



Dave Yost • Auditor of State

**ELITE ACADEMY OF THE ARTS
CUYAHOGA COUNTY**

TABLE OF CONTENTS

Independent Accountants' Report	1
Management's Discussion and Analysis	3
Statement of Net Assets as of June 30, 2007	7
Statement of Revenues, Expenses and Changes in Net Assets for the Fiscal Year Ended June 30, 2007	8
Statement of Cash Flows for the Fiscal Year Ended June 30, 2007.....	9
Notes to the Financial Statements	11
Independent Accountants' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by <i>Government Auditing Standards</i>	19
Schedule of Findings	21

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Dave Yost • Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

Elite Academy of the Arts
Cuyahoga County
3443 East 93rd Street
Cleveland, Ohio 44104

To the Board of Directors:

We were engaged to audit the accompanying basic financial statements of the Elite Academy of the Arts, Cuyahoga County, Ohio (the Academy), as of and for the year ended June 30, 2007, as listed in the table of contents. These financial statements are the responsibility of the Academy's management.

The Academy did not provide supporting documentation for purchased services representing 43 percent of operating expenses. We were unable to perform alternative procedures and were therefore unable to gain assurance over completeness and accuracy of Purchased Services.

The Academy did not maintain documentation to support the disclosure related to the item listed in paragraph two above.

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* require us to obtain written representations from management. Management has not provided the Auditor of State written representations, including but not limited to, management's responsibility for preparing the financial statements in conformity with the Academy's accounting basis; the availability of original financial records and related data, the completeness and availability of all minutes of the legislative or other bodies and committee meetings, management's responsibility for the Academy's compliance with laws and regulations; the identification and disclosure to the Auditor of State of all laws, regulations, and provisions of contracts and grant agreements directly and materially affecting the determination of financial statement amounts and; the presence or absence of regulations, and provisions of contracts and grant agreements, and compliance with any debt covenants.

Since the Academy did not provide sufficient evidential matter as described in paragraphs two through four above, the scope of our auditing procedures was not sufficient to enable us to express, and we do not express, an opinion of these financial statements referred to above for the year ended June 30, 2007.

As discussed in Note 13 to the basic financial statements, in October of 2011, the Ohio Department of Education notified Ashe Cultural Center, the Academy's sponsor, that they are no longer permitted to sponsor community schools in Ohio and notified Elite Academy of the Arts that they would have to close by June 30, 2012. The Ohio Department of Education took over sponsorship of the Academy while it seeks another sponsor. Under the Ohio Revised Code, a community school may not operate without a sponsor. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 7, 2012, on our consideration of the Academy's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our engagement.

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Dave Yost
Auditor of State

June 7, 2012

Elite Academy of the Arts
Management's Discussion and Analysis
For the Year Ended June 30, 2007
(Unaudited)

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

The Management's Discussion and Analysis (MD&A) is an element of the reporting model adopted by the Governmental Accounting Standards Board (GASB) in their Statement No. 34 *Basic Financial Statements-and Management's Discussion and Analysis- for State and Local Governments* issued June 1999.

Financial Highlights

- Total assets were: \$30,438
- Total liabilities were: \$29,500
- The Academy had net assets of \$ 838
- Net income for the year ended June 30, 2007 was \$838

Using the Financial Report

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

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

Elite Academy of the Arts
Management's Discussion and Analysis
For the Year Ended June 30, 2007
(Unaudited)

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

Net Assets

	<u>2007</u>
Current Assets	\$28,318
Non-Current Assets	<u>\$ 2,120</u>
Total Assets	\$30,438
Current Liabilities	\$ 0
Long Term Liabilities	<u>\$29,500</u>
Total Liabilities	<u>\$29,500</u>
Net Assets:	
Unrestricted	<u>\$ 838</u>
Total Net Assets	<u><u>\$ 838</u></u>

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

Elite Academy of the Arts
Management's Discussion and Analysis
For the Year Ended June 30, 2007
(Unaudited)

Changes in Net Assets

	<u>2007</u>
Operating Revenues:	
Foundation Payments	\$ 69,069
Total Revenues	<u>\$ 69,069</u>
Operating Expense:	
Salaries & Wage	22,007
Fringe Benefits	11,132
Purchased Services	32,687
Material & Supplies	1,094
Miscellaneous	1,311
Total Expense	<u>\$ 68,231</u>
Change in Net Assets	<u>\$838</u>

For the year ended June 30, 2007, foundation payments accounted for 100% of total revenues.

