



**CLEVELAND ARTS AND SOCIAL SCIENCE ACADEMY
CUYAHOGA COUNTY**

REGULAR AUDIT

FOR THE YEAR ENDED JUNE 30, 2006



Mary Taylor, CPA
Auditor of State

**CLEVELAND ARTS AND SOCIAL SCIENCE ACADEMY
CUYAHOGA COUNTY
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Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

Cleveland Arts and Social Sciences Academy
Cuyahoga County
10701 Shaker Boulevard
Cleveland, Ohio 44120

We have audited the accompanying basic financial statements of the Cleveland Arts and Social Sciences Academy, Cuyahoga County, Ohio (the Academy), as of and for the year ended June 30, 2006, as listed in the table of contents. These financial statements are the responsibility of the Academy's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Cleveland Arts and Social Sciences Academy, Cuyahoga County, Ohio, as of June 30, 2006, 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 suffered an operating loss in the amount of \$454,005 and a net loss in the amount of \$233,163. Management's plan in regard to these matters is described in Note 18.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 9, 2008, 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's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information accounting principles generally accepted in the United States of America requires. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measuring and presenting the required supplementary information. However, we did not audit the information and express no opinion on it.

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

Mary Taylor, CPA
Auditor of State

June 9, 2008

**CLEVELAND ARTS AND SOCIAL SCIENCES ACADEMY
CUYAHOGA COUNTY**

*MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2006
UNAUDITED*

The discussion and analysis of the Cleveland Arts and Social Sciences Academy's (the "Academy") financial performance provides an overall review of the Academy's financial activities for the fiscal year ended June 30, 2006. While 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.

Highlights

The Academy finished its first year of operation during fiscal year 2006 serving kindergarten through fifth grade. Enrollment varied during the year but averaged 189 students.

Key highlights for fiscal year 2006 are as follows:

- Net assets decreased \$233,163 for the fiscal year.
- The Academy had an operating loss of \$454,005 for the fiscal year.

Overview of the Financial Statements

The financial report consists of three parts – the management discussion and analysis, the basic financial statements and the notes to the basic financial statements. These statements are organized so the reader can understand the financial position of the Academy. 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. The Statement of Net Assets represents the statement of position of the Academy. The Statement of Revenues, Expenses, and Changes in Net Assets present increases (e.g., revenues) and decreases (e.g. expenses) in net total assets. The Statement of Cash Flows reflects how the Academy finances and meets its cash flow needs. Finally, the Notes to the Basic Financial Statements provide additional information that is essential to full understanding of the data provided on the basic financial statements.

Financial Analysis of the Academy as a Whole

The Academy is not required to present government-wide financial statements as the Academy is engaged in only business-type activities. Therefore, no condensed financial information derived from the governmental-wide financial statements is included in the discussion and analysis.

**CLEVELAND ARTS AND SOCIAL SCIENCES ACADEMY
CUYAHOGA COUNTY**

*MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2006
UNAUDITED
(Continued)*

Table 1 provides a summary of Academy's net assets at the end of fiscal year 2006:

Table 1 Net Assets		2006
<u>Assets:</u>		
Current Assets		\$ 206,432
Capital Assets		179,238
Total Assets		385,670
<u>Liabilities:</u>		
Current Liabilities		503,426
Long-Term Liabilities		115,407
Total Liabilities		618,833
<u>Net Assets:</u>		
Invested in Capital Assets, Net of Related Debt		7,248
Unrestricted		(240,411)
Total Net Assets		\$ (233,163)

Table 2 reflects the changes in net assets for fiscal year 2006.

Table 2 Change in Net Assets		2006
<u>Operating Revenues:</u>		
Foundation		\$ 1,320,086
Charges for Services and Miscellaneous		8,921
<u>Non-Operating Revenues:</u>		
Federal/State Restricted Grants		220,842
Total Revenues		\$ 1,549,849
<u>Operating Expenses:</u>		
Building		107,374
Purchased Services		1,363,043
Depreciation		5,786
General Supplies		212,852
Other Operating Expense		93,957
Total Expenses		\$ 1,783,012
Total Increase (Decrease) in Net Assets		\$ (233,163)

**CLEVELAND ARTS AND SOCIAL SCIENCES ACADEMY
CUYAHOGA COUNTY**

*MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2006
UNAUDITED
(Continued)*

Total net assets decreased \$233,163 as a result of activities during fiscal year ending June 30, 2006. We anticipate that the Academy will have another decrease in net assets for fiscal year 2007 but anticipate an increase in net assets in fiscal year 2008 when the Academy expects to no longer share its facility with the Arts and Sciences Preparatory Academy and, as a result, will have room for increased enrollment. The initial loss is typical for a new Academy, most of which typically do not achieve positive net assets until the second or third year of operations due to significant start-up costs.

The cause of the decrease was the Board's desire to continue to offer programming that would be attractive to the families of the area and to offer services and student staff ratios necessary to accelerate learning of students faster than the traditional single grade level gains. The goal of this investment is to grow enrollment to be closer to the capacity of the facility at which point the Academy would generate surpluses on an annual basis sufficient to eliminate accumulated deficits. Based on the analysis that was done at the time the decision was made to open the school, the Board and its management made the decision to make an investment in the future of the children of this community, not based on a plan that was expected to generate large economic profits, but rather on a plan that is economically sustainable and that would generate dividends to the community in the form of enhanced opportunities for children and families. Resources for the necessary programs have been made available by delaying payment on invoices from the Academy's management company for management services, other operating expenses and invoices for leasing the Academy's staff.

