



**CHASE ACADEMY FOR COMMUNICATION ARTS  
FRANKLIN COUNTY**

**REGULAR AUDIT**

**FOR THE YEAR ENDED JUNE 30, 2007**



**Mary Taylor, CPA**  
Auditor of State



CHASE ACADEMY FOR COMMUNICATION ARTS  
FRANKLIN COUNTY

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# Mary Taylor, CPA

Auditor of State

## INDEPENDENT ACCOUNTANTS' REPORT

Chase Academy for Communication Arts  
Franklin County  
1565 Integrity Drive  
Columbus, Ohio 43215

To the Board of Directors:

We have audited the accompanying basic financial statements of Chase Academy for Communication Arts, Franklin County, Ohio (the Academy), as of and for the year ended June 30, 2007, as listed in the table of contents. These financial statements are the responsibility of the Academy's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

Due to lack of records, we were unable to obtain sufficient competent evidence to support the activities, balances and disclosures related to purchased services, materials and supplies and miscellaneous expenses in the accompanying financial statements and notes, nor were we able to satisfy ourselves as to these expenses by other auditing procedures.

In our opinion, except for the effects of the items in the aforementioned paragraph, the financial statements referred to above present fairly, in all material respects, the respective financial position of Chase Academy for Communication Arts, Franklin County, Ohio, as of and for the year ended June 30, 2007, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Academy is experiencing certain financial difficulties. Those difficulties and Management's Plans are discussed in Note 14.

The Auditor of State has billed the Academy for the audit services provided for fiscal years 2006 and 2007. As of June 30, 2007, \$15,490 remained unpaid and is included in intergovernmental payable. \$2,831 is delinquent as of the date of this report.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 25, 2008 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 audit.

Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information accounting principles generally accepted in the United States of America requires. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measuring and presenting the required supplementary information. However, we did not audit the information and express no opinion on it.

A handwritten signature in cursive script that reads "Mary Taylor".

**Mary Taylor, CPA**  
Auditor of State

August 25, 2008

**CHASE ACADEMY FOR COMMUNICATION ARTS  
FRANKLIN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007  
(Unaudited)**

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

**Financial Highlights**

- Total Assets were \$86,447.
- Total Liabilities were \$239,767.
- Total Net Assets were (\$153,320).
- Net Assets decreased \$74,338.

**Using this Annual Financial Report**

This report consists of three parts, the Management's Discussion and Analysis (MD&A), the basic financial statements, and notes to those statements. The basic financial statements include a statement of net assets, a statement of revenues, expenses and changes in net assets, and statement of cash flows.

One of the most important questions asked about the Academy's finances is, "Is the Academy better off or worse off as a result of the year's activities?" The Statement of Net Assets and the Statement of Revenues, Expenses 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.

These two statements report the Academy's net assets and changes in them. The change in net assets provides the reader a tool to assist in determining whether the Academy's financial health is improving or deteriorating. The reader will need to consider other nonfinancial factors such as state revenue, student enrollment growth, and facility conditions in arriving at their conclusion regarding the overall health of the Academy. The statement of cash flows provides information about how the Academy finances and meets the cash flow needs of its operations.

**CHASE ACADEMY FOR COMMUNICATION ARTS  
FRANKLIN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007  
(Unaudited)  
(Continued)**

Table 1 provides a summary of the Academy's net assets for fiscal year 2007 compared to fiscal year 2006:

**Table 1  
Net Assets**

	2007	2006
<b>Assets</b>		
Current Assets	\$49,740	\$114,615
Capital Assets, Net	<u>36,707</u>	<u>42,864</u>
Total Assets	<u><u>86,447</u></u>	<u><u>157,479</u></u>
<b>Liabilities</b>		
Current Liabilities	<u>239,767</u>	<u>236,461</u>
Total Liabilities	<u><u>239,767</u></u>	<u><u>236,461</u></u>
<b>Net Assets</b>		
Invested in Capital Assets	36,707	42,864
Unrestricted	<u>(190,027)</u>	<u>(121,846)</u>
	<u><u>(\$153,320)</u></u>	<u><u>(\$78,982)</u></u>

Total assets decreased by \$71,032, or 45% from fiscal year 2006. This was primarily due to the fiscal year 2007 operating loss, which decreased cash and cash equivalents by \$72,988. Intergovernmental receivables increased by \$13,113 primarily due to an increase in receivable for the Academy's food service program. Total liabilities increased by \$3,306. The Academy's net assets decreased by \$74,338, representing a 94% decrease from 2006. A management plan has been implemented to address this issue (see note 14).



**CHASE ACADEMY FOR COMMUNICATION ARTS  
FRANKLIN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007  
(Unaudited)  
(Continued)**

Table 2 shows the changes in net assets for fiscal year 2007 as compared to fiscal year 2006.

<b>Table 2</b>		
<b>Change in Net Assets</b>		
	2007	2006
<b>Revenues</b>		
Operating Revenues:		
Foundation Payments	1,397,375	1,400,934
Other Operating Revenues	1,603	5,879
Non-Operating Revenues:		
Federal and State Grants	455,305	333,979
<b>Total Revenues</b>	<b>1,854,283</b>	<b>1,740,792</b>
<b>Expenses</b>		
Operating Expenses		
Salaries	935,529	923,711
Fringe Benefits	198,568	188,916
Purchased Services	613,208	617,910
Materials and Supplies	131,230	82,266
Depreciation	22,660	18,922
Other Expenses	27,426	346
<b>Non-Operating Expenses:</b>		
Interest and Fiscal Charges	-	10,060
<b>Total Expenses</b>	<b>1,928,621</b>	<b>1,842,131</b>
<b>Increase/(Decrease) in Net Assets</b>	<b>\$ (74,338)</b>	<b>\$ (101,339)</b>

Community Schools receive no support from tax revenues; State foundation payments are the primary support for the Academy representing 75.4% of total revenues. There was an increase in total revenues of \$113,491 due to the increase in federal reimbursements for school breakfasts, lunches and snacks.

Salaries and Purchased Services are the primary expenses of the Academy, representing 48.5% and 31.8% of total expenses respectively. Total expenses increased by \$86,490 from fiscal year 2006. The expense for materials and supplies increased by \$48,964 primarily due to purchasing new textbooks during the year. Other expenses increased \$27,080 primarily due to audit fees due as a payable to the Auditor of State.

