



**THE ARTS ACADEMY WEST
CUYAHOGA COUNTY**

REGULAR AUDIT

FOR THE YEAR ENDED JUNE 30, 2007



Mary Taylor, CPA
Auditor of State

**THE ARTS ACADEMY WEST
CUYAHOGA COUNTY
TABLE OF CONTENTS**

Independent Accountants' Report	1
Management's Discussion and Analysis	3
Statement of Net Assets as of June 30, 2007	7
Statement of Revenues, Expenses and Changes in Net Assets for the Fiscal Year Ended June 30, 2007	8
Statement of Cash Flows for the Fiscal Year Ended June 30, 2007.....	9
Notes to the Financial Statements.....	11
Independent Accountants' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by <i>Government Auditing Standards</i>	17
Schedule of Findings	19
Schedule of Prior Audit Findings	26

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Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

The Arts Academy West
Cuyahoga County
2259 Columbus Road
Cleveland, Ohio 44113

To the Board of Directors:

We have audited the accompanying basic financial statements of The Arts Academy West, Cuyahoga County, Ohio (the Academy), as of and for the year ended June 30, 2007, as listed in the table of contents. These financial statements are the responsibility of the Academy's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

The Academy did not provide supporting documentation for accounts payable.

The Academy did not provide original supporting documentation for certain expense transactions we selected to test.

The Academy provided board minutes for only three meetings of the Board of Directors during the audit period. Accordingly we were unable to obtain sufficient evidence to determine whether any contingencies or subsequent events required accrual or disclosure in the financial statements.

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

- Payments for Contract Services
- Changes in Receivables - Payroll
- Changes in Accounts Payable

In our opinion, except for any possible effects of such adjustments, if any, as might have been determined to be necessary had we been able to examine evidence regarding accounts payable and expenses described in paragraphs three and four, and except for the evidence the additional board minutes might have provided us regarding contingencies, subsequent events and other matters, as described in paragraph five, and except for the misstatements of cash flows as described in paragraph six, the financial statements referred to above present fairly, in all material respects, the financial position of the Arts Academy West, as of June 30, 2007, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Academy incurred an operating loss of \$96,626 for the year ended June 30, 2007 and accumulated a total net deficit of \$155,643 as of June 30, 2007.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 24, 2010, on our consideration of the Academy's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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



Mary Taylor, CPA
Auditor of State

February 24, 2010

The Arts Academy West
Cuyahoga County
Management's Discussion and Analysis
For the Year Ended June 30, 2007
Un-audited

Our discussion and analysis of the Arts Academy West's (the Academy) financial performance provides an overall review of the Academy's financial activities for the fiscal year ended June 30, 2007. The intent of this discussion and analysis is to look at the Academy's financial performance as a whole; readers should also review the basic financial statements and notes to the basic financial statements to enhance their understanding of the Academy's financial performance.

The Management's Discussion and Analysis (MD&A) is an element of the 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.

Financial Highlights

- Total assets were 5,803
- Total liabilities were 161,446
- The Academy had net assets of (155,643)
- Change in Net Assets for the year ended June 30, 2007 was (70,815)

Using the Financial Report

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

One of the most important questions asked about the Academy's finances is "Is the Academy better or worse off as a result of the year's activities?" The Statement of Net Assets and the Statement of Revenues, Expense and Changes in Net Assets report information about the Academy as a whole and about its activities in a manner that helps to answer this question. These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting used by private sector corporations. All of the current year's revenues and expenses are taken into consideration regardless of when cash is received or paid.

The Arts Academy West
 Cuyahoga County
 Management's Discussion and Analysis
 For the Year Ended June 30, 2007
 Un-audited

These two statements report the Academy's net assets and changes in them. The change in net assets provides the reader a tool to assist in determining whether the Academy's financial health is improving or deteriorating. The reader will need to consider other non-financial factors such as state revenue, student enrollment growth, and facility conditions in arriving at their conclusion regarding the overall health of the Academy.

