PHOENIX VILLAGE ACADEMY SECONDARY 1
CUYAHOGA COUNTY

REGULAR AUDIT

FOR THE YEAR ENDED JUNE 30, 2010

Dave Yost • Auditor of State

PHOENIX VILLAGE ACADEMY SECONDARY 1
CUYAHOGA COUNTY

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INDEPENDENT ACCOUNTANTS' REPORT

Phoenix Village Academy Secondary 1
Cuyahoga County
12406 Shaker Boulevard
Cleveland, OH 44120

To the Board of Trustees:

We were engaged to audit the accompanying financial statements of Phoenix Village Academy secondary 1, Cuyahoga County, Ohio (the Academy), as of and for the year ended June 30, 2010. These financial statements are the responsibility of the Academy's management.

The Academy failed to provide documentation of Advances to Schools and Advances Payable.

The Academy did not maintain sufficient documentation to support an adjustment made to Net Assets Beginning of Year.

The Academy did not provide all employment contracts to us to support salaries paid to employees nor did the Academy provide support for adjustments made to amounts reported as Salaries and Fringe Benefits.

The Academy did not maintain sufficient documentation to support amounts recorded as capital assets.

They also did not maintain documentation to support the disclosures related to the items listed in paragraphs two through five above.

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

AU Section 337 permits auditors to rely on the judgment of lawyers and management as to the disclosure of unasserted claims. Letters of audit inquiry sent to the Academy's legal counsel were not responded to. Therefore, we were unable to obtain sufficient evidence regarding the completeness of unasserted claims.

Since the Academy did not provide sufficient evidential matter as described in paragraphs two through seven above, the scope of our 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, 2010.

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In accordance with *Government Auditing Standards*, we have also issued our report dated June 25, 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.

The accompanying financial statements have been prepared assuming that the Academy will continue as a going concern. As discussed in Note 18, in September 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. These conditions raise substantial doubt about the Academy's ability to continue as a going concern. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Accounting principles generally accepted in the United States of America require this presentation to include *Management's discussion and analysis*, as listed in the table of contents, to supplement the basic financial statements. Although this information is not part of the basic financial statements, the Governmental Accounting Standards Board considers it essential for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any other assurance.

Dave Yost

Dave Yost
Auditor of State

June 25, 2012

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

Our discussion and analysis of The Phoenix Village Academy Secondary - 1 (the Academy) financial performance provides an overall review of the Academy's financial activities for the fiscal year ended June 30, 2010. 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 new reporting model adopted by the Governmental Accounting Standards Board (GASB) in their Statement No. 34 Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Government issued June 1999. Certain comparative information between the current year and the prior year is required to be presented in the MD&A.

FINANCIAL HIGHLIGHTS

Key Financial Highlights for the Academy for the 2009-10 school year are as follows:

- Total assets increased by $52,631, or 67%.
- Total liabilities decreased by $2,772, or 4% from 2009. The decrease is due to the change in current liabilities.
- Total net assets increased by $35,685.
- Total operating revenues were $517,270. Total operating expenses were $591,448.

USING THIS ANNUAL REPORT

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

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

These statements report 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

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

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

Table 1
Statement of Net Assets

	2010	2009
Assets		
Current Assets	$69,301	$14,470
Capital Assets, Net of Accumulated Depreciation	55,284	63,913
Total Assets	124,585	78,383
Liabilities		
Current Liabilities	65,851	60,869
Non-Current Liabilities	50	3,000
Total Liabilties	65,901	63,869
Net Assets		
Invested in Capital Assets, Net of Related Debt	55,284	63,913
Unrestricted	3,400	(49,399)
Total Net Assets	$58,684	$14,514

Net assets increased $22,137. This was due to a reduction in current liabilities. Capital Assets, net of depreciation, reduced the carrying value in capital assets after the annual depreciation charge. Liabilities increased from 2009, by 2,032.

Statement of Revenues, Expenses and Changes in Net Assets

Table 2 shows the changes in net assets for fiscal years 2010 and 2009, as well as a listing of revenues and expenses. This change in net assets is important because it tells the reader that, for the 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
Revenues, Expenses, and Changes in Net Assets

	2010	2009
Operating Revenues:		
State Foundation (Aid)	$515,395	$251,584
Other Revenue	1,875	2,400
Total Operating Revenues	517,270	253,984
Operating Expenses:		
Salaries	264,424	139,780
Fringe Benefits	47,937	28,628
Purchased Services	268,353	93,438
Materials and Supplies	14,526	515
Depreciation	22,918	20,340
Other	2,929	1,320
Total Operating Expenses	621,087	284,021
Net Operating Loss	(103,817)	(30,037)
Non-Operating Revenues and (Expenses)		
Federal and State Grants	132,652	33,258
Total Non-Operating Revenue/Expense	132,652	33,258
Change in Net Assets	28,835	3,221
Net Assets at Beginning of Year, Restated	29,849	11,293
Net Assets at End of Year	$58,684	$14,514

Operating revenues increased $263,286, from 2009. The increase is due to the increased enrollment which resulted in an increase in additional State Aid. Expenses increased from 2009 by $334,487. The largest expense, besides payroll of the Academy is Purchased Services, which includes sponsor and management fees and other contracted services to maintain and use the educational facility and provide student lunch, purchased services increased by $174,915.

