



Dave Yost • Auditor of State



**CLEVELAND COMMUNITY SCHOOL  
CUYAHOGA COUNTY  
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# Dave Yost • Auditor of State

## INDEPENDENT ACCOUNTANTS' REPORT

Cleveland Community School  
Cuyahoga County  
1701 East 12th Street  
Cleveland, Ohio 44114

To the Board of Directors:

We have audited the accompanying basic financial statements of the business type activities of Cleveland Community School, Cuyahoga County, Ohio (the School), as of and for the year ended June 30, 2010, as listed in the table of contents. These financial statements are the responsibility of the School's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

The School did not retain or present for examination sufficient competent evidence to support the student full-time equivalencies reported to the Ohio Department of Education (ODE) which supports the Foundation Revenue received.

The School did not maintain sufficient documentation to support adjustments made to Net Assets Beginning of Year.

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

The amounts reported on the Statement of Cash Flows were unsupported.

In our opinion, except for the effect, if any, of adjustments to financial statement amounts or revisions to disclosures that may have been required for the Foundation Revenue received, Net Assets Beginning of Year, unsupported amounts on the Statement of Cash Flows and the Defined Benefit Pension Plans and Post-Employment Benefit disclosures described above, the financial statements referred to above present fairly, in all material respects, the financial position of Cleveland Community School, as of June 30, 2010, and the changes in its financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 28, 2011, 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 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.

The accompanying financial statements have been prepared assuming that the School will continue as a going concern. As discussed in Note 15 to the basic financial statements, the Statement of Net Assets shows the School had a net deficit balance of \$1,086,425. In addition, in September of 2011, the Ohio Department of Education notified Ashe Culture Center, the School's sponsor, that they are no longer permitted to sponsor community schools in Ohio. These conditions raise substantial doubt about the School's ability to continue as a going concern. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

We conducted our audit to opine on the financial statements that collectively comprise the School's basic financial statements taken as a whole. 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. We did not audit the information and express no opinion on it.



**Dave Yost**  
Auditor of State

December 28, 2011

**CLEVELAND COMMUNITY SCHOOL  
CUYAHOGA COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

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

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

**FINANCIAL HIGHLIGHTS**

Key Financial Highlights for CCS for the 2009-2010 school year are as follows:

- Total assets decreased by \$61,637 or 18.8%.
- Total liabilities increased by \$7,193 or 0.5%.
- Total net assets decreased by \$68,829 or 6.8%.
- Total operating revenues were \$1,227,170. Total operating expenses were \$ 1,840,952.

**USING THIS ANNUAL REPORT**

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

The Statement of Net Assets and Statement of Revenues, Expenses, and Changes in Net Assets reflect how CCS did financially during fiscal year 2010. These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting includes all of the current year revenues and expenses regardless of when cash is received or paid.

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

CCS uses enterprise presentation for all of its activities.

**CLEVELAND COMMUNITY SCHOOL  
CUYAHOGA COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2010  
(Continued)**

**STATEMENT OF NET ASSETS**

The Statement of Net Assets answers the question of how CCS did financially during 2010. This statement includes all assets and liabilities, both financial and capital, and short-term and long-term using the accrual basis of accounting and economic resource focus, which is similar to the accounting used by most private-sector companies. This basis of accounting takes into account all revenues and expenses during the year, regardless of when the cash is received or paid.

Table 1 provides a summary of the School's net assets for fiscal years 2010 and 2009.

**Table 1  
Statement of Net Assets**

<b>Assets</b>	<b>2010</b>	<b>2009</b>
Current Assets:	\$ 25,614	\$ 47,251
Capital Assets, Net of Accumulated Depreciation	<u>239,958</u>	<u>279,958</u>
<b>Total Assets</b>	<b>265,572</b>	<b>327,209</b>
<b>Liabilities</b>		
Current Liabilities	286,736	1,344,804
Long Term Liabilities	<u>1,065,261</u>	<u>-</u>
<b>Total Liabilities</b>	<b>1,351,997</b>	<b>1,344,804</b>
<b>Net Assets</b>		
Invested in Capital Asset - Net of Related Debt	(735,380)	(785,388)
Unrestricted	<u>(351,045)</u>	<u>(232,208)</u>
<b>Total Net Assets</b>	<b><u>\$ (1,086,425)</u></b>	<b><u>\$ (1,017,596)</u></b>

Net assets decreased to \$(1,086,425), or 6.8% from 2009. Capital Assets, net of depreciation, decreased due to depreciation charge off of \$40,000. Liabilities increased from 2009, by \$7,193 , or 0.5%.