Statement of Net Assets

	<u>2007</u>	<u>2006</u>
Current Assets	<u>5,803</u>	<u>2,589</u>
Total Assets	5,803	2,589
Current Liabilities	<u>161,446</u>	<u>87,417</u>
Total Liabilities	161,446	87,417
Net Assets:		
Unrestricted	<u>(155,643)</u>	<u>(84,828)</u>
Total Net Assets	(155,643)	(84,828)

Current assets consisted of Cash and Investments and Accounts Receivables while current liabilities consisted of Accounts payable due various vendors, primarily the management company for expenses incurred on behalf of the Academy.

The Academy had a negative unrestricted net asset balance of (\$155,643.) as of June 30, 2007 primarily because this was the second year of operations as well as expensive occupancy cost. Management intends to participate in various federal and state grants in future years to provide additional revenue and has restructured facility cost.

Statement of Revenues, Expenses, and Changes in Net Assets

	<u>2007</u>	<u>2006</u>
Operating Revenues:		
Sales	\$ 0	\$ 7,053
Foundation Payments	597,488	218,054
Other Operating Revenues	<u>25,811</u>	<u>2,716</u>
Total Revenues	623,299	227,823

The Arts Academy West
 Cuyahoga County
 Management's Discussion and Analysis
 For the Year Ended June 30, 2007
 Un-audited

Operating Expense:	<u>2007</u>	<u>2006</u>
Purchased Services	687,848	298,277
Material & Supplies	3,451	14,106
Other Objects	490	268
Miscellaneous	2,189	
Other Uses of Funds	136	
Total Expense	\$ 694,114	312,651
Change in Net Assets	<u>(70,815)</u>	<u>(84,828)</u>

For the year ended June 30, 2007, foundation payments accounted for 95.8% of total revenues.

Purchased services accounted for 99.1% of total expenses. This is due to the Academy contracting with Titus Group Inc. to provide all management services, including personnel expenses, for the day to day operations of the Academy. See footnote 6 of the Notes to the Financial Statements for a more detailed accounting of the services provided by the management company of the Academy.

The Academy had a change in Net Assets of (\$ 70,815) for the fiscal year ended June 30, 2007 primarily due to this being the second year of operations and expensive occupancy cost. Management intends to participate in various federal and state grants in future years to provide additional revenue.

Current Financial Issues

The future financial stability of the Academy is not without challenges.

The biggest is the state economy. The Academy does not receive any funds from taxes. The primary source of funding is the state foundation program. An economic slowdown in the state could result in budgetary cuts to education, which would have a negative impact on the Academy.

The Arts Academy West
Cuyahoga County
Management's Discussion and Analysis
For the Year Ended June 30, 2007
Un-audited

Contracting the Academy's Financial Management

This financial report is designed to provide our citizen's taxpayers, investors, and creditors with a general overview of the Academy's finances and to show the Academy's accountability for the money it receives. If you have questions about this report or need additional information contact Edward Dudley Sr., Treasurer 676 Brook Hollow Gahanna, Ohio 43230.

The Arts Academy West
Cuyahoga County
Statement of Net Assets
As of June 30, 2007

Assets	
Current Assets	
Cash and Cash Equivalents:	\$ 803
Receivable - Payroll	<u> 5,000</u>
Total current assets	<u> 5,803</u>
<i>Total Assets</i>	<u> 5,803</u>
Liabilities	
Accounts Payable	<u> 161,446</u>
<i>Total Liabilities</i>	<u> 161,446</u>
Net Assets	
Unrestricted (Deficit)	<u> (155,643)</u>
<i>Total Net Assets</i>	<u><u> (155,643)</u></u>

The accompanying notes are an integral part of the financial statements

The Arts Academy West
Cuyahoga County
Statement of Revenues, Expenses, and Changes in Net Assets
For the Fiscal Year Ended June 30, 2007