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 has developed a one year spending plan and a five-year forecast that is reviewed semi-annually by the Board of Trustees. The five-year forecast is also submitted to the Sponsor and the Ohio Department of Education, annually.

CAPITAL ASSETS

The Academy has $43,573 invested in capital assets, net of accumulated depreciation. No additional investments in capital asset in the fiscal year were made. Detailed information regarding capital asset activity is included in the Note 4 in the notes to the basic financial statements.

The Academy has commissioned a third-party to value its capital assets to comply with the Administrative Code.

CONTACTING THE ACADEMY'S FINANCIAL MANAGEMENT

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

PHOENIX VILLAGE ACADEMY SECONDARY 1
CUYAHOGA COUNTY

Statement of Net Assets
at June 30, 2010

<u>Assets</u>	
Current Assets:	
Cash and Cash Equivalents	$ (1,952)
Grant Receivable	26,353
Due From Schools	44,900
Total Current Assets	69,301
Noncurrent Assets:	
Capital Assets:	
Depreciable Capital Assets, net	55,284
Total Noncurrent Assets	55,284
Total Assets	124,585
<u>Liabilities</u>	
Current Liabilities:	
Accounts Payable	33,228
Wages Payable	21,590
Intergovernmental Payable	7,875
Due To Others	5,200
Total Current Liabilities	67,893
Long-Term Liabilities:	
Due within more than one year	50
Total Long-Term Liabilities	50
Total Liabilities	67,943
<u>Net Assets</u>	
Investment in Capital Assets, Net of Related Debt	55,284
Unrestricted	1,358
Total Net Assets	$ 56,642

See accompanying notes to the basic financial statements

PHOENIX VILLAGE ACADEMY SECONDARY 1
CUYAHOGA COUNTY

Statement of Revenues,
Expenses and Changes in Fund Net Assets
For the Fiscal Year Ended June 30, 2010

Operating Revenues:	
State Foundation (Aid)	$515,395
Other Revenue	1,875
Total Operating Revenues	517,270
Operating Expenses:	
Salaries	264,424
Fringe Benefits	47,937
Purchased Services	268,353
Materials and Supplies	14,526
Depreciation	22,918
Other	2,929
Total Operating Expenses	621,087
Operating Loss	(103,817)
Non-Operating Revenues (Expenses):	
Federal and State Grants	132,652
Total Non Operating Revenues	132,652
Change in Net Assets	28,835
Restated Net Assets Beginning of Year	27,807
Net Assets End of Year	$56,642

See accompanying notes to the basic financial statements

PHOENIX VILLAGE ACADEMY SECONDARY 1
CUYAHOGA COUNTY

Statement of Cash Flows
For the Fiscal Year Ended June 30, 2010

Increase (Decrease) in Cash and Cash Equivalents	
Cash Flows from Operating Activities	
Cash Received from State of Ohio	$515,395
Cash Received from Other Operating Sources	1,875
Cash Payments to Suppliers for Goods and Services	(261,480)
Cash Payments to Employees for Services	(251,128)
Cash Payments for Materials & Supplies	(14,526)
Cash Payments for Employee Benefits	(47,937)
Other Cash Payments	(2,928)
Net Cash Used for Operating Activities	(60,729)
Cash Flows from Noncapital Financing Activities	
Cash Received from Operating Grants	118,652
Net Cash Provided by Noncapital Financing Activities	118,652
Cash Flows from Capital and Related Financing Activities	
Cash Payments to Schools	(60,887)
Net Cash Provided by (Used in) Capital Financing Activities	(60,887)
Net Decrease in Cash and Cash Equivalents	(2,964)
Cash and Cash Equivalents Beginning of Year	1,002
Cash and Cash Equivalents End of Year	(1,962)
Reconciliation of Operating Gain (Loss) to Net Cash Provided by (Used in) Operating Activities	
Operating Gain (Loss)	(101,237)
ADJUSTMENTS TO RECONCILE OPERATING LOSS TO NET CASH USED FOR OPERATING ACTIVITIES	
Depreciation	22,918
Changes in Assets and Liabilities:	
Accounts Receivable	(14,000)
Accounts Payable	4,818
Intergovernmental Payable	7,875
Wages Payable	(93,969)
Settlement Payable	1,196
Advance from Schools	57,672
Net Cash Provided by (Used in) Operating Activities	(114,727)

See accompanying notes to the basic financial statements.

