



Dave Yost • Auditor of State

**ELITE ACADEMY OF THE ARTS
CUYAHOGA COUNTY
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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 Elite Academy of the Arts, Cuyahoga County, Ohio (the Academy), as of and for the years ended June 30, 2009 and June 30, 2008, as listed in the table of contents. These financial statements are the responsibility of the Academy's management.

The financial statements exclude certain accrued wages. Accounting principles generally accepted in the United States of America require that accrued wages be reported, which would increase the liabilities and increase the expenses. We cannot reasonably determine the amount by which this departure would increase or decrease the amounts reported for these liabilities, net assets, and expenses.

The Academy failed to provide supporting documentation for Accounts Payable reported for the year ended June 30, 2008 financial statements representing 30 percent of total liabilities. We were unable to perform alternative procedures and were therefore unable to gain assurance over completeness and existence of Accounts Payable.

They also did not maintain documentation to support the disclosures related to the items listed in paragraphs three and four above and the cash note for the years ended June 30, 2009 and June 30, 2008.

The amounts reported on the Statement of Cash Flows were unsupported for the years ended June 30, 2009 and June 30, 2008.

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 six above, the scope of our engagement 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 years ended June 30, 2009 and June 30, 2008.

As discussed in Note 14 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 12, 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.

A handwritten signature in black ink that reads "Dave Yost". The signature is written in a cursive style with a large, looping initial "D".

Dave Yost
Auditor of State

June 12, 2012

Elite Academy of the Arts
Cuyahoga County

Management's Discussion and Analysis
For the Year Ended June 30, 2009 and 2008
(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, 2009 and 2008. 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 FY 2008 assets decreased by \$15,032, or 49.4% from FY 2007 and FY 2009 assets increased \$127,185, or 825.5% from FY 2008.
- Total FY 2008 liabilities increased by \$15,016, or 50.9% from FY 2007 and FY 2009 liabilities increased by \$11,428, or 25.7% from FY 2008.
- Total FY 2008 net assets decreased by \$30,048, or 3,203.4% from FY 2007 and FY 2009 net assets increased \$115,757, or 397.7% from FY 2009.
- Total operating revenues were \$211,003 in FY 2008 and \$1,628,633 in FY 2009.

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.

The Statement of Net Assets and Statement of Revenues, Expenses, and Changes in Net Assets reflect how the Academy did financially during fiscal year 2009 and 2008. 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.

Elite Academy of the Arts
Cuyahoga County

Management's Discussion and Analysis
For the Year Ended June 30, 2009 and 2008
(Unaudited)
(Continued)

These statements report the Academy'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 the Academy has improved or diminished. The causes of this change may be the result of many factors, some financial, some not. Non-financial factors include the Academy's student enrollment, per-pupil funding as determined by the State of Ohio, change in technology, required educational programs and other factors.

The Academy uses enterprise presentation for all of its activities.

Statement of Net Assets

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
Cuyahoga County

Management's Discussion and Analysis
For the Year Ended June 30, 2009 and 2008
(Unaudited)
(Continued)

Table 1 provides a summary of the Academy's net assets for 2009 and 2008 compared to 2007:

Table 1
Net Assets

	6/30/2009	6/30/2008	6/30/2007
Assets			
Current Assets	\$ 121,341	\$ 8,292	\$ 28,318
Capital Assets, Net of Accumulated Depreciation	21,250	7,114	2,120
Total Assets	142,591	15,406	30,438
Liabilities			
Current Liabilities	26,444	15,016	-
Long Term Liabilities	29,500	29,500	29,500
Total Liabilities	55,944	44,516	29,500
Net Assets			
Invested in Capital Assets, Net of Related Debt	(8,250)	(22,386)	(27,380)
Unrestricted	94,897	(6,724)	28,318
Total Net Assets	\$ 86,647	\$ (29,110)	\$ 938

Current assets consisted of Cash, Prepaid Expenses and Accounts Receivables while current liabilities consisted of Accounts Payable due various vendors expenses incurred on behalf of the Academy.

Elite Academy of the Arts
Cuyahoga County

Management's Discussion and Analysis
For the Year Ended June 30, 2009 and 2008
(Unaudited)
(Continued)

Statement of Revenues, Expenses and Changes in Net Assets

Table 2 reflects the changes in net assets in 2009, 2008 and 2007, as well as a listing of revenues and expenses. This change in net assets is important because it tells the reader that, for the Academy 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.