Purchased services accounted for 55% of total expenses. This is due to the Academy contracting with various vendors including the school management and sponsor to provide services for the day to day operations of the Academy.

The Academy had a change in Net Assets of \$838 for the fiscal year ended June 30, 2007 primarily due to this being the first year of operations.

Contracting the Academy's Financial Management

This financial report is designed to provide our citizen's taxpayers, investors and creditors with a general overview of the Academy's finances and to show the Academy's accountability for the money it receives. If you have questions about this report or need additional information contact David J. Schneider, Treasurer (440) 356-4240.

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ELITE ACADEMY OF THE ARTS
Statement Of Net Assets
June 30, 2007

Assets:

Current Assets:

Cash and Cash equivalents	\$28,318
<i>Total Current Assets</i>	<u>28,318</u>

Non-Current Assets:

Capital Assets (Net of Accumulated Depreciation)	<u>2,120</u>
<i>Total Assets</i>	<u>30,438</u>

Liabilities and Equity:

Long Term Liabilities

Loans Payable	<u>29,500</u>
<i>Total Long Term Liabilities</i>	<u>29,500</u>

<i>Total Liabilities</i>	<u>29,500</u>
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Net Assets

Investment in Capital Assets, net of related debt	(27,380)
Unrestricted	<u>28,318</u>

<i>Total Net Assets</i>	<u><u>\$938</u></u>
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The accompanying notes to the financial statements are an integral part of this statement.

ELITE ACADEMY OF THE ARTS
Statement of Revenues, Expenses and Changes In Net Assets
For The Fiscal Year Ended June 30, 2007

<u>Operating Revenues:</u>	
Foundation Payments	\$78,367
	<hr/>
Total Operating Revenue	78,367
	<hr/>
<u>Operating Expenses:</u>	
Salaries	18,961
Fringe Benefits	20,430
Purchased Services	33,537
Depreciation	280
Other Operating Expenses	4,321
	<hr/>
<i>Total Operating Expenses</i>	<i>77,529</i>
	<hr/>
Operating Income	838
<u>Non-Operating Revenues</u>	
Total Non-Operating Revenues	100
	<hr/>
<u>Net Assets</u>	
Net Increase in Net Assets	938
	<hr/>
Total Net Assets at Beginning of Year	0
	<hr/>
Total Net Assets at End of Year	\$938
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The accompanying notes to the financial statements are an integral part of this statement.

ELITE ACADEMY OF THE ARTS
Statement of Cash Flows
June 30, 2007

Cash Flows from Operating Activities:

Cash Received from State of Ohio	\$78,367
Cash Payments to Suppliers for Goods and Services	(33,537)
Cash Payments to Employees for Services	(39,391)
Other Cash Payments	<u>(4,321)</u>
 Net Cash Used for Operating Activities	 <u>1,118</u>

Net Cash Provided by Noncapital Financing Activities	<u>29,600</u>
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Cash Flows from Capital and Related Financing Activities:

Payments for Capital Acquisitions	(2,400)
 Net Cash Used by Capital and Related Financing Activities	 <u>(2,400)</u>

Cash Flows from Investing Activities:

Interest Earned on Note Receivable	
Rental Income	
 Net Cash Provided by Investing Activities	 <u>0</u>

Net Increase in Cash and Cash Equivalents	28,318
Cash and Cash Equivalents at the Beginning of the Year	<u> </u>
 Cash and Cash Equivalents at the End of the Year	 <u><u>\$28,318</u></u>

The accompanying notes to the financial statements are an integral part of this statement.