Operating revenues:	
Foundation payments	\$ 597,488
<i>Total operating revenues</i>	<u>597,488</u>
 Operating expenses:	
Purchased services	687,848
Supplies and materials	3,451
Other objects	490
Miscellaneous	2,325
<i>Total operating expenses</i>	<u>694,114</u>
<i>Operating income</i>	<u>(96,626)</u>
 Nonoperating revenues:	
Student activity collection	25,811
<i>Total nonoperating revenues</i>	<u>25,811</u>
 <i>Change in net assets</i>	 (70,815)
 <i>Net Assets - Beginning of Year</i>	 (84,828)
<i>Net Assets - End of Year</i>	<u>\$ (155,643)</u>

The accompanying notes are an integral part of the financial statements

The Arts Academy West
Cuyahoga County
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2007

Cash flows from operating activities	
Cash received from foundation payments	\$ 597,488
Cash payments for contract services	(617,202)
Cash payments for supplies and materials	(3,451)
Cash payments for miscellaneous	(2,815)
<i>Net cash used for operating activities</i>	<u>(25,980)</u>
 Cash Flows from noncapital financing activities	
Cash from student activities	<u>25,811</u>
<i>Net cash from noncapital financing activities</i>	25,811
 <i>Net decrease in cash and cash equivalents</i>	
	(169)
<i>Cash and cash equivalents at beginning of year</i>	<u>972</u>
<i>Cash and cash equivalents at end of year</i>	<u><u>\$ 803</u></u>
 Reconciliation of operating income to net cash provided by (used for) operating activities	
Operating income/(loss)	\$ (96,626)
 Adjustments to reconcile operating income to net cash provided by (used for) operating activities	
 Changes in assets and liabilities	
Receivable - Payroll	3,383
Accounts payable	<u>67,263</u>
Total adjustments	<u>70,646</u>
<i>Net cash provided (used) by operating activities</i>	<u><u>\$ (25,980)</u></u>

The accompanying notes are an integral part of the financial statements

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The Arts Academy West
Cuyahoga County
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2007

1. DESCRIPTION OF THE SCHOOL DISTRICT AND REPORTING ENTITY

The Arts Academy West (the Academy) is a non-profit organization established pursuant to the Ohio Revised Code Chapters 3314 and 1702 to address the needs of students in grade kindergarten through twelfth. The Academy is an approved tax-exempt organization under Section 501(3) (c) of the Internal Revenue Code. Management is not aware of any course of action or series of events that have occurred that may adversely affect the Academy's tax exempt status. The Academy which is part of the States education program is independent of any school district and is nonsectarian in its programs, admissions policies, employment practices, and all other operations. The Academy may sue and be sued, acquire facilities as needed, and contract for any services necessary for the operation of the Academy.

The Academy was approved for operation under contract with the Ashe Culture Center, Inc. (the Sponsor) for a period of three years commencing June 30, 2006. The sponsor is responsible for evaluating the performance of the Academy and has the authority to deny renewal of the contract at its expiration or terminate the contract prior to it expiration.

The Academy operates under the direction of a three 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 Board of Directors controls the Academy's instructional/support facilities staffed by 15 teaching personnel and 5 support personnel who provide services to 125 students

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Basis of Presentation

The Academy uses enterprise accounting to maintain its financial records during the school year. Enterprise accounting focuses on the determination of operating income, changes in net assets, financial position and cash flows. Enterprise accounting may

The Arts Academy West
Cuyahoga County
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2007

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICES (CONTINUED)

A. Basis of Presentation (Continued)

be used to account for any activity for which a fee is charged to external users for goods and services.

B. Measurement Focus and Basis of Accounting

Enterprise accounting uses a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities are included on the Statement of Net Assets. Operating statements present increase and decreases in net total assets. The Statement of Cash Flows reflects how the Academy finances and meets its cash flow needs.

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made. The accrual basis of accounting is used for reporting purposes. Revenues are recognized when 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 the budgetary provisions set forth in Ohio Revised Code Chapter 5705, unless specifically provided in the Academy's contract with its Sponsor. The contract between the Academy and its Sponsor does prescribe an annual budget requirement.