Budgeting

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 by the Academy's contract with its sponsor. The contract between the Academy and its sponsor, Ohio Council of Community Schools, does not prescribe a budgetary process for the Academy.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2006, the Academy had \$179,238 invested in capital assets (net of accumulated depreciation) for computer and other equipment. The following table shows the activity for fiscal year 2006:

Capital Assets at June 30 (Net of Depreciation)

	<u>2006</u>
Furniture & Equipment	\$ 179,238

For further information regarding the Academy's capital assets, refer to Note 6 of the basic financial statements.

**CLEVELAND ARTS AND SOCIAL SCIENCES ACADEMY
CUYAHOGA COUNTY**

*MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2006
UNAUDITED
(Continued)*

Debt

At June 30, 2006, the Academy had \$171,990 of capital leases outstanding, of which \$56,583 is due within one year. The following outstanding table summarized the Academy's debt outstanding as of June 30, 2006.

Outstanding Debt, at Year End

	<u>2006</u>
Capital Leases Payable	\$ 171,990

For further information regarding the Academy's debt, refer to Note 13 to the basic financial statements.

Economic Factors

Management is not currently aware of any facts, decisions or conditions that have occurred that are expected to have a significant effect on financial position or results of operation.

Requests for Information

This financial report is designed to provide citizens, 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 any question concerning this report, please contact Michael Troper, Controller of the Cleveland Arts and Social Sciences Academy, 3333 Chippewa Street, Columbus, Ohio 43204.

**CLEVELAND ARTS AND SOCIAL SCIENCES ACADEMY
CUYAHOGA COUNTY**

**STATEMENT OF NET ASSETS
JUNE 30, 2006**

Assets:

Current assets:

Cash and Cash Equivalents	\$ 15,809
Accounts Receivable	41,993
Intergovernmental Receivable	140,130
Prepaid Expense	8,500
Total current assets	<u>206,432</u>

Noncurrent assets:

Capital Assets, net of Accumulated Depreciation	<u>179,238</u>
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Total assets

385,670

Liabilities:

Current liabilities:

Accounts Payable, Trade	100,685
Accounts Payable, Related Party	346,158
Current Portion of Long-term Debt	56,583
Total current liabilities	<u>503,426</u>

Noncurrent liabilities:

Noncurrent Portion of Long-term Debt	<u>115,407</u>
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Total liabilities

618,833

Net Assets

Invested in Capital Assets, Net of Related Debt	7,248
Restricted Net Assets	-
Unrestricted Net Assets	(240,411)
Total Net Assets	<u>\$ (233,163)</u>

See Accompanying Notes to the Basic Financial Statements

**CLEVELAND ARTS AND SOCIAL SCIENCES ACADEMY
CUYAHOGA COUNTY**

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2006**

Operating Revenues:	
Community School Foundation	\$ 1,320,086
Charge for Services	5,772
Miscellaneous	3,149
Total Operating Revenues	<u>1,329,007</u>
Operating Expenses:	
Building	107,374
Purchased Services	1,363,043
Depreciation	5,786
General Supplies	212,852
Other Operating Expenses	93,957
Total Operating Expenses	<u>1,783,012</u>
Operating Loss	<u>(454,005)</u>
Nonoperating Revenues and Expenses:	
Federal and State Restricted Grants	<u>220,842</u>
Net Nonoperating Revenues and Expenses	<u>220,842</u>
Change in Net Assets	(233,163)
Net Assets Beginning of Year	-
Net Assets End of Year	<u>\$ (233,163)</u>

See Accompanying Notes to the Basic Financial Statements

**CLEVELAND ARTS AND SOCIAL SCIENCES ACADEMY
CUYAHOGA COUNTY**

**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2006**

CASH FLOWS FROM OPERATING ACTIVITIES

Foundation Receipts	\$ 1,217,050
Charge for Services	5,772
Other Operating Receipts	6,149
Cash Payments to Suppliers for Goods and Services	(1,383,876)
Net Cash Used for Operating Activities	(154,905)

CASH FLOWS FROM INVESTMENT ACTIVITIES

Purchase of Assets	(185,024)
Net Cash Used for Investment Activities	(185,024)

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

Federal and State Grant Receipts	183,748
Net Cash Provided by Noncapital Financing Activities	183,748

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Capital Lease Proceeds	185,024
Capital Lease Principal Retirement	(13,034)
Net Cash Provided by Capital and Related Financing Activities	171,990

Net Increase in Cash and Cash Equivalents	15,809
Cash and Cash Equivalents - Beginning of the Year	-
Cash and Cash Equivalents - Ending of the Year	\$ 15,809

Reconciliation of Operating Loss to Net Cash Used for Operating Activities

Operating Loss	\$ (454,005)
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Adjustments to Reconcile Operating Loss to Net Cash Used for Operating Activities

Depreciation	5,786
Changes in assets and liabilities:	
Increase in Receivables	(145,029)
Increase in Prepaid Expense	(8,500)
Increase in Accounts Payable, Trade	100,685
Increase in Accounts Payable, Related Party	346,158
Net Cash Used for Operating Activities	\$ (154,905)

See Accompanying Notes to the Basic Financial Statements

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**CLEVELAND ARTS AND SOCIAL SCIENCES ACADEMY
CUYAHOGA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006**

Note 1 - Description of the School

The Cleveland Arts and Social Sciences Academy (the "Academy") is a nonprofit corporation established pursuant to Ohio Revised Code Chapter 1702. The Academy offers education for Ohio children in grades K-5. The Academy is independent of any school district and is nonsectarian in its programs, admission policies, employment practices, and all other operations. The Academy may lease or acquire facilities as needed and contract for any services necessary for the operation of the academy.