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**Elite Academy of the Arts
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2007**

Note 1 - Description of the School

Elite Academy of the Arts (The “School”) is a nonprofit corporation established pursuant to Ohio revised code chapter 3314. Ohio. The School operates under a Board form of government consisting of five volunteer members. The School provides educational services as authorized by state statute and/or federal guidelines.

The School was approved for operation by the Ashe Cultural Center, the Sponsor. The Sponsor is responsible for evaluating the performance of the School and has 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 Governing Board that consists of five individuals that are not owners, employees, or immediate relatives or owners or employees of any for profit firm that operate or manage the School for the Governing Board. The Board is responsible for carrying out the provisions of the contract that include, but not limited to, state mandated provisions regarding student population, curriculum, academic goals, performance standards, admission standards, and qualification of teachers.

The School contracts with Greater Education Services, Inc for management services that include management of personnel and human resources, the program of instruction, technology, marketing, data management, purchasing, strategic planning, public relations, recruiting, compliance issues, contracts and equipment and facilities.

The school was opened on September 21, 2006 with 66 students in grades 1-5. The school was located at 1841Prospect Ave., Cleveland, OH. Space was sub-leased from the Arts Daycare for the school year. In November, the school was closed because the Arts Daycare lost their lease. The school was re-opened on May 1, 2007 with space leased from Greater Achievement Community School at 3443 E 93rd St., Cleveland, Oh.

Note 2 - Summary of Significant Accounting Policies

The financial statements of Elite Academy of the Arts have been prepared in conformity with generally accepted accounting principles (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.

A. Basis of Presentation

The School District’s basic financial statements consist of a statement of net assets and a statement of activities, and fund financial statements which provide a more detailed level of financial information.

B. Measurement Focus

The enterprise activity is accounted for using a flow of economic resources measurement focus. All assets and all liabilities associated with the operation of the School are included on the statement of net assets. The statement of changes in net assets presents increases (i.e., revenues) and decreases (i.e., expenses) in net total assets. The statement of cash flows provides information about how the School finances and meets the cash flow needs.

**Elite Academy of the Arts
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2007**

Note 2 - Summary of Significant Accounting Policies (continued)

C Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. The Schools financial statements are prepared using the accrual basis of accounting. Revenue is recorded when earned. Expenses are recognized when they are incurred.

D. Budgetary Process

Community schools are not required to follow budgetary provision set forth in the Ohio Revised Code Chapter 5705, unless specifically provided by the School's contract with its sponsor. The contract between the School and its sponsor, Ashe Cultural Center, does not require the budgetary process.

F. Cash and Investments

Cash received by the School is shown as "Cash and Cash Equivalents" on the statement of net assets. The School had no investments during the fiscal year ended June 30, 2007.

G. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2007, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of purchase and an expenditure/expense is reported in the year which services are consumed. As of June 30, 2007 no prepaid items were recorded.

H. Capital Assets

All capital assets are capitalized at cost and updated for additions and reductions during the year. No donated fixed assets were received during the 2007 fiscal year. The School maintains a capitalization threshold of five hundred dollars. The School does not possess any infrastructure. The costs of normal maintenance and repairs are not capitalized. All reported capital assets, other than land, are depreciated. Depreciation is computed using the straight-line method over various useful lives ranging from three to six years.

I. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists 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. The School applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available. As of June 30, 2007, there were no net assets restricted by enabling legislation.

J. Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the School. Operating expenses are necessary costs incurred to provide the good or service that are the primary activity of the School.

**Elite Academy of the Arts
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2007**

Note 2 - Summary of Significant Accounting Policies (continued)

K. Economic Dependency

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

L. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the School District and that are either unusual in nature or infrequent in occurrence. During Fiscal Year 2007 the cancellation of our lease at 1841 Prospect Ave., Cleveland, Ohio is considered an extraordinary item.

Note 3 – Changes in Accounting Principles

There were no changes in accounting policies implemented during 2007 that would have a material effect on the financial statements.

Note 4 - Deposits and Investments

At June 30, 2007, the General Fund had a bank balance \$52,127. This account is maintained at the Chase Bank, Karamu Branch.