D. Cash and Investments

All monies received by the Academy are pooled and maintained in a separate account in the Academy's name. Monies for the Academy are maintained in the account or temporarily used to purchase short term investments.

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

The Arts Academy West
Cuyahoga County
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2007

2. SUMMARY OF SIGIFICANT ACCOUNTING POLICIES (CONTINUED)

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 accompany notes. Actual results may differ from these estimates.

F. Capital Assets and Depreciation

Capital assets are capitalized at cost and updated for additions and retirements during the year. Donated capital assets are recorded at their fair values as of the dates received. The Academy maintains a capitalization threshold of \$5,000.00. The Academy does not possess any infrastructure. Improvements are capitalized, the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized.

The Academy did not possess any capital assets at June 30, 2007.

G. Intergovernmental Revenue

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

Amounts awarded under the above named program for the 2007 school year totaled \$597,488.

H. Net Assets

Net assets represent the difference between assets and liabilities. Net assets are reported as restricted when there are limitations imposed on their use through external restriction imposed by creditors, grantors, or law and regulations of other governments. The Academy applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

I. Operating Revenues and Expenses

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

The Arts Academy West
Cuyahoga County
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2007

3. DEPOSITS

At June 30, 2007, the carrying amount of all Academy deposits was \$803. Based on the criteria described in GASB Statement No. 40 “Deposits and Investment Risk Disclosures”, as of June 30, 2007, all of the Academy’s bank balance was covered by the Federal Deposit Insurance Corporation and was not exposed to custodial credit risk.

Custodial credit risk is the risk that, in the event of bank failure, the Academy’s deposits may not be returned. All deposits are collateralized with eligible securities in amounts equal to at least 105 percent of the carrying value of the deposits. Such collateral, as permitted by the Ohio Revised Code, is held in single financial institution collateral pools at Federal Reserve Banks, or at member banks of the federal reserve system, in the name of the respective depository bank and pledge as a pool of collateral against all of the public deposits it holds or as specific collateral held at the Federal Reserve Bank in the name of the Academy.

The Academy has no deposit policy for custodial credit risk beyond the requirements of State statute. Ohio law requires that deposits be either insured or be protected by eligible securities pledged to and deposited either with the Academy or a qualified trustee by the financial institution as security for repayment, or by a collateral pool of eligible securities deposited with a qualified trustee and pledged to secure the repayment of all public monies deposited in the financial institution whose market value at all times shall be at least one hundred five percent of the deposits being secured.

4. CONTRACTS

A. Sponsor Contract

The Academy entered into a three – year contract commencing on June 30, 2006 continuing through April 14, 2009, with Cleveland Ashe Center Inc. (The Sponsor) for its establishment. Under the contract, following terms that were agreed upon.

- The Academy shall operate in compliance with the “Educational Plan”, which contains the Academy’s mission, educational philosophy, the ages and grades of students, the characteristics of the students the Academy expects to attract, the focus of the curriculum, a description of the learning opportunities offered to the students, the academic goals and the method of measurement that will be used to determine progress toward these goals, graduation requirements, and the focus of the curriculum.

The Arts Academy West
Cuyahoga County
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2007

4. CONTRACTS (CONTINUED)

A. Sponsor Contract (Continued)

- The Academy shall operate in compliance with the “Financial Plan”, which establishes an estimated school budget each year and a total estimated per pupil expenditure amount for each year. It also requires the Academy to have a designated fiscal officer who will maintain the financial records of the Academy in the same manner as are financial records of school districts, pursuant to rules of the Auditor of State, comply with the policies and procedures regarding internal financial control of the Academy, comply with the requirements and procedures for financial audits by the Auditor of State, and provide the Sponsor with bi-monthly financial reports.
- The Academy shall annually pay to the Sponsor, three percent (3.0%) of the total state support, as reported on the Community School Statement of Settlement. For the fiscal year ended June 30, 2007, this amount equaled \$17,925.

