



**WEEMS SCHOOL
CUYAHOGA COUNTY**

REGULAR AUDIT

FOR THE YEAR ENDED JUNE 30, 2006



Mary Taylor, CPA
Auditor of State

**WEEMS SCHOOL
CUYAHOGA COUNTY**

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Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

Weems School
Cuyahoga County
2200 Professor Avenue
Cleveland, Ohio 44113

To the Board of Trustees:

We were engaged to audit the basic financial statements of the Weems School, Cuyahoga County, Ohio (the School), 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 School's management.

The School's management declined to provide written representations related to the financial statements; completeness of information; and recognition, measurement, and disclosure of misstatements, fraud, unasserted claims, undisclosed liabilities, and violations of laws and regulations as required by generally accepted auditing standards.

In addition, the School did not provide sufficient original supporting documentation for certain non-payroll expense. Therefore, we were unable to determine whether nonpayroll expenses were properly classified.

Since the School did not provide the evidence described in the preceding two paragraphs 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 September 12, 2008, on our consideration of the School's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, 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.

Weems School
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 requires. 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.

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

September 12, 2008

**The Weems School
Cuyahoga County**

**Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2006
(Unaudited)**

Our discussion and analysis of The Weems School (the School) financial performance provides an overall review of the School's financial activities for the fiscal year ended June 30, 2006. The intent of this discussion and analysis is to look at the School's financial performance as a whole; readers should also review the basic financial statements and notes to the basic financial statements to enhance their understanding of the School's financial performance.

The Management's Discussion and Analysis (MD&A) is an element of the new reporting model adopted by the Governmental Accounting Standards Board (GASB) in their Statement No. 34 Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments issued June 1999. Certain comparative information between the current year and the prior year is required to be presented in the MD&A. However, as fiscal year 2006 was the School's initial year of operation, comparative presentation will not be provided.

Financial Highlights

Key Financial Highlights for the School for fiscal year 2006 are as follows:

- Total net assets were \$27,824.
- The School received \$1,085,237 in foundation revenue, and state subsidy revenue totaling \$5,200.
- Total operating revenues were \$1,095,333 and total operating expenses during the fiscal year were \$1,072,709.

Using this Financial Report

This financial report contains the basic financial statements of the School, as well as the Management's Discussion and Analysis and notes to the basic financial statements. The basic financial statements include a statement of net assets, a statement of revenues, expenses and changes in net assets, and a statement of cash flows. As the School reports its operations using enterprise fund accounting, all financial transactions and accounts are reported as one activity, therefore the entity wide and the fund presentation information is the same.

Statement of Net Assets

The statement of net assets answers the question, "How did we do financially during the fiscal year?" This statement includes all assets and liabilities, both financial and capital, and short-term and long-term, using the accrual basis of accounting and the economic resources focus, which is similar to the accounting used by most private-sector companies. This basis of accounting takes into account all revenues and expenses during the year, regardless of when cash is received or paid.

**The Weems School
Cuyahoga County**

**Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2006
(Unaudited)**

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

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

Table 1 Net Assets	
<u>2006</u>	
Current Assets	\$ <u>58,217</u>
Total Assets	58,217
Current Liabilities	<u>30,393</u>
Total Liabilities	\$ 30,393
Net Assets:	
Unrestricted	<u>27,824</u>
Total Net Assets	\$ <u>27,824</u>

Total current assets consist of cash. Total liabilities represent accounts payable, accrued wages and benefits payable, and intergovernmental payables.

Table 2 shows the changes in net assets for the fiscal year ended June 30, 2006, as well as revenues and expenses.

Table 2 Changes in Net Assets	
<u>2006</u>	
Operating Revenues:	
Foundation payments	\$1,085,237
Other Operating Revenues	10,096
Non-Operating Revenues:	
State subsidies	<u>5,200</u>
Total Revenues	\$1,100,533
Operating Expenses:	
Salaries & Wages	223,358
Fringe Benefits	105,970
Purchased Services	593,208
Materials & Supplies	76,005
Miscellaneous	<u>74,168</u>
Total Expenses	\$1,072,709
Change in Net Assets	\$ <u>27,824</u>

**The Weems School
Cuyahoga County**

**Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2006
(Unaudited)**

The most significant source of revenue for the school was foundation revenue which totaled \$1,085,237. The largest component of total operating expenses is the purchased services portion, which consisted of those operating expenses incurred for professional and technical services, property services, travel, communication expenses, contract service expenses, and costs related to pupil transportation.