**CLEVELAND COMMUNITY SCHOOL  
CUYAHOGA COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2010  
(Continued)**

**Table 2  
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS**

<b>Operating Revenue:</b>	<b>2010</b>	<b>2009</b>
Foundation Revenue	\$ 1,223,302	\$ 1,862,650
Local Revenue	3,868	681
Total Operating Revenues	1,227,170	1,863,331
<b>Operating Expenses:</b>		
Salaries	565,432	907,314
Fringe Benefits	246,173	391,380
Purchased Services	867,894	1,038,232
Materials and Supplies	20,951	48,737
Capital Outlays	31,716	127,929
Depreciation	40,000	40,000
Other	68,786	94,536
Total Operating Expenses	1,840,952	2,648,128
Operating (Loss)	(613,782)	(784,797)
<b>Non-Operating Revenues and (Expenses)</b>		
Federal and State Grants	327,449	547,021
Contributions		1,156
Other		4,414
Total Non-Operating Revenues	327,449	552,591
(Decrease) in Net Assets	\$ (286,333)	\$ (232,206)

Table 2 shows the changes in net assets for fiscal years 2010 and 2009, as well as a listing of revenues and expenses. This change in net assets is important because it tells the reader that, for the School as a whole, the financial position of the Academy has improved or diminished. The cause of this may be the result of many factors, some financial, some not. Non-financial factors include the current laws in Ohio restricting revenue growth, facility conditions, required educational programs and other factors.

Operating revenues decreased by \$636,161 or 34.1% from 2009. Operating expenses decreased from 2009 by \$807,176 or 30.5%.

**CLEVELAND COMMUNITY SCHOOL  
CUYAHOGA COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2010  
(Continued)**

**BUDGETING HIGHLIGHTS**

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

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

**CAPITAL ASSETS**

CCS has \$239,958 invested in capital assets, net of accumulated depreciation. No additional investments in capital asset in the fiscal year were made. Detailed information regarding capital asset activity is included in the Note 4 in the notes to the basic financial statements.

**DEBT OBLIGATIONS**

CCS has debt obligations comprised of liabilities totaling \$1,351,997 at June 30, 2010, most of which is payable to the previous management company, Lighthouse Academies. See the notes to the basic financial statement for further details.

**CONTACTING CCS'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizen's, taxpayers, investors and creditors with a general overview of CCS's finances and to demonstrate accountability for the money it receives. If you have questions about this report or need additional information contact Mr. Edward E. Dudley, Sr. CPA, MBA, of LED Consulting, 676 Brook Hollow, Gahanna, Ohio 43230 or e-mail at ed@eddudleycpa.com.

**Cleveland Community School**  
**Statement of Net Assets**  
**At June 30, 2010**

**Assets**

*Current Assets:*

Rental Deposit	\$	25,614
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Total Current Assets		25,614
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*Noncurrent Assets:*

*Capital Assets:*

Depreciable Capital Assets, net		239,958
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Total Noncurrent Assets		239,958
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Total Assets		265,572
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**Liabilities**

*Current Liabilities*

Accounts Payable		42,185
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Payroll Accrual		70,252
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Bank Account Liability		45,266
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Deferred Revenue		10,689
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Advance From Treasurer		4,000
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Due to Villaview Lighthouse		114,343
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Long Term Liabilities		1,065,261
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Total Liabilities		1,351,997
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**Net Assets**

Invested in Capital Asset - Net of Related Debt		(735,380)
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Unrestricted		(351,045)
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Total Net Assets	\$	(1,086,425)
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See the notes to the basic financial statements.

**Cleveland Community School**  
**Statement of Revenues, Expenses and Changes in Net Assets**  
**For the Year Ending June 30, 2010**

<b>Operating Revenues:</b>	
Foundation Revenue	\$ 1,223,302
Local Revenue	3,868
<b>Total Operating Revenues</b>	<u>1,227,170</u>
<b>Operating Expenses:</b>	
Salaries	565,432
Fringe Benefits	246,173
Purchased Services	867,894
Materials and Supplies	20,951
Depreciation	40,000
Capital Outlays	31,716
Other	68,786
<b>Total Operating Expenses</b>	<u>1,840,952</u>
<b>Operating Loss</b>	(613,782)
<b>Non-Operating Revenues (Expenses):</b>	
Federal and State Grants	<u>327,449</u>
<b>Total Non-Operating Revenues (Expenses)</b>	327,449
	-
<b>Change in Net Assets</b>	(286,333)
	-
<b>Restated Net Assets Beginning of Year</b>	(799,091)
	-
<b>Net Assets End of Year</b>	<u><u>\$ (1,085,424)</u></u>

See the notes to the basic financial statements.