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1. DESCRIPTION OF THE ENTITY

Phoenix Village Academy Secondary - 1 (the Academy) is a nonprofit corporation established pursuant to Ohio Revised Code Chapters 3314 and 1702 to address the needs of students in kindergarten through the sixth grade. The Academy applied for exemption under Section 501 (c) (3) of the Internal Revenue Code. (See Note 15)

The Academy, which is part of the State's education program, is independent of any school district and is nonsectarian in its programs, admissions policies, employment practices, and all other operations. The Academy may sue and be sued, acquire facilities as needed, and contract for any services necessary for the operation of the Academy. The Academy was approved for operation under a contract with Ohio State Board of Education. The Sponsor is responsible for evaluation the performance of the Academy and has the authority to deny renewal of the contract at its expiration or terminate the contract prior to its expiration.

The Academy signed a contract with Ashe Culture Center, Inc. to act as its sponsor for the period of June 30, 2006 through April 14, 2009. The contract was renewed until June 30, 2012.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Basis of Presentation

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Measurement Focus and Basis of Accounting

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

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

C. Budgetary Process

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

D. Cash and Cash Equivalents

All monies received by the Academy are maintained in a demand deposit account. For internal accounting purposes, the Academy segregates its cash. The Academy has no investment.

E. Estimates

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

F. Capital Assets

Capital assets are capitalized at cost. The costs of additions are capitalized and expenditures for repairs and maintenance are expensed when incurred. When property is sold or retired, the related costs and accumulated depreciation are removed from the accounts and any gain or loss is included in additions to or deductions from net assets. Capital assets were $127,908, as of June 30, 2010 with accumulated depreciation of $72,624. Deprecation of capital assets is calculated utilizing the straight-line method over the estimated useful lives of the assets. The useful lives follow:

Asset	Useful Life
Furniture and Equipment	5 years
Computers	7 years

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. Capital Assets (Continued)

The Academy has an asset capitalization threshold of $1,000. (See Note 4)

The Academy did not maintain capital assets records in accordance with Ohio Administrative Code Section 117.02 (D)(4)(c).

G. 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.

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 $648,047 this fiscal year.

H. Compensated Absences

The Academy does not record a liability for compensated absences because its policy is not to payout accumulated leave balances upon termination of employment.

I. Accrued Liabilities

Obligations incurred but unpaid at June 30 are reported as accrued liabilities in the accompanying financial statements. As of June 30, 2010 accounts payable was $33,228.

J. Exchange and Non-Exchange Transactions

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

K. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets consist of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use through external restriction imposed by creditors, grantors, or law and regulations of other governments. The Academy applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

Net Assets as of June 30, 2009 were restated to include capital assets owned that were not previously recorded as well as an additional adjustment as follows:

Net Assets at June 30, 2009	$14,514
Adjustment Related to Capital Assets	14,289
Other Adjustments to Beginning Balance	(996)
Restated Net Assets as of June 30, 2009	$27,807

L. Operating Revenues and Expenses

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

M. Due to/from Schools

Phoenix Village Academy Primary 1, Phoenix Village Academy Primary 2 and Phoenix Village Academy Secondary 1 are considered the family of schools. These academies have the same educational philosophy, methodology and provide continuity in the students' educational career, from the primary to the secondary buildings. Charter schools traditionally are underfunded and rely primarily on state foundation, state and federal grants to finance operations. From time to time, the academies experience cash flow shortages. These academies advance cash to each other to ensure there is sufficient cash meet payroll and operational expenses. This activity is reported in the Statement of Net Assets as Due From Schools for the academy receiving cash and the advancing academy reflects a liability called Due To Others.

These advances are considered collectable.

3. CASH AND CASH EQUIVALENTS

The following information classifies deposits by category of risk as defined in GASB Statement No.3 “Deposits with Financial Institutions, Investments (including Repurchase Agreements) and Reverse Repurchase Agreements,” as amended by GASB Statement No.40, “Deposit, and Investment Risk Disclosures”. The School maintains its cash balances at one financial institution located in Ohio. The balances are insured by the Federal Deposit Insurance Corporation (FDIC) up to $250,000, per qualifying account. At June 30, 2010, the book amount of the Academy’s deposits was ($1,952) and the bank balance was $169.