Custodial credit risk is the risk that, in the event of a bank failure, the schools deposits may not be returned. The school does not have a deposit policy for custodial credit risk. At June 30, 2007 the bank balance of the schools deposits was \$52,127. The bank balance was covered by federal depository insurance. There are no significant statutory restrictions regarding the deposit and investment of funds by the nonprofit corporation.

As of June 30, 2007, the School had no investments.

Note 5 - Capital Assets

Capital asset activity for the fiscal year ended June 30, 2007, was as follows:

Furniture and Equipment	\$2,400
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**Elite Academy of the Arts
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2007**

Note 6 - Defined Benefit Pension Plans

A. School Employees Retirement System

The School District contributes to the School Employees Retirement System (SERS), a cost-sharing multiple employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3476.

Plan members are required to contribute 10 percent of their annual covered salary and the School District is required to contribute at an actuarially determined rate. The current School District rate is 14 percent of annual covered payroll. A portion of the School District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2007, 10.68 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The School District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2007 was \$531; 81 percent has been contributed for fiscal year 2007.

The School District contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing multiple employer defined benefit pension plan administered by the School Employees Retirement Board. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the School Employees Retirement System, 45 North Fourth Street, Columbus, Ohio 43215-3634.

B. State Teachers Retirement System

The School District participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement system. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3771, by calling (614) 227-4090, or by visiting the STRS Ohio Web site at www.strsoh.org.

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they

**Elite Academy of the Arts
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2007**

Note 6 - Defined Benefit Pension Plans (continued)

permanently select the DC or Combined Plan. Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one time irrevocable decision to transfer their account balances from the existing DB Plan into the DC Plan or the Combined Plan. This option expired on December 31, 2001. Benefits are established by Chapter 3307 of the Ohio Revised Code.

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

For the fiscal year ended June 30, 2007, plan members were required to contribute 10 percent of their annual covered salaries. The School District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal year 2006, 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.

The School District's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2007 was \$1,998; 100 percent has been contributed for fiscal year 2007.

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 have an option to choose Social Security or the School Employees Retirement System/State Teachers Retirement System. As of June 30, 2007, no employees have elected Social Security.

Note 7- Postemployment Benefits

The School District provides comprehensive health care benefits to retired teachers and their dependents through the State Teachers Retirement System (STRS Ohio), and to retired non-certificated employees and their dependents through the School Employees Retirement System (SERS). Benefits include hospitalization, physicians' fees, prescription drugs and 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.

All STRS Ohio retirees who participated in the DB or Combined Plans and their dependents are eligible for health care coverage. The STRS Ohio Board has statutory authority over how much, if any, of the health care cost will be absorbed by STRS Ohio. All benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS Ohio funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2007, the STRS Board allocated employer contributions equal to one percent of covered payroll to the Health Care Stabilization Fund. For the School District, this amount equaled \$153 for fiscal year 2007.

**Elite Academy of the Arts
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2007**

Note 7- Postemployment Benefits (continued)

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

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

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2007, employer contributions to fund health care benefits were 3.32 percent of covered payroll, compared to 3.42 percent of covered payroll for 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 2007, the minimum pay was established at \$35,800. However, the surcharge is capped at two percent of each employer's SERS salaries. For the School District, the amount contributed to fund health care benefits, including the surcharge, during the 2007 fiscal year equaled \$165.

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

Note 8 - Litigation

As of June 30, 2007, there are currently no matters in litigation with the School as defendant. The school has not created any funding mechanisms for any actual or un-recorded contingences.

Note 9 – Related Parties

The schools policy is to prohibit any and all business activities with persons or businesses directly related to members of the Board of Trustees or Greater Educational Services.

Note 10 – Operating Lease

The school sub-leased space from the Youth Alive Academy, 1841 Prospect Ave., Cleveland, OH for school year 2007. In November, 2006 the Academy was closed because the Youth Alive Academy lost their lease. The school was re-opened on May 1, 2007 with space leased from Greater Achievement Community School at 3443 E 93rd St., Cleveland, Oh.