The Academy was approved for operation pursuant to Ohio Revised Code Chapter 3314 under a contract with Ohio Council of Community Schools (the Sponsor) for a period of three academic years commencing April 26, 2005 and ending June 30, 2009. The Sponsor is responsible for evaluating the performance of the Academy and has the authority to deny renewal of the contract at its expiration or terminate the contract prior to its expiration.

Ohio Revised Code Section 3314.02(E) states in part that the Academy operate under the direction of a Governing Board that consists of not less than five individuals who are not owners or employees, or immediate relatives or owners or employees of any for-profit firm that operates or manages the Academy for the Governing Board. The Board is responsible for carrying out the provisions of the contract that include, but are not limited to, state-mandated provisions regarding student population, curriculum, academic goals, performance standards, admission standards, and qualification of teachers.

The Academy contracts with Mosaica Education, Inc, for management services including management of personnel and human resources, the program of instruction, marketing data management, purchasing, strategic planning, public relation, financial reporting, recruiting, compliance issues, budgets, contracts, and equipment and facilities.

Note 2 - Summary of Significant Accounting Policies

The financial statements of the Academy have been prepared in conformity with generally accepted accounting principals (GAAP) as applied to governmental units. 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 entity has elected not to apply FASB pronouncements and interpretations issued after November 30, 1989. The more significant of the Academy's accounting policies are described below.

A. Basis of Presentation

The Academy's basic financial statements consist of a Statement of Net Assets; a Statement of Revenues, Expenses, and Changes in Net Assets; and a Statement of Cash Flows. The Academy uses a single enterprise presentation for its financial records. Enterprise reporting focuses on the determination of operating income, changes in net assets, financial position, and cash flows.

B. Measurement Focus

The enterprise activity is accounted for using a flow of economic resources measurement focus. All assets and liabilities associated with the operation of the Academy are included on the Statement of Net Assets. The Statement of Revenues, Expenses, and Changes in Net Assets presents increases (e.g. revenues) and decreases (e.g. expenses) in total net assets. The Statement of Cash Flows reflects how the Academy finances meet its cash flow needs.

**CLEVELAND ARTS AND SOCIAL SCIENCE ACADEMY
CUYAHOGA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006
(Continued)**

Note 2 - Summary of Significant Accounting Policies (Continued)

C. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. The Academy's financial statements are prepared using the accrual basis of accounting. 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. Revenue resulting from nonexchange transactions, in which the Academy receives value without directly giving equal value in return, such as grants and entitlements, are recognized in the period in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the period when the resources are required to be used or the period when use is first permitted, matching requirements, in which the Academy must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the Academy on a reimbursement basis. Expenses are recognized at the time they are incurred.

D. Budgetary Process

Unlike other public schools located in the State of Ohio, community schools are not required to follow budgetary provision set forth in the Ohio Revised Code Chapter 5705, unless specifically provided by the Academy's contract with its sponsor. The contract between the Academy and its sponsor, the Ohio Council of Community Schools, does not prescribe a budgetary process for the Academy.

E. Cash and Cash Equivalents

Cash received by the Academy is reflected as "Cash and Cash Equivalents" on the statement of net assets. The Academy had no investments during the fiscal year ended June 30, 2006.

F. Prepaid Items

The Academy records payments made to vendors for services that will benefit periods beyond June 30, 2006, as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expense is reported in the year in which services are consumed.

G. Capital Assets

The Academy's capital assets during fiscal year 2006 consisted of computers and other equipment. All capital assets are capitalized at cost and updated for additions and retirements during the fiscal year. Donated capital assets are recorded at their fair market values as of the date received. The Academy maintains a capitalization threshold of one thousand five hundred dollars. An exception to this threshold would be in the event the Academy purchases groups of similar assets financed by a multi-year capital lease financing arrangement at which time the group of assets, though each asset might be individually below the threshold, amounts to a significant capital outlay that would be capitalized and depreciated over the estimated useful life of each asset group. The Academy does not have any infrastructure. Improvements are capitalized. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized.

**CLEVELAND ARTS AND SOCIAL SCIENCE ACADEMY
CUYAHOGA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006
(Continued)**

Note 2 - Summary of Significant Accounting Policies (Continued)

All capital assets, except land and construction in progress, are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

<u>Description</u>	<u>Useful Lives</u>
Furniture, Fixtures, and Equipment	5-20 years

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 either through the enabling legislation adopted by the Academy or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. The Academy applies restricted resources first 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 activity of the Academy. Operating expenses are necessary costs incurred to provide the service that is the primary activity of the Academy. All revenues and expenses not meeting this definition are reported as non-operating.

