor the actual to budget activity to report to the Board and management needed budgetary revisions to maintain solvency.

**16. SUBSEQUENT EVENT**

Ashe Culture Center, the CCS sponsor, had renewed its sponsorship with CCS and the current agreement would have expired on June 30, 2013; however, the Ohio Department of Education removed Ashe Culture Center's authority to sponsor charter schools in September 2011. Pursuant to Ohio Revised Code, CCS may not operate without a sponsor. The Ohio Department of Education took over sponsorship of CCS while it seeks another sponsor. Effective July 1, 2013, Portage County Educational Service Center took over sponsorship for CCS.



# Dave Yost • Auditor of State

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

Cleveland Community School  
Cuyahoga County  
1701 East 12<sup>th</sup> Street  
Cleveland, Ohio 44114

To the Board of Directors:

We were engaged to audit the financial statements of Cleveland Community School, Cuyahoga County, (the School) as of and for the year ended June 30, 2012, and have issued our report thereon dated January 27, 2014, wherein we noted there was insufficient evidence to support the School's Capital Assets, Long Term Liabilities and related disclosures, or the Defined Benefit Pension Plans and Post-Employment Benefits disclosure. The School also failed to provide written representations.

### **Internal Control Over Financial Reporting**

In planning and performing our engagement, we considered the School's internal control over financial reporting as a basis for designing our procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of opining on the effectiveness of the School's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the School's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. Therefore, we cannot assure that we have identified all deficiencies, significant deficiencies or material weaknesses. However, as described in the accompanying schedule of findings we identified certain deficiencies in internal control over financial reporting, that we consider material weaknesses and two deficiencies we consider to be significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and timely corrected. We consider findings 2012-001 and 2012-002 described in the accompanying schedule of findings to be material weaknesses.

A significant deficiency is a deficiency or a combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider finding 2012-003 described in the accompanying schedule of findings to be a significant deficiency.

### **Compliance and Other Matters**

As part of reasonably assuring whether the School's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our engagement 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 2012-001 through 2012-011.

We also noted certain matters not requiring inclusion in this report that we reported to the School's management in a separate letter dated January 27, 2014.

We intend this report solely for the information and use of management, the Board of Directors, the Community School's sponsor, and others within the School. We intend it for no one other than these specified parties.



**Dave Yost**  
Auditor of State

Columbus, Ohio

January 27, 2014

**CLEVELAND COMMUNITY SCHOOL  
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS  
JUNE 30, 2012**

<b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS</b>
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**FINDING NUMBER 2012-001**

**Condition of Accounting Records – Material Noncompliance and Material Weakness**

Ohio Admin. Code Section 117-2-02(A) states that all local public offices shall maintain an accounting system and accounting records sufficient to enable the public office to identify, assemble, analyze, classify, record and report its transactions, maintain accountability for the related assets (and liabilities, if generally accepted accounting principles apply), document compliance with finance related legal and contractual requirements and prepare financial statements required by rule 117-2-03 of the Administrative Code.

Management is responsible for implementing and maintaining a system of controls designed to enable management to determine the accuracy of financial transactions of the School. Also, management is responsible for developing and maintaining complete and accurate financial records.

Instead of complete and accurate financial records, we noted the following:

- The School's reported cash balance did not agree to the School's accounting records;
- The School does not perform a monthly School-wide bank-to-book reconciliation. Reconciliations are generated from the School's accounting software on a monthly basis, and are not accurate, nor are they reviewed;
- Checking account reconciliations contained outstanding checks that were either voided or not outstanding at year-end and did not agree to the amounts reported in the financial statements;
- Attendance records were not provided for the complete school year and the records provided were not complete,
- The School did not properly approve the loan repayment agreements for its loan agreement with Villaview Community School. The repayment was approved after the loan was already made;
- The School did not provide a signed agreement for its loan transfer from City First bank to Charter School Development Corporation or other debt agreements;
- The School does not have a capital asset policy which specifies the threshold for capital assets, depreciation, useful lives or tagging procedures;
- The School did not maintain capital asset records during the year and an independent appraisal company was contracted to perform an inventory of capital assets;
- The School did not provide capital asset support on leasehold improvements, which had a net balance of \$159,958 at fiscal year end;
- The School did not maintain sufficient documentation to support amounts reported in the Defined Benefit Pension Plans and Post-Employment Benefits note disclosures;
- A receivable related to federal grants was overstated by \$161,429, which led to an adjustment made by the School to the financial statements; and

During our testing of payroll disbursements, we noted one out of four employee personnel files tested did not contain the necessary retirement enrollment forms.