**Cleveland Community School  
Statement of Cash Flows  
For the Year Ending June 30, 2010**

**Increase (Decrease) in Cash and Cash Equivalents**

**Cash Flows from Operating Activities**

Cash Received from State of Ohio	\$ 1,274,311
Cash Received from Other Operating Sources	21,105
Cash Payments to Suppliers for Goods and Services	(805,250)
Cash Payments to Employees for Services	(509,078)
Cash Payments for Employee Benefits	(241,817)
Other Cash Payments	<u>(121,453)</u>
Net Cash Used for Operating Activities	(382,183)

**Cash Flows from Noncapital Financing Activities**

Cash Received from Federal Grants	<u>254,847</u>
	254,847

**Cash Flows from Capital and Related Financing Activities**

Cash Payments from Villa View	114,343
Loan From Treasurer	<u>4,000</u>
Net Cash Provided by (Used in) Capital Financing Activities	118,343

**Net Decrease in Cash and Cash Equivalents** (8,992)

**Cash and Cash Equivalents Beginning of Year** 302

**Cash and Cash Equivalents End of Year** (8,690)

**Reconciliation of Operating Gain (Loss) to Net Cash Provided by (Used in) Operating Activities**

Operating Gain (Loss) (504,604)

**ADJUSTMENTS TO RECONCILE OPERATING LOSS TO NET CASH USED FOR OPERATING ACTIVITIES**

Depreciation 40,000

(Increase) Decrease

Accounts Payable (126,540)

Current Obligation Villa View (114,343)

Net Cash Provided by (used in) Operating Activities \$ (223,721)

See the notes to the basic financial statements.

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**CLEVELAND COMMUNITY SCHOOL  
CUYAHOGA COUNTY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

**1. DESCRIPTION OF ENTITY**

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

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

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

On April 27, 2005 CCS was approved for operation under a contract between the governing authority of CCS and Ashe Culture Center, Inc. (the Sponsor), as their sponsor. Under the terms of the contract, the Sponsor will provide sponsorship services for a fee. The Sponsor is responsible for evaluating the performance of CCS and has the authority to deny renewal of the contract at its expiration or terminate the contract prior to its expiration.

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

The CCS previously entered into an agreement with Lighthouse Academies, Inc. (LHA), an aware nonprofit educational organization, to provide educational and administrative services for the fiscal year. During 2010, the CCS discontinued the contract with Lighthouse Academies. The board members of The CCS are also board members of Villaview Community School, formerly named Cleveland Lighthouse Charter Community School – West.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The basic financial statements of CCS have been prepared in conformity with accounting principles generally accepted in the United States of America (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. CCS also applies Financial Accounting Standards Board (FASB) Statements and Interpretations issued prior to November 30, 1989, provided those pronouncements do not conflict with or contradict GASB pronouncements. CCS's significant accounting policies are described as follows.

**CLEVELAND COMMUNITY SCHOOL  
CUYAHOGA COUNTY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2010  
(Continued)**

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

**A. BASIS OF PRESENTATION**

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

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

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

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

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

**C. BUDGETARY PROCESS**

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

**CLEVELAND COMMUNITY SCHOOL  
CUYAHOGA COUNTY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2010  
(Continued)**

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

**D. CASH AND CASH EQUIVALENTS**

All monies received by CCS are maintained in a demand deposit account. For internal accounting purposes, CCS segregates its cash. CCS has no investments at June 30, 2010.

**E. ESTIMATES**

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

**F. CAPITAL ASSETS**

Fixed assets are capitalized at cost. The costs of additions are capitalized and expenditures for repairs and maintenance are expensed when incurred. When property is sold or retired, the related costs and accumulated depreciation are removed from the accounts and any gain or loss is included in additions to or deductions from net assets. Fixed assets were \$239,958, as of June 30, 2010 with accumulated depreciation of \$160,000. Depreciation of fixed assets is calculated utilizing the straight-line method over the estimated useful lives of the assets. The useful lives follow:

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

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

**G. INTERGOVERNMENTAL REVENUES**

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

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

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

**CLEVELAND COMMUNITY SCHOOL  
CUYAHOGA COUNTY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2010  
(Continued)**

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

**G. INTERGOVERNMENTAL REVENUES**

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

Under the above programs CCS received \$1,550,751 this fiscal year.

**H. COMPENSATED ABSENCES**

Vacation is taken in a manner in which corresponds with the CCS calendar; therefore CCS does not accrue vacation time as a liability.

Sick leave benefits are earned at the rate of one and one-quarter day per month and can be accrued up to the maximum amount of one hundred-twenty days. CCS will accept the transfer of sick days from another School district up to the maximum accrual amount. No financial accrual for sick leave is made since unused sick leave is not paid to employees upon separation.