**Elite Academy of the Arts
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2007**

Note 11 – Loans Payable

The school has \$29,500 of loans outstanding as of June 30, 2007. These loans were used as start-up funds for the school and are supported by signed contracts.

Note 12 – Grants

The school did not receive any grant funds during school year 2007.

Note 13 - Risk Management

During fiscal year 2007, the School contracted for the following insurance coverage:

The school's insurance agent is:
Pinkney-Perry Insurance Agency, Inc.
2143 Stokes Blvd.
Cleveland, Oh.

Coverage provided by the Philadelphia Indemnity Insurance Company is as follows:

Commercial General Liability	\$1,000,000
Commercial Crime	\$1,000,000
Directors & Operators Liability	\$1,000,000 \$5,000 per claim
Employment Practices	\$1,000,000 \$5,000 per claim
Workplace Violence	\$1,000,000 \$5,000 per claim

Note 13 – Subsequent Events

Ashe Culture Center, the Academy's sponsor, has renewed its sponsorship of the Academy 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 Academy may not operate without a sponsor. The Ohio Department of Education took over sponsorship of the Academy while it seeks another sponsor. On August 25, 2011 the Ohio Department of Education Office of Community Schools issued a statement that the Academy would be closed effective June 30, 2012 due to academic viability in 2010 and 2011.

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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

Elite Academy of the Arts
Cuyahoga County
3443 East 93rd Street
Cleveland, Ohio 44124

To the Board of Directors:

We were engaged to audit the financial statements of Elite Academy of the Arts, Cuyahoga County, Ohio (the Academy) as of and for the year ended June 30, 2007, and have issued our report thereon dated June 7, 2012. We disclaimed our report because the Academy did not provide supporting documentation for purchased services. The Academy also failed to provide written representations. We also reported that Ashe Culture Center, the Academy's sponsor, had renewed its sponsorship of the Academy 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. The Ohio Department of Education took over sponsorship of the Academy while it seeks another sponsor. On August 25, 2011, the Ohio Department of Education Office of Community Schools issued a statement that the Academy would be closed effective June 30, 2012 due to academic viability in 2010 and 2011.

Internal Control Over Financial Reporting

In planning and performing our engagement, we considered the Academy'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 Academy's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the Academy's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and 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.

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 2007-001, 2007-002, 2007-006 and 2007-007 described in the accompanying schedule of findings to be material weaknesses.

Compliance and Other Matters

As part of reasonably assuring whether the Academy's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our engagement 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 2007-002, 2007-003, 2007-004, 2007-005 and 2007-006.

We also noted certain matters not requiring inclusion in this report that we reported to the Academy's management in a separate letter dated June 7, 2012.

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 Academy. We intend it for no one other than these specified parties.

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

Dave Yost
Auditor of State

June 7, 2012

**ELITE ACADEMY OF THE ARTS
CUYAHOGA COUNTY**

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

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

Finding for Recovery - Material Weakness

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

On September 15, 2006, check number 1013 in the amount of \$510 payable to Akron Municipal Court was issued and authorized by Dr. Elijah Scott, Developer/Superintendent, which was unsupported and we could not determine the purpose of the expenditure. Court records indicate that this involved a personal matter regarding Carol McDaniel, a board member.

Without appropriate documentation it is not possible to determine if the expenditures were made for 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.

In accordance with the foregoing facts and pursuant to Ohio Revised Code Section 117.28, a Finding for Recovery for public monies illegally expended is hereby issued against Carol McDaniel in the amount of \$510 and in favor of Elite Academy of the Arts.

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. *Steward v. National Surety Co.* (1929), 120 Ohio St. 47; 1980 Op. Att'y Gen. No. 80-074; Ohio Rev. Code Section 9.39; State, ex. rel. *Village of Linndale v. Masten* (1985), 18 Ohio St.3d 228. Public officials controlling public funds or property are liable for the loss incurred such funds or property be fraudulently obtained by another, converted, misappropriated, lost or stolen. 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 illegally expended is hereby issued against Dr. Elijah Scott, Developer/Superintendent, in the amount of \$510 and in favor of Elite Academy of the Arts.