**CLEVELAND COMMUNITY SCHOOL  
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**SCHEDULE OF FINDINGS  
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**FINDINGS RELATED TO THE FINANCIAL STATEMENTS  
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**(Continued)**

**FINDING NUMBER 2012-001 (Continued)**

**Condition of Accounting Records – Material Noncompliance and Material Weakness (Continued)**

Management failed to provide all support documentation. Consequently we were unable to analyze, review, inspect for completeness, verify the accuracy of, or determine the existence of certain aspects of the School's financial records.

The School's management has available numerous sources of information describing the process of internal controls, recordkeeping requirements and reporting procedures. It is the responsibility of management to ensure that all responsible parties have access to this literature and training sessions. Failure to implement and maintain a system of controls over the School's financial records increases the chances of misstatement.

We recommend the School implement and maintain controls over accounting records and transactions.

**CLEVELAND COMMUNITY SCHOOL  
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**SCHEDULE OF FINDINGS  
JUNE 30, 2012**

<b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS</b>
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(Continued)

**FINDING NUMBER 2012-002**

**Developing and Implementing an Effective Internal Control System – Material Noncompliance and Material Weakness**

Ohio Admin. Code Section 117-2-01 (A) states that all public officials are responsible for the design and operation of a system of internal control that is adequate to provide reasonable assurance regarding the achievement of objectives for their respective public offices in certain categories. Subsection (C) (5) provides that internal control consists of the following component, among others: monitoring, which is a process that assesses the quality of internal control performance over time.

Monitoring is comprised of regular management and supervisory activities established to oversee whether management's objectives are being achieved. Effective monitoring controls assist management in assessing the quality of internal control performance over time. This process involves assessing the design and operation of controls on a timely basis and taking necessary corrective actions. Monitoring controls should assist management in identifying unexpected results and/or possible misstatements.

Some effective monitoring controls include:

- Regular review of monthly financial statements;
- Review of revenues and expenses with independently accumulated information (budgets, past performances, peer group representatives, etc.);
- Review of large or unusual fluctuations;
- Identification of unusual fluctuations;
- Comparison of financial statement position with financial projections and other internally prepared projections of financial position and operating results;
- Comparison of predefined key performance indicators based on the financial statements;
- Review of items which have been outstanding for extended periods of time (outstanding check listing for payroll and non payroll transactions);
- Monitoring compliance with grant agreements;
- Ensuring that an adequate segregation of duties exists; and
- Review of monthly bank reconciliations by someone independent of their preparation.

The School failed to perform adequate monitoring over financial activities. The lack of effective monitoring could lead to the misallocation or misstatement of School funds, expenditure of funds contrary to the directives of the Board, and non-compliance with federal or state laws or regulations. This could result in a loss of funding from federal and state sources, and errors or irregularities occurring in financial transactions which affect the bank reconciliations being undetected.

Additionally there was a lack of controls over the Title I program, including the following:

- The School has no policies in place, including but not limited to, timely disbursements, eligibility determination, inventory, or review of transactions;
- The School has no control procedures in place, including but not limited to, disbursements of funds, or monitoring of activity and compliance; and
- The School did not maintain adequate records to segregate federal funds, or ensure compliance with various A-133 requirements.

CLEVELAND COMMUNITY SCHOOL  
CUYAHOGA COUNTY

SCHEDULE OF FINDINGS  
JUNE 30, 2012

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

(Continued)

**FINDING NUMBER 2012-002 (Continued)**

**Developing and Implementing an Effective Internal Control System – Material Noncompliance and Material Weakness (Continued)**

We recommend that management establish and formalize internal control policies and procedures over financial reporting and federal compliance. Management should 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. In addition they should ensure they have policies and control procedures in place and also maintain adequate documentation to ensure compliance with federal compliance requirements.