Restrictions and Other Limitations

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

The first challenge is the state economy. The School 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 School.

The second challenge facing the School is the future of state funding. On October 6, 2004, a suit was filed in the US District Court challenging 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 School is unable to determine what effect, if any, this suit might have on future funding from the State.

Contacting the School

This financial report is designed to provide a general overview of the finances of The Weems School and to show the School's accountability for the monies it receives to all vested and interested parties, as well as meeting the annual reporting requirements of the State of Ohio. Any questions about the information contained within this report or requests for additional financial information should be directed to The Weems School, Attn: Ruby R. Weems, 2280 Professor Avenue, Cleveland, Ohio 44113.

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**Weems School
Cuyahoga County
Statement of Net Assets
as of June 30, 2006**

Assets

Current Assets

Cash and Investments	\$ 58,217
Total Current Assets	<u>58,217</u>
Total Assets	58,217

Liabilities

Current Liabilities

Accounts Payable	9,988
Accrued Wages & Benefits	16,486
Payable to State Pension Systems	<u>3,919</u>
Total Current Liabilities	<u>30,393</u>
Total Liabilities	<u>30,393</u>

Net Assets

Unrestricted	<u>27,824</u>
Total Net Assets	<u><u>\$ 27,824</u></u>

The accompanying Notes are an integral part of the Financial Statements

**Weems School
Cuyahoga County
Statement of Revenues, Expenses,
and Changes in Fund Net Assets
for the Fiscal Year ended June 30, 2006**

Operating Revenues	
Foundation Payments	\$ 1,085,237
Other Operating Revenues	10,096
Total Operating Revenues	<u>1,095,333</u>
Operating Expenses	
Salaries & Wages	223,358
Fringe Benefits	105,970
Purchased Services	593,208
Materials & Supplies	76,005
Miscellaneous	74,168
Total Operating Expenses	<u>1,072,709</u>
Operating Income	22,624
Non-Operating Revenues and (Expenses)	
State subsidies	5,200
Total Non-Operating Revenues and (Expenses)	<u>5,200</u>
Net Income	27,824
Net Assets Beginning of Year	-
Net Assets End of Year	<u><u>\$ 27,824</u></u>

The accompanying Notes are an integral part of the Financial Statements

**Weems School
Cuyahoga County
Statement of Cash Flows
for the Fiscal Year ended June 30, 2006**

Cash Flows from Operating Activities	
Cash received from Foundation Payments	\$ 1,085,237
Cash received from Other Operating Revenues	10,096
Cash payments for personal services	(307,450)
Cash payments for contract services	(585,156)
Cash payments for supplies and materials	(75,577)
Cash payments for Miscellaneous	(74,133)
Net Cash Provided By/(Used for) Operating Activities	<u>53,017</u>
Cash Flows from Noncapital Financing Activities	
Cash from Federal & State Subsidies	<u>5,200</u>
Net Cash from Noncapital Financing Activities	<u>5,200</u>
Cash Flows from Capital and Related Financing Activities	
Payments for Capital Acquisitions	0
Payments for Interest on Capital Acquisitions	<u>0</u>
Net Cash Used for Capital and Related Financing Activities	<u>0</u>
Cash Flows from Investing Activities	
Interest on cash and cash equivalents	<u>0</u>
Net cash from investing activities	<u>0</u>
Net increase in cash and cash equivalents :	58,217
Cash and cash equivalents at beginning of year	-
Cash and cash equivalents at end of year	<u>\$ 58,217</u>
Reconciliation of Operating Income to Net Cash Provided By (Used for) Operating Activities	
Operating Income	\$ 22,624
Adjustments to Reconcile Operating Income to Net Cash Provided by (Used for) Operating Activities	
Changes in Assets and Liabilities:	
Accounts Payable	9,988
Accrued Wages and Benefits	16,486
Payable to State Pension Systems	<u>3,919</u>
Total Adjustments	<u>30,393</u>
Net cash provided (used) by operating activities	<u>\$ 53,017</u>

