



Mary Taylor, CPA
Auditor of State

**ARTS ACADEMY WEST
CUYAHOGA COUNTY**

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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 Trustees:

We were engaged to audit the accompanying basic financial statements of the Arts Academy West, 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.

The Academy was unable to present accounting system reports to support the amounts presented on the accompanying financial statements. Also, the Academy was unable to present evidential matter to support any of its transactions or balances for the year ended June 30, 2006.

The accompanying financial statements omit all note disclosures required by generally accepted accounting principals.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated April 15, 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.

The Arts Academy West
Cuyahoga County
Independent Accountants' Report
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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 require. The Management Discussion and Analysis omitted the financial highlights and required overview of the financial statements. Since we were unable to express an opinion on the basic financial statements, we could not apply certain limited procedures to the required supplementary information. We did not audit the information and express no opinion on it.

The Academy suffered an operating loss in the amount of \$84,828 and a net loss in the amount of \$84,828. Management did not present a plan to address the situation.

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

Mary Taylor, CPA
Auditor of State

April 15, 2008

Cuyahoga County
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2006
Unaudited

Net Assets

	<u>2006</u>
Current Assets	2,589
Total Assets	<u>2,589</u>
Current Liabilities	87,417
Total Liabilities	<u>87,417</u>
Net Assets:	
Unrestricted	(84,828)
Total Net Assets	<u>\$ (84,828)</u>

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 (\$84,828) at June 30, 2006 primarily because this was the first full year of operations. Management intends to participate in various federal and state grants in future years to provide additional revenue.

Changes in Net Assets

	<u>2006</u>
Operating Revenues:	
Sales	\$ 7,053
Foundation Payments	218,054
Other Operating Revenues	2,716
Total Revenues	<u>\$ 227,823</u>
Operating Expenses:	
Salaries & Wages	
Fringe Benefits	
Purchased Services	\$ 298,277
Materials & Supplies	14,106
Miscellaneous	268
Total Expenses	<u>\$ 312,651</u>
Change in Net Assets	<u>\$ (84,828)</u>

For the year ended June 30, 2006, foundation payments accounted for 95.7% of total revenues.

Purchased services accounted for 95.4% 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 8 of the notes to the financial statements for a more detailed accounting of the services provided by the management company on behalf of the Academy.

The Academy had a negative change in Net Assets of (\$84,828) for the fiscal year ended June

Cuyahoga County
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2006
Unaudited

30, 2006, primarily due to this being the first year of operations. 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 first challenge 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 second challenge facing the Academy is the future of state funding. On October 4, 2004, a suit was filed in the US District Court, Southern District of Ohio, Western Division, 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 pending. The Academy is unable to determine what effect, if any, this decision will have on future funding from the State.

Contacting 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 Alexis Rainbow, Chief Executive Officer of the Arts Academy West, 2259 Columbus Road, Cleveland, OH 44113.

**The Arts Academy West
Cuyahoga County
Statement of Net Assets
as of June 30, 2006**

Assets

Current Assets

Cash and Investments	\$ 972
Receivable - Federal	0
Total Current Assets	<u>2,589</u>

Non-Current Assets

Capital assets (Net of Accumulated Depreciation)	0
	<u>0</u>

Total Assets	<u>\$ 2,589</u>
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Liabilities

Current Liabilities

Accounts Payable	\$ 87,417
Total Current Liabilities	<u>87,417</u>

Total Liabilities	<u>87,417</u>
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Net Assets

Invested in Capital Assets, Net of related Debt	0
Unrestricted	(84,828)
Total Net Assets	<u>(84,828)</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 Fund Net Assets
for the Fiscal Year ended June 30, 2006

Operating Revenues	
Sales	\$ 7,053
Foundation Payments	218,054
Other Operating Revenues	<u>2,716</u>
Total Operating Revenues	<u>227,823</u>
Operating Expenses	
Salaries & Wages	0
Fringe Benefits	0
Purchased Services	298,277
Materials & Supplies	14,106
Depreciation	0
Miscellaneous	<u>268</u>
Total Operating Expenses	<u>312,651</u>
Operating Income	(84,828)
Non-Operating Revenues and (Expenses)	
Interest Earnings	0
State subsidies	0
Federal subsidies	<u>0</u>
Total Non-Operating Revenues and (Expenses)	<u>0</u>
Net Income	(84,828)
Net Assets Beginning of Year	-
Net Assets End of Year	<u>\$ (84,828)</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, 2006