**CLEVELAND COMMUNITY SCHOOL  
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS  
JUNE 30, 2012**

<b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS</b>
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(Continued)

**FINDING NUMBER 2012-003**

**Governing Board Membership, Record of Minutes and Notice of Public Meetings – Material Noncompliance and Significant Deficiency**

Ohio Rev. Code Section 3314.01 (B) provides a community school created under this chapter is a public school, independent of any school district, and is part of the state's program of education. The governing authority of a community school may carry out any act and ensure the performance of any function that is in compliance with the Ohio Constitution, this chapter, other statutes applicable to community schools, and the contract entered into under this chapter establishing the school. Ohio Rev. Code Section 3314.02 (E) provides in part for a Governing Board of at least five members.

Ohio Rev. Code Section 121.22 (F) states "Every public body, by rule, shall 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 it gives at least twenty-four hours' advance notice to the news media that have requested notification, except in the event of an emergency requiring immediate official action. In the event of an emergency, the member or members calling the meeting shall notify the news media that have requested notification immediately of the time, place, and purpose of the meeting."

The following deficiencies related to Board meetings or meeting minutes were noted:

- The Board was only comprised of four members during the audit period, we noted that five members were listed but there was no evidence that Tanya Dixon attended any meeting;
- The May 15, 2012 minutes were not signed off by a member of the Board or School official to note approval.

It is the Board's responsibility to oversee the School's operations and make decisions to ensure the School's goals and objectives are accomplished. The Board is responsible for determining the direction in which the Academy is heading. This occurs only after a great deal of consultation with parents, staff and students of the School to ensure that the school is providing the highest quality of education possible and a safe place in which students can learn. The Board minutes represent the official record of the School events and resolutions passed by the Board of Directors. Without following Board meeting requirements for proceedings, it cannot be reasonably assured that the Board is meeting its obligation to oversee the School. Without the proper number of Board members, the Board may not have the necessary authority to properly approve and carry out its necessary business.

We recommend the School take the necessary steps to approve all formal employment actions during Board meetings and to meet on a regular basis to inform the Board of important issues in a timely manner. We also recommend the School establish an open meeting and meeting notification policy, a method to notify the public of the meetings and establish a timely method of recording the Board minutes and making them available to the public for inspection.

**CLEVELAND COMMUNITY SCHOOL  
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS  
JUNE 30, 2012**

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

**(Continued)**

**FINDING NUMBER 2012-004**

**Annual Financial Reporting – Material Noncompliance**

Ohio Rev. Code Section 117.38 requires community schools to file complete and accurate GAAP reports on an annual basis. This section also provides, in part, that "at the time the annual financial report is filed with the auditor of state, the chief fiscal officer, except as otherwise provided in Section 319.11 of the Ohio Rev. Code, shall publish notice in a newspaper published in the political subdivision or taxing district, and if there is no such newspaper, then in a newspaper of general circulation in the political subdivision or taxing district. The notice shall state that the financial report has been completed by the public office and is available for public inspection at the office of the chief fiscal officer."

During our review of the School's annual financial report filed with Local Government Services for fiscal year 2012, we noted a material adjustment was required to Intergovernmental Receivable. In addition, no evidence was provided, by the School, that a public notice was published. This may prevent the public from being aware of the transparency available in the School.

By not filing accurate financial reports and an annual notice, the School is not fulfilling their duties of accountability and transparency to the public.

We recommend the School compile and present its financial statements in a complete and accurate manner in accordance with its accounting records and the above Ohio Revised Code Section. We also recommend at the time the report is filed with the auditor of state, the School, except as otherwise provided in section 319.11 of the Ohio Revised Code, shall publish notice in a newspaper published in the political subdivision or taxing district, and if there is no such newspaper, then in a newspaper of general circulation in the political subdivision or taxing district. The notice shall state that the financial report has been completed by the public office and is available for public inspection at the School's central office.