Table 2
Change in Net Assets

	6/30/2009	6/30/2008	6/30/2007
Operating Revenue			
State Foundation	\$ 1,628,633	\$ 211,003	\$ 78,367
Other		-	-
Total Operating Revenue	<u>1,628,633</u>	<u>211,003</u>	<u>78,367</u>
Operating Expenses			
Salaries	197,713	67,993	18,961
Fringe Benefits	77,098	18,149	20,430
Purchased Services	926,296	138,648	33,537
Materials and Supplies	157,109		-
Capital Outlays	-		
Depreciation	2,212	1,849	280
Other Operating Expense	283,755	13,474	4,321
Total Operating Expenses	<u>1,644,183</u>	<u>240,113</u>	<u>77,529</u>
Operating Income (Loss)	(15,550)	(29,110)	838
Non-Operating Revenues and (Expenses)			
Other		-	100
Grants	107,941	-	-
Total Non-Operating Revenues and (Expenses)	<u>107,941</u>	<u>-</u>	<u>100</u>
Increase (Decrease) in Net Assets	<u>\$ 92,391</u>	<u>\$ (29,110)</u>	<u>\$ 938</u>

For the fiscal year ended June 30, 2008, foundation payments accounted for 100% of total revenues. For the fiscal year ended June 30, 2009, foundation and federal grants account for 100% of total revenue.

Elite Academy of the Arts
Cuyahoga County

Management's Discussion and Analysis
For the Year Ended June 30, 2009 and 2008
(Unaudited)
(Continued)

Purchased services accounted for 58% of total expenses in fiscal year ended June 30, 2008 and 57% for fiscal year ended June 30, 2009. This is due to the Academy contracting with various vendors including 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 \$92,391 for the fiscal year ended June 30, 2009 primarily due to this being the third year of operations and a major increase in student enrollment.

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 the Academy and its Sponsor does prescribe a budgetary process. The Academy must prepare and submit a detailed budget for every fiscal year to the Board of Trustees and its Sponsor. The five-year forecast is also submitted the Ohio Department of Education, annually.

Capital Assets

The Academy had (\$22,386) invested in capital assets, net of accumulated depreciation for fiscal year ended 2008 and (\$8,250)) invested in capital assets, net of accumulated depreciation for fiscal year ended 2009. Detailed information regarding capital asset activity is included in the notes to the basic financial statements.

Debt Obligations

The Academy does not have any long-term debt, but does maintain loans payable, a line of credit payable and a credit card, reflected as a short-term loan on the Statement of Net Assets, to provide short-term cash for emergencies. See the notes to the basic financial statements for further details.

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 at 440-356-4240.

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**ELITE ACADEMY OF THE ARTS
CUYAHOGA COUNTY**

**Statement of Net Assets
As of June 30, 2009**

Assets:

Current Assets:

Cash and Cash equivalents	\$ 117,360
Receivables	3,981
<i>Total Current Assets</i>	<u>121,341</u>

Non-Current Assets:

Capital Assets (Net of Accumulated Depreciation)	<u>21,250</u>
<i>Total Assets</i>	<u>142,591</u>

Liabilities and Equity:

Current Liabilities:

Accounts Payable	<u>26,444</u>
<i>Total Current Liabilities</i>	<u>26,444</u>

Long Term Liabilities

Loans Payable	<u>29,500</u>
<i>Total Long Term Liabilities</i>	<u>29,500</u>
<i>Total Liabilities</i>	<u>55,944</u>

Net Assets

Investment in Capital Assets, net of related debt	(8,250)
Unrestricted	<u>94,897</u>
<i>Total Net Assets</i>	<u>\$ 86,647</u>

See accompanying notes to the basic financial statements.

**ELITE ACADEMY OF THE ARTS
CUYAHOGA COUNTY**

**Statement of Revenues, Expenses and Changes In Net Assets
As of June 30, 2009**

<u>Operating Revenues:</u>	
Foundation Payments	\$ <u>1,628,633</u>
Total Operating Revenue	<u>1,628,633</u>
<u>Operating Expenses:</u>	
Salaries	197,719
Fringe Benefits	77,098
Purchased Services	926,296
Materials and Supplies	157,109
Depreciation	2,212
Other Operating Expenses	<u>283,755</u>
<i>Total Operating Expenses</i>	<u>1,644,189</u>
Operating Income	(15,556)
<u>Non-Operating Revenues</u>	
Federal and State Grants	<u>107,941</u>
Total Non-Operating Revenues	<u>107,941</u>
<u>Net Assets</u>	
Net Increase in Net Assets	92,385
Total Net Assets at Beginning of Year	<u>(10,287)</u>
Total Net Assets at End of Year	<u><u>\$ 82,098</u></u>

See accompanying notes to the basic financial statements.