**I. ACCRUED LIABILITIES**

Obligations incurred but unpaid at June 30 are reported as accrued liabilities in the accompanying financial statements. These liabilities consisted of accounts payable, accrued wages and benefits, bank account liability, deferred revenue, loan payable, due to Villaview Community School and long term liabilities totaling \$1,351,997.

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

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

**CLEVELAND COMMUNITY SCHOOL  
 CUYAHOGA COUNTY  
 NOTES TO THE BASIC FINANCIAL STATEMENTS  
 FOR THE FISCAL YEAR ENDED JUNE 30, 2010  
 (Continued)**

**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**K. NET ASSETS AND RESTATEMENT**

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets consist of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use through external restriction imposed by creditors, grantors, or law and regulations of other governments. CCS applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available. Net assets as of June 30, 2009 were restated to include liabilities that were a result of the building lease and other long-term debt issues as follows:

Net Assets at June 30, 2009	\$(1,017,595)
Adjstment related to debt and lease	218,504
Restated Net Assets as of June 30, 2009	<u>\$ (799,091)</u>

**L. OPERATING REVENUES AND EXPENSES**

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

**M. INTERGOVERNMENTAL RECEIVABLES**

All receivables are considered collectible in full due to the stable condition of State programs, and the fiscal year guarantee of federal funds. CCS did not accrue any Intergovernmental receivables at June 30, 2010.

**3. CASH AND CASH EQUIVALENTS**

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

CCS maintains its cash balances at one financial institution located in Ohio. The entire bank balances are insured by the Federal Deposit Insurance Corporation (FDIC). At June 30, 2010, the book amount of CCS's deposits was \$(8,690) and the bank balance was \$9,007.

**CLEVELAND COMMUNITY SCHOOL  
 CUYAHOGA COUNTY  
 NOTES TO THE BASIC FINANCIAL STATEMENTS  
 FOR THE FISCAL YEAR ENDED JUNE 30, 2010  
 (Continued)**

**3. CASH AND CASH EQUIVALENTS (Continued)**

CCS had no deposit policy for custodial risk beyond the requirement of state statute. Ohio law requires that deposits either be insured or be protected by eligible securities pledged to and deposited either with CCS or a qualified trustee by the financial institution as security for repayment or by a collateral pool of eligible securities deposited with a qualified trustee to secure repayment of all public monies deposited in the financial institution whose market value shall be at least 105% of deposits being secured. At June 30, 2010, none of the bank balance was exposed to custodial credit risk.

**4. CAPITAL ASSETS AND DEPRECIATION**

For the period ending June 30, 2010, CCS's capital assets consisted of the following:

	<b>Balance 06/30/09</b>	<b>Additions</b>	<b>Deletions</b>	<b>Balance 06/30/10</b>
<b>Capital Assets Being Depreciated:</b>				
Leasehold Improvements	\$ 399,958	\$ -	\$ -	\$ 399,958
<b>Total Capital Assets Being Depreciated</b>	399,958	-	-	399,958
<b>Less Accumulated Depreciation:</b>				
Leasehold Improvements	(120,000)	(40,000)	-	(160,000)
<b>Total Accumulated Depreciation</b>	(120,000)	(40,000)	-	(160,000)
<b>Net Total Capital Assets</b>	<u>\$ 279,958</u>	<u>\$ (40,000)</u>	<u>\$ -</u>	<u>\$ 239,958</u>

**5. EDUCATIONAL FACILITY LEASE**

CCS leases its facility at Reserve Square, 1701 East 12th Street, Cleveland from Reserve Apartment, Ltd. Under a ten year lease agreement effective July 1, 2006, is expiring June 30, 2016. Monthly payments under the terms of the lease increase each year according to an agreed upon schedule. In fiscal year 2010, CCS paid \$172,454 in rental payments. This amount is recorded and reflected in the Statement of Revenue, Expenses and Change in Fund Net Assets as purchased services.

**CLEVELAND COMMUNITY SCHOOL  
CUYAHOGA COUNTY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2010  
(Continued)**

**6. RISK MANAGEMENT**

**A. PROPERTY & LIABILITY**

CCS is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. For the fiscal year 2009, CCS contracted with Philadelphia Indemnity Insurance Company for all of its insurance.