**CLEVELAND COMMUNITY SCHOOL  
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**SCHEDULE OF FINDINGS  
JUNE 30, 2012**

<b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS</b>
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**(Continued)**

**FINDING NUMBER 2012-005**

**Activities Allowed and Unallowed – Material Noncompliance**

2 C.F.R. Part 225 Appendix A, Section A(2)(a)(2) states that governmental units assume responsibility for administrating Federal funds in a manner consistent with underlying agreements, program objectives, and the terms and conditions of the Federal Award.

2 C.F.R Part 225 Appendix A, Section C.1.j provides that for a cost to be allowable, the expenditure must be adequately documented. Appendix C, Section A.1 also provides that all costs and other data used to distribute the costs included in the plan should be supported by formal accounting and other records that will support the propriety of the costs assigned to Federal Awards.

OMB Circular No. A-133, Section .105 defines questioned costs, in part, as a cost that is questioned by the auditor because of an audit finding where the costs, at the time of the audit, are not supported by adequate documentation.

The School does not maintain accounting records that identify any of its federal expenditures from non-federal expenditures and is unable to provide any supporting documentation to determine if the expenditures are reasonable for proper and efficient performance and administration of the Federal Award. This has led to questioned cost of \$113,337 related to various federal programs in the prior audit.

Failure to identify federal funds, provide adequate documentation, establish controls, and comply with grant requirements resulted in prior questioned costs, and has the potential to result in a loss of federal financial assistance.

We recommend the School establish and maintain internal controls designed to ensure Federal laws, regulations and program compliance requirements, are consistent with the guidelines set forth in the above compliance sections.

**CLEVELAND COMMUNITY SCHOOL  
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS  
JUNE 30, 2012**

<b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS</b>
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**(Continued)**

**FINDING NUMBER 2012-006**

**Cash Management – Material Noncompliance**

34 CFR 80.21 and the Ohio Department of Education Office of Federal and State Grants Management require that all Federal funds are to be expended in the same month in which they are requested.

We noted the School does not maintain accounting records or supporting documentation that identifies any of its federal program expenditures. Therefore, we were unable to determine if the School disbursed its federal funds in a timely manner.

Failure to disburse funds within one month in compliance with the above section can result in a loss of federal funding.

We recommend the School maintain adequate accounting support and disbursement recognition to ensure all Title I disbursements are made in a timely manner.

**FINDING NUMBER 2012-007**

**Equipment and Real Property Management – Material Noncompliance**

2 CFR 215.34 requires that equipment be used in the program for which it was acquired or, when appropriate, other Federal programs. Equipment records shall be maintained, a physical inventory of equipment shall be taken at least once every two years and reconciled to the equipment records, an appropriate control system shall be used to safeguard equipment, and equipment shall be adequately maintained.

We noted the School does not maintain accounting records or supporting documentation that identifies any of its federal program expenditures. Therefore, we were unable to determine if the School purchased any equipment with federal funds, and furthermore, if they were in compliance with the above requirement.

We also noted no records are being maintained and no physical inventory of equipment has ever taken place.

Noncompliance with federal rules can result in a loss of federal funding.

The School should maintain adequate accounting support and disbursement recognition to ensure that Equipment and Real Property purchase are accounted for. In addition, they should maintain an inventory of all federal equipment and should perform an update of this once every two years.

**CLEVELAND COMMUNITY SCHOOL  
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS  
JUNE 30, 2012**

<b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS</b>
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(Continued)

**FINDING NUMBER 2012-008**

**Maintenance and Level of Effort – Material Noncompliance**

20 USC Section 7901 states that in order to meet Maintenance of Effort (MOE), combined fiscal effort (per student or the aggregate expenditures of the LEA and the State) cannot be less than 90% of the combined fiscal effort for the second preceding year.

20 USC Section 6321(b) states an LEA shall use Federal funds received under this part only to supplement the funds that would, in the absence of the Federal funds, be made available from non-Federal sources for the education of participating students. In no case may an LEA use Federal program funds to supplant funds from non-Federal sources.

During the audit we noted the School has no supporting documentation, as required by the above compliance sections. We were unable to determine if these requirements were met.

Noncompliance with federal rules can result in a loss of federal funding.

The School should maintain adequate supporting documentation for maintenance and level of effort to ensure compliance with the above requirements.