The accompanying Notes are an integral part of the Financial Statements

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**The Weems School
Cuyahoga County**

**Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2006**

1. DESCRIPTION OF THE SCHOOL AND REPORTING ENTITY

The Weems School (the School) is a nonprofit corporation established pursuant to Ohio Revised Code Chapters 3314 and 1702 to address the needs of students in kindergarten through eighth grade. The School, which is part of the State's education program, is independent of any school district and is nonsectarian in its programs, admissions policies, employment practices, and all other operations. The School may sue and be sued, acquire facilities as needed, and contract for any services necessary for the operation of the school.

The School was approved for operation under contract with the Educational Resource Consultants of Ohio, Inc.,(the Sponsor) for a period of one year commencing July 21, 2005. The Sponsor is responsible for evaluating the performance of the School and has the authority to deny renewal of the contract at its expiration or terminate the contract prior to its expiration.

The School operates under the direction of a five member Board of Trustees. The Board is responsible for carrying out the provisions of the contract which include, but are not limited to, state mandated provisions regarding student population, curriculum, academic goals, performance standards, admission standards, and qualifications of teachers. The Board of Trustees control the School's instructional/support facility staffed by seven certificated teaching personnel and ten classified staff members who provide services to 152 students.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Basis of Presentation

The School 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 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 increases and decreases in net total assets.

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting 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.

**The Weems School
Cuyahoga County**

**Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2006**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 School's contract with its Sponsor. The contract between the School and its Sponsor does not prescribe a budgetary process for the School.

D. Cash

All monies received by the School are maintained in a demand deposit account in the name of The Weems School.

E. Intergovernmental Revenues

The School 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.

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

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

Amounts awarded under the above named programs for 2006 school year totaled \$1,090,437.

F. Accrued Liabilities Payable

The School has recognized certain liabilities on its balance sheet relating to expenses, which are due but unpaid as of June 30, 2006, including:

Wages Payable – a liability has been recognized at June 30, 2006 for salary payments made after year-end that were for services rendered in fiscal year 2006.

Intergovernmental Payable – payment for the employer's share of the retirement contribution and Medicare associated with services rendered during fiscal year 2006, but where not paid until the subsequent fiscal year.

**The Weems School
Cuyahoga County**

**Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2006**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

G. Estimates

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

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 restrictions imposed by creditors, grantors, or laws and regulations of other governments. The School applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

3. DEPOSITS

Custodial credit risk for deposits is the risk that in the event of bank failure, the School will not be able to recover deposits or collateral securities that are in the possession of an outside party. The carrying value of the School's deposits totaled \$58,217, and the bank balance totaled \$63,335, all of which was covered by federal depository insurance therefore there is no custodial credit risk.

The School 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 School 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. PURCHASED SERVICES

Purchased Services include the following:

Professional and Technical Services	\$ 347,812
Property Services	106,262
Travel	4,979
Communications	8,841
Contract Services	82,275
Pupil Transportation	43,039
Total Purchased Services	<u>\$ 593,208</u>

**The Weems School
Cuyahoga County**

**Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2006**

5. RISK MANAGEMENT

A. Property and Liability

The School is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. For fiscal year 2006, the School contracted with Indiana Insurance for property and for general liability insurance.

Commercial General Liability per occurrence	\$1,000,000
Personal Injury/Advertising Liability per person/org	1,000,000
Commercial General Liability aggregate	2,000,000
Umbrella Liability per occurrence	4,000,000
Umbrella Liability aggregate	4,000,000
Fire Damage	300,000
Real and Personal Property	
Business Personal Property	150,000
Business Income/Extra Expense	325,000
Policy Limit	2,000,000
Automobile	
Bodily Injury/each accident	1,000,000
Uninsured/Underinsured	1,000,000

B. Worker's Compensation

The School pays the State Worker's Compensation System a premium for employee injury coverage. The premium is calculated by multiplying the annual total gross payroll by a factor determined by the State.

6. DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

The School contributes to the School Employees Retirement System of Ohio (SERS), a cost sharing multiple employer public employee retirement system administered by the School Employees Retirement Board. SERS provides basic retirement benefits, disability, survivor, and health care benefits based on eligible service credit to members and beneficiaries. Benefits are established by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available financial report that includes financial statements and required supplementary information for SERS. The report may be obtained by writing to School Employees Retirement System, 300 East Broad Street, Suite 100 Columbus, Ohio 43215-3476 or by calling (800) 878-5853.

Plan members are required to contribute 10 percent of their annual covered salary and the School is required to contribute at an actuarially determined rate, currently 14%. A portion of the School's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2006, 10.58 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be

**The Weems School
Cuyahoga County**

**Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2006**

6. DEFINED BENEFIT PENSION PLANS (Continued)

A. School Employees Retirement System (Continued)

amended, up to a statutory maximum amount, by the SERS' Retirement Board. The School's required contribution for pension obligations to SERS for the fiscal year ending June 30, 2006 was \$4,351. The School has contributed one-hundred percent for fiscal year 2006.

B. State Teachers Retirement System

The School contributes to the State Teachers Retirement System of Ohio (STRS Ohio), a cost sharing multiple employer public employee retirement system administered by the State Teachers Retirement Board. STRS Ohio provides basic retirement benefits, disability, survivor, and health care benefits based on eligible service credit to members and beneficiaries. STRS Ohio issues a stand alone financial report that may be obtained by writing to State Teachers Retirement System of Ohio, 275 East Broad Street, Columbus, Ohio 43215-3771, or by calling (614) 227-4090.

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 members contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5% 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 DB 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 or the Ohio Revised Code.

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

Plan members are required to contribute 10 percent of their annual covered salaries. The School was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendation 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 Weems School
Cuyahoga County**

**Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2006**

B. State Teachers Retirement System (Continued)

The School's required contribution for pension obligations to STRS Ohio for the year ending June 30, 2006 was \$23,690. The School has contributed 91.08% for fiscal year 2006, with the unpaid portion recorded as a liability at June 30.

8. POSTEMPLOYMENT BENEFITS

The School provides comprehensive health care benefits to retired teachers and their dependents through the State Teachers Retirement System (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 funded on a pay-as-you-go basis.

The State Teachers Retirement 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 Ohio law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14 percent of covered payroll. The board currently allocates employer contributions equal to 1.0% of covered payroll to the Health Care Reserve Fund from which payments for health care benefits are paid. For the School, this amount equaled \$1,822 during fiscal year 2006. For the year ended June 30, 2005, net health care costs paid by STRS Ohio were \$254,780,000 and eligible benefit recipients totaled 115,395.

For SERS, coverage is made available to service retirees with ten or more fiscal years of qualifying service credit, disability, and survivor benefit recipients. Members retiring on or after August 1, 1989, with less than twenty-five years of service credit must pay a portion of their premium for health care. The portion is based on years of service up to a maximum of 75 percent of the premium. The Board currently allocates employer contributions equal to 3.42% of covered payroll to fund health care benefits. For the School, this amount equaled \$1,407 during fiscal year 2006. 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 has been established at \$35,800. However, the surcharge is capped at two percent of each employer's SERS salaries. For the year ended June 30, 2005, the most recent year available, net health care costs paid by SERS were \$178,221,113, and eligible benefit recipients totaled 58,123.

9. OPERATING LEASES – LESSEE DISCLOSURE

Copier Lease

The School entered into an operating lease commencing September 20, 2005 for a term of 63 months for a copy machine. The copier is owned by Meritech, Inc. The lease may be renewed continuously for consecutive months after the end of the term.

**The Weems School
Cuyahoga County**

**Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2006**

9. OPERATING LEASES – LESSEE DISCLOSURE (Continued)

The following is a schedule of the future minimum payments required under the operating lease as of June 30, 2006.