J. Estimates

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

K. Economic Dependency

The Academy receives approximately 100% of its operating revenue from the Ohio Department of Education. Due to the significance of this revenue source, the Academy is considered to be economically dependent on the State of Ohio Department of Education.

Note 3 – Changes in Accounting Principles

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

GASB Statement No. 42 provides guidance on the accounting treatment and financial reporting requirements for impairments of capital assets and insurance recoveries. The implementation of this statement had no effect on the financial statements.

GASB Statement No. 47 establishes accounting standards for termination benefits. There was no effect on the financial statements.

**CLEVELAND ARTS AND SOCIAL SCIENCE ACADEMY
CUYAHOGA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006
(Continued)**

Note 4 - Deposits

At fiscal year end June 30, 2006, the carrying amount of the Academy's deposits was \$15,809 and the bank balance was \$20,796. Based on the criteria described in GASB Statement No. 40, "Deposit and Investment Risk Disclosure", there was no exposure to custodial risk as discussed below, while \$20,796 was covered by federal depository insurance.

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

Note 5 – Receivables

At June 30, 2006, the Academy had intergovernmental receivables, in the amount of \$140,130. The receivables are expected to be collected within one year.

	Amount
National School Lunch Programs	\$37,094
State Foundation Funding Adjustment	103,036
Total Intergovernmental Receivables	\$140,130

Note 6 - Capital Assets

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

	Balance June 30, 2005	Additions	Deletions	Balance June 30, 2006
Furniture & Equipment	\$0	\$185,024	\$0	\$185,024
Less Accumulated Depreciation	-	(5,786)	-	(5,786)
Capital Assets, Net	\$ -	\$ 179,238	\$ -	\$ 179,238

**CLEVELAND ARTS AND SOCIAL SCIENCE ACADEMY
CUYAHOGA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006
(Continued)**

Note 7 - Risk Management

A. Property and Liability

The Academy is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2006, the Academy contracted with Pashley Insurance Agency for insurance coverage with the Hartford Casualty Insurance Company. The types and amounts of coverage provided are as follows:

General Liability:		
Each Occurrence	\$	1,000,000
Aggregate Limit		2,000,000
Products - Completed Operations Aggregate Limit		2,000,000
Medical Expense Limit - Any One Person/Occurrence		10,000
Damage to Rented Premises - Each Occurrence		300,000
Personal and Advertising Injury		1,000,000
Automobile Liability:		
Combined Single Limit		1,000,000
Business Personal Property		484,100
Excess/Umbrella Liability:		
Each Occurrence		3,000,000
Aggregate Limit		3,000,000

Settled claims have not exceeded this commercial coverage and there has been no significant reduction in insurance coverage throughout the year.

B. Workers' Compensation

The Academy pays the State Workers' Compensation System a premium for employee injury coverage exposure. The premium is calculated by multiplying the monthly gross total payroll by a factor that is calculated by the State.

C. Employee Medical, Dental and Vision Benefits

The Academy has contracted with a private carrier to provide employee health insurance benefits. The Academy pays 100% of the medical, dental and vision premiums for the employee only; additional coverage for employee's dependents is made available at cost to the employee should they elect this option.

**CLEVELAND ARTS AND SOCIAL SCIENCE ACADEMY
CUYAHOGA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006
(Continued)**

Note 8 – Purchased Services

For the fiscal year ended June 30, 2006, purchased service expenses were as follows:

Service	Amount
Personnel	\$ 795,346
Taxes and Benefits Related to Personnel Cost	212,744
Building/Custodial	35,370
Advertising	12,037
Printing & Publishing	12,948
Legal Fees	10,750
Management Fee	173,734
Special Education/Nursing	41,158
Sponsor Fee	25,163
Training	4,177
Temporary Services	561
Consulting Fees	7,665
Miscellaneous	31,390
Total	<u>\$ 1,363,043</u>

Note 9 – Defined Benefit Pension Plans

The Academy has contracted with Mosaica Education, Inc. to provide employee services. However, these contracted services do not relieve the Academy of the obligation for remitting pension contributions. The retirement system considers the Academy as the Employer-of-Record and the Academy is ultimately responsible for remitting retirement contributions to each of the systems noted below.

A. School Employees Retirement System

The Academy contributes to the School Employees Retirement System (SERS), a cost-sharing multiple-employer defined benefit pension plan administered by the School Employees Retirement Board. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746, by calling (800) 878-5853 or by visiting the SERS website at ohsers.org.

Plan members are required to contribute 10 percent of their annual covered salary and the Academy is required to contribute at an actuarially determined rate. The current Academy rate is 14 percent of annual covered payroll. A portion of the Academy's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2006, 10.58 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The Academy's required contributions for pension obligations to SERS for the fiscal year ended June 30, 2006 was \$16,616; 100 percent has been contributed for fiscal year 2006.

**CLEVELAND ARTS AND SOCIAL SCIENCE ACADEMY
CUYAHOGA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006
(Continued)**

Note 9 – Defined Benefit Pension Plans (Continued)

B. State Teachers Retirement System of Ohio

The Academy participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement system. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3371, by calling (614) 227-4090, or by visiting the STRS Ohio web site at www.strsoh.org.