The Academy had no deposit policy for custodial risk beyond the requirement of state statute. Ohio law requires that deposits either be insured or be protected by eligible securities pledged to and deposited either with 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, 2010, none of the bank balance was exposed to custodial credit risk.

The total bank balance was insured by the (FDIC) up to $250,000. Deposits in excess of $250,000 are secured by pooled collateral. The Academy had no investments.

4. CAPITAL ASSETS AND DEPRECIATION

For the year ended June 30, 2010, the Academy’s capital assets consisted of the following:

	Restated Balance 6/30/09	Additions	Deletions	Balance 6/30/10
Capital Assets Being Depreciated:				
Computer	$118,253	$ -	$ -	$118,253
Equipment and Furniture	9,655	-	-	9,655
Total Capital Assets Being Depreciated	127,908	-	-	127,908
Less Accumulated Depreciation:				
Computer	(48,799)	(22,295)	-	(71,094)
Equipment and Furniture	(907)	(623)	-	(1,530)
Total Accumulated Depreciation	(49,706)	(22,918)	-	(72,624)
Total Capital Assets, Net	$ 78,202	$(22,918)	$ -	$ 55,284

5. DUE FROM SCHOOLS

The Academy's Due from Schools activity is presented in the following table:

	Due from Schools 6/30/2009	Additions	Reductions	Due from Schools 6/30/2010
Phoenix Village Academy P-2	$ -	$ 59,000	$ 14,100	$ 44,900
	$ -	$ 59,000	$ 14,100	$ 44,900

Generally, these transactions are approved by the administration and the treasurer with Board and Sponsor acknowledgement. Future protocol requires these transactions to be approved by the Board.

6. EDUCATIONAL FACILITY LEASE – All Star Development, Inc.

On August 1, 2009, the Academy entered into contract with All Star Development, Inc. for the purpose to lease the premises know as Kajm Square and Kajm Square III, first floor, at 3120-3122 Euclid Ave, to use as their educational facility. The lease is for a one year period, with the option to rent for four additional years. The monthly lease payment is $1,500 for August to October of 2009, and $2,000 from November 2009 to June 2010. A $500 rent increase shall occur on November 1 of each subsequent year the agreement is renewed. Payments to All Star Development, Inc. for fiscal year 2010, which included utility payments, totaled $27,836.

7. DUE TO OTHERS

The table below details the Academy's Due to Others activity for the fiscal year:

	Due to Others 6/30/2009	Additions	Reductions	Due to Others 6/30/2010
LED Consulting, Inc.	$ 5,100	$ 14,825	$ 19,925	$ -
Phoenix Village Academy P-1	5,200	-	-	5,200
Phoenix Village Academy P-2	15,947	-	15,947	0
	$ 26,247	$ 14,825	$ 35,872	$ 5,200

These advances were received to assist the Academy in meeting its financial obligations; no written agreements exist governing these type transactions. No interest is assessed to the Academy for the use of these funds. The Board and Sponsor are generally aware of these transactions and in the future will require Board approval and documentary evidence.

8. RISK MANAGEMENT

A. Property & Liability

The Academy is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. For the fiscal year 2010, the Academy contracted with Pinkney Perry Insurance Company for property and general liability insurance. The Academy also had a treasurer bond from Hanover Insurance.

B. Workers' Compensation

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

9. DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System (SERS Ohio)

Plan Description – The Academy contributes to the School Employees Retirement System of Ohio (SERS Ohio), which is a cost-sharing, multiple-employer 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 supplemental information. That report may be obtained by contacting School Employees Retirement System , 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746, or by calling toll free 1-800-878-5853. It is also posted at the SERS' website at www.ohsers.org under Employer/Audit Sources.

Funding Policy – Plan members are required to contribute 10 percent of their annual covered salary and the school is required to contribute at an actuarially determined rate. The current school rate is 14 percent of annually covered payroll. A portion of the school contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for the fiscal year 2010, 12.78 percent of annual covered salary as the portion used to fund pension obligation. The remaining 1.22 percent of the 14 percent employer rate is allocated to the health care and Medicare B funds. The contributions requirements of plan members and statutory maximum amount of 10 percent for the plan members and 14 percent for employers, Chapter 3309 of the Ohio Revised Code provides statutory authority for members and employer contributions. The Academy required contributions for pension obligations to SERS for the fiscal year ended June 30, 2010, 2009 and 2008 were $33,376, $46,827, and $6,066, respectively.

B. State Teachers Retirement System of Ohio (STRS Ohio)

Plan Description – The Academy contributes to the State Teacher Retirement Systems of Ohio (STRS Ohio), which is a costing-sharing, multiple-employer public employee retirement Systems. 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.