B. Management Contract

The Academy entered into a contract with Titus Group Inc on July 1, 2005 for a period of five years for a variety of services including, but not limited to, implementation and administration of the educational program, including the selection and acquisitions of instructional materials, equipment and supplies, administration of extra-curricular activities, management of all personnel and personnel functions, business and administration of the Academy, and installation of necessary technology.

The Academy shall pay an Annual Management Fee equal to 18% of gross receipts for the year in addition to an annual year-end fee of 50% of the audited excess of revenues over expenditures, if any. For the fiscal year ended June 30, 2007, this amount equaled \$107,548.

5. CONTINGENCIES

State Funding

The Ohio Department of Education conducts reviews of enrollment date and FTE calculations made by the schools. These reviews are conducted to ensure the schools are reporting accurate student enrollment data to the State, upon which state funding is calculated. The conclusions of this review could result in the state funding being adjusted. The Academy does not anticipate any material adjustment for fiscal year 2007, as a result of such review.

The Arts Academy West
Cuyahoga County
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2007

6. PURCHASED SERVICES/MANAGEMENT COMPANY EXPENSES

For the year ended June 30, 2007, purchased services expenses were payments for services rendered by various vendors as follows,

Management Service	477,837
Sponsor Fees	14,486
Other Prof. Tech. Serv.	3,111
Repair & Main-Equip & Fur	30
Main of School Vehicles	11
Facility Rent	153,231
Equipment Leasing	2,422
Telephone	2,806
Postage	106
Gas	51
Utilities	100
Student Transportation	<u>33,657</u>
	\$687,848

7. OPERATING LEASE

On October 12, 2005, The Academy entered into an operating lease for the period November 1, 2005 to October 31, 2007 with St. Wendelin Church for the use of the Academy's facility. Payment terms are \$8,000 per month due on the first day of each month. Rent expense for the fiscal year ended June 30, 2007 totaled \$65,200.

8. EMPLOYEE BENEFITS

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. The contribution rate is 6.2 percent of wages. As of June 30, 2008, all members elected Social Security.



Mary Taylor, CPA

Auditor of State

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

The Arts Academy West
Cuyahoga County
2259 Columbus Road
Cleveland, Ohio 44113

To the Board of Directors:

We have audited the basic financial statements of the Arts Academy West, Cuyahoga County, Ohio (the Academy) as of and for the year ended June 30, 2007, and have issued our report thereon dated February 24, 2010, wherein we noted the Academy failed to provide sufficient evidence to support accounts payable, expenses, Board of Director's minutes except for three meetings, and wherein we also noted misstated amounts on the Statement of Cash Flows, and failed to provide a complete set of notes to the financial statements and incurred an operating loss of \$96,626 for the year ended June 30, 2007 and accumulated a total net asset deficit of \$155,643 as of June 30, 2007. Except as regards accounts payable, expenses and evidence Board minutes might have provided, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

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

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Academy's ability to initiate, authorize, record, process, or report financial data reliably in accordance with its applicable accounting basis, such that there is more than a remote likelihood that the Academy's internal control will not prevent or detect a more-than-inconsequential financial statement misstatement.

We consider findings 2007-004 and 2007-005 and 2007-007 and 2007-008 described in the accompanying schedule of findings to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies resulting in more than a remote likelihood that the Academy's internal control will not prevent or detect a material financial statement misstatement.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and accordingly, would not necessarily disclose all significant deficiencies that are also material weaknesses. Of the significant deficiencies described above, we believe finding number 2007-005 is also a material weakness.

We also noted certain internal control matters that we reported to the Academy's management in a separate letter dated February 24, 2010.

Compliance and Other Matters

As part of reasonably assuring whether the Academy's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed instances of noncompliance or other matters that we must report under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 2007-001 through 2007-007.

The Academy's responses to the findings identified in our audit are described in the accompanying schedule of findings 2007-001 and 2007-002. We did not audit the Academy's responses and, accordingly, we express no opinion on them.