**B. WORKERS' COMPENSATION**

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

**C. EMPLOYEE BENEFITS**

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

**7. DEFINED BENEFIT PENSIONS PLANS**

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

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

**CLEVELAND COMMUNITY SCHOOL  
CUYAHOGA COUNTY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2010  
(Continued)**

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

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

Funding Policy - Plan members are required to contribute 10 percent of their annual covered salary and CCS is required to contribute 14 percent of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to a statutory maximum amount by the SERS' Retirement Board. The Retirement Board acting with the advice of the actuary, allocates the employer contribution rate among four of the funds (Pension Trust Fund, Death Benefit Fund, Medicare B and Health Care Fund.) of the System. For the fiscal year ending June 30, 2009, the allocation to pension and death benefits is 9.09 percent. The remaining 4.91 percent of the 14 percent employer contribution rate is allocated to the Health Care and Medicare B Funds. CCS contributions to SERS for the year ended June 30, 2010, 2009 and 2008 were \$ 51,915.45, \$46,827, and \$75,494, respectively, which equaled the required contributions each year.

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

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

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

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

**CLEVELAND COMMUNITY SCHOOL  
CUYAHOGA COUNTY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2010  
(Continued)**

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

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

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

Funding Policy - For the fiscal year ended June 30, 2010, plan members were required to contribute 10 percent of their annual covered salaries. CCS was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal year 2007, the portion used to fund pension obligations was also 13 percent. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

CCS's required contribution for pension obligations to STRS for the fiscal years ended June 30, 2010, 2009 and 2008 were \$ 56,543, \$48,013, and \$40,755 respectively, of which 100% has been contributed. The above is the latest information available.

**C. SOCIAL SECURITY SYSTEM**

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System of Ohio have an option to choose Social Security or the School Retirement System. As of June 30, 2010, there were no members that elected Social Security. The contribution rate is 6.2 percent of wages.

**8. POST-EMPLOYMENT BENEFITS**

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

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

**CLEVELAND COMMUNITY SCHOOL  
CUYAHOGA COUNTY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2010  
(Continued)**

**8. POST-EMPLOYMENT BENEFITS (Continued)**

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

**Medicare Part B**

Medicare B plan reimburse Medicare B premiums paid by eligible retirees and beneficiaries as set forth in Ohio Revised Code (ORC) 3309.69. Qualified benefits recipients who pay Medicare Part B premiums may apply for and receive a monthly reimbursement from SERS. The reimbursement amount is limited by statute to the lesser of the January 1, 1999 Medicare Part premium or the current premium. The Medicare Part B premium for calendar year 2009 was \$96.40; SERS' reimbursement for retirees was \$45.50.

The Retirement Board, acting with the advice of the actuary, allocates a portion of the current employer contribution rate to the Medicare B Fund, For fiscal 2009, the actuarial required allocation is .75 percent CCS's contributions for the years ended June 30, 2010, 2009 and 2008 were \$ 4,240, \$3,864, and \$3,238.

**Health Care Plan**

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

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

The Health Care Fund was established under, and is administered in accordance with the Internal Revenue Code 105(e). Each year after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer 14 percent contribution to the Health Care Fund. For the year ended June 30, 2009, the health care allocation is 4.16. An additional health care surcharge on employers is collected for employees earning less than the actuarially determined minimum compensation amount, pro-rated according to service credit earned. Statutes provides that no employer shall pay a health care surcharge greater than 2 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the total statewide SERS-covered payroll for the health care surcharge.

For the fiscal year June 30, 2010, the minimum compensation level was established at \$35,800. The surcharge added to the unallocated portion of the 14 percent employer contribution rate is the total amount assigned to the Health Care Fund. CCS's contributions assigned to health care for the years ended June 30, 2010, 2009 and 2008 were zero.

**CLEVELAND COMMUNITY SCHOOL  
CUYAHOGA COUNTY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2010  
(Continued)**

**8. DEFINED BENEFIT PENSIONS PLANS (Continued)**

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

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

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

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

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

Funding Policy - Ohio law authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For 2008, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. The School's contributions for health care for the fiscal years ended June 30, 2010, 2009, and 2008 were \$4,240, \$3,693, and \$3,155, respectively all of which has been contributed for all fiscal years.

The above is the latest information available.

**9. CONTINGENCIES**

**A. GRANTS**

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

**CLEVELAND COMMUNITY SCHOOL  
 CUYAHOGA COUNTY  
 NOTES TO THE BASIC FINANCIAL STATEMENTS  
 FOR THE FISCAL YEAR ENDED JUNE 30, 2010  
 (Continued)**

**9. CONTINGENCIES (Continued)**

**B. LITIGATION**

There are currently matters in litigation with the School as defendant. Note 15 includes details of the outcome.