9. DEFINED BENEFIT PENSION PLANS (Continued)

B. State Teachers Retirement System of Ohio (STRS Ohio) (Continued)

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 the final average salary times a percentage that varies based on years of service, or an allowance based on member's lifetime contributions and earned interest matched by STRS Ohio funds divided by an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5 percent of earned contribution 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 DB Plan and DC Plan. In the Combined Plan, members' contributions are invested by the member, and employer contributions are used to fund the defined benefits payment at a 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 covered to a lifetime 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 that becomes disabled may qualify for a disability benefit. Eligible spouses and dependents of these active members who die before retirement may qualify for survivor benefit. Members in the DC Plan who become disabled are entitled only to their account balance. If a member dies before retirement benefits begin, the members designated beneficiary is entitled to receive the member's account balances.

Funding Policy – For the fiscal year ended June 30, 2010, plan members were required to contribute 10 percent of their annual covered salaries. The Academy was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For the fiscal year 2010, 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 members and employer contributions.

The Academy's required contribution for pension obligations to STRS for the fiscal years ended June 30, 2010, 2009 and 2008 were $13,332, $48,013, and $40,755, respectively.

C. Social Security System

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

10. POST EMPLOYMENT BENEFITS

A. School Employees Retirement System (SERS Ohio)

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

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 2010 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 2010, the actuarial required allocation is .76 percent The Academy's contributions for the years ended June 30, 2010, 2009 and 2008 were $198, $3,864, and $3,238, respectively.

Health Care Plan

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

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

The Health Care Fund was established under, and is administered in accordance with the Internal Revenue Code 105(e). Each year after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer 14 percent contribution to the Health Care Fund. For the year ended June 30, 2010, the health care allocation is 4.16. An additional health care surcharge on employers is collected for employees earning less than the actuarially determined minimum compensation amount, pro-rated according to service credit earned. Statutes provides that no employer shall pay a health care surcharge greater than 2 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the total statewide SERS-covered payroll for the health care surcharge.

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

10. POST EMPLOYMENT BENEFITS (Continued)

A. School Employees Retirement System (SERS Ohio) (Continued)

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

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

B. School Teachers Retirement System (STRS Ohio)

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.

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 2010, STRS Ohio allocated employer contributions equal to 1.0 percent of covered payroll to the Health Care Stabilization Fund. The Academy's contributions for health care for the fiscal years ended June 30, 2010, 2009, and 2008 were $1,025, $3,693, and $3,155, respectively all of which has been contributed for all fiscal years.

11. CONTINGENCIES

A. Grants

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

11. CONTINGENCIES (Continued)

B. Litigation

The Academy was party to a legal proceeding seeking damages generally incidental to its operations. The original claim was for $133,000 against the family of Academy schools. A settlement was reached among the parties requiring the aforementioned to pay $50,000 in damages. At June 30, 2010, the Academy's unpaid balance is $12,500.

There are currently no matters in litigation with the Academy as defendant.

C. Full-Time Equivalency

The Ohio Department of Education (ODE) conducts reviews of enrollment data and full-time equivalency (FTE) calculations made by the Academy. These reviews are conducted to ensure the Academy is reporting accurate student enrollment data to the State, upon which state foundation funding is calculated. A review for the fiscal years ending June 30, 2010, June 30, 2009 and June 30, 2008 has been conducted in which the Academy determined to have been overpaid (underpaid) by the State for $2,283, ($2,280), and $26, respectively. Monthly payments were made to the State with the deduction of an established amount from the current fiscal year foundation receipts.

12. SPONSORSHIP – ASHE CULTURE CENTER, INC.

The Academy contracted with Ashe Culture Center Inc. as its sponsor effective June 30, 2006. The Academy pays the Sponsor three percent of its State Aid. Total sponsor fees expense for the period July 1, 2009 to June 30, 2010 was $14,738. The Sponsor is to provide oversight, monitoring and technical assistance for the Academy. The contract was renewed through June 30, 2010. Other payments were made to the Sponsor for services provided in accordance with the agreement.

13. EAGLE EYE SERVICES, LLC

The Academy entered into a contract with Eagle Eye Services, LLC. to conduct agreed upon services in preparing, submitting and monitoring CCIP, preparing cash requested, and conducting monitoring activities. The contract is for the period of August 1, 2009 through June 30, 2010. The Academy agreed to pay $1,800 per month through October 2009 and $2,750 per month beginning in November 2009, with a three percent fee on late payments. The Academy made payments totaling $26,850 for fiscal year 2010.