**CHASE ACADEMY FOR COMMUNICATION ARTS  
FRANKLIN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007  
(Unaudited)  
(Continued)**

**Capital Assets**

At the end of fiscal year 2007 the Academy had \$36,707 (net of accumulated depreciation) invested in capital assets. Table 3 shows fiscal year 2007 balances compared to fiscal year 2006:

Capital Asset at June 30, 2007 (Net of Depreciation)		
	2007	2006
Computer and Software	\$ -	\$ 8,562
Furniture, Fixtures, and Equipment	25,952	19,962
Vehicles	10,755	14,340
Totals	\$ 36,707	\$ 42,864

For more information on capital assets, see Note 5 to the basic financial statements.

**Current Financial Issues**

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

The largest challenge is the state economy. The Academy does not receive any funds from taxes. The primary source of funding is the state foundation program. An economic slowdown in the state could result in budgetary cuts to education, which would have a negative impact on the Academy.

**Contacting the Academy's Financial Management**

This financial report is designed to provide our citizens 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 Mrs. Celia Jones, Administrator of Chase Academy, located at 1565 Integrity Drive E, Columbus, OH 43215 e-mail at [jones0128@aol.com](mailto:jones0128@aol.com).

**CHASE ACADEMY FOR COMMUNICATION ARTS  
FRANKLIN COUNTY**

**STATEMENT OF NET ASSETS  
AS OF JUNE 30, 2007**

**Assets**

**Current Assets**

Cash	\$ 7,796
Receivable - Intergovernmental	41,944
Total Current Assets	<u>49,740</u>

**Non-Current Assets**

Capital assets (Net of Accumulated Depreciation)	<u>36,707</u>
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Total Assets	<u><u>\$ 86,447</u></u>
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**Liabilities and Fund Equity**

**Current Liabilities**

Accounts Payable	\$ 72,998
Accrued Wages & Benefits	118,059
Intergovernmental Payable	48,710
Total Current Liabilities	<u>239,767</u>
Total Liabilities	<u>239,767</u>

**Net Assets**

Invested in Capital Assets	36,707
Unrestricted	<u>(190,027)</u>
Total Net Assets	<u><u>\$ (153,320)</u></u>

The accompanying Notes are an integral part of the Financial Statements

**CHASE ACADEMY FOR COMMUNICATION ARTS  
FRANKLIN COUNTY**

**STATEMENT OF REVENUES, EXPENSES  
AND CHANGES IN NET ASSETS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

<b>Operating Revenues</b>	
Foundation Payments	\$ 1,397,375
Other Operating Revenues	1,603
Total Operating Revenues	<u>1,398,978</u>
<b>Operating Expenses</b>	
Salaries and Wages	935,529
Fringe Benefits	198,568
Purchased Services	613,208
Materials and Supplies	131,230
Depreciation	22,660
Miscellaneous	27,426
Total Operating Expenses	<u>1,928,621</u>
Operating Loss	(529,643)
<b>Non-Operating Revenues</b>	
State subsidies	5,890
Federal subsidies	449,415
Total Non-Operating Revenues	<u>455,305</u>
<b>Net Loss</b>	(74,338)
Net Assets Beginning of Year	(78,982)
Net Assets End of Year	<u>\$ (153,320)</u>

The accompanying Notes are an integral part of the Financial Statements

**CHASE ACADEMY FOR COMMUNICATION ARTS  
FRANKLIN COUNTY**

**STATEMENT OF CASH FLOWS  
FOR FISCAL YEAR ENDED JUNE 30, 2007**

**Cash Flows from Operating Activities**

Cash received from Foundation Payments	\$ 1,371,827
Cash received from Other Operating Revenues	6,603
Cash payments for personal services	(1,159,284)
Cash payments for contract services	(589,028)
Cash payments for supplies and materials	(128,189)
Cash payments for Miscellaneous	(9,331)
Net Cash Used for Operating Activities	<u>(507,402)</u>

**Cash Flows from Noncapital Financing Activities**

Cash from Federal & State Subsidies	450,917
Net Cash from Noncapital Financing Activities	<u>450,917</u>

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

Payments for Capital Acquisitions	(16,503)
Net Cash Used for Capital and Related Financing Activities	<u>(16,503)</u>

Net decrease in cash:	(72,988)
Cash at beginning of year	80,784
Cash at end of year	<u>\$ 7,796</u>

**Reconciliation of Operating Loss to Net Cash  
Used for Operating Activities**

Operating Loss	\$ (529,643)
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**Adjustments to Reconcile Operating Loss to Net  
Cash Used for Operating Activities**

Depreciation	22,660
Changes in Assets and Liabilities:	
Intergovernmental Receivable	(8,725)
Accounts Receivable	5,000
Accounts Payable	29,806
Wages Payable	(21,886)
Intergovernmental Payable	2,416
Judgment Payable	(7,030)
Total Adjustments	<u>22,241</u>

Net Cash Used for Operating Activities	<u>\$ (507,402)</u>
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The accompanying Notes are an integral part of the Financial Statements

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**CHASE ACADEMY FOR COMMUNICATION ARTS  
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2007**

**1. DESCRIPTION OF THE SCHOOL DISTRICT AND REPORTING ENTITY**

Chase Academy for Communication Arts (the Academy) is a nonprofit corporation established pursuant to Ohio Revised Code Sections 3314 and 1702 and has tax-exempt status under Section 501(c)(3) of the Internal Revenue Code exclusively for educational purposes. The Academy, which is part of the State's education program, is independent of any school district and is nonsectarian in its programs, admission policies, employment practices, and all other operations. The Academy may acquire facilities as needed and contract for any services necessary for the operation of the school.

During fiscal year 2007, the Academy's sponsor was Buckeye Community Hope Foundation (the Sponsor). The Sponsor is responsible for evaluating 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 terminated its sponsorship contract with Buckeye Hope Community Foundation and entered into a new sponsorship agreement with Educational Resource Consultants of Ohio, Inc., effective April 2, 2008 (see Note 15).