**C. FULL-TIME EQUIVALENCY**

The Ohio Department of Education (ODE) conducts reviews of enrollment data and full-time equivalency (FTE) calculations made by CCS. These reviews are conducted to ensure CCS is reporting accurate student enrollment data to the State, upon which state foundation funding is calculated. A review for the period of July 1, 2009 through June 30, 2010 has not been performed as of June 30, 2010.

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

CCS contracted with Ashe Culture Center Inc. as its sponsor and oversight services as required by law. CCS pays the Sponsor three percent of Foundation Revenue. Sponsorship fees are calculated as three percent of state funds received by CCS from the State of Ohio. For the fiscal year ended June 30, 2010, sponsorship fees totaled \$36,110, which includes a \$3,539 amount payable at June 30, 2010. This amount is included as a liability in the accompanying State of Net Assets.

**11. L.E.D. CONSULTING, INC. – TREASURY SERVICES**

CCS entered into a contract with L.E.D. Consulting, Inc. to provide treasury services, as defined by the contract. Contract provision binds CCS to pay \$4,000 per month for the duration of the agreement until terminated by mutual agreement of both parties. CCS paid \$42,000 for these services for the fiscal year ending June 30, 2010 as well as \$260 in reimbursements and \$16,000 in repayments of loans.

**12. PURCHASED SERVICES**

For the period of July 1, 2009 through June 30, 2010, CCS made the following purchase service commitments. These commitments include sponsor, management and CCIP fees, were applicable.

	2010
Professional and Technical Services	\$ 190,060
Staff Development	35,198
Occupancy	243,166
Food Service	108,214
Pupil Transportation	291,256
	<u>\$ 867,894</u>

**CLEVELAND COMMUNITY SCHOOL  
 CUYAHOGA COUNTY  
 NOTES TO THE BASIC FINANCIAL STATEMENTS  
 FOR THE FISCAL YEAR ENDED JUNE 30, 2010  
 (Continued)**

**13. RELATED PARTIES**

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

**14. DEBT OBLIGATIONS**

The following table summarizes the debt obligation activity for fiscal year ended June 30, 2010.

	Principle			Principle
	Outstanding			Outstanding
	6/30/2009	Additions	Reductions	6/30/2010
City First Bank	\$ 368,613	-	\$ 73,829	\$ 294,784
LHA Revolving Loan	230,000	-	-	230,000
LHA Operating Loan	90,000	-	-	90,000
Loan Payable	450,477	-	-	450,477
<b>Total Debt Obligations</b>	<b>\$ 1,139,090</b>			<b>\$ 1,065,261</b>

The loan payable for \$230,000 is a demand loan in the form of a promissory note payable to Lighthouse Academies, Inc. (LHA), which is CCS's management firm and as of June 30, 2010 was payable at the end of the charter term. This obligation was included as part of an agreement reached in October 2011 with LHA to forgive the balance due and accept a fixed settlement amount.

The loan payable for \$90,000 is an operating loan in the form of a promissory note payable to LHA. This was payable when CCS had available cash for repayment, with no repayment schedule specified. This obligation was included as part of an agreement reached in October 2011 with LHA to forgive the balance due and accept a fixed settlement amount.

The loan payable for \$450,477 is a liability to LHA for unpaid management fees. At June 30, 2010, there was no repayment schedule specified. This obligation was included as part of an agreement reached in October 2011 with LHA to forgive the balance due and accept a fixed settlement amount.

The loan payable for \$294,784 is from City First Bank of DC to the School for leasehold improvements made to property leased by CCS. The original amortization schedule required CCS to make principal and interest payments through 2009. At June 30, 2010, the amount was still due with no repayment schedule specified. This obligation was re-negotiated and extended during November 2010.

**15. SUBSEQUENT EVENTS**

In November of 2010, the School's attorney re-negotiated the debt instrument with Charter School Development (CSD), the non-for-profit organization that guaranteed the note with City First Bank of DC. CSD paid the remaining balance and negotiated a monthly payment of \$3,000 per month, which began November of 2010 and includes interest of 2%. The note will be satisfied in 9 years.

**CLEVELAND COMMUNITY SCHOOL  
CUYAHOGA COUNTY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2010  
(Continued)**

**15. SUBSEQUENT EVENTS (Continued)**

In August 2010, CCS and Villaview Community School were sued by Lighthouse Academies, Inc., for past due management fees, a revolving loan and an operating loan. The suit was settled in October 2011 for a fixed amount of \$300,000 payable at \$2,500 per month with no interest. The note will be satisfied in 10 years.

As of June 30, 2010, the School had a deficit of \$1,086,425. Ashe Culture Center, the School's sponsor, had renewed its sponsorship of the School and the current agreement would have expired on June 30, 2012, however the Ohio Department of Education took away Ashe Culture Center's authority to sponsor charter schools in September of 2011. Pursuant to the Ohio Revised Code, the School may not operate without a sponsor. The Ohio Department of Education took over sponsorship of the School while it seeks another sponsor.