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds 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 Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan. Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one time irrevocable decision to transfer their account balances from the existing DB Plan into the DC Plan or the Combined Plan. This option expired on December 31, 2001. Benefits are established by Chapter 3307 of the Ohio Revised Code.

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

For the fiscal year ended June 30, 2006, plan members were required to contribute 10 percent of their annual covered salaries. The Academy was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The Academy's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2006, was \$83,169; 100 percent has been contributed for the fiscal year ended June 30, 2006. No employees contribute to the DCP and CP for the fiscal year ended June 30, 2006.

**CLEVELAND ARTS AND SOCIAL SCIENCE ACADEMY
CUYAHOGA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006
(Continued)**

Note 10 – Postemployment Benefits

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

All STRS Ohio retirees who participated in the DB or Combined Plans and their dependents are eligible for health care coverage. The STRS Ohio Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. All benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS Ohio funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2006, the STRS Ohio Board allocated employer contributions equal to one percent of covered payroll to the Health Care Stabilization Fund. For the Academy, this amount equaled \$6,397 for fiscal year 2006.

STRS Ohio pays health care benefits from the Health Care Stabilization Fund. At June 30, 2006, the balance in the Fund was \$3.5 billion. For the fiscal year ended June 30, 2006, net health care costs paid by STRS Ohio were \$282,743,000 and STRS Ohio had 119,184 eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten or more years of qualifying service credit, and to disability and survivor benefit recipients. All retirees and beneficiaries are required to pay a portion of their health care premium. The portion is based on years of service, Medicare eligibility, and retirement status.

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2006, employer contributions to fund health care benefits were 3.42 percent of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2006, the minimum pay was established at \$35,800. However, the surcharge is capped at two percent of each employer's SERS salaries. For the Academy, the amount contributed to fund health care benefits, including the surcharge, during the 2006 fiscal year equaled \$10,536.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of the projected claims less premium contributions for the next fiscal year. Expenses for health care for the fiscal year ended June 30, 2006 were \$158,751,207. At June 30, 2006, SERS had net assets available for payment of health care benefits of \$295.6 million. SERS has 59,492 participants eligible to receive health care benefits.

**CLEVELAND ARTS AND SOCIAL SCIENCE ACADEMY
CUYAHOGA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006
(Continued)**

Note 11 - Contingencies

A. Grants

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

B. Litigation

A suit, *Beverly Blount-Hill, et al. v. State of Ohio, et al., Case #3:04CV197*, was filed in the US District Court, Southern District of Ohio, Western Division on October 6, 2004, which challenges the funding of charter schools under Equal Protection, Due Process and claims violation of a right to vote on the bodies administering public schools. The case is still pending. The effect of this suit, if any, on the Academy is not presently determinable.

The Academy is a party to legal proceedings seeking damages or injunctive relief generally incidental to its operation and pending projects. The Academy management is of the opinion that the ultimate disposition of various claims and legal proceedings will not have a material effect, if any, on the financial condition of the Academy.

Note 12 – Building Leases

The Academy has entered into a sublease for the period from August 15, 2005 through June 30, 2007 with CAC Building Properties for the use of the main building and grounds as a school facility. Rent charges and allowable facility cost passthroughs totaled \$107,374 for the fiscal year. Minimum rent obligations total \$97,200, excluding rent for optional square footage, for fiscal year 2007.

Note 13 – Long-Term Obligations

Changes in the Academy's long-term obligations during fiscal year 2006 were as follows:

	<u>Balance</u> <u>6/30/2005</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>6/30/2006</u>	<u>Amount Due</u> <u>Within One</u> <u>Year</u>
Capital Leases Payable	\$ -	\$ 185,024	\$ (13,034)	\$ 171,990	\$ 56,583

**CLEVELAND ARTS AND SOCIAL SCIENCE ACADEMY
CUYAHOGA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006
(Continued)**

Note 14 – Capital Lease-Lessee Disclosure

The Academy has entered into capitalized leases for the use of computer equipment and furniture. Each lease meets the criteria of a capital lease as defined by Statement of Financial Accounting Standards No. 13, "Accounting for Leases", which defines a capital lease generally as one which transfers benefits and risk of ownership to the lessee. Principal payments in 2006 were \$13,034.

	Amount
Property under Capital Lease	\$ 185,024
Less Accumulated Depreciation	(5,786)
Total June 30, 2006	\$ 179,238

The following is a schedule of the future long-term minimum lease payments required under the capital lease and the present value of the minimum lease payments as of June 30, 2006.

Capital Lease		
Fiscal Year Ending June 30	Principal	Interest
2007	\$ 56,583	\$ 19,191
2008	64,434	11,340
2009	50,973	2,699
Total	\$ 171,990	\$ 33,230

Note 15 –Tax Exempt Status.

The Academy has filed for its tax-exempt status under Section 501(c)(3) of the Internal Revenue Code. The Academy has made no provision for any potential tax liability resulting from not obtaining the Section 501(c)(3) tax-exempt status.