**FINDING NUMBER 2012-009**

**Procurement and Suspension and Debarment – Material Noncompliance**

2 CFR part 180 states Federal entities are prohibited from contracting with or making subawards under covered transactions to parties that are suspended or debarred or whose principals are suspended or debarred. "Covered transactions" include those procurement contracts for goods and services awarded under a nonprocurement transaction (e.g., grant or cooperative agreement) that are expected to equal or exceed \$25,000 or meet certain other specified criteria.

2 CFR section 180.300 states when a non-federal entity enters into a covered transaction with an entity at a lower tier, the non-federal entity must verify that the entity is not suspended or debarred or otherwise excluded. This verification may be accomplished by checking the Excluded Parties List System (EPLS) maintained by the General Services Administration (GSA), collecting a certification from the entity, or adding a clause or condition to the covered transaction with that entity.

We noted the School does not maintain accounting records or supporting documentation that identifies any of its federal grant expenditures. Therefore, we were unable to determine if the School complied with the above Federal compliance requirements regarding procurement or contracts equal to or exceeding \$25,000 and we noted no evidence of the EPLS being checked for any transactions.

Noncompliance with federal rules can result in a loss of federal funding.

We recommend the School maintain adequate accounting support and disbursement recognition to ensure that the correct procedures and policies were followed for procurement of purchases. Furthermore, if necessary, we recommend the School check the EPLS for any and all contracts equal to or exceeding \$25,000.

**CLEVELAND COMMUNITY SCHOOL  
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS  
JUNE 30, 2012**

<b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS</b>
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(Continued)

**FINDING NUMBER 2012-010**

**Special Tests and Provisions – Highly Qualified Teachers and Paraprofessionals – Material Noncompliance**

34 CFR Section 200.56 states that beginning after the first day of each school year, an LEA must ensure any teacher who was hired to teach a core academic subject and worked in a program supported by Title I, Part A Federal funds is a highly qualified teacher (HQT). This requirement applies to teachers in Title I targeted assistance programs who teach a core academic subject and are paid with Title I, Part A Federal funds and to all teachers who teach a core academic subject in a Title I school-wide program school. The LEA must ensure that all teachers of core academic subjects, whether or not they work in a program supported with Title I, Part A Federal funds, are highly qualified. "Core academic subjects" relate to English, reading or language arts, mathematics, science, foreign languages, civics and government, economics, arts, history, and geography.

We noted the School does not maintain accounting records or supporting documentation that identifies any of its federal grant expenditures. Therefore, we were unable to determine which employees were paid with Title I funds, and resulting, whether or not all teachers paid with Title I or Title I ARRA funds were HQT.

Noncompliance with federal rules can result in a loss of federal funding.

We recommend the School only employ highly qualified teachers as instructors for Title I, in accordance with the above compliance requirement.

**FINDING 2012-011**

**Special Tests and Provisions – Identifying Schools and LEAs Needing Improvement – Material Noncompliance**

Title I, Sections 1116(a) and (b)(1), (7), and (8) of ESEA states that after a school has been identified for improvement for two school years (subject to the delay provision discussed in the next paragraph), the LEA must identify that school for corrective action if it continues to fail to make adequate yearly progress. The LEA may delay, for a period not to exceed one year.

Title I, Sections 1111(h)(2) and 1116(a)(1)(C) state each LEA that receives Title I, Part A funds must prepare and disseminate to all schools in the LEA—and to all parents of students attending those schools—an annual LEA report card that, among other things, includes the number, names, and percentage of schools identified for school improvement and how long the schools have been so identified.

There was no evidence that school prepared a corrective action plan or submitted an annual LEA report card, in accordance with the above requirements.

Noncompliance with federal rules can result in a loss of federal funding.

We recommend the School ensure the necessary plans and reports are disseminated in accordance with the above Federal compliance requirements.

CLEVELAND COMMUNITY SCHOOL  
CUYAHOGA COUNTY

SCHEDULE OF FINDINGS  
JUNE 30, 2012

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

(Continued)

**Officials' Response:** The current leadership team and new Sponsor of the School are working with the respective governing boards to develop and implement fiscal accountability policies and procedures for the current school year (2013-2014) that will address the issues raised by these findings. Since the current leadership team was not involved with the School during the audit period, we neither concur nor object with the findings as presented.