14. PURCHASED SERVICES

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

	2010
Professional and Technical Services	$103,460
Property Services	31,845
Utilities	19,186
Contractual Trade Services	113,862
	$268,353

15. TAX EXEMPT STATUS

The Academy has filed for status as an exempt organization under Internal Revenue Code Section 501(c)(3). As of June 30, 2010, the Internal Revenue Service has not yet granted this exemption. Should the Academy fail to obtain federal tax-exempt status, it will be subject to federal income tax, the effect of which has not been determined.

16. RELATED PARTY TRANSACTIONS

Dr. Jorethia Chuck, wife of Dr. Kwa David Whitaker, owner of ASHE Culture Center, Inc., the Academy's Sponsor during fiscal year 2010, is the owner of Exceptional Psychological Services. Exceptional Psychological Services was paid $13,030 during fiscal year 2010.

Dionne Whitaker, daughter of Dr. Kwa David Whitaker, owner of ASHE Culture Center, Inc., the Academy's Sponsor during fiscal year 2010, is the owner of Kennedy Educational Consultants, LTD, a company which provided lesson plans and other related services to the Academy. Dionne Whitaker and Kennedy Education Consultants were paid a total of $35,993 for these services during the year.

De Shawn King, daughter of Dr. Kwa David Whitaker, owner of ASHE Culture Center, Inc., the Academy's Sponsor during fiscal year 2010, performs administrative support services for Phoenix Village Academy Secondary 1.

Additionally, the Sponsor and the Treasurer have loaned funds to the Academy during their start up at 0% interest and to meet current expenditures.

17. EMPLOYEE BENEFITS

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

18. SUBSEQUENT EVENTS

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 removed 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.

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

Phoenix Village Academy Secondary 1
Cuyahoga County
12406 Shaker Boulevard
Cleveland, Ohio 44120

To the Board of Trustees:

We were engaged to audit the financial statements of Phoenix Village Academy Secondary 1, Cuyahoga County, (the Academy) as of and for the year ended June 30, 2010, and have issued our report thereon dated June 25, 2012, wherein we noted there was insufficient evidence to support adjustments made to Net Assets Beginning of Year, Advances to Schools Receivable, Advances Payable Salaries and Fringe Benefits expenditures, Capital Assets, related note disclosures and unsupported amounts on the Statement of Cash Flows. We reported that the Ohio Department of Education took away Ashe Culture Center's authority to sponsor charter schools in September of 2011**.** Therefore, our report expressed substantial doubt about the Academy's ability to continue as a going concern.

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 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 and another deficiency we consider to be a significant deficiency.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and timely corrected. We consider findings 2010-001 through 2010-003 described in the accompanying schedule of findings to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider finding 2010-004 described in the accompanying schedule of findings to be a significant deficiency.

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 are described in the accompanying schedule of findings as items 2010-001 through 2010-002, 2010-004 and 2010-005 through 2010-006.

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 25, 2012.

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

Dave Yost

Dave Yost
Auditor of State

June 25, 2012

SCHEDULE OF FINDINGS
JUNE 30, 2010

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS

FINDING NUMBER 2010-001

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 Admin. Code.

Ohio Admin. Code Section 117-2-02 (D)(4)(c) states that all local public offices should maintain or provide capital asset records including such information as the original cost, acquisition date, voucher number, the asset type (land, building, vehicle, etc.), asset description, location, and tag number. Local governments preparing financial statements using generally accepted accounting principles will want to maintain additional data.

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 the following:

- The Academy does not have a capital asset policy which specifies the threshold for capital assets, depreciation, useful lives or tagging procedures;
- The Academy did not maintain capital asset records during the year and an independent appraisal company was contracted to perform an inventory of capital assets;
- During the physical test of existence on capital assets, three of eight assets tested were not appropriately tagged;
- The Academy does not perform a monthly School-wide bank-to-book reconciliation. Reconciliations are generated from the Academy's accounting software on a monthly basis, and are not accurate, nor are they reviewed;
- Checking account reconciliations contained outstanding checks that were either voided or not outstanding at year-end and did not agree to the amounts reported in the financial statements. Payroll general journal entries were included with outstanding checks and were not traceable to bank statements;
- The Academy did not provide support for the beginning balance of Due From Other Schools and Due To Others;
- Several versions of the June 30, 2010 financial report were provided for audit;
- The Academy did not accurately present Accounts Payable, requiring an adjustment of $2,042 to be made to the financial statements, and where applicable the accounting records;
- The Academy was unable to provide a complete listing of 1099 forms for the period under audit;
- The Academy did not provide any loan collection and repayment agreements which were approved by the Board;
- Except for the tables and schedules, various amounts reported in the MD & A for the 2010 current year financial statements do not agree to the financial statements or were not supported;
- Adjustments to the Academy's beginning fund balance could not be supported;
- Amounts reported in the Academy’s pension note disclosure for 2008, 2009 and 2010 figures could not be supported; and
- The Statement of Cash Flows was not presented consistently nor did it agree to the underlying financial statement data.