We also noted certain noncompliance or other matters not requiring inclusion in this report that we reported to the Academy's management in a separate letter dated February 24, 2010.

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



Mary Taylor, CPA
Auditor of State

February 24, 2010

**THE ARTS ACADEMY WEST
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS
FOR THE YEAR ENDED JUNE 30, 2007**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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FINDING NUMBER	2007-001
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Finding for Recovery

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

On August 15, 2006, check number 4007 in the amount of \$100.00 payable to the City of Cleveland for a speeding ticket was issued and authorized by Andre Street, Director of Fiscal Affairs for the Titus Group, Alexis Rainbow, Head of School, and Iris Meyers, Academic Dean.

In accordance with the foregoing facts, and pursuant to Ohio Revised Code Section 117.28, a Finding for Recovery for public monies illegally expended is hereby issued against Andre Street, Director of Fiscal Affairs for the Titus Group, and in favor of the Arts Academy West for a total of \$100.00

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

Accordingly, a Finding for Recovery for public monies improperly expended is hereby issued against Alexis Rainbow, Head of School, and Iris Meyers, Academic Dean, jointly and severally, in the amount of \$100 and in favor of the Arts Academy West to the extent that recovery is not obtained from Andre Street.

Client’s Response:

The ticket was issued against a school for a rental van, which was rented for the purpose of transportation for school activities, and operated by school staff in fiscal year 2006. The employee was reprimanded and terminated in relationship to this incident.

FINDING NUMBER	2007-002
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Finding for Recovery

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

**THE ARTS ACADEMY WEST
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS
FOR THE YEAR ENDED JUNE 30, 2007
(Continued)**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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FINDING NUMBER	2007-002
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Finding for Recovery (Continued)

The Academy has a debit card policy. In this policy, it states that the Head of School and the Director of Fiscal Affairs are responsible for the purchases made from this debit card. During fiscal year 2007, the Academy issued the following debit card transactions which were unsupported and the Academy did not provide supporting documentation for these payments.

1. On July 20, 2006, the Academy purchased items from Staples in the amount of \$117.81 which was unsupported and we could not determine the purpose of the expenditure.
2. On August 15, 2006, the Academy purchased items from Marathon Gas in the amount of \$35.91 which was unsupported and we could not determine the purpose of the expenditure.
3. On November 27, 2006, the Academy purchased items from Target in the amount of \$93.59 which was unsupported and we could not determine the purpose of the expenditure.
4. On December 7, 2006, the Academy purchased items from Expressions Flowers in the amount of \$21.24 which was unsupported and we could not determine the purpose of the expenditure.
5. On March 19, 2007, the Academy purchased items in the amount of \$21.00 from Wal-Mart which was unsupported and we could not determine the purpose of the expenditure.

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

In accordance with the foregoing facts and pursuant to Ohio Revise Code Section 117.28, a Finding for Recovery for public monies improperly expended is hereby issued against Andre Street, Director of Fiscal Affairs, and Alexis Rainbow, Head of School, jointly and severally, in the amount of \$289.55 and in favor of the Arts Academy West.

Client’s Response:

The Academy has moved twice in the past two years. Because of this, receipts could not be located. The receipts have been requested for replacement receipts from the vendors’ archives.

**THE ARTS ACADEMY WEST
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS
FOR THE YEAR ENDED JUNE 30, 2007
(Continued)**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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FINDING NUMBER	2007-003
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Five-Year Revenue and Expenditure Projection

Ohio Revised Code Section 3314.03(A)(15) states the Academy is required to prepare a financial plan detailing an estimated Academy budget for each year of the period of the contract and specify the total estimated per pupil expenditure amount for each such year. The plan shall specify the yearly base formula amount that will be used for purposes of funding calculations under section 3314.08 of the Ohio Revised Code. This base formula amount for any year shall not exceed the formula amount defined under section 3317.02 of the Revised Code.