During fiscal year 2007, ACE Charter School Services served (November 4, 2005 to July 30, 2007) as the Chief Fiscal Officer (See Note 9). The contract with Harris Computer ACE Charter School Services was terminated July 30, 2007 and the Academy entered into an agreement with the Venice Group for fiscal services beginning August 1, 2007. The contract with the Venice Group was terminated on January 9, 2008 and the Academy entered into an agreement with All About Learning, Inc. for fiscal services. (See Note 15.)

The Academy operates under the direction of a seven-member Board of Directors. The Board of Directors is responsible for carrying out the provisions of the contract, which include but are not limited to, state-mandated provisions regarding student population, curriculum, academic goals, performance standards, admission standards, and qualifications of teachers. The Governing Board controls the Academy's instructional/support facility staffed by 17 certificated full-time personnel and 7 classified staff who provide services to 221 students.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

**A. Basis of Presentation**

The Academy's basic financial statements consist of a statement of net assets, a statement of revenues, expenses, and changes in net assets, and a statement of cash flows. Enterprise fund reporting focuses on the determination of the change in net assets, financial position, and cash flows.

**CHASE ACADEMY FOR COMMUNICATION ARTS  
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2007  
(Continued)**

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

**B. Measurement Focus**

Enterprise accounting uses a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities are included on the statements 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 Academy finances and meets the cash flow needs of its enterprise activity.

**C. Basis of Accounting**

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. The Academy's financial statements are prepared using the accrual basis of accounting.

Revenues 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.

Revenues resulting from non-exchange transactions, in which the Academy receives value without directly giving equal value in return, such as grants and entitlements, are 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 expenditure requirements, in which the resources are provided to Academy on reimbursement basis.

Expenses are recognized at the time they are incurred.

**D. Budgetary Process**

Unlike other public school located in the State of Ohio, community schools are not required to follow budgetary provision set forth in the Ohio Revised Code Chapter 5705, unless specifically provided by the Academy's contract with its sponsor. The contract between the Academy and its fiscal 2007 sponsor, Buckeye Community Hope Foundation, does not prescribe a budgetary process for the Academy.

**E. Cash and Cash Equivalents**

During fiscal year 2007, all monies received by the Academy were accounted for by the Academy's fiscal agent, ACE Charter School Services. All cash received by the fiscal agent is maintained in separate bank accounts in the Academy's name. The Academy did not have any investments during fiscal year 2007.

**F. Prepaid Items**

Payments made to vendors for services that will benefit periods beyond fiscal year end, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expense is reported in the year in which services are consumed. The Academy did not have any prepaid items at fiscal year end 2007.



**CHASE ACADEMY FOR COMMUNICATION ARTS  
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2007  
(Continued)**

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

**G. Capital Assets and Depreciation**

All capital assets are capitalized at cost and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The Academy maintains a capitalization threshold of \$1,000. The Academy does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not. Interest incurred during the construction of capital assets is also capitalized. The Academy did not capitalize interest during the year.

All reported capital assets are depreciated. Improvements are depreciated over the remaining useful life of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

<u>Description</u>	<u>Estimated Lives</u>
Furniture and Equipment	5
Computers	3
Vehicles	5
Leasehold Improvements	1

**H. Intergovernmental Revenues**

The Academy currently participates in the State Foundation Program. Revenues from this program are recognized as operating revenues (foundation payments) in the accounting period in which they are earned and become measurable.

The Academy also participates in various federal and state grant programs through Ohio Department of Education. Grants and entitlements are recognized as non-operating revenues in the accounting period in which all eligibility requirements have been met. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is 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 the Federal Charter School Grant Program through the Ohio Department of Education. Under this program, the Academy was awarded \$150,000 to offset start-up costs of the Academy. Revenue received from this program is recognized as non-operating revenue in the accompanying financial statements.

Amounts awarded under the above named programs for the year ended 2007 totaled \$1,852,680.

**CHASE ACADEMY FOR COMMUNICATION ARTS  
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2007  
(Continued)**

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

**I. Accrued Liabilities Payable**

The Academy has recognized certain liabilities on its statement of net assets relating to expenses, which are due but unpaid as of June 30, 2007:

Accrued Wages and Benefits Payable – a liability has been recognized at June 30, 2007 for salary payments made after year end that were for services rendered in fiscal year 2007 (\$115,428), workers compensation (\$957), and Medicare (\$1,674).

Intergovernmental Payable – unpaid retirement contributions to STRS Ohio (\$22,000), SERS Ohio (\$11,220), and unpaid audit fees (\$15,490) at year end.

**J. 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 those estimates.

**K. Net Assets**

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets 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. The Academy has no debt.

**3. DEPOSITS**

At June 30, 2007, the carrying amount of all Academy deposits was \$7,796. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2007, the Academy's bank balance of \$7,091 was covered by the Federal Deposit Insurance Corporation.

Custodial credit risk is the risk that, in the event of bank failure, the Academy's deposits may not be returned. The Academy has no deposit policy for custodial credit risk.

**4. RECEIVABLES**

Receivables at June 30, 2007 consisted of intergovernmental receivables arising from grants and entitlements, as summarized below. All receivables are considered collectible in full.

<u>Intergovernmental Receivables</u>	<u>Amount</u>
Special Education	\$ 2,698
Title I	6,286
Title V	230
Safe and Drug Free Schools and Communities	1,518
IDEA Preschool	695
Improving Teacher Quality	956
Education Technology	1,042
Foundation Payments	8,725
School Breakfast and Lunch Programs	19,794
Total Intergovernmental Receivables	<u>\$ 41,944</u>

**CHASE ACADEMY FOR COMMUNICATION ARTS  
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2007  
(Continued)**

**5. CAPITAL ASSETS**

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

	Balance 06/30/06	Additions	Deductions	Balance 06/30/07
Capital Assets Being Depreciated:				
Furniture, Fixtures, and Equipment	\$ 27,387	\$ 16,503	\$ -	\$ 43,890
Computers	27,087			27,087
Vehicles	17,925	-		17,925
Leasehold Improvements	13,000	-	-	13,000
Total Capital Assets				
Being Depreciated	85,399	16,503	-	101,902
Less Accumulated Depreciation:				
Furniture, Fixtures, and Equipment	\$ (7,425)	\$ (10,513)	\$ -	\$ (17,938)
Computers	(18,525)	(8,562)		(27,087)
Vehicles	(3,585)	(3,585)		(7,170)
Leasehold Improvements	(13,000)	-	-	(13,000)
Total Accumulated Depreciation	(42,535)	(22,660)	-	(65,195)
Capital Assets, Net of A/D	<u>\$ 42,864</u>	<u>\$ (6,157)</u>	<u>\$ -</u>	<u>\$ 36,707</u>

**6. RISK MANAGEMENT**

**A. Property and 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 ended 2007, the Academy contracted with the Erie Insurance Group for liability insurance. The general liability coverage is in the amount of \$2,000,000 aggregate.