<u>Year Ending June 30,</u>	<u>Copier</u>
2007	\$ 6,960
2008	6,960
2009	6,960
2010	6,960
2011	<u>3,480</u>
Total	<u>\$31,320</u>

Building Lease

The School entered into a lease agreement with the Roman Catholic Diocese of Cleveland, St. John Cantius Church, 906 College Avenue SW, Cleveland, Ohio (the Church) for use of a certain portion of the St. Cantius school building, including use of classrooms, use of a gymnasium, certain equipment and furnishings, and kitchen area. The lease commenced on August 1, 2004 for a period of one year. The School has the option to renew this lease for one additional year. The School paid the Church \$36,000 during fiscal year 2006.

Vehicle Lease

The School has entered into operating lease agreements with TESCO Transportation LLC, for the use of two school buses. Each lease agreement commenced on September 12, 2005 and will continue for a period of 36 months. Upon inception of the lease, the School paid both the first and final month's payments.

The following is a schedule of the combined future minimum payments required under the operating lease as of June 30, 2006.

<u>Year Ending June 30,</u>	<u>Passenger Buses</u>
2007	\$ 36,899
2008	36,899
2009	<u>3,075</u>
Total	<u>\$ 76,873</u>

**The Weems School
Cuyahoga County**

**Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2006**

10. CONTINGENCIES

A. Grants

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



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

Weems School
Cuyahoga County
2200 Professor Avenue
Cleveland, Ohio 44113

To the Board of Trustees

We were engaged to audit the basic financial statements of the Weems School, Cuyahoga County, Ohio (the School) as of and for the year ended June 30, 2006 and have issued our report thereon dated September 12, 2008, wherein we noted we did not express an opinion on the financial statements because we did not obtain certain representations from the School's management as required by generally accepted auditing standards and the School did not provide sufficient original supporting documentation for certain non-payroll expenditures.

Internal Control Over Financial Reporting

In planning and performing our engagement to audit, we considered the School'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 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 School's ability to record, process, summarize, and report financial data consistent with management's assertions in the financial statements. Reportable conditions are described in the accompanying schedule of findings as items 2006-007 through 2006-011.

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 basic 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 reportable conditions 2006-007 through 2006-011 listed above to be material weaknesses.

Weems School
Cuyahoga County
Independent Accountants' Report on Internal Control over
Financial Reporting and on Compliance and Other Matters
Required by Government Auditing Standards
Page 2

In a separate letter to the School's management dated September 12, 2008, we reported another matter involving internal control over financial reporting we did not deem a reportable condition.

Compliance and Other Matters

As part of reasonably assuring whether the School's basic financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our engagement and, accordingly, we do not express an opinion. The results of our tests disclosed instances of noncompliance or other matters we must report under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 2006-001 through 2006-006.

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

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

September 12, 2008

**WEEMS SCHOOL
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS
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	2006-001
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Finding for Recovery

Ohio Revised Code Section 149.351 states, in part, that "all records are the property of the public office concerned and shall not be removed, destroyed, mutilated, transferred, or otherwise damaged or disposed of, in whole or in part, except as provided by law or under the rules adopted by the records commissions."

On September 8, 2005, the School purchased a bank check #15 made payable to cash in the amount of \$30,800. A copy of this check revealed Ruby Weems, Superintendent, signed the check as the authorized signatory and endorsed the check. Based on inquiry with Ruby Weems, Superintendent, \$10,800 of the amount of this check was used to pay claims from individuals and vendors who provided services to the School during a time period which the School was a non-public school. In addition, the School did not provide supporting documentation for the payments.

Without appropriate documentation it is not possible to determine if the expenditures included items that would not be considered a proper public purpose. The failure to maintain adequate support for expenditures could result in a loss of accountability over the School's finances, making it difficult to identify errors which could go undetected, and possibly result in expenditures that are not for a proper public purpose.

Additionally, 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. *Seward 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 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 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 Revised Code Section 117.28 a Finding for Recovery for public monies improperly expended is hereby issued against Ruby Weems, Superintendent and Rory Weems, Chief Financial Officer, jointly and severally, in the amount of \$10,800 and in favor of the Weems School.