**CLEVELAND COMMUNITY SCHOOL  
CUYAHOGA COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS  
JUNE 30, 2012**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <b>Explain</b>
2011-01	Condition of Accounting Records	No	Not corrected. Reissued as Finding 2012-001
2011-02	Developing and Implementing an Effective Monitoring Systems	No	Not corrected. Reissued as Finding 2012-002
2011-03	Governing Board Membership, Record of Minutes, and Notice of Public Meetings	No	Partially Corrected. Reissued as Finding 2012-003
2011-04	Annual Financial Reporting	No	Not corrected. Reissued as Finding 2012-004
2011-05	System of Internal Controls over Title I Funds	No	Not corrected. Combined with Finding 2012-002
2011-06	Activities Allowed and Unallowed	No	Not corrected. Reissued as Finding 2012-005
2011-07	Cash Management	No	Not corrected. Reissued as Finding 2012-006
2011-08	Equipment and Real Property Management	No	Not corrected. Reissued as Finding 2012-007
2011-09	Maintenance and Level of Effort Calculation	No	Not corrected. Reissued as Finding 2012-008
2011-10	Procurement and Suspension and Disbarment	No	Not corrected. Reissued as Finding 2012-009
2011-11	ARRA Section Reporting	No	Finding is no longer valid
2011-12	Presentation of the Schedule of Federal Awards and Data Collection Form	No	Finding is no longer valid
2011-13	Separate Accountability of ARRA Title I Funding	No	Finding is no longer valid
2011-14	Highly Qualified Teachers and Paraprofessionals	No	Not corrected. Reissued as Finding 2012-010
2011-15	Identifying Schools and LEAS Needing Improvement	No	Not corrected. Reissued as Finding 2012-011

**CLEVELAND COMMUNITY SCHOOL  
CUYAHOGA COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS  
JUNE 30, 2012  
(Continued)**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <b><i>Explain</i></b>
2011-16	System of Internal Control for State Fiscal Stabilization Funds	No	Finding is no longer valid.
2011-17	Cash Management- State Fiscal Stabilization Funds	No	Finding is no longer valid
2011-18	Procurement and Debarment- State Fiscal Stabilization Funds	No	Finding is no longer valid.
2011-19	ARRA Section 1512 Reporting- State Fiscal Stabilization Fund	No	Finding is no longer valid
2011-20	Separate Accountability- State Fiscal Stabilization Funds	No	Finding is no longer valid.

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# Dave Yost • Auditor of State

## Independent Accountants' Report on Applying Agreed-Upon Procedure

Cleveland Community School  
Cuyahoga County  
1701 East 12<sup>th</sup> Street  
Cleveland, Ohio 44114

To the Board of Directors:

Ohio Rev. Code Section 117.53 states "the auditor of state shall identify whether the school district or community school has adopted an anti-harassment policy in accordance with Section 3313.666 of the Revised Code. This determination shall be recorded in the audit report. The auditor of state shall not prescribe the content or operation of any anti-harassment policy adopted by a school district or community school."

Accordingly, we have performed the procedure enumerated below, which was agreed to by the Board, solely to assist the Board in evaluating whether Cleveland Community School (the School) has updated its anti-harassment policy in accordance with Ohio Rev. Code Section 3313.666. Management is responsible for complying with this requirement. This agreed-upon procedure engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of this procedure is solely the responsibility of the Board. Consequently; we make no representation regarding the sufficiency of the procedure described below either for the purpose for which this report has been requested or for any other purpose.

1. We noted the School did not amend its anti-harassment policy to include violence within a dating relationship within its definition of harassment, intimidation or bullying.

Ohio Rev. Code Section 3313.666 required the School to amend its definition by September 28, 2010.

We were not engaged to and did not conduct an examination, the objective of which would be the expression of an opinion on compliance with the anti-harassment policy. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

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

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

**Dave Yost**  
Auditor of State

January 27, 2014

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# Dave Yost • Auditor of State

**CLEVELAND COMMUNITY SCHOOL**

**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  
FEBRUARY 6, 2014**