Settled claims have not exceeded this commercial coverage in the past three years. The Academy owns no real estate, but leases a facility (See Note 10).

**B. Workers' Compensation**

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

**C. Other Employee Benefits**

The Academy has contracted with a private carrier to provide employee medical, dental, and insurance to its full time employees.

**CHASE ACADEMY FOR COMMUNICATION ARTS  
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2007  
(Continued)**

**7. DEFINED BENEFIT PENSION PLANS**

**A. School Employees Retirement System**

The Academy contributes to the School Employees Retirement System of Ohio (SERS), a cost sharing multiple employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3476 or by calling (614) 222-5853.

Plan members are required to contribute 10 percent of their annual covered salary and the Academy is required to contribute an actuarially determined rate. The employer rate is currently 14 percent of annual covered payroll. A portion of the Academy's contribution is used to fund pension obligations with the remainder used to fund health care benefits; for fiscal year 2007, 10.68 percent was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS Retirement Board. The Academy's required contribution for pension obligations to SERS for the fiscal years ending June 30, 2007, 2006 and 2005 were \$22,891, \$16,440 and \$12,750 respectively; 81.2 percent has been contributed for fiscal year 2007 and 100 percent for fiscal years 2006 and 2005.

**B. State Teachers Retirement Systems**

The Academy participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost sharing multiple employer public employee retirement system. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 E. Board St., Columbus, Ohio 43215-3771, by calling (614) 227-4090, or by visiting the STRS Ohio website at [www.strs.org](http://www.strs.org).

New members have a choice of three retirement plan options, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The Combined Plan offers features of the DC Plan and the DB. In the Combined Plan, the member contributions are allocated by the member, and employer contributions are used to fund a defined benefit payment at a reduced level from regular DB Plan. DC and Combined Plan members will transfer the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan. Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one time irrevocable decision to transfer their account balances from the existing DB Plan into the DC Plan or the Combined Plan. This option expired on December 31, 2001. Benefits are established by Chapter 3307 of the Ohio Revised Code.

**CHASE ACADEMY FOR COMMUNICATION ARTS  
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2007  
(Continued)**

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

**B. State Teachers Retirement Systems (Continued)**

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

For the fiscal year ended June 30, 2007, plan members were required to contribute 10 percent of their annual covered salaries. The Academy was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal year 2006, the portion used to fund pension obligations was also 13 percent. Contribution rates are established by the State Teachers Retirement Board, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers, Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The Academy's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2007, 2006 and 2005 were \$113,400, \$91,212 and \$45,692, respectively; 82.1 percent has been contributed for fiscal year 2007 and 100 percent for fiscal years 2006 and 2005.

**8. POSTEMPLOYMENT BENEFITS**

The Academy provides comprehensive health care benefits to retired teachers and their dependents through the State Teachers Retirement System (STRS), and to retired non-certified employees and their dependents through the School Employees Retirement System (SERS). Benefits include hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare premiums. Benefit provisions and the obligations to contribute are established by the Systems based on authority granted by State statute. Both systems are funded on a pay as you go basis.

All STRS Ohio retirees who participated in the DB or Combined Plans and their dependents are eligible for health care coverage. The STRS Ohio Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. All benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of the coverage paid from STRS Ohio funds is included in the employer contribution rate, currently 14 percent of covered payroll. For fiscal year June 30, 2007, the STRS Board allocated employer contributions equal to one percent of covered payroll to the Health Care Reserve Fund. For the Academy, this amount equaled \$8,153 for the fiscal year ended June 30, 2007.

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

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

**CHASE ACADEMY FOR COMMUNICATION ARTS  
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2007  
(Continued)**

**8. POSTEMPLOYMENT BENEFITS (Continued)**

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2007, employer contributions to fund health care benefits were 3.32 percent of covered payroll, compared to 3.42 percent of covered payroll for fiscal year 2006. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2007, the minimum pay was established at \$35,800. However, the surcharge is capped at 2 percent of each employer's SERS salaries. For the Academy, the amount contributed to fund health care benefits, including the surcharge, during the 2007 fiscal year equaled \$5,428.

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

**9. FISCAL AGENT**

The Academy entered into a service agreement with ACE Charter School Services from November 4, 2005 to July 30, 2007 to serve as the Chief Fiscal Officer of the Academy. Total payments to ACE Charter School Services were \$22,683 during the fiscal year for fiscal services, student services, and other services, and another \$17,224 has been accrued at year end.

The Treasurer shall perform all of the following functions while serving as the Chief Fiscal Officer of the Academy:

- Work with the school administration to develop and implement Standard Operating Procedures for fiscal and budgetary transactions of the school.
- Oversee the implementation of the State of Ohio Uniform School Accounting System for all financial activities of the school.
- Regularly monitor all financial transactions of the school to insure compliance with applicable rules, regulations, and laws.
- Assist the school administration in the preparation of an appropriation budget resolution.
- Be available throughout the workweek to answer any questions or resolve financial related concerns.
- Review all month end annual financial reports.
- Assure that financial records are achieved properly for use in the conduct of the school audit at the end of the fiscal year.
- Provide records and reports to the State Auditor upon request during the annual audit of the school financial records provided such records are regularly produced and maintained as part of the financial operation of the school.
- Assist in the preparation of the 4502 report at the end of the fiscal year.
- Assist school personnel in the use of the ADM Accounting System to enter requisitions and to monitor financial transactions.
- Serve as an additional school contact person with the School Employees Retirement System and the State Teachers Retirement System.

This contract was terminated July 30, 2007 and subsequent fiscal services agreements were entered into with Venice Group August 1, 2007 and then All About Learning, Inc. on January 9, 2008 (see Note 15).