FINDING NUMBER 2007-002

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.

**ELITE ACADEMY OF THE ARTS
CUYAHOGA COUNTY**

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

FINDING NUMBER 2007-002 (Continued)

Condition of Accounting Records - Material Noncompliance and Material Weakness (Continued)

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

- There was no evidence of the Board reviewing or approving the financial activity of the Academy;
- For eight of the 25 (32%) non-payroll transactions tested we were unable to obtain an invoice supporting the payments that the school made to vendors that the school did business with;
- We noted the School did not maintain complete employee personnel files. There were several important documents missing from the personnel files, such as: hiring authorization, deduction authorization form, retirement participation form, Federal Tax withholding form, State Income Tax withholding form, Local Income Tax withholding form, etc;
- For seven of the 29 payroll transactions tested, we were unable to agree the gross pay amount to the hiring authorization provided by the district;
- For two of the 29 payroll transactions tested, we noted that the employees were given hiring authorizations by the management company without formal board approval and proper documentation of being hired in the board minutes;
- Checks were not prepared in numerical order;
- The Academy was unable to provide a complete listing of 1099 forms for the period under audit;
- Several versions of the June 30, 2007 financial report were provided for audit; and
- We could not determine whether three out of six subsequent expenditures sampled, totaling \$1,225, should have been recorded as payables due to lack of documentation.

Consequently, we qualified our opinion over purchased services.

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

The Academy'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.

FINDING NUMBER 2007-003

Filing of Financial Reporting - Material Noncompliance

Ohio Rev. Code Section 117.38 provides that each public office shall file a financial report for each fiscal year. The report shall be certified by the proper officer or Board and filed with the Auditor of State within one hundred fifty days of the end of the fiscal year if GAAP statements are filed. The Auditor of State may prescribe forms by rule or may issue guidelines, or both, for such reports. If the Auditor of State has not prescribed a rule regarding the form for the report, the public office shall submit its report on the form utilized by the public office. In part this report shall contain the following:

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

**ELITE ACADEMY OF THE ARTS
CUYAHOGA COUNTY**

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

FINDING NUMBER 2007-003 (Continued)

Filing of Financial Reporting - Material Noncompliance (Continued)

Ohio Administrative Code Section 117-2-03(B) further clarifies the filing requirements of Ohio Revised Code Section 117.38. This section requires that community schools file annual financial reports which are prepared using generally accepted accounting principles. Generally accepted accounting principles (GAAP) require the following:

- Management's Discussion and Analysis;
- Balance sheet as prescribed by GAAP standards;
- Income and expense statement as prescribed by GAAP;
- Cash flow statement as prescribed by GAAP; and
- Notes to the financial statements as prescribed by GAAP.

The Academy did not file the June 30, 2007 financial report, which was required to be filed no later than November 30, 2010. This resulted in the maximum fine of \$750 to the Academy for noncompliance with the requirement.

In addition, Ohio Rev. Code Section 117.38 provides, in part, that "at the time the report is filed with the auditor of state, the chief fiscal officer, except as otherwise provided in Section 319.11 of the Ohio Rev. Code, shall publish notice in a newspaper published in the political subdivision or taxing district, and if there is no such newspaper, then in a newspaper of general circulation in the political subdivision or taxing district. The notice shall state that the financial report has been completed by the public office and is available for public inspection at the office of the chief fiscal officer." No evidence was provided, by the Academy, that this required notice was published. This may prevent the public from being aware of the transparency available in the Academy. By not filing their financial reports and annual notice, the Academy is not fulfilling their duties of accountability and transparency to the public.

FINDING NUMBER 2007-004

Fiscal Officer Designation, Bonding Requirement, and Licensing - Material Noncompliance

Ohio Revised Code Section 3314.011 provides the School designate an individual as the fiscal officer. The Ohio Administrative Code (OAC) Section 117-6-07 requires the fiscal officer execute a bond prior to entering upon the duties of the fiscal officer. The bond amount and surety is to be established by resolution of the governing authority. Bonding is conditioned on the faithful performance of the employee's official duties.