FINDING NUMBER	2006-002
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Finding for Recovery

Ohio Revised Code Section 149.351 states, in part, that "all records are the property of the public office concerned and shall not be removed, destroyed, mutilated, transferred, or otherwise damaged or disposed of, in whole or in part, except as provided by law or under the rules adopted by the records commissions."

**WEEMS SCHOOL
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS
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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Finding for Recovery (Continued)

During fiscal year 2006, the School expended \$500 in petty cash funds for which no supporting documentation was provided. In addition, we were unable to verify Board approval of a petty cash fund.

Without appropriate documentation it is not possible to determine if the expenditures included items that would not be considered a proper public purpose. The failure to maintain adequate support for expenditures could result in a loss of accountability over the School's finances, making it difficult to identify errors which could go undetected, and possibly result in expenditures that are not for a proper public purpose.

Additionally, 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. *Seward 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 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 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 Revised Code Section 117.28 a Finding for Recovery for public monies improperly expended is hereby issued against Ruby Weems, Superintendent and Rory Weems, Chief Financial Officer, jointly and severally, in the amount of \$500 and in favor of the Weems School.

FINDING NUMBER	2006-003
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Finding for Recovery

Ohio Revised Code Section 149.351 states, in part, that "all records are the property of the public office concerned and shall not be removed, destroyed, mutilated, transferred, or otherwise damaged or disposed of, in whole or in part, except as provided by law or under the rules adopted by the records commissions."

The School purchased Official Check #932516997 from National City Bank in the amount of \$4,851, which was made payable to Robert Maston, for which no supporting documentation was provided.

Without appropriate documentation it is not possible to determine if the expenditures included items that would not be considered a proper public purpose. The failure to maintain adequate support for expenditures could result in a loss of accountability over the School's finances, making it difficult to identify errors which could go undetected, and possibly result in expenditures that are not for a proper public purpose.

**WEEMS SCHOOL
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS
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	2006-003
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Finding for Recovery (Continued)

Additionally, 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. *Seward 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 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 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 Revised Code Section 117.28 a Finding for Recovery for public monies improperly expended is hereby issued against Ruby Weems, Superintendent, and Rory Weems, Chief Financial Officer, jointly and severally, in the amount of \$4,581 and in favor of the Weems School.

FINDING NUMBER	2006-004
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Finding for Recovery

Ohio Revised Code Section 149.351 states, in part, that “all records are the property of the public office concerned and shall not be removed, destroyed, mutilated, transferred, or otherwise damaged or disposed of, in whole or in part, except as provided by law or under the rules adopted by the records commissions.”

On June 10, 2006 a debit card registered in the name of the Weems School, was used to purchase items from a Target department store. The School was unable to articulate the purpose for the purchase of these items and we were not able to locate within the School the following identified items:

Number of Items Purchased	Description	Total Price
2	Basket small	\$20
1	Wastebasket	17
2	TP Caddy	40
1	Floor Cabinet	60
2	Vanity Table	180
2	Chest	480
1	Armoire	400
2	Side Table	300
2	Hamper	100
1	Ottoman	76
1	Double Hook	8
2	Ottoman	150
1	Sweater Organizer	13

**WEEMS SCHOOL
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS
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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Number of Items Purchased	Description	Total Price
1	Floor Cabinet	60
1	Wastebasket	30
1	Tissue Cover	20
1	Ceiling Fan	30
	Sales Tax	149
	Total Charges	\$2,133

Without appropriate documentation it is not possible to determine if the expenditures included items that would not be considered a proper public purpose. The failure to maintain adequate support for expenditures could result in a loss of accountability over the School's finances, making it difficult to identify errors which could go undetected, and possibly result in expenditures that are not for a proper public purpose.

Additionally, 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. *Seward 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 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 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 Revised Code Section 117.28 a Finding for Recovery for public monies improperly expended is hereby issued against Ruby Weems, Superintendent and Rory Weems, Chief Financial Officer, jointly and severally, in the amount of \$2,133 and in favor of the Weems School.

FINDING NUMBER	2006-005
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Books, Records of Accounts, and Minutes

Ohio Revised Code Section 1702.15 provides, in part, that "[e]ach 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 its directors or members."