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
(Continued)

FINDING NUMBER 2010-001
(Continued)

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

During testing of non payroll expenditures, we noted the following errors:

- Petty cash cancelled checks were not maintained and checks were not recorded individually in the financial records;
- No formal agreement was established for the rental payments between schools;
- Vendor names recorded on the general ledger did not always match the actual vendor the check was paid to; and
- Supporting documentation was not always attached to the voucher packet for disbursements sampled.

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

- No records existed of Board approval for employee wage rates and employee contracts for six sampled payroll expenditures;
- The Board minutes provided did not confirm contracts and annual or hourly rates. No records existed of Board approval for employee wage rates and employee contracts for all employees; For six employees, a "new hire notification" with a rate of pay was provided but a contract was not legislatively approved contract;
- Cancelled checks issued from the payroll checking account were not maintained;
- The Academy did not maintain sufficient documentation to support adjustments made to Salaries, Fringe Benefits, and Payroll Tax expenditures. Therefore, all payments recorded in the Paycor reports could not be traced to the General Ledger could not be traced to Paycor;
- During one pay period, Ohio Retirement withholdings were paid twice. No support was provided for this transaction; and
- For two employees, the rate of pay did not agree to the new hire notification notice and no additional approved contract was provided.

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. The condition of accounting records led to inaccurate and incomplete financial statements and also prohibited us from obtaining sufficient evidential matter in our procedures to express any opinion on the financial statements.

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

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
(Continued)

FINDING NUMBER 2010-002

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 consists of the following component, among others: monitoring, which is a process that assesses the quality of internal control performance over time.

Monitoring is comprised of regular management and supervisory activities established to oversee whether management's objectives are being achieved. 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.

Some effective monitoring practices include:

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

Although the Treasurer prepared monthly financial reports for the Board at each meeting, 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 inaccurate or incomplete financial statements and also prohibited us from obtaining sufficient evidential matter in our procedures to express any opinion on the financial statements.

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

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
(Continued)

FINDING NUMBER 2010-003

Monitoring of Financial Activity – Material Weakness

For a period of approximately one month during fiscal year 2010, the Treasurer transferred all Academy funds and completed all subsequent transactions through his own consulting firm's bank account. No individuals within the Academy were able to monitor these transactions apart from the financial reports and bank statements the Treasurer provided.

An entity's funds should not be commingled with another entities funds or with the personal or outside businesses of its officials and employees.

Failure to properly monitor financial activity may result in incomplete and inaccurate financial records and statements of the Academy.

We recommend that the Academy properly monitor all financial activity that occurs. We also recommend that all Academy purchases and receipts occur in the Academy's own bank accounts.

FINDING NUMBER 2010-004

Governing Board Membership, Notice of Public Meetings and Record of Minutes – Material Noncompliance and Significant Deficiency

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

Ohio Rev. Code Section 121.22 (C) states that all meetings of any public body are declared to be public meetings open to the public at all times. A member of a public body must be present in person at a meeting open to the public to be considered present or to vote and for determining whether a quorum is present. The minutes of a regular or special meeting of any such public body shall be promptly prepared, filed, and maintained and shall be open to public inspection. The minutes need only reflect the general subject matter of discussions in executive sessions authorized under division (G) or (J) of this section.

Furthermore, this revised code section states that the minutes of a regular or special meeting of any public body shall be promptly prepared, filed, and maintained and shall be open to public inspection. Ohio Rev. Code Section 121.22 (F) states that every public body shall, by rule, establish a reasonable method whereby any person may determine the time and place of all regularly scheduled meetings and the time, place, and purpose of all special meetings. A public body shall not hold a special meeting unless it gives at least twenty-four hours advance notice to the news media that have requested notification, except in the event of any emergency requiring immediate official action. In the event of an emergency, the member or members calling the meeting shall notify the news media that have requested notification immediately of the time, place, and purpose of the meeting.

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
(Continued)

FINDING NUMBER 2010-004
(Continued)

Governing Board Membership, Notice of Public Meetings and Record of Minutes – Material Noncompliance and Significant Deficiency (Continued)

The following deficiencies in the Board meeting minutes were noted:

- The Academy did not provide an open meeting and meeting notification policy;
- There was no evidence of a public notice for any Board meeting;
- Evidence of the approval of Board Resolutions or motions made by the Board during those meetings was not provided. This includes, but is not limited to, approval of loans and contracts made between the Academy and third parties, approval of salary resolutions and new employee contracts, approval of financial reports, budgets and forecasts or expenditures, etc.;
- All Board Members were not formally appointed during Board meetings;
- The Board was comprised of only four members during the audit period; and
- Meetings were not held regularly to inform the Board of financial issues in a timely manner.