Note 16 – Related Party Transactions/Management Company

The Academy shares a common Governing Board with Arts and Sciences Preparatory Academy. During 2006, the Academy utilized vacant classrooms in the Arts and Sciences Preparatory Academy facility and paid a proportionate share of the cost of the lease directly to Arts and Sciences Preparatory Academy's landlord, CAC Building Properties. The facility rent and facility cost passthroughs paid in addition to the building rent paid by the Academy for 2006 amounted to \$20,847. Arts and Sciences Preparatory Academy also split administrative costs with the Academy based on the number of students enrolled at each Academy. Total shared costs for 2006 were \$35,219. At June 30, 2006, The Academy was owed \$35,219 from Arts and Sciences Preparatory Academy.

**CLEVELAND ARTS AND SOCIAL SCIENCE ACADEMY
CUYAHOGA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006
(Continued)**

Note 16 – Related Party Transactions/Management Company (Continued)

The Academy contracts with Mosaica Education, Inc. for variety of services including management of personnel and human resources, board relations, financial management, marketing, technology services, the program of instruction, purchasing, strategic planning, public relations, financial reporting, recruiting, compliance issues, budgets, contracts, and equipment and facilities. Financial management services include, but are not limited to, financial statement, budget preparation, accounts payable, and payroll preparation.

Per the management agreement with the Academy, Mosaica Education, Inc. is entitled to a management fee that is equivalent to 12.5% of Academy revenue. The management fee for fiscal year 2006 was \$173,734.

At June 30, 2006, the Academy had payables to Mosaica Education, Inc. in the amount of \$346,158. The following is a schedule of payables to Mosaica Education, Inc.

	<u>Amount</u>
Payroll	\$ 284,787
Building Rent and Tax Passthrough	8,500
Management Fees	37,917
Miscellaneous	<u>14,954</u>
Total June 30, 2006	<u><u>\$ 346,158</u></u>

Note 17 – Sponsor

The Academy was approved for operation under a contract with the Ohio Council of Community Schools Council (the Sponsor) for a period of three academic years commencing April 26, 2005. As part of this contract, the Sponsor is entitled to a maximum of three percent of all revenues. As enrollment reaches certain benchmarks, the Sponsor fee reduces to two or even one percent. Total amount paid for fiscal year 2006 was \$25,163.

Note 18 – Management’s Plan

For fiscal year 2006, the Academy had an operating loss of \$454,005, a net loss of \$233,163, and net asset deficit of \$233,163. The Academy will have another net loss in fiscal year 2007, but the losses are expected to begin decreasing as enrollment increases. Management plans to relocate the Academy in fiscal year 2008 and operate with expanded grade levels. Once the enrollment levels increase, it should allow the school to reduce its operating losses and begin reducing the cumulative net deficit.

Management plans to increase enrollment through active advertising via print, radio, mailings and through referrals of current parents which will help reduce future deficits and operating losses. The Academy’s reconciled cash balance at May 31, 2008 was \$15,771. ADM enrollment was 78 and for the 2007-08 fiscal years the decrease in net assets totaled \$262,017.

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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*

Cleveland Arts and Social Sciences Academy
Cuyahoga County
10701 Shaker Boulevard
Cleveland, Ohio 44120

We have audited the basic financial statements of the Cleveland Arts and Social Sciences Academy, Cuyahoga County, Ohio (the Academy) as of and for the year ended June 30, 2006 and have issued our report thereon dated June 9, 2008, wherein we noted the Academy experienced certain financial difficulties. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and standards applicable to financial audits contained in the Controller 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 to determine our auditing procedures in order to express our opinion on the basic financial statements and not to opine on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Academy's ability to record, process, summarize, and report financial data consistent with management's assertions in the financial statements. A reportable condition is described in the accompanying schedule of findings as item 2006-005.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered material weaknesses. We consider reportable condition 2006-005 listed above to be a material weakness. In a separate letter to the Academy's management dated June 9, 2008, we reported other matters involving internal control over financial reporting we did not deem reportable conditions.

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 2006-001 through 2006-004. In a separate letter to the Academy's management dated June 9, 2008, we reported other matters related to noncompliance we deemed immaterial.

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

A handwritten signature in cursive script that reads "Mary Taylor".

Mary Taylor, CPA
Auditor of State

June 9, 2008

**CLEVELAND ARTS AND SOCIAL SCIENCES ACADEMY
CUYAHOGA COUNTY
FOR THE YEAR ENDED JUNE 30, 2006**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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FINDING NUMBER	2006-001
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Finding for Recovery Repaid Under Audit

On February 7, 2006 the employment of Julie Berdysz, Teacher at the Academy was terminated. Based on the salary records her termination date was February 7, 2006 and no provisions were made for a severance package to be paid beyond the termination date. Julie Berdysz continued to receive pay checks until March 31, 2006. The overpayment was in the amount of \$4,550.

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 the expenditure. *Stewart v National Surety Corp.* 120 Ohio St. 47 (1929); 1980 Op. Atty. Gen. No. 80-074; Ohio Rev. Code Section 9.39; *State ex. Rel. Village of Linndale v. Maston*, 18 Ohio St.3d 228 (1985). Public officials controlling public funds or property are secondarily liable for the loss incurred should 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 restriction or restitution is not obtained from the person who unlawfully obtained such funds or property. 1980 Op. ATTY. Gen. No. 80-074.