# Dave Yost • Auditor of State

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

Cleveland Community School  
Cuyahoga County  
1701 East 12th Street  
Cleveland, Ohio 44114

To the Board of Directors:

We have audited the financial statements of the business-type activities of Cleveland Community School, Cuyahoga County, Ohio (the School) as of and for the year ended June 30, 2010, and have issued our report thereon dated December 28, 2011, wherein we noted there was insufficient evidence to support adjustments made to Foundation Revenue, Net Assets Beginning of Year, the Statement of Cash Flows, the related disclosures, and the Defined Benefit Pension Plans and Post-Employment Benefit disclosures in the accompanying basic financial statements. In addition, we noted the School had a net deficit balance of \$1,086,425 and the School's sponsor is no longer permitted to sponsor community schools in Ohio. We also expressed substantial doubt regarding the schools ability to continue as a going concern. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

### Internal Control Over Financial Reporting

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

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and timely corrected. We consider findings 2010-01 through 2010-03 described in the accompanying schedule of findings to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider finding 2010-04 described in the accompanying schedule of findings to be a significant deficiency.

### **Compliance and Other Matters**

As part of reasonably assuring whether the School's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our 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 is described in the accompanying schedule of findings as items 2010-01 through 2010-04.

We also noted certain matters not requiring inclusion in this report that we reported to the School's management in a separate letter dated December 28, 2011.

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

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



**Dave Yost**  
Auditor of State

December 28 2011

**CLEVELAND COMMUNITY SCHOOL  
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS  
JUNE 30, 2010**

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

**FINDING NUMBER 2010-01**

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

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

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

- The School did not provide a 2010 Consolidated Trial Balance;
- The Statement of Cash Flows was not presented consistently nor did it agree to the underlying financial statement data;
- The School does not perform a monthly School-wide bank-to-book reconciliation. The only reconciliation completed during the fiscal year is at year-end, which was inaccurate. The variance between supporting documents and the financial statements was \$36,576, requiring an adjustment to be made to the financial statements;
- Checking account reconciliations contained outstanding checks from October 2009 and did not agree to the amounts reported in the financial statements;
- Interest accrued on a promissory note was not recorded in the financial statements,
- The School did not provide loan repayment agreements for Villaview Community School which were approved by the Board;
- The Statement of Net Assets included a Prior Period Adjustment that was unsupported;
- The School does not have a capital asset policy which specifies the threshold for capital assets, depreciation, useful lives or tagging procedures;
- The School did not maintain capital asset records during the year and an independent appraisal company was contracted to perform an inventory of capital assets;
- The School did not maintain sufficient documentation to support amounts reported in the Defined Benefit Pension Plans and Post-Employment Benefits disclosures;
- The Notes to the Basic Financial Statements were not presented consistently nor did they agree to the underlying financial statement data. This resulted in adjustments to amounts reported in Basis of Presentation, Cash and Cash Equivalents, Educational Facility Lease, Contingencies, Sponsorship – ASHE Culture Center Inc., LED Consulting – Treasurer Services, Purchased Services, Debt Obligations and Subsequent Events;
- Federal and State Grant revenue were improperly recorded as Operating Foundation and Local Revenues, requiring an adjustment of \$72,602 to be made to the financial statements;
- Five of 17 subsequent period expenditures selected for testing should have been recorded as accounts payable but were improperly excluded from the listing;
- Checks only contained the signature of the Treasurer during FY2010; and
- During our test of student withdrawals, the School did not provide evidence of daily student attendance records to support state foundation receipts.

**CLEVELAND COMMUNITY SCHOOL  
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS  
JUNE 30, 2010**

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

(Continued)

**FINDING NUMBER 2010-01  
(Continued)**

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

During our testing of payroll disbursements, we noted the following:

- Contracts were provided for employees, however, there was no evidence that these contracts were approved by the Board of Directors.

Management failed to provide all support documentation, consequently we were unable to analyze, review, inspect for completeness, verify the accuracy of, or determine the existence of certain aspects of the School's financial records. As a result, we were not able to opine over certain areas of the financial statements including student full-time equivalencies reported to the Ohio Department of Education (ODE) which supports the Foundation Revenue received, Net Assets at the Beginning of the Year, Statement of Cash Flows, the related disclosures, and the Defined Benefit Pension Plans and Post-Employment Benefit disclosures in the accompanying basic financial statements.

Failure to implement and maintain a system of controls over the School's financial records increases the chances of misstatement.