Ohio Admin. Code Section 3301-92-04 (A) states that upon the adoption of an annual appropriation measure but no later than October thirty-first of each fiscal year, a board of education shall submit to the department of education a five-year projection of revenues and expenditures for the current fiscal year and the ensuing four fiscal years. Subsection (F) states that a board of education shall update its five-year projection between April first and May thirty-first of each fiscal year and submit it to the department of education.

There was no evidence provided of the development of a five year revenue and expenditure forecast by the Academy.

Without evidence of the updating of the forecast, the Board does not have the necessary information to develop a financial plan for the school year. It is also possible the Academy will authorize the expenditure of funds in excess of the estimated amount available.

We recommend the Academy review the requirements of the Ohio Revised Code Section 3314.03 and the Ohio Admin. Code Section 3301-92-04 and take the necessary steps to meet these requirements, including obtaining the approval of the governing board and reviewing the appropriateness of the amounts included in the estimated budget.

FINDING NUMBER	2007-004
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Developing and Implementing an Effective Monitoring Control System

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

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

**THE ARTS ACADEMY WEST
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS
FOR THE YEAR ENDED JUNE 30, 2007
(Continued)**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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FINDING NUMBER	2007-004
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Developing and Implementing an Effective Monitoring Control System (Continued)

Some effective monitoring controls include:

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

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

We recommend that management prepare monthly financial statements and submit them to the Board at each regularly scheduled meeting. The Board should then review these financial statements and when satisfied as to their accuracy approve them through the minute records. In addition, management should ensure that any reports required by the grantor agencies, per the terms of grant agreements, are completed accurately and filed with the respective grantor agencies in a timely manner. Management should also ensure that proper segregation of duties exists, including an independent review of the monthly bank reconciliations.

FINDING NUMBER	2007-005
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Condition of Accounting Records

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

**THE ARTS ACADEMY WEST
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS
FOR THE YEAR ENDED JUNE 30, 2007
(Continued)**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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FINDING NUMBER	2007-005
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Condition of Accounting Records (Continued)

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

- Support for accounts payable on the financial statements were not provided;
- The Academy did not provide support for six checks out of 34 (17.6%) tested. Due to lack of support, we were unable to determine whether these checks were for proper public purpose;
- The Academy did not provide support for eight out of 15 (53.3%) debit card transactions tested;
- During our testing of nonpayroll expenditures, 26 out of 34 checks (76.5%) had the wrong transaction date recorded in the general ledger; and
- Two out of 34 checks (5.9%) had the wrong amount recorded in the general ledger.

Management failed to provide support for the recorded accounts payable on the financial statements. We also noted the general ledger reported incorrect transaction dates for 76.5% of checks tested and reported incorrect amounts for 5.9% of disbursements tested.

The Academy management has available numerous sources of information describing the process of internal controls, recordkeeping requirements and reporting procedures. It is the responsibility of management to ensure that all responsible parties have access to this literature and training sessions.

FINDING NUMBER	2007-006
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Financial Report Filing

Ohio Revised Code Section 117.38 provides that each public office shall file a financial report for each fiscal year, within one hundred and fifty days for entities reporting on a GAAP basis. The Auditor of State may prescribe forms by rule or may issue guidelines, or both, for such reports. If the Auditor of State has not prescribed a rule regarding the form for the report, the public office shall submit its report on the form utilized by the public office. In part this report shall contain the following:

- Amount of collections and receipts, and accounts due from each source; and,
- Amount of expenditures for each purpose.

Ohio Administrative Code Section 117-2-03 (B) further clarifies the filing requirements of Ohio Revised Code Section 117.38. This section provides that all Academy districts, including educational service centers and community schools, shall file their annual financial reports pursuant to generally accepted accounting principles. Generally accepted accounting principles (GAAP) require the following:

- Balance sheet as prescribed by GAAP standards;
- Income and expense statement as prescribed by GAAP;
- Cash flow statement as prescribed by GAAP; and,
- Notes to the financial statements as prescribed by GAAP;

The Academy has not filed its financial statements for the year ended June 30, 2007.