Cash Flows from Operating Activities	
Cash received from sales	\$ 7,053
Cash received from Foundation Payments	218,054
Cash received from Other Operating Revenues	2,716
Cash payments for personal services	0
Cash payments for contract services	(212,477)
Cash payments for supplies and materials	(14,106)
Cash payments for Miscellaneous	(268)
Net Cash Provided By/(Used for) Operating Activities	<u>972</u>
Net increase in cash and cash equivalents :	972
Cash and cash equivalents at beginning of year	•
Cash and cash equivalents at end of year	<u>\$ 972</u>
Reconciliation of Operating Income to Net Cash Provided By (Used for) Operating Activities	
Operating Income	(84,826)
Adjustments to Reconcile Operating Income to Net Cash Provided by (Used for) Operating Activities	
Changes in Assets and Liabilities:	
Accounts Receivable	(1,617)
Accounts Payable	87,417
Total Adjustments	<u>85,800</u>
Net cash provided (used) by operating activities	<u>\$ 972</u>

The accompanying Notes are an integral part of the Financial Statements

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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

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

We were engaged to audit the basic financial statements of the Arts Academy West, Cuyahoga County, Ohio (the Academy) as of and for the year ended June 30, 2006 and have issued our report thereon dated April 15, 2008. Our report indicated that due to the Academy's inability to provide accounting system reports, evidential matter to support any of its transactions, and the Academy did not submit the required note disclosures therefore; we did not express an opinion on the financial statements.

Internal Control Over Financial Reporting

In planning and performing our engagement, we considered the Academy's internal control over financial reporting to determine our auditing procedures in order to express our opinion on the financial statements and not to opine on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider a reportable condition. 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. The reportable condition is described in the accompanying schedule of findings as item 2006-003.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements which, we were engaged to audit, may occur and not be timely detected by employees when performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered material weaknesses. We consider the reportable condition 2006-003 listed above to be a material weakness.

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 engagement to audit and, accordingly, we do not express an opinion. The results of our tests disclosed instances of noncompliance or other matters we must report under *Government Auditing Standards* which are described in the accompanying schedule of findings and questioned costs as items 2006-001 through 2006-002.

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

April 15, 2008

**THE ARTS ACADEMY WEST
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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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 school 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:

- Management's Discussion and Analysis;
- 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 did not file its financial statements for the year ended June 30, 2006.

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	2006-002
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Sponsor Contract – Uniform School Accounting System

The contract between the Arts Academy West and its sponsor, the Ache Culture Center, requires the Academy to follow the provisions of Ohio Revised Code Section 3301.0714. This section provides for the Ohio Department of Education (ODE) to establish guidelines for a statewide Education Management Information System (EMIS). In response to the legislative mandate, ODE adopted the rule for school districts requiring the development and implementation of a statewide EMIS. Included within the EMIS system is The Uniform School Accounting System (USAS) structure involves an account number with distinct dimensions.

**THE ARTS ACADEMY WEST
CUYAHOGA COUNTY
FOR THE YEAR ENDED JUNE 30, 2006**

(Continued)

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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Sponsor Contract - Uniform School Accounting System (USAS) (Continued)

The Uniform School Accounting System was developed to aid schools in maintaining financial records at specified minimum levels of detail.

The Academy did not present financial records consequently, we were unable to determine if the Academy was compliant with the requirement of the USAS system.

We recommend the Academy review these requirements and adhere to them as necessary in the future.

FINDING NUMBER	2006-003
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Accurate Balances as of the Balance Sheet Date

Management is responsible for maintaining records which accurately record the financial position of the School. During this engagement, we were unable to verify the accuracy of the amounts recorded in the financial statements.

Without accurate and complete presentation the financial position of the School cannot be determined. Also, in the absence of complete and accurate records, the School could experience losses, lose assets, and have debt amounts in excess of their ability to repay.

It is imperative that accurate and complete records which exhibit true balances be maintained. If necessary, the School management should read and study the available authoritative literature, and develop a program of recordkeeping which will provide assurance of financial statement accuracy and integrity.



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
MAY 13, 2008**