**CHASE ACADEMY FOR COMMUNICATION ARTS  
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2007  
(Continued)**

**10. OPERATING LEASES – LESSEE DISCLOSURE**

On August 7, 2006, the Academy entered into an operating lease agreement for one year with Traveler’s Community Development Corp. to lease space to house the Academy. Rental payment rates were \$14,500 a month for a total payment of \$174,000 for the fiscal year. The contract was renewed for another year on August 13, 2007 with payments of \$12,500 per month.

**11. PURCHASED SERVICES**

For the year ended June 30, 2007, purchased service expenses were payments for services rendered by various vendors, as follows:

<b><u>PURCHASED SERVICES</u></b>	
Professional and Technical Services	\$ 246,822
Property Services	138,256
Travel Mileage/Meeting Expense	1,588
Communications	6,836
Utilities	1,781
Transportation	110,270
Other Purchased Services	<u>107,655</u>
Total Purchased Services	<u><u>\$ 613,208</u></u>

**12. CONTINGENCIES**

**A. Grants**

The Academy receives significant financial assistance from numerous federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. During fiscal year 2007, the Academy had material noncompliance relating to the following grants: National School Lunch Program; Education Technology State Grant; Charter Schools; Title I Grants to Local Educational Agencies; Special Education Grants to States; Improving Teacher Quality State Grants; and Safe and Drug Free Schools and Communities State Grants. Based on currently known facts at the date of this report, it is reasonably possible that the Academy will have to re-pay all or a portion of disallowed claims, which could have a material adverse effect on the overall financial position of the Academy. However, an estimate of the loss can not be determined as of the date of this report.

**B. State Funding**

The Ohio Department of Education conducts reviews over enrollment data and full-time equivalency (FTE) calculations made by the schools. These reviews are conducted to ensure the schools are reporting accurate student enrollment data to the State, upon which state foundation funding is calculated. The conclusions of this review resulted in an adjustment to State funding of \$8,725 to the Academy that is recorded as an intergovernmental receivable in the accompanying financial statements.

**CHASE ACADEMY FOR COMMUNICATION ARTS  
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2007  
(Continued)**

**13. RELATED PARTY TRANSACTIONS**

The Academy entered into a contract to utilize Diversified Community Services, Inc. The CEO of the company, Fred Borger was also a Board member for the Academy at the time of the contract approval. The Academy paid the company \$191,153 for transportation and student food service programs for fiscal year 2007 and another \$49,560 has been accrued at year end. Mr. Borger is no longer a Board member of the Academy effective July 1, 2006, but has served on the finance committee beginning October 11, 2006.

**14. MANAGEMENT PLAN**

The Academy had a change in net assets of (\$74,338) and net assets of (\$153,320) at fiscal year end 2007. As of August 31, 2008, the Academy had a cash fund balance of \$61,816.

The Administration and Board of Directors for Chase Academy for Communication Arts continually identifies / develops and implements programs and activities that generate additional revenue. That increased revenue helps us to remain financially viable during times when State funding is insufficient to cover operational costs. However, in the event that Chase Academy experiences financial difficulties and does not have the necessary level of reserve funds, the following measures will be implemented to decrease obligations and align them with the cash flow received:

- A Board of Director's review of operations will identify expenditures to be temporarily or permanently eliminated.
- Finance Committee will create, monitor and adjust budget as needed to proactively identify and remediate any potential deficits in operations funds.
- Increase enrollment of special needs students that can be served by current staff.
- Reduce hours and number of hourly staff.
- Reduce wages of salaried staff and assign additional duties permitted by licensure.
- Consolidate and eliminate positions.
- Purchase less expensive basic supplies and manage cost effective usage of items.
- Secure an affordable facility that supports program expansion.
- Maximize utilization of non-foundation funds for salaries and program development.
- Eliminate out-sourced labor when appropriate.
- Develop and implement an affordable salary and benefits program.
- Increase grant writing to secure additional funds.
- Implement less expensive, but effective academic programs.
- Implement new programs in Fiscal Year 2007-2008.



**CHASE ACADEMY FOR COMMUNICATION ARTS  
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2007  
(Continued)**

**15. SUBSEQUENT EVENTS**

- On March 14, 2008, the Academy signed a 10 year building lease with Charter School Property Services, LLC – a Nevada Limited Liability Company. The facility is 24,000 square feet and the Academy plans to be moved in for the 2008-2009 school year. Monthly lease payments are detailed in the lease agreement with the first year's base rate set at \$11.50 per square foot, which is \$23,000 per month and \$276,000 per year. In addition to base rent, the Academy is to pay Tenant Improvement Amortization charges and one-twelfth of the annual real estate or property taxes each month.
- The Academy changed its fiscal agent from Harris Computer ACE Charter School Services to Venice Group effective August 1, 2007. The Academy subsequently changed its fiscal agent from Venice Group to All About Learning, Inc. on January 9, 2008.
- The Academy changed its sponsor from Buckeye Community Hope Foundation to Educational Resource Consultants of Ohio, Inc. effective April 2, 2008.

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# Mary Taylor, CPA

Auditor of State

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

Chase Academy for Communication Arts  
Franklin County  
1565 Integrity Drive  
Columbus, Ohio 43215

To the Board of Directors:

We have audited the basic financial statements of Chase Academy for Communication Arts, Franklin County, Ohio (the Academy), as of and for the year ended June 30, 2007, and have issued our report thereon dated August 25, 2008, wherein we noted the Academy is experiencing certain financial difficulties and has unpaid audit fees. We qualified our report because we were unable to obtain sufficient competent evidence to support the activities, balances and disclosures related to certain expenses. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

### **Internal Control over Financial Reporting**

In planning and performing our audit, we considered the Academy's internal control over financial reporting as a basis for designing our audit procedures for expressing our opinion on the financial statements, but not to opine 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 would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Academy's ability to initiate, authorize, record, process, or report financial data reliably in accordance with its applicable accounting basis, such that there is more than a remote likelihood that the Academy's internal control will not prevent or detect a more-than-inconsequential financial statement misstatement.

We consider the following deficiencies described in the accompanying schedule of findings to be significant deficiencies in internal control over financial reporting: 2007-001 through 2007-007 and 2007-012 through 2007-019.