**ELITE ACADEMY OF THE ARTS
CUYAHOGA COUNTY**

**Statement of Cash Flows
As of June 30, 2009**

<u>Cash Flows from Operating Activities:</u>	
Cash Received from State of Ohio	\$ 1,786,689
Cash Payments to Suppliers for Goods and Services	(1,101,294)
Cash Payments to Employees for Services	<u>(504,303)</u>
Net Cash Used for Operating Activities	<u>181,092</u>
Net Increase in Cash and Cash Equivalents	181,092
Cash and Cash Equivalents at the Beginning of the Year	<u> </u>
Cash and Cash Equivalents at the End of the Year	<u><u>\$ 181,092</u></u>

See accompanying notes to the basic financial statements.

**ELITE ACADEMY OF THE ARTS
CUYAHOGA COUNTY**

**Statement of Net Assets
As of June 30, 2008**

Assets:

Current Assets:

Cash and Cash equivalents	\$ 4,311
Receivable	3,981
<i>Total Current Assets</i>	<u>8,292</u>

Non-Current Assets:

Capital Assets (Net of Accumulated Depreciation)	<u>7,114</u>
<i>Total Assets</i>	<u>15,406</u>

Liabilities and Equity:

Current Liabilities:

Accounts Payable	<u>15,016</u>
<i>Total Current Liabilities</i>	<u>15,016</u>

Long Term Liabilities

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

<i>Total Liabilities</i>	<u>44,516</u>
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Net Assets

Investment in Capital Assets, net of related debt	(22,386)
Unrestricted	<u>(6,724)</u>
<i>Total Net Assets</i>	<u>\$ (29,110)</u>

See accompanying notes to the basic financial statements.

**ELITE ACADEMY OF THE ARTS
CUYAHOGA COUNTY**

**Statement of Revenues, Expenses and Changes In Net Assets
As of June 30, 2008**

Operating Revenues:

Foundation Payments	\$ <u>211,003</u>
Total Operating Revenue	<u>211,003</u>

Operating Expenses:

Salaries	67,993
Fringe Benefits	18,149
Purchased Services	138,648
Depreciation	1,849
Other Operating Expenses	<u>13,474</u>
<i>Total Operating Expenses</i>	<u>240,113</u>

Operating Income	(29,110)
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Net Assets

Net Increase in Net Assets	(29,110)
Total Net Assets at Beginning of Year	<u>933</u>
Total Net Assets at End of Year	<u>\$ (28,177)</u>

See accompanying notes to the basic financial statements.

**ELITE ACADEMY OF THE ARTS
CUYAHOGA COUNTY**

**Statement of Cash Flows
As of June 30, 2008**

Cash Flows from Operating Activities:

Cash Received from State of Ohio	\$ 215,017
Cash Payments to Suppliers for Goods and Services	(93,222)
Cash Payments to Employees for Services	(129,996)
Other Cash Receipts	<u>0</u>
Net Cash Used for Operating Activities	<u>(8,201)</u>

Cash Flows from Capital and Related Financing Activities:

Payments for Capital Acquisitions	<u>(6,843)</u>
Net Cash Used by Capital and Related Financing Activities	<u>(6,843)</u>

Net Increase in Cash and Cash Equivalents	(15,044)
Cash and Cash Equivalents at the Beginning of the Year	<u> </u>
Cash and Cash Equivalents at the End of the Year	<u><u>\$ (15,044)</u></u>

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

**ELITE ACADEMY OF THE ARTS
CUYAHOGA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEARS ENDED JUNE 30, 2009 AND 2008**

Note 1 - Description of the School

Elite Academy of the Arts (The “Academy”) 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.

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.

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.

**ELITE ACADEMY OF THE ARTS
CUYAHOGA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEARS ENDED JUNE 30, 2009 AND 2008
(Continued)**

Note 2 - Summary of Significant Accounting Policies (Continued)

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.

E. 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 years ended June 30, 2008 and 2009.

F. 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, 2008 and 2009 no prepaid items were recorded.

G. 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 2008 and 2009 fiscal years. 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.

H. 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. For the fiscal years ended June 30, 2008 and 2009 there were no net assets restricted by enabling legislation.

I. 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
CUYAHOGA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEARS ENDED JUNE 30, 2009 AND 2008
(Continued)**

J. Intergovernmental Revenues

The Academy 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.

Note 2 - Summary of Significant Accounting Policies (Continued)

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 the Academy must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the Academy on a reimbursement basis.