It is the Board's responsibility to oversee the Academy's operation and make decisions to ensure the Academy's goals and objectives are accomplished. The Board is responsible for determining the direction in which the Academy is heading. This occurs only after a great deal of consultation with parents, staff and students of the school to ensure that the school is providing the highest quality of education possible and a safe place in which students can learn. The Board minutes represent the official record of Academy events and resolutions passed by the Board of Directors. Without following Board meeting requirements for proceedings, it cannot be reasonably assured that the Board is meeting its obligation to oversee the Academy. That lack of oversight could result in errors and irregularities to go undetected and incomplete and inaccurate financial statements and records.

We recommend the Academy take the necessary steps to approve all formal employment actions during Board meetings, increase the membership of the Board to the required number of members, and to meet on a regular basis to inform the Board of important issues in a timely manner. We also recommend the Academy establish an open meeting and meeting notification policy, a method to notify the public of the meetings and establish a timely method of recording the Board minutes and making them available to the public for inspection.

FINDING NUMBER 2010-005

Annual Financial Reporting – Material Noncompliance

Ohio Rev. Code Section 117.38 states that a community school must file a complete and accurate GAAP report on an annual basis. This section also provides, in part, that "at the time the annual financial 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."

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
(Continued)

During our review of the Academy's annual financial report filed with Local Government Services for fiscal year 2010, we noted the report balances and totals were significantly misstated and misleading, and did not agree to the Academy's accounting system. In addition, no evidence was provided by the Academy, that a public notice was published.

By not filing accurate financial reports and an annual notice, the Academy is not fulfilling their duties of accountability and transparency to the public.

We recommend the Academy compile and present their financial statements in a complete and accurate manner in accordance with its accounting records and the above Ohio Rev. Code Section. We also recommend at the time the report is filed with the auditor of state, the Academy, 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 Academy's central office.

FINDING NUMBER 2010-006

Unlawful Interest in a Public Contract – Material Noncompliance

Ohio Rev. Code Section 2921.42(A)(1) prohibits a public official from authorizing or using the 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 per Ohio Rev. Code Section 2921.42(A)(3) during the public official's term of office or within one year thereafter, the public official may not occupy any position of profit in the prosecution of a public contract authorized by the public official or by a legislative body, commission, or board of which the public official was a member at the time of authorization, unless the contract was let by competitive bidding to the lowest and best bidder.

During our engagement we noted Exceptional Psychological Services is owned by Dr. Jorethia Chuck. She was previously a Board Member of Phoenix Village Academy S1 and resigned effective May 31, 2009. Two agreements for consulting and psychological services were entered into and made effective on July 1, 2009, only two months later. Exceptional Psychological Services was paid $13,030 during fiscal year 2010 and the contract was not competitively bid and awarded to the lowest and best bidder.

As stated above, a public official is prohibited from having an interest in a public contract during their term of office or within one year thereafter.

This matter will be referred to the Ohio Ethics Commission.

Official's Response: The Academy declined to respond to the above findings.

PHOENIX VILLAGE ACADEMY SECONDARY 1
CUYAHOGA COUNTY

SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2010

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; ***Explain***
2009-001	Condition of Accounting Records	No	Re-Issued as Finding 2010-001
2009-002	Developing and Implementing an Effective Monitoring System	No	Re-Issued as Finding 2010-002
2009-003	Financial Reporting	No	Re-Issued as Finding 2010-005
2009-004	Entity-wide Bank Reconciliation	No	Re-Issued as part of Finding 2010-001
2009-005	Notice of Public Meetings/Record of Minutes	No	Re-Issued as Finding 2010-004
2009-006	Income Tax Withholding Remittances	Yes	
2009-007	Interest in a Public Contract	No	Re-Issued as Finding 2010-006

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INDEPENDENT ACCOUNTANTS' REPORT ON APPLYING AGREED-UPON PROCEDURES

Phoenix Village Academy Secondary 1
Cuyahoga County
12406 Shaker Boulevard
Cleveland, Ohio 44120

To the Board of Trustees:

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 Phoenix Village Academy Secondary 1 (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.

Dave Yost

Dave Yost
Auditor of State

June 25, 2012

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www.ohioauditor.gov

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Dave Yost · Auditor of State

PHOENIX VILLAGE ACADEMY SECONDARY 1

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
JULY 05, 2012

88 East Broad Street, Fifth Floor, Columbus, Ohio 43215-3506
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