In addition, Ohio Revised Code Section 3314.011 provides, prior to assuming the duties of fiscal officer, the fiscal officer designee shall be licensed as prescribed by Section 3301.074 of the Revised Code or shall complete not less than sixteen hours of continuing education classes in the area of school accounting as approved by the sponsor of the community school. Any fiscal officer who is not licensed under this section shall complete an additional twenty-four hours of continuing education within one year after assuming the duties of fiscal officer of the school.

The Academy did not make available a bond for the position of fiscal officer (treasurer). Should an error or theft occur without a performance bond, the Academy may not be able to recover all of its lost revenues.

In addition, the Board did designate an individual as a fiscal officer, however, did not make available the necessary license of the fiscal officer (treasurer).

**ELITE ACADEMY OF THE ARTS
CUYAHOGA COUNTY**

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

FINDING NUMBER 2007-005

Interest in a Public Contract - Material Noncompliance

Ohio Revised Code Section 2921.42(A)(1) prohibits a public official from authorizing or using the authority or influence of the public official's office to secure a public contract in which the public official, a member of the public official's family, or any of the public official's business associate has an interest.

Additionally, Ohio Revised Code Section 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 the public official is connected.

The following issues were noted during our audit:

- Dr. Elijah Scott, Superintendent/Developer of the Academy, is the owner of both Greater Educational Service Center (Management Company) and First Restored Temple of Holiness. During Fiscal Year 2007, Elite Academy made payments totaling \$4,000 to First Restored Temple of Holiness for transportation services. We were able to obtain the cancelled check and noted that the check was not signed by an authorized signer and the endorsement was signed for deposit only. Greater Educational Service Center receives 15 percent of the Academy's school foundation revenue.
- Carol McDaniel served as a member of the Board for the Academy. During her time as a Board Member, Ms. McDaniel was also hired by Greater Educational Service Center (Management Company), which was owned by Dr. Scott, as a student recruitment and enrollment liaison. She was given a stipend of \$2,000.

As stated above, a public official is prohibited from having an interest in a public contract.

These matters will be referred to the Ohio Ethics Commission.

FINDING NUMBER 2007-006

Developing and Implementing an Effective Monitoring Control 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 includes 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. This process involves assessing the design and operation of controls on a timely basis and taking necessary corrective actions. Monitoring should assist management in identifying unexpected results and/or possible misstatements.

**ELITE ACADEMY OF THE ARTS
CUYAHOGA COUNTY**

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

FINDING NUMBER 2007-006 (Continued)

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

Some effective monitoring controls include:

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

The Academy failed to perform adequate monitoring over financial activities. The lack of effective monitoring could lead to the misallocation or misstatement of Academy 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. This deficiency also resulted in the audit opinion modification of several of the Academy's account balances.

FINDING NUMBER 2007-007

Financial Reporting – Material Weakness

Sound financial reporting is the responsibility of the Treasurer and Board of Directors and is essential to ensure the information provided to the readers of the financial statements is complete and accurate.

The Academy provided multiple financial reports such as the general ledgers, payable listings and bank reconciliations that were incorrect and did not accurately reflect the Academy's financial transactions during fiscal year 2007. This resulted in the following adjustments being made to the financial statements, notes and, where applicable, to the Academy's accounting records:

The Academy improperly reported foundation revenue at the net amount. Adjustments totaling \$18,488 were required to classify an increase revenues and an increase in fringe benefit expenditures.

The Academy improperly reported an amount as accounts receivable. Adjustments totaling \$3,981 were required to reclassify the accounts receivable.

**ELITE ACADEMY OF THE ARTS
CUYAHOGA COUNTY**

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

FINDING NUMBER 2007 – 007 (Continued)

Financial Reporting – Material Weakness (Continued)

The lack of controls over the posting of financial transactions and financial reporting can result in errors and irregularities that may go undetected and decreases the reliability of financial data throughout the year.

Official's Response:

The Academy did not respond to the findings reported.



Dave Yost • Auditor of State

ELITE ACADEMY OF THE ARTS

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
AUGUST 21, 2012**