A material weakness is a significant deficiency, or combination of significant deficiencies resulting in more than a remote likelihood that the Academy's internal control will not prevent or detect a material financial statement misstatement.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and accordingly, would not necessarily disclose all significant deficiencies that are also material weaknesses. However, of the significant deficiencies described above, we believe findings numbers 2007-001 through 2007-004 and 2007-012 through 2007-016 are also material weaknesses.

We also noted certain internal control matters that we reported to the Academy's management in a separate letter dated August 25, 2008.

### **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 audit and, accordingly, we do not express an opinion. The results of our tests disclosed instances of noncompliance or other matters that we must report under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 2007-001 through 2007-011.

We also noted certain noncompliance or other matters not requiring inclusion in this report that we reported to the Academy's management in a separate letter August 25, 2008.

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

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



**Mary Taylor, CPA**  
Auditor of State

August 25, 2008

**CHASE ACADEMY FOR COMMUNICATION ARTS  
FRANKLIN COUNTY**

**SCHEDULE OF FINDINGS  
JUNE 30, 2007**

<b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS</b>
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<b>Finding Number</b>	<b>2007-001</b>
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**Proper Public Purpose – Significant Deficiency / Material Weakness / Noncompliance Finding / Finding for Recovery**

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

The Academy expended public funds in the amount of \$2,996 to various vendors that did not have supporting documentation for the expenditures. The Board did not issue prior approval for these expenditures demonstrating what public purpose such expenditures served. Without appropriate documentation it is not possible to determine if the expenditures included items that would not be considered a proper public purpose. The failure to maintain adequate support for expenditures could result in a loss of accountability over the 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. Further, this contributed to a qualified opinion over the Academy’s financial statements due to proper classification of expenditures not being determinable.

During this period, Harris Computer ACE Charter School Services contracted with Chase Academy to provide them with fiscal agent services, and Stephen Sites was assigned by Harris Computer ACE Charter Schools Services to function as Treasurer for Chase Academy.

Additionally, under Ohio law, any public official who either authorizes an illegal expenditure of public funds or supervises the accounts of a public office from which such illegal expenditure is made is strictly liable for the amount of such expenditure. *Seward v. National Surety Co.* (1929), 120 Ohio St. 47; 1980 Op. Att’y Gen. No. 80-074; Ohio Rev. Code Section 9.39; *State, ex.rel. Village of Linndale v. Masten* (1985), 18 Ohio St.3d 228. Public officials controlling public funds or property are secondarily liable for the loss incurred should such funds or property be fraudulently obtained by another, converted, misappropriated, lost or stolen. Public officials will be liable if and to the extent that recovery or restitution is not obtained from the persons who unlawfully obtained such funds or property. 1980 Op. Att’y Gen. No. 80-074.

In accordance with the forgoing facts, and pursuant to Ohio Rev. Code Section 117.28, a Finding for Recovery for public money illegally expended is hereby issued against Celia Jones, Executive Director, and Stephen Sites of Harris Computer ACE Charter School Services, Treasurer Services, in their supervisory capacities for assuring that all such payments are in accordance with Academy policy, jointly and severally, in the amount of \$2,996, in favor of the Academy’s General Fund.

We recommend the Academy ensure proper supporting documentation is retained to evidence all expenditures made and ensure the accuracy of the financial statement presentation. Such documentation should be received and approved by those with appropriate authority prior to expenditure and should be maintained along with the expenditures to evidence the details of the goods or services purchased. Such documentation should also be reviewed by the Board during monthly review of financial reports and expenditures to ensure the proper recording and classification of expenditures.

**CHASE ACADEMY FOR COMMUNICATION ARTS  
FRANKLIN COUNTY**

**SCHEDULE OF FINDINGS  
JUNE 30, 2007  
(Continued)**

<b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)</b>
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<b>Finding Number</b>	<b>2007-001 (Continued)</b>
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**Proper Public Purpose – Significant Deficiency / Material Weakness / Noncompliance Finding / Finding for Recovery (Continued)**

We further recommend the Board pass a comprehensive proper public purpose policy that provides guidance and direction to staff and directors as to what expenditures are viewed as a proper public purpose that accomplish the goals and mission of the Academy. Such a policy may entail:

- The permissiveness of various expenditure types or classifications to the Academy as a whole;
- Dollar limitations on the expenditure of funds for certain expenditure types or classifications;
- Restrictions on expenditures for specific types of Academy programs or activities;
- The allowability of certain expenditure types or classifications in regard to federal programs;
- Designation regarding the appropriate uses of, allowable types of, dollar limitations to, and types of documentation that must be maintained for student and teacher incentives.

**Officials' Response:** The Board will implement the above recommendations.

<b>Finding Number</b>	<b>2007-002</b>
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**Reimbursements – Significant Deficiency / Material Weakness / Noncompliance Finding / Finding for Recovery**

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

The Academy expended public funds in the amount of \$1,822 for reimbursements to the Executive Director, Celia Jones, and another employee, which did not have supporting documentation for the reimbursable expenditures. The Board did not issue prior approval for these expenditures demonstrating what public purpose such expenditures served. Without appropriate documentation it is not possible to determine if the expenditures included items that would not be considered a proper public purpose. The failure to maintain adequate support for expenditures could result in a loss of accountability over the 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. Further, this contributed to a qualified opinion over the Academy’s financial statements due to proper classification of expenditures not being determinable.

During this period, Harris Computer ACE Charter School Services contracted with Chase Academy to provide them with fiscal agent services, and Stephen Sites was assigned by Harris Computer ACE Charter Schools Services to function as Treasurer for Chase Academy.

Additionally, under Ohio law, any public official who either authorizes an illegal expenditure of public funds or supervises the accounts of a public office from which such illegal expenditure is made is strictly liable for the amount of such expenditure. *Seward v. National Surety Co.* (1929), 120 Ohio St. 47; 1980 Op. Att’y Gen. No. 80-074; Ohio Rev. Code Section 9.39; *State, ex.rel. Village of Linndale v. Masten* (1985), 18 Ohio St.3d 228.

Public officials controlling public funds or property are secondarily liable for the loss incurred should such funds or property be fraudulently obtained by another, converted, misappropriated, lost or stolen. Public officials will be liable if and to the extent that recovery or restitution is not obtained from the persons who unlawfully obtained such funds or property. 1980 Op. Att’y Gen. No. 80-074.