The School failed to maintain files of original supporting documentation for all non-payroll transactions. Also, the minute records of the Board of Directors did not provide approval of salaries and wages paid to the employees, or of the financial activity of the School.

**WEEMS SCHOOL
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS
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	2006-005
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Books, Records of Accounts, and Minutes (Continued)

Consequently, we were unable to determine the completeness, accuracy, and validity of the non-payroll and payroll transactions. The disclaimer included in our opinion on the School's financial statements is in part a result of the School's failure to maintain the proper records.

We recommend the School maintain financial records which are complete and accurate. If necessary the School should review all of the available training and obtain the training necessary to maintain complete and accurate records of account.

FINDING NUMBER	2006-006
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Conflict of Interest Policy

Ohio Revised Code § 102.03(D) provides that no public official or employee shall use or authorize the use of the authority or influence of his office or employment to secure anything of value or the promise or offer of anything of value that is of such a character as to manifest a substantial and improper influence upon the public official or employee with respect to that person's duties.

Ohio Revised Code § 2921.42(A)(1) states that no public official shall knowingly authorize or employ the authority or influence of his office to secure authorization of any public contract in which he, a member of his family, or any of his business associates has an interest.

Ohio Revised Code § 2921.42(A)(4) states that no public official shall knowingly have an interest in the profits or benefits of a public contract entered into by or for the use of the political subdivision or governmental agency or instrumentality with which he is connected.

The School does not have a conflict of interest policy. Without an effective process for identifying and monitoring potential conflicts, the possibility of misuse or improper influence over purchasing or receipting is increased.

We recommend the School develop and implement a policy that includes, but is not limited to the following provisions:

(a) Public officials or employees are prohibited from using or authorizing the use of the authority or influence of office or employment to secure anything of value or promise or to offer anything of value that is of such character as to manifest a substantial and improper influence upon the public official or employee with respect to that person's duties.

(b) Public officials or employees are prohibited from soliciting or accepting anything of value that is of such character as to manifest a substantial and improper influence upon the public official or employee with respect to that person's duties.

**WEEMS SCHOOL
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS
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	2006-007
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Non-Payroll Cash Disbursements

State ex rel. McClure v. Hagerman, 155 Ohio St. 320 (1951) provides that expenditures made by a governmental unit should serve a public purpose. Typically the determination of what constitutes a "proper public purpose" rests with the judgment of the governmental entity, unless such determination is arbitrary or unreasonable. Even if a purchase is reasonable, Ohio Attorney General Opinion 82-006 indicates that it must be memorialized by a duly enacted ordinance or resolution and may have a prospective effect only.

Auditor of State Bulletin 2003-005 Expenditure of Public Funds/Proper "Public Purpose" states that governmental entities may not make expenditures of public monies unless they are for a valid public purpose. There are two criteria that demonstrate whether an expenditure is for a public purpose. First, the expenditure is required for the general good of all inhabitants. Second, the primary objective of the expenditure is to further a public purpose, even if an incidental private end is advanced. Additionally, the Bulletin indicates that the Auditor of State's Office will only question expenditures where the legislative determination of a public purpose is manifestly arbitrary and incorrect. The Bulletin further states that the Auditor of State's Office does not view the expenditure of public funds for alcoholic beverages as a proper public purpose and will issue findings for recovery for such expenditures as manifestly arbitrary and incorrect.

During our testing of non-payroll expenditures, we noted 14 out of 30 transactions tested which were made by check and 9 out of 30 transactions tested for which bank debit charges were used were not supported by original supporting documentation or had no documentation to support the expenditure made. 1982 Op. Att'y Gen. No. 82-006 provides guidance concerning the expenditure of monies for a proper public purpose. Without original supporting documentation we were unable to determine if these expenditures were proper.

We recommend the School develop a process for the expenditure of School monies and provide for Board approval of those expenditures. The Board should not approve the expenditure of public monies unless the original supporting documentation is attached to attest to the authenticity of and validity of the expenditure made.