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

Under the above programs the Academy received \$107,941 in fiscal year 2009.

K. 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. No extraordinary items occurred during fiscal years 2008 and 2009.

Note 3 – Changes in Accounting Principles

There were no changes in accounting policies implemented during Fiscal Years 2008 and 2009 that would have a material effect on the financial statements.

Note 4 - Deposits and Investments

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.”

The Academy maintains its cash balances at one financial institution located in Ohio, Chase Bank, Karamu Branch. The balances are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000, per qualifying account. At June 30, 2009, the book amount of the Academy’s deposits was \$117,360 and the bank balance was \$168,502.61. At June 30, 2008, the book amount of the Academy’s deposits was \$8,118 and the bank balance was \$8,118.

The Academy had no deposit policy for custodial risk beyond the requirement of state statute.

**ELITE ACADEMY OF THE ARTS
CUYAHOGA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEARS ENDED JUNE 30, 2009 AND 2008
(Continued)**

Ohio law requires that deposits either be insured or be protected by eligible securities pledged to and deposited either with the Academy 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, 2009 and 2008, none of the bank balance was exposed to custodial credit risk.

Note 5 - Capital Assets

Capital asset activity for the fiscal year ended 2008 consisted of the following:

	Balance 06/30/07	Additions	Deletions	Balance 06/30/08
Capital Assets Being Depreciated:				
Furniture and Equipment	\$2,400	\$6,843	\$ -	\$9,243
Total Capital Assets Being Depreciated	2,400	6,843	-	9,243
Less Accumulated Depreciation:				
Furniture and Equipment	(280)	(1,849)	-	(2,129)
Total Accumulated Depreciation	(280)	(1,849)	-	(2,129)
Net Total Capital Assets	\$2,120	\$ 4,994	\$ -	\$7,114

Capital asset activity for the fiscal year ended 2009 consisted of the following:

	Balance 06/30/08	Additions	Deletions	Balance 06/30/09
Capital Assets Being Depreciated:				
Furniture and Equipment	\$9,243	\$17,229	\$ -	\$26,472
Total Capital Assets Being Depreciated	9,243	17,229	-	26,472
Less Accumulated Depreciation:				
Furniture and Equipment	(2,129)	(3,574)	-	(5,703)
Total Accumulated Depreciation	(2,129)	(3,574)	-	(5,703)
Net Total Capital Assets	\$7,114	\$ 13,655	\$ -	\$20,769

**ELITE ACADEMY OF THE ARTS
CUYAHOGA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEARS ENDED JUNE 30, 2009 AND 2008
(Continued)**

Note 6 - Defined Benefit Pension Plans

A. State Teachers Retirement System

Plan Description – – The Academy 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.

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 a 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 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. 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.

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 of the DC Plan dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

Funding Policy – For fiscal year ended June 30, 2009, plan members were required to contribute 10 percent of their annual covered salaries. The School was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rate 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's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2009, 2008, and 2007 were \$32,985, \$4,550 and \$1,998 respectively; 100 percent has been contributed for fiscal year 2009, 2008 and 2007.

**ELITE ACADEMY OF THE ARTS
CUYAHOGA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEARS ENDED JUNE 30, 2009 AND 2008
(Continued)**

Note 6 - Defined Benefit Pension Plans (Continued)

B. School Employees Retirement System

Funding Policy – Plan members are required to contribute 10 percent of their annual covered salary and the Academy 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. The Academy's contributions to SERS for the year ended June 30, 2009, 2008 and 2007 were \$24,552, \$2,189, and \$531, respectively, 100 percent has been contributed for fiscal years 2009, 2008 and 2007.

Plan Description – The Academy contributes to the School Employees Retirement System of Ohio (SERS), a cost sharing multi-employer defined benefit pension plan. SERS provides retirement, disability, and survivor benefits; annual cost-of-living adjustments; and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by state statute per Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand alone financial report that includes financial statement and required supplementary information. That report can be obtained by contracting SERS, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746 or by calling toll free (800) 878-5853. It is also posted on SERS' website at www.ohsers.org under Forms and Publications.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the Academy Employees Retirement System or the State Teachers Retirement System of Ohio have an option to choose Social Security or the Academy Retirement System. As of June 30, 2009, there were no members that elected Social Security. The contribution rate is 6.2 percent of wages.

Note 7 – Post Employment Benefits

A. State Teachers Retirement System

Plan Description – The Academy 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 or by calling (888) 227-7877.