**THE ARTS ACADEMY WEST
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS
FOR THE YEAR ENDED JUNE 30, 2007
(Continued)**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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FINDING NUMBER	2007-006
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Financial Report Filing (Continued)

We recommend the Academy organize its financial recordkeeping, develop tickler files as a reminder of filing dates and take all other steps necessary to file its financial statements within the prescribed time period. If these financial statements are not filed within the prescribed timetable the Academy may be assessed a late filing penalty.

FINDING NUMBER	2007-007
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Notice of Public Meetings

Ohio Revised Code Section 121.22 (C) states that all meetings of any public body are declared to be public meetings open to the public at all times. A member of a public body must be present in person at a meeting open to the public to be considered present or to vote and for determining whether a quorum is present. The minutes of a regular or special meeting of any such public body shall be promptly prepared, filed, and maintained and shall be open to public inspection. The minutes need only reflect the general subject matter of discussions in executive sessions authorized under division (G) or (J) of this section. Furthermore, this revised code section states that the minutes of a regular or special meeting of any public body shall be promptly prepared, filed, and maintained and shall be open to public inspection.

Ohio Revised Code Section 121.22 (F) states that every public body shall, by rule, establish a reasonable method whereby any person may determine the time and place of all regularly scheduled meetings and the time, place, and purpose of all special meetings. A public body shall not hold a special meeting unless it gives at least twenty-four hours advance notice to the news media that have requested notification, except in the event of any 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 Academy did not provide an open meeting and meeting notification policy, did not evidence the approval of Board Resolutions or motions made by the Board during those meetings, and there was no evidence of a public notice of the meetings. Furthermore, the Academy only provided to us evidence of three board meetings during the fiscal year.

We recommend the Academy 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. We also recommend the Board meet on a regular basis in order to stay apprised of financial matters of the Academy.

**THE ARTS ACADEMY WEST
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS
FOR THE YEAR ENDED JUNE 30, 2007
(Continued)**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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FINDING NUMBER	2007-008
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Note Disclosures Required by Generally Accepted Accounting Principles

Governmental Accounting and Financial Reporting Standards codification section 2300.106 states, the notes to the financial statements are essential to the fair presentation of the financial statements. They are intended to communicate information that is necessary and that cannot be included in the financial statements themselves. The notes provide necessary disclosure of material items, the omission of which would cause the financial statements to be misleading. The notes are an integral part of the financial statements and are intended to be read with the financial statements. The more significant notes are identified as follows:

- Summary of significant accounting policies;
- Budgeting;
- Receivables;
- Payables;
- Capital Assets;
- Definition of cash and cash equivalents used in the statement of cash flows;
- Policy regarding the use of FASB pronouncements;
- Cash deposits with financial institutions;
- Investment (if applicable);
- Purchased Services;
- Capital Leases;
- Non-Capital (Operating) Leases;
- Risk Management;
- Debt service requirements to maturity;
- Significant contingent liabilities;
- Significant effects of events subsequent to the balance sheet date; and
- Annual pension costs and obligations; and commitments under leases.

The above notes to the financial statements are not all inclusive and additional disclosures should be made if necessary. The Academy did not present a complete set of notes to the financial statements.

Note: No client responses were received for Finding Numbers 2007-003 to 2007-008.

**THE ARTS ACADEMY WEST
CUYAHOGA COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2007**

<u>Finding Number</u>	<u>Finding Summary</u>	<u>Fully Corrected?</u>	Not Corrected, Partially Corrected; Significantly Different Corrective Action Plan Taken; or Finding No Longer Valid; Explain:
2006-001	Financial Report Filing	No	Reissued as 2007-006
2006-002	Sponsor Contract – Uniform School Accounting System	Yes	
2006-003	Accurate Balances as of the Balance Sheet Date	Yes	



Mary Taylor, CPA
Auditor of State

THE ARTS ACADEMY WEST

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
MARCH 16, 2010