According to the Academy's Policy and Procedure Number 5, Section Payroll, the Chief Administrative Officer and the Regional Vice President are required to sign off on all personnel and payroll related items on a Personnel Action Form (PAF). However, Former Regional Vice President, Sam Penceal, did not sign the PAF terminating Ms. Berdysz's employment, nor did Ms. Berdysz sign the PAF. We recommend that all applicable officials sign each PAF in accordance with the Academy's Policy and Procedure Number 5, Section Payroll.

In accordance with the foregoing facts and pursuant to Ohio Revised Code 117.28 a Finding for Recovery for public monies improperly expended is hereby issued against Julie Berdysz, Teacher, Ruth Addis, Chief Administrative Officer, and Sam Penceal, Regional Vice President, jointly and severally, in the amount of \$4,550 and in favor of the Cleveland Arts and Social Science Academy.

This Finding for Recovery was repaid under audit by Mosaica Education, Inc. on May 16, 2008.

Officials' Response:

The incident occurred because the payroll department was not notified of the termination in a timely manner and the Personnel Action Form was submitted only when payroll discovered that Ms. Berdysz had been terminated. In order to expedite recovery by the Academy Board, the management company has voluntarily funded this finding for recovery in the amount of \$4,550. Documentation of the recovery was sent to the Auditor of State.

**CLEVELAND ARTS AND SOCIAL SCIENCES ACADEMY
CUYAHOGA COUNTY
FOR THE YEAR ENDED JUNE 30, 2006**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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FINDING NUMBER	2006-002
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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.

The Academy did not file its financial statements for the year ended June 30, 2006 until May 27, 2007.

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.

Officials' Response:

Originally, Mike Troper, Treasurer for the Academy, filed basic financial statements (no footnotes) with the Auditor of State on 11/20/06, within the time required by Ohio Revised Code Section 117.38 (<http://codes.ohio.gov/orc/117.38> and <http://codes.ohio.gov/orc117.41>). Based on management's read of Section 117.38 there didn't appear to be any requirements to provide full disclosure GAAP financials and management was comfortable with that understanding because the Columbus Auditor of State group that had done the audits for 3 Columbus Schools for 2004-05 accepted the same information in November 2005 and didn't identify the schools as unauditible. Evidentially , the Cleveland Auditor of State group had different requirements than what the Columbus Auditor of State group had used up to the time that the Academy's basic financial statements were filed with Auditor of State on 11/20/06. The Academy's Treasurer doesn't recall any communication from the Auditor of State regarding the different requirements and management believed it had met the reporting requirements up until the Academy received the Unauditible Status letter generated by the Auditor of State. Within 15 days of receiving the Unauditible Status Letters, management had submitted the footnotes and GAAP financials for the Academy that the Auditor of State requested in the Unauditible Status Letter. The auditors were informed that the workpaper schedules management had prepared for the auditors, contracts, invoice copies and all other supporting documentation were available and had been available for them to review. The Auditor of State was out to the Academy's finance office the week of 6/4/07 to review the supporting letters. The Auditor of State took all the supporting documentation, invoices, our workpapers, etc back to their office in Cleveland. On 6/20/2007, the Auditor of State notified us that they had determined that the support they collected was what they needed to perform the audit.

Management now has a clear understanding of what is required and for the year ended 6/30/07, has submitted the required reporting within the timeframe required by the Audit of State.

Auditors' Response:

AOS Bulletin 2006-002 states the AOS will require complete filings beginning with the statements for calendar year 2005 for cities and counties and with the statements for fiscal year 2006 for schools.

**CLEVELAND ARTS AND SOCIAL SCIENCES ACADEMY
CUYAHOGA COUNTY
FOR THE YEAR ENDED JUNE 30, 2006**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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FINDING NUMBER	2006-003
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Books, Records of Accounts, and Minutes

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

The Academy did not make available the minute records of the Board of Trustees, proof of Board support of the actions of the management company, and support of the Board approval of employee related transactions. In the absence of the Board minute records it is possible the directives or financial decisions of the Board may not be followed or be misinterpreted.

We recommend the Academy maintain financial records which are complete and based on the decisions of the Board of Trustees.

Officials' Response:

Due to significant turnover in Academy leadership at the end of the Academy's first year of operations, official minutes of the meetings of the Academy's Board of Trustees could not be located at the Academy's site. Those minutes contained documentation of Board actions. Official minutes have since been maintained at the Academy's site. Those official minutes now contain the finance reports including statement of net assets, budget to actual revenue and expense reports, bank reconciliations, transaction lists, aged payables listing and copies of management company invoices and accompanying support.

FINDING NUMBER	2006-004
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Governing Board Membership

Ohio Rev. Code §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 §3314.02 (E) provides in part for a Governing Board of at least five members.

Contrary to Ohio Rev. Code §3314.02 (E), the Academy did not have at least five members on the Board during fiscal year 2006.

We recommend the Academy and Sponsor take the necessary steps to increase the membership of the Governing Authority to the required number of members.

Officials' Response:

The membership of the Governing Board of the Academy had been increased to meet the minimum requirements of the Ohio Revised Code.