**ELITE ACADEMY OF THE ARTS
CUYAHOGA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEARS ENDED JUNE 30, 2009 AND 2008
(Continued)**

Note 7 – Post Employment Benefits (Continued)

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 2009, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. The Academy's contributions for health care for the fiscal years ended June 30, 2009, 2008, and 2007 were \$2,537, \$350 and \$153, respectively, all of which has been contributed for all fiscal years.

B. School Employees Retirement System

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

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 The Academy's contributions for the years ended June 30, 2009, 2008 and 2007 were \$1,315, \$158, and \$33, respectively, all of which has been contributed for all fiscal years.

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 Ohio Revised Code provides the statutory authority to fund SERS' postemployment benefits through employer contributions.

**ELITE ACADEMY OF THE ARTS
CUYAHOGA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEARS ENDED JUNE 30, 2009 AND 2008
(Continued)**

Note 7 – Post Employment Benefits (Continued)

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% 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% of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5% of the total statewide SERS-covered payroll for the health care surcharge. For the fiscal year ending June 30, 2009, 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. The School's contributions assigned to health care for the years ended June 30, 2009, 2008 and 2007 were \$3,507, \$999, and \$165, respectively, of which 100% has been contributed.

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 under Employers/Audit Resources.

Note 8 - Employee Benefits

A. Compensated Absences

Teachers and administrators do not earn vacation time or sick leave.

Note 9 – Tax Exempt Status

The School has filed for its tax exempt status under Section 501(c)(3) of the Internal Revenue Code.

Note 10 – Management Company

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.

Per the management agreement with the School, Greater Education, Inc. is entitled to a management fee that is equivalent to 15% of school revenue. Management fees for the Fiscal Years 2008 and 2009 were \$4,957 and \$202,468, respectively.

**ELITE ACADEMY OF THE ARTS
CUYAHOGA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEARS ENDED JUNE 30, 2009 AND 2008
(Continued)**

Note 11 – Sponsor

Per the contract with the School, Ashe Cultural Center, the School's sponsor, is entitled to a sponsor fee that is equivalent to 3% of school revenue. Sponsor fees for the Fiscal Years 2008 and 2009 were \$16,852 and \$48,083, respectively.

Note 12 - Litigation

As of June 30, 2008 and 2009 there were no matters in litigation with the School as defendant.

Note 13 – Loans Payable

The Academy has entered into two interest free loan agreements of \$11,500 and \$18,000 (totaling \$29,500) during FY 2007. These loans were used as start-up funds for the Academy and are supported by signed contracts.

The \$11,500 loan agreement calls for five monthly payments of \$2,000 beginning 12/1/2009 and a final payment of \$1,500 on 6/1/2010. The \$18,000 loan agreement calls for six monthly payments of \$3,000 beginning 12/1/2009.

As of June 30, 2009, the Academy has made no principal payments on the loans.

Note 14 – 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 the Elite Academy of the Arts, Cuyahoga County, Ohio (the Academy) as of and for the year ended June 30, 2009 and June 30, 2008, and have issued our report thereon dated June 12, 2012. We disclaimed our report because there was insufficient evidence to support the amount reported for June 30, 2008 accounts payable amount, the related note disclosures, and the Statement of Cash Flows. The Academy also failed to provide written representations. We also reported, 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. Therefore, our report expressed substantial doubt about the Academy's ability to continue as a going concern. The financial statements exclude certain accrued wages which accounting principles generally accepted in the United States of America require that accrued wages be reported, which would increase the liabilities and increase the expenses.

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 2009-006 through 2009-008 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 2009-001 through 2009-006 and 2009-008.

We also did note certain matters not requiring inclusion in this report that we reported to the Academy's management in a separate letter dated June 12, 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 style with a large, looping initial "D".

Dave Yost
Auditor of State

June 12, 2012

**ELITE ACADEMY OF THE ARTS
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS
FOR THE YEAR ENDED JUNE 30, 2009 and June 30, 2008**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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FINDING NUMBER 2009-001

Finding for Recovery – Material Noncompliance – Duplicate Reimbursements

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 May 20, 2009, check number 2226 was issued in the amount of \$1,000 to Dr. Elijah Scott. The supporting documentation to this payment that was maintained in the academy's files was two receipts to Walt Disney World that were dated May 23, 2009 and one receipt to Universal Studios dated May 25, 2009. On August 22, 2009, check number 2332 was issued in the amount of \$4,818.13 to Dr. Elijah Scott. This payment had 19 different reimbursement items that were originally paid with Dr. Elijah Scott's personal funds. Items number nine and ten that were maintained as support for the reimbursement was the same receipts that were maintained for the reimbursement paid May 20, 2009 with check number 2226. The Academy paid Dr. Elijah Scott twice for the receipts submitted for reimbursement that were to Walt Disney World and Universal Studios.