**CHASE ACADEMY FOR COMMUNICATION ARTS  
FRANKLIN COUNTY**

**SCHEDULE OF FINDINGS  
JUNE 30, 2007  
(Continued)**

<b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)</b>
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<b>Finding Number</b>	<b>2007-002 (Continued)</b>
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**Reimbursements – Significant Deficiency / Material Weakness / Noncompliance Finding / Finding for Recovery (Continued)**

In accordance with the forgoing facts, and pursuant to Ohio Rev. Code 117.28, a Finding for Recovery for public monies illegally expended is hereby issued against Maxley Brooks for \$296 and Celia Jones for \$1,526, individually, and against Celia Jones, Executive Director, and against Stephen Sites of Harris Computer ACE Charter School Services, Treasurer Services, and Hartford Fire Insurance Co., his bonding company, in their supervisory capacities for assuring that all such payments are in accordance with Academy policy, jointly and severally, for \$379, and against Celia Jones, Executive Director, and against Stephen Sites of Harris Computer ACE Charter School Services, Treasurer Services, for \$1,443, for the period that Stephen was not bonded, for a total amount of \$1,822, in favor of the Academy's General Fund.

Celia Jones, Executive Director, and Stephen Sites, assigned by Harris Computer ACE Charter School Services to provide Treasurer Services, shall be secondarily liable for such illegal expenditures to the extent that recovery or restitution is not obtained from those individuals listed.

We recommend the Academy ensure all reimbursements are supported with adequate documentation and approved by management with appropriate independent authority in accordance with reimbursement guidelines of the Academy prior to the individual being reimbursed. Such documentation should also be reviewed by the Board during monthly review of financial reports and expenditures to ensure the accuracy of the financial statement presentation, including the proper recording and classification of expenditures.

**Officials' Response:** The above recommendation has been implemented for the 2007-2008 school year.

<b>Finding Number</b>	<b>2007-003</b>
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**Allowable Costs/Cost Principles of Federal Funds – Significant Deficiency / Material Weakness / Noncompliance Finding**

2 C.F.R. Part 225, Appendix A Section C3 states that a cost is allocable to a particular cost objective if the goods or services involved are chargeable or assignable to such cost objective in accordance with relative benefits received. Further, 2 C.F.R. Part 225, Appendix A Section C1 lists the factors affecting allowability of costs. To be allowable under Federal awards, costs must be adequately documented and meet the following general criteria:

- a. Be necessary and reasonable for proper and efficient performance and administration of Federal awards.
- b. Be allocable to Federal awards under the provisions of 2 C.F.R. Part 225.
- c. Be authorized or not prohibited under State or local laws or regulations.
- d. Conform to any limitations or exclusions set forth in these principles, Federal laws, terms and conditions of the Federal award, or other governing regulations as to types or amounts of cost items.
- e. Be consistent with policies, regulations, and procedures that apply uniformly to both Federal awards and other activities of the governmental unit.

**CHASE ACADEMY FOR COMMUNICATION ARTS  
FRANKLIN COUNTY**

**SCHEDULE OF FINDINGS  
JUNE 30, 2007  
(Continued)**

<b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)</b>
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<b>Finding Number</b>	<b>2007-003 (Continued)</b>
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**Allowable Costs/Cost Principles of Federal Funds – Significant Deficiency / Material Weakness / Noncompliance Finding (Continued)**

- f. Be accorded consistent treatment. A cost may not be assigned to a Federal award as a direct cost if any other cost incurred for the same purpose in like circumstances has been allocated to the Federal award as an indirect cost.
- g. Except as otherwise provided for in 2 C.F.R. Part 225, be determined in accordance with generally accepted accounting principles.
- h. Not be included as a cost or used to meet cost sharing or matching requirements of any other Federal award in either the current or a prior period, except as specifically provided by Federal law or regulation.
- i. Be the net of all applicable credits.
- j. Be adequately documented.

Throughout fiscal year 2007, the Academy paid a consultant \$9,000 for federal grant-writing services. The expenditures were charged entirely to the Title I grant, although the federal grant-writing services encompassed five other federal grants in addition to Title I. Therefore, the costs were not properly allocated among the affected grants. Based on the grant award amounts, the Title I grant was overcharged for \$2,781.

Additionally, on June 30 2007, the Academy shifted expenditures made from the General Fund to several Federal grant funds (see below chart). The Academy maintained no documentation to support what these expenditures represented or how these expenditures were allowable to be charged to the Federal grants and, as a result, the costs and activities were unallowable. In addition, the lack of support further inhibited the ability to determine the proper classification of expenditures involved in the cost shift.

CFDA #	Fund	SCC	Federal Program	Amount
84.318	599	9007	Education Technology State Grant	\$ 45,926
84.282	599	9017	Charter Schools	118
84.010	572	9007	Title I Grants to Local Educational Agencies	57,830
84.027	516	9007	Special Education Grants to States	34,252
84.367	590	9007	Improving Teacher Quality State Grants	1,099
84.186	584	9007	Safe and Drug-Free Schools and Communities State Grants	794
Total				<u>\$ 140,019</u>

We recommend the Academy ensure the eligibility of Federal expenditures at the time they are made and ensure that all expenditures are properly supported and meet the allowable cost principles. Documentation supporting cost shifts should also be reviewed by the Board during monthly review of financial reports and expenditures to ensure the accuracy of the financial statement presentation, including the proper recording and classification of expenditures.

**Officials' Response:** The current Treasurer has employed processes to avoid the issues cited above.



**CHASE ACADEMY FOR COMMUNICATION ARTS  
FRANKLIN COUNTY**

**SCHEDULE OF FINDINGS  
JUNE 30, 2007  
(Continued)**

<b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)</b>
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<b>Finding Number</b>	<b>2007-004</b>
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**Reimbursements for Breakfasts, Lunches, and After School Snacks – Significant Deficiency / Material Weakness / Noncompliance Finding**

7 C.F.R. Section 210.7(c)(1)(iii) requires that all claims for reimbursements be based on accurate counts for lunches and meal supplements and correctly identify the number of free, reduced price and paid lunches served to eligible children. 7 C.F.R. Section 220.11(b), pertaining to reimbursements for breakfasts served, requires that the Claim for Reimbursement for any month shall include only breakfasts served in that month, except if the first or last month of Program operations for any year contains 10 operating days or less, such month may be added to the Claim for Reimbursement for the appropriate adjacent month.