**CLEVELAND ARTS AND SOCIAL SCIENCES ACADEMY
CUYAHOGA COUNTY
FOR THE YEAR ENDED JUNE 30, 2006**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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FINDING NUMBER	2006-005
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Development and Implementation of Payroll Processing Procedures

Mosaica Education Incorporated developed payroll policies and procedures to be followed during the payroll process at the Academy. Based on a review of these policies we noted the following:

- Approval signatures of the Regional Vice President, (RVP), Chief Administrative Officer, (CAO), or their designees were type written on the Excel spreadsheet used to record the time worked by the school employees. We were unable to verify the validity of who approved the payroll;
- Personnel Action Forms (PAF's) were not always signed by the RVP, CAO, and employee as required by the payroll policies and procedures. Consequently; changes were made to the payroll master file without the required authorizations;
- Payroll records provided by the controller were incomplete;
- The Automated Data Processing (ADP) reports of payroll changes, by pay period and authorizing PAF's were not signed by the Assistant Controller as required;
- We were unable to locate evidence the Assistant Controller signed the payroll register to authenticate the reconciliation of the payroll to the general ledger;
- The Academy was not able to locate the sign in sheets/time sheets used for reporting payroll for the hourly employees;
- Payrolls for the period April 1, 2006 through June 30, 2006 were processed and approved by the same individual;
- Payroll Policies and Procedures, under the school procedures section, require the CAO and RVP approve the time sheets before they are submitted. We could not locate the approval of the RVP; and
- Employees were allowed to work at additional positions prior to the approval and filing of the PAF's. When these documents were filed the employees received compensation for all additional hours worked.

Without the timely filing of properly completed forms, as outlined in the payroll policies and procedures, errors and omissions could occur and not be detected.

We recommend the following:

- Digital signatures be used to record approval signatures to payroll spreadsheets;
- A designated individual be responsible for ensuring all required signatures are on the Personnel Action Forms. Changes to the payroll standing data, based on the provisions of the policy and procedures for payroll, should not be made until all required signatures are on the form;

**CLEVELAND ARTS AND SOCIAL SCIENCES ACADEMY
CUYAHOGA COUNTY
FOR THE YEAR ENDED JUNE 30, 2006**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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FINDING NUMBER	2006-005
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Development and Implementation of Payroll Processing Procedures (Opinion)

- To authenticate the payroll charges of hourly employees all sign in sheets should be filed and safeguarded. When completed the sign in sheets should be signed and dated by the responsible individual and secured as evidence of the accuracy of the payroll spreadsheets prepared;
- Complete payroll records should be maintained by the controller. Based on inquiry of the payroll officer all PAF's are forwarded to the controller when complete. Without a complete set of PAF forms the controller cannot attest to the accuracy of the semi-monthly payroll;
- ADP payroll reports and PAF's should be signed by the assistant controller to verify the accuracy of the posting to the payroll files;
- The CAO or the RVP of the Academy should institute procedures to help ensure the same individual is not preparing the payroll and approving the payroll;
- Prior to processing the payroll, the employees in the payroll department should ensure the appropriate signatures are affixed to the spreadsheets; and
- Employees should only be allowed to work additional or extra hours after the necessary approvals have been received.

Although the Board contracted with Mosaica Education, Inc. for the management of the Academy, the Board should review the payroll process and the final payroll amount to help verify the accuracy of the amount paid. In addition, the Board should participate in setting annual salaries and hourly wages of the employees.

Officials' Response:

In response to the Auditor of State recommendations:

- Management has been having the Chief Administrative Officer forward the payroll spreadsheet with their approval of the information being submitted prior to payroll being processed. Since the payroll spreadsheets are excel files that are used for uploading pay information to ADP, management cannot use paper copies.
- The payroll accountant monitors PAFs to ensure that the required signatures are obtained prior to processing for entry into the payroll system.
- Sign in sheets that were unable to be located from the first year of operations are still missing. Site personnel are now maintaining hourly personnel time sheets and sign in logs in the administrative office.
- In the past, PAFs were submitted to the accounting office immediately upon receipt. Management has changed the procedure and payroll is submitting PAFs to accounting after the necessary salary proration calculations have been completed. That way, instead of having PAFs being released prior to accuracy verification and approval verification, the PAFs maintained in accounting match the final PAFs that are processed in payroll.
- The original journal postings maintained in accounting include the name of the accountant that posted the payroll to the accounting records.
- The procedures that have been in place from the start of the Academy do not permit access to ADP software for anyone outside the payroll department. Accordingly, it is not

**CLEVELAND ARTS AND SOCIAL SCIENCES ACADEMY
CUYAHOGA COUNTY
FOR THE YEAR ENDED JUNE 30, 2006**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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possible for the site staff that prepare the payroll spreadsheets to also process payroll in ADP.

FINDING NUMBER	2006-005
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Officials' Response (Continued):

- As noted in the first recommendation response, prior to the payroll department processing payroll, they receive an e-mail verification that the Chief Administrative Officer has reviewed and approves the payroll spreadsheets as submitted.
- Management agrees that PAFs should be approved and submitted to the payroll department in a timely manner so that personnel are not performing extra duty services with the expectation of compensation without written agreements clearly communicating the agreed upon pay and approval hours.



Mary Taylor, CPA
Auditor of State

CLEVELAND ARTS AND SOCIAL SCIENCES ACADEMY

CUYAHOGA COUNTY

CLERK'S CERTIFICATION

This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
JUNE 24, 2008**