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 \$1,000 and in favor of the 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 liable for the amount of this 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.

Accordingly, David Schneider, Treasurer, and The Hanover Insurance Group Inc., his bonding company, are jointly and severally liable in the amount of \$1,000 and in favor of the Elite Academy of the Arts.

FINDING NUMBER 2009-002

Finding for Recovery – Material Noncompliance – Group Event

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.

**ELITE ACADEMY OF THE ARTS
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS
FOR THE YEAR ENDED JUNE 30, 2009 and June 30, 2008
(Continued)**

FINDING NUMBER 2009-002 (Continued)

Finding for Recovery – Material Noncompliance – Group Event (Continued)

On May 29, 2009, check number 2235 in the amount of \$3,881 was issued and authorized by Dr. Elijah Scott, Developer and Superintendent, and David Schneider, Treasurer, and made payable to Fun N Stuff for a group event of 175 students that took place on June 1, 2009 that cost \$3,019. The Academy was given an \$862 credit by Fun N Stuff that was used on June 22, 2009 for an event that cost \$511. The Academy was unable to provide detailed support for this amount. The remaining \$351 of the credit was used for a group event of 57 students on September 5, 2009 that the Academy was able to provide an invoice that had detailed support.

The failure to maintain adequate support for a vendor credit could result in a loss of accountability over the Academy'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.

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 liable for the amount of this 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.

Accordingly, Dr. Elijah M. Scott, Developer and Superintendent, and David Schneider, Treasurer, and The Hanover Insurance Group Inc., his bonding company, are jointly and severally liable in the amount of \$511 and in favor of Elite Academy of the Arts.

FINDING NUMBER 2009-003

Finding for Recovery – Material Noncompliance – Purchase of Alcohol

Ohio Attorney General Opinion No. 82-006 addresses the expenditure of funds for public purposes. This opinion, citing the Ohio Supreme Court case of *State ex rel. McClure v. Hagerman*, 155 Ohio St. 320 (1951), provides that the primary object of an expenditure of public funds should serve a public purpose. Typically the determination of what constitutes a "proper public purpose" rests with the judgment of the governmental entity, unless such determination is arbitrary or unreasonable. Even if a purchase is reasonable, Ohio Attorney General Opinion 82-006 indicates that it must be memorialized by a duly enacted ordinance or resolution and may have a prospective effect only. Auditor of State Bulletin 2003-005 states that the Auditor of State's Office will only question expenditures where the legislative determination of a public purpose is manifestly arbitrary and incorrect and in addition states that the Auditor of State's Office does not view the expenditure of public funds for alcoholic beverages as a proper public purpose.

On July 18, 2008, Dr. Elijah Scott, Developer/Superintendent, paid for a board retreat committee meeting dinner at Fat Fish Blue in Cleveland, Ohio. The \$114 receipt was submitted and was part of the support to check number 2332 that totaled \$4,818 paid to Dr. Elijah Scott. As part of the \$114 detailed receipt, \$17 was for alcoholic beverages.

**ELITE ACADEMY OF THE ARTS
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS
FOR THE YEAR ENDED JUNE 30, 2009 and June 30, 2008
(Continued)**

FINDING NUMBER 2009-003 (Continued)

Finding for Recovery – Material Noncompliance – Purchase of Alcohol (Continued)

On August 1, 2008 Dr. Elijah Scott, Developer/Superintendent, used the Academy's debit/credit card at a restaurant as part of an interview. The detailed receipt totaled \$164 which included \$33 for alcoholic beverages.

In accordance with the foregoing facts, and pursuant to Ohio Rev. Code Section 117.28, a finding for recovery for public money illegally expended has been issued against Dr. Elijah Scott, Developer/Superintendent, in the amount of \$50 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 liable for the amount of this 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.

Accordingly, David Schneider, Treasurer, and The Hanover Insurance Group Inc., his bonding company, are jointly and severally liable in the amount of \$50 and in favor of Elite Academy of the Arts.

FINDING NUMBER 2009-004

Finding for Recovery – Material Noncompliance - Lease Payments

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 April 15 2008, check number 4598936 was issued in the amount of \$8,640 to Holy Spirit Church through the Academy's payroll service Paycor. This payment was for two months of rent for the school building at 3443 E 93rd Street, Cleveland, Ohio. The lease agreement was for \$4,200 a month for a total of 12 months. We could not agree the over payment to an original invoice for the amount of \$240.