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

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

**FINDING NUMBER 2010-02**

**Undocumented Enrollment for State Foundation Funding - Material Noncompliance – Material Weakness**

Ohio Rev. Code, Section 3314.03(A)(11)(a) states that the contract between a sponsor and the governing authority must specify that the school will provide learning opportunities to a minimum of twenty five students for a minimum of nine hundred twenty hours per school year.

Enrollment numbers are submitted through the Education Management Information System (EMIS) to the Ohio Department of Education (ODE) and are used to determine the amount of State Foundation money each school receives. Ohio's State Funding Formula is a foundation program with an assumed local share of charge-off being subtracted from the basic program costs to determine the state formula aid. The basic program cost is the current year formula amount times the current year formula average daily membership plus the sum of four base funding supplements, called "building blocks." These building blocks are funding for intervention, professional development, data based decision making and professional development for data based decision making. The per pupil formula amount is set by the legislature.

**CLEVELAND COMMUNITY SCHOOL  
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS  
JUNE 30, 2010**

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

(Continued)

**FINDING NUMBER 2010-02  
(Continued)**

**Undocumented Enrollment for State Foundation Funding - Material Noncompliance – Material Weakness (Continued)**

For the audit period of July 1, 2009 through June 30, 2010, at the School there were no:

- Daily student attendance files to show how many students attended the school and the duration of attendance;
- Records documenting how many hours the school were in session or what type of instruction was offered.; and
- Documentation over enrollment/withdrawal dates of its students besides a School Options Enrollment System printout which could not be verified.

The School did not provide student files or support for the student attendance figures reported to Ohio Department of Education (ODE).

As a result, State Foundation payments totaling \$1,223,302 in fiscal year 2010 were not substantiated.

We recommend that the School maintain attendance and withdrawal records for all students throughout the year as required by the above revised code section.

**FINDING NUMBER 2010-03**

**Developing and Implementing an Effective Monitoring System – Material Noncompliance and Material Weakness**

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

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

Some effective monitoring practices include:

- Regular review of monthly financial statements;
- Review of revenues and expenses with independently accumulated information (budgets, past performances, peer group representatives, etc.);
- Review of large or unusual fluctuations;
- Identification of unusual fluctuations;

**CLEVELAND COMMUNITY SCHOOL  
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS  
JUNE 30, 2010**

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

(Continued)

**FINDING NUMBER 2010-03  
(Continued)**

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

- Comparison of financial statement position with financial projections and other internally prepared projections of financial position and operating results;
- Comparison of predefined key performance indicators based on the financial statements;
- Review of items which have been outstanding for extended periods of time (outstanding check listing for payroll and non payroll transactions);
- Monitoring compliance with grant agreements;
- Ensuring that an adequate segregation of duties exists; and
- Review of monthly bank reconciliations by someone independent of their preparation.

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

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

**FINDING NUMBER 2010-04**

**Governing Board Membership and Record of Minutes – Material Noncompliance and Significant Deficiency**

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

Instead of complete and accurate Board of Director Minute records, we noted the following deficiencies:

- Evidence of the approval of Board Resolutions or motions made by the Board during those meetings was not provided. This includes, but is not limited to, approval of loans and contracts made between the School and third parties, approval of salary resolutions and new employee contracts, approval of financial reports, budgets and forecasts or expenditures, etc.;

**CLEVELAND COMMUNITY SCHOOL  
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS  
JUNE 30, 2010**

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

(Continued)

**FINDING NUMBER 2010-04  
(Continued)**

**Governing Board Membership and Record of Minutes – Material Noncompliance and Significant Deficiency (Continued)**

- All Board Members were not formally appointed during Board meetings; and
- The Board was comprised of only three and four members from September to June during the audit period.

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

We recommend the School take the necessary steps to approve all formal employment actions during Board meetings and to increase the membership of the Governing Authority to the required number of members.

**Official's Response:**

The School did not respond.

CLEVELAND COMMUNITY SCHOOL  
CUYAHOGA COUNTY

SCHEDULE OF PRIOR AUDIT FINDINGS  
JUNE 30, 2010

<u>Finding Number</u>	<u>Finding Summary</u>	<u>Fully Corrected?</u>	<u>Not Corrected, Partially Corrected; Significantly Different Corrective Action Plan Taken; or Finding No Longer Valid; Explain:</u>
2009-001	Financial Reporting	No	Reissued in 2010-01



# Dave Yost • Auditor of State

CLEVELAND COMMUNITY SCHOOL

CUYAHOGA COUNTY

## CLERK'S CERTIFICATION

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

*Susan Babbitt*

CLERK OF THE BUREAU

CERTIFIED  
JANUARY 12, 2012