**WEEMS SCHOOL
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS
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	2006-008
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Condition of Accounting Records

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

- Supporting documentation for non-payroll expenditures was either incomplete or was not made available for review;
- With the exception of the Superintendent and the Chief Financial Officer, no records existed of Board approval for employee salary and/or wage rates; and
- There was no evidence of the Board reviewing or approving all of the financial activity of the School.

We recommend the School develop and maintain a system of internal control policies for preparing financial records which exhibit the accurate and complete financial position of the School, and at a minimum, consist of the following:

- A system to document approvals for expenditures made;
- Expenditure ledgers which record all expenditures of monies and the purpose of the expenditure;
- Files which consist of the original invoices received for all expenditures made which cross reference to the checks prepared for the payment of the invoices (if invoices are not filed in check number order);
- Files of all canceled check images returned from the bank;
- Complete and accurate listings of all outstanding checks at the end of each month;
- Complete and accurate monthly bank to book reconciliations;
- Preparation of monthly financial statements;
- Board policies which enumerate and describe the financial records to be maintained by the School;
- A complete system of controls to help ensure the completeness, accuracy, and validity of the School's financial transactions; and,
- Evidence of regular and timely review of the financial statements and supporting documentation by the Board and management.

Numerous sources of information, are available to the School's management, 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.

**WEEMS SCHOOL
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS
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	2006-009
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Developing and Implementing an Effective Monitoring Control System

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

Some effective monitoring controls include:

- Regular review of monthly financial statements;
- Review of revenues and expenses with independently accumulated information (budgets, past performances, peer group representatives, etc.);
- Review of large or unusual transactions;
- 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; and
- Review of monthly bank reconciliations by someone independent of their preparation.

Neither the Board nor management performed any of the above monitoring, which was documented. The lack of effective monitoring controls could lead to the misallocation or misstatement of School funds, expenditure of funds contrary to the directives of the governing board, non-compliance with federal or state laws or regulations, which could result in a loss of funding from these sources, and errors or irregularities occurring in financial transactions affecting the bank reconciliations which go undetected.

We recommend that management develop and implement monitoring controls over the relevant areas listed above.

FINDING NUMBER	2006-010
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Development and Implementation of Purchasing Cycle Controls

The School does not require written authorization prior to a purchase being initiated. In addition, formal purchase requisitions or purchase orders were not used and there was no process in place to match invoices, shipping documents, and checks prior to making payment. Monthly financial statements were not prepared during the year.

**WEEMS SCHOOL
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS
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	2006-010
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Development and Implementation of Purchasing Cycle Controls

This allows the control of the financial activity to rest with only one or two individuals. Consequently, School funds could be expended for purposes for which the Board of Directors does not approve of.

We recommend the Board of Directors review individual disbursement transactions to verify their validity. Also, when checks are written to cash or vendor names are blank on the financial records the Board should examine these transactions to determine their appropriateness. To assist the Board in the review process we also recommend the School utilize purchase requisitions and/or purchase orders. These documents should contain the necessary approvals prior to the School incurring the purchase commitment.

Management should compare invoices, purchase orders, and receiving acknowledgments prior to authorizing payment. Board approval of monthly financial statements and the implementation of an accounting package would provide the necessary financial information to allow the School to make informed financial decisions.

FINDING NUMBER	2006-011
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Development and Implementation of Payroll Processing Procedures

Procedures for payroll disbursements should include, but are not limited to:

- Approval by the Board of Trustees of all pay rates;
- Comparison of all employees' gross wages paid with the approved pay rates as documented in employee contracts;
- Verification of payroll deductions to properly authorized withholding forms approved by the employees signature; and
- Approval and tracking of sick time usage and balances for each employee.

The lack of Board approval of salaries and wages could lead to employees being paid amounts contrary to the intentions of the Board and disagreements between employees and School Management.

The Board should formally approve employment contracts or pay scales for all employees. Without this approval, it is possible employees could be paid amounts which were not in accordance with the direction of the Board. Also, we recommend the Board monitor the amounts paid to employees.

No responses to the Schedule of Findings were received from the client.



Mary Taylor, CPA
Auditor of State

WEEMS SCHOOL

CUYAHOGA COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
NOVEMBER 25, 2008**