During this period of time Dr. Elijah M. Scott approved all payroll notifications sent to Paycor and approved transfers out of the Academy's bank account to Paycor.

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 liable for the amount of this 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.

**ELITE ACADEMY OF THE ARTS
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS
FOR THE YEAR ENDED JUNE 30, 2009 and June 30, 2008
(Continued)**

FINDING NUMBER 2009-004 (Continued)

Finding for Recovery – Material Noncompliance - Lease Payments (Continued)

Accordingly, Dr. Elijah M. Scott, Developer and Superintendent, is liable in the amount of \$240 and in favor of Elite Academy of the Arts.

FINDING NUMBER 2009-005

Finding for Recovery – Material Noncompliance – Support for Cash Withdrawal

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 November 10, 2008, an ATM cash withdrawal was made in the amount of \$303. The Academy was unable to provide detailed support for the withdrawal other than a document stating the cash was used for children snacks. During this period of time Dr. Elijah M. Scott and Leslie Phillips were the only authorized users of school debit cards.

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 Dr. Elijah Scott, Developer/Superintendent, and Leslie Phillips, Business Manager, jointly and severally, in the amount of \$303 and in favor of the 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 liable for the amount of this 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.

Accordingly, David Schneider, Treasurer, and The Hanover Insurance Group Inc., his bonding company, are jointly and severally liable in the amount of \$303 and in favor of Elite Academy of the Arts.

**ELITE ACADEMY OF THE ARTS
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS
FOR THE YEAR ENDED JUNE 30, 2009 and June 30, 2008
(Continued)**

FINDING NUMBER 2009-006

Material Noncompliance and Material Weakness – Condition of Accounting Records

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 Academy. Also, management is responsible for developing and maintaining complete and accurate financial records. In lieu of complete and accurate financial records, we noted that the records consisted of the following:

- Academy did not issue sequential check numbers, issued duplicate check numbers and had numerous instances where the check information did not agree to the Academy's General Ledger;
- Nine out of 60 employees gross pay per the payroll ledgers generated by Paycor did not agree to the signed employee contract that we were provided;
- The Academy did not maintain complete employee personnel files, including deduction authorization form, retirement participation form, Federal Tax withholding form, State Income Tax withholding form, Local Income Tax withholding form, etc.;
- The Academy did not provide supporting documentation for all amounts deposited and recorded as state foundation receipts. The Academy failed to provide documentation for three deposits (\$742) recorded as state foundation revenue for fiscal year end 2008 and failed to provide documentation for two deposits (\$11,544) recorded as foundation revenue for fiscal year end 2009.
- The Academy did not provide support for the fiscal year 2008 accounts payable line item amount. In addition, the Academy was unable to provide eight invoices (totaling \$9,098) needed to test the search for unrecorded liabilities in fiscal year 2008.
- The Academy failed to record or provide supporting documentation to test the fiscal year 2008 and fiscal year 2009 accrued wage line item amounts.
- The Statement of Cash Flows was not presented consistently nor did it agree to the underlying financial statement data for both fiscal year 2008 and fiscal year 2009, which is not in accordance with the standards established by the Government Accounting Standards Board (GASB);
- Foot note disclosures were not made in accordance with GASB standards;
- Several versions of the June 30, 2009 and June 30, 2008 financial report were provided for audit;
- The Statement of Net Assets did not agree with the Statement of Revenues, Expenses and Changes in Net Assets for both fiscal year 2008 and fiscal year 2009.

Failure to implement and maintain a system of controls over the Academy's financial records increases the chances of misstatement, as evidenced in the financial reporting problems described in Finding 2009-07, or fraud.

The Academy 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.

**ELITE ACADEMY OF THE ARTS
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS
FOR THE YEAR ENDED JUNE 30, 2009 and June 30, 2008
(Continued)**

FINDING NUMBER 2009-007

Material Weakness – Financial Reporting

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 2008 and 2009. This resulted in the following adjustments being made to the financial statements, notes and, where applicable, to the Academy's accounting records:

- The Academy incorrectly posted 1099 contract payments to the salaries and wages line item. These misstatements led to salaries and wages being overstated in both 2009 fiscal year end and 2008 fiscal year end. Adjustments to decrease salaries and wages expenditures for \$306,590 were recorded at 2009 fiscal year end and \$62,297 were recorded for 2008 fiscal year end;
- The Academy did not account for the SERS and STRS receipt and disbursement amounts on the foundation monies received from the state. Adjustments to increase foundation receipts and SERS/STRS disbursements totaling \$42,393 for 2009 fiscal year end and \$13,088 for 2008 fiscal year end;
- The Academy incorrectly recorded July 2008 state foundation receipts as state foundation revenue and accounts receivable in 2008. The Academy also incorrectly recorded July 2009 state foundation receipts as state foundation revenue and accounts receivable in 2009. These misstatements led to accounts receivable and state foundation revenue being overstated in both fiscal year 2008 and 2009. An adjustment to decrease state foundation revenue and accounts receivable were made in the amount of \$17,102 for 2008 fiscal year end and \$126,712 for 2009 fiscal year end;
- The Academy incorrectly recorded July 2008 state foundation receipt (\$17,102) as state foundation revenue in 2008. Also, the Academy correctly recorded the August 2008 state foundation receipt as a state foundation revenue, however, the Academy created an adjustment to remove the August 2008 foundation receipt (\$17,102) in fiscal year 2009. Adjustments totaling 34,204 in fiscal year 2009 were recorded to increase state foundation revenue for 2009 fiscal year end.
- The Academy improperly recorded federal grant revenue as operating foundation revenue during fiscal year 2009. Adjustments totaling \$107,941 were required to reclassify state foundation revenues to federal grant revenue for 2009 fiscal year end;
- The Academy did not account for three outstanding checks on the June 30, 2008 bank reconciliation or account for the corresponding expenditures on the fiscal year 2008 financial statements. Adjustments totaling \$3,807 were made to decrease the cash balance and increase expenditures for 2008 fiscal year end and to increase the fiscal year 2009 beginning cash balance and decrease expenditures for 2009 fiscal year end.

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.

**ELITE ACADEMY OF THE ARTS
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS
FOR THE YEAR ENDED JUNE 30, 2009 and June 30, 2008
(Continued)**

FINDING NUMBER 2009-008

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

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 controls are 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 controls include:

- 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 controls has lead to the misallocation or misstatement of Academy funds, expenditure of funds contrary to the directives of the governing 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 review a comparison of financial statement position with financial projections. This review should be of both revenue and expenses that is both accumulated information as well as financial performance in a given time period. 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.

**ELITE ACADEMY OF THE ARTS
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS
FOR THE YEAR ENDED JUNE 30, 2009 and June 30, 2008
(Continued)**

FINDING NUMBER 2009-009

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.

During our audit, we noted Dr. Elijah Scott, Superintendent/Developer of the Academy, is the owner of Greater Educational Service Center (Management Company). Greater Educational Service Center receives 15 percent of the Academy's school foundation revenue.

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.

Official's Response:

The Academy did not respond to the findings reported.

**ELITE ACADEMY OF THE ARTS
CUYAHOGA COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2009 and 2008**

<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>
2007-001	Finding for Recovery – Monies Illegally Expended	Yes	No longer valid
2007-002	Condition of Accounting Records	No	Reissued as 2009-006
2007-003	Filing of Financial Reporting	No	Moved to management letter
2007-004	Fiscal Officer Designation, Bonding Requirement, & Licensing	Yes	Academy is now bonded, reissued licensing requirements in management letter
2007-005	Interest in a Public Contract	Yes	Reissued as 2009-009
2007-006	Developing and Implementing an Effective Monitoring System	No	Reissued as 2009-008
2007-007	SAS 115 Financial Reporting	No	Reissued as 2009-007



Dave Yost • Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT ON APPLYING AGREED-UPON PROCEDURES

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

To the Board of Directors:

Ohio Rev. Code Section 117.53 states "the auditor of state shall identify whether the school district or community school has adopted an anti-harassment policy in accordance with Section 3313.666 of the Revised Code. This determination shall be recorded in the audit report. The auditor of state shall not prescribe the content or operation of any anti-harassment policy adopted by a school district or community school."

Accordingly, we have performed the procedures enumerated below, which were agreed to by the Board, solely to assist the Board in evaluating whether the Elite Academy of the Arts (the Academy) has adopted an anti-harassment policy in accordance with Ohio Rev. Code Section 3313.666. Management is responsible for complying with this requirement. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of the Board. Consequently; we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

We inquired with the Board's management regarding the aforementioned policy. They stated they have not yet adopted an anti-harassment policy. The Board should adopt a policy as required by Ohio Rev. Code 3313.666

We were not engaged to and did not conduct an examination, the objective of which would be the expression of an opinion on compliance with the anti-harassment policy. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the Board and Academy's sponsor and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Dave Yost".

Dave Yost
Auditor of State

June 12, 2012



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**