The meal supplements for which the Academy received reimbursements consisted of after school snacks. 42 U.S.C. Section 1766-(r) requires that reimbursement for after-school snacks only be made available to school food service authorities which (1) operate the NSLP in one or more of their schools and (2) sponsor or operate after-school care programs with an educational or enrichment purpose.

The Academy contracts with Diversified Community Care, Inc. (Diversified) to provide food services and transportation services. Diversified is also a related party of the Academy, as described further in Note 13 to the Financial Statements. Diversified provided the Academy teachers with daily count sheets to record the number of children in attendance and the meal counts by eligibility category of free, reduced price, or full price. The daily count sheets were improperly completed, due to missing and incomplete notations of payments and meals served, to the extent that it was impossible to recalculate the meal counts due to the lack of sufficient documentation. We were therefore unable to ascertain the completeness and accuracy for the meal counts the Academy submitted to the State for reimbursement.

We further noted the number of breakfasts claimed by the Academy were made to equal to lunches claimed for seven months of the fiscal year and were higher for one month of the fiscal year. Additionally, the Academy was unable to provide evidence to demonstrate that it had an after school program with an educational or enrichment purpose throughout the period which reimbursements were claimed. In addition, no documentation was maintained to support the number of supplements (i.e. after school snacks) claimed by the Academy. The number of after school snacks claimed by the Academy were made to equal to lunches claimed for seven months of the fiscal year and were higher for three months of the fiscal year.

As a result, the Academy received reimbursements of \$37,550 for breakfasts; \$58,188 for lunches; and \$20,162 for after school snacks based on inaccurate and unsupported meal and meal supplement counts for a total of \$115,900.

We recommend the Academy develop procedures to properly document the number of lunches, breakfasts and after school snacks served and receipts collected by students. After school snacks should only be claimed for reimbursement during the time the Academy is sponsoring or operating an after-school care program with an educational or enrichment purpose. In addition, the Academy should train employees on the procedures and monitor the process regularly. Since the Academy allows their meal service provider to complete and submit their claim forms to the Ohio Department of Education, we further suggest the Academy monitor the claim forms and compare them to their documentation to ensure accuracy of the claims presented by Diversified on behalf of Chase Academy.

**Officials' Response:** The above recommendation will be implemented by the Board.

**CHASE ACADEMY FOR COMMUNICATION ARTS  
FRANKLIN COUNTY**

**SCHEDULE OF FINDINGS  
JUNE 30, 2007  
(Continued)**

<b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)</b>
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<b>Finding Number</b>	<b>2007-005</b>
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**Unrecorded & Undeposited Food Service Receipts – Significant Deficiency / Noncompliance Finding**

Ohio Rev. Code Section 9.38 states that public money must be deposited with the treasurer of the public office or to a designated depository on the business day following the day of receipt, if the total amount of such moneys received exceeds one thousand dollars. If the total amount of the public moneys so received does not exceed one thousand dollars, the person shall deposit the moneys on the business day next following the day of the receipt, unless the public office of which that person is a public official adopts a policy permitting a different time period, not to exceed three business days next following the day of receipt, for making such deposits, and the person is able to safeguard the moneys until such time as the moneys are deposited. The policy shall include provisions and procedures to safeguard the public moneys until they are deposited.

The Academy’s “Disbursement & Deposit of Funds” policy states, in part, cash collected from school meals is to be collected by the classroom teachers and delivered to the secretary who is to deposit the monies within 24 hours into the school’s bank account. The Academy does collect money from students daily for breakfasts and lunches; however, the money was not deposited into the Academy’s designated depository or recorded on the Academy’s ledgers as revenue. The Academy turned over the money directly to Diversified Community Care, Inc. (Diversified), which has a contract to provide the Academy’s food services. This resulted in unrecorded revenues and expenses on the Academy’s financial statements.

We recommend the Academy receipt all incoming money properly and in a timely manner. To ensure proper segregation of duties, the money should be logged by one person and deposited by another. The treasurer should then post the receipts to the proper account in the accounting records. Detailed records should be maintained to show amounts received; from whom the receipt was received; and the method of payment (i.e. cash or check). Inclusion of the receipt and expenditure activity associated with the food service operation should be ensured by the Board during monthly review of financial reports to ensure the accuracy of the financial statement presentation, including the proper recording of flow through activity.

**Officials’ Response:** The Academy’s Treasurer has begun implementing the auditor’s recommendations to accurately and objectively record the receipt and deposit of meal related funds.

**CHASE ACADEMY FOR COMMUNICATION ARTS  
FRANKLIN COUNTY**

**SCHEDULE OF FINDINGS  
JUNE 30, 2007  
(Continued)**

<b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)</b>
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<b>Finding Number</b>	<b>2007-006</b>
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**Overcharge of Reduced Price Lunches – Significant Deficiency / Noncompliance Finding**

7 C.F.R. Section 245.2 states reduced price meal means a meal which meets all of the following criteria: (1) The price shall be less than the full price of the meal; (2) the price shall not exceed 40 cents for a lunch and 30 cents for a breakfast and 15 cents for snacks; and (3) neither the child nor any member of his family shall be required to supply an equivalent value in work for the school or the school's food service.

The Academy charged \$1 per day for reduced price lunches based on documentation determinable as to price.

As a result the students who purchased reduced price lunches were overcharged.

We recommend the Academy comply with federal regulations on charges for reduced priced lunches.

**Officials' Response:** Students were overcharged for a portion of the year. Once it was determined that federal guidelines dictated the cost of reduced price lunches, families were notified and began paying the correct amount. Federal guidelines have been adhered to since then.

<b>Finding Number</b>	<b>2007-007</b>
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**Federal Expenditures – Significant Deficiency / Noncompliance Finding**

Federal awards should be placed into and tracked in separate funds and within the funds, separate cost centers should be utilized to distinguish federal funds between grant years. Entities receiving federal funding should prepare annually a Federal Award Receipts and Expenditures Schedule (the Federal Schedule) in accordance with OMB Circular A- 133 Section \_\_.310 (b) to accurately reflect all federal funding received and expended during each fiscal year, by program type and program year.

34 C.F.R. Section 74.28 states that where a funding period is specified, a recipient may charge to the grant only allowable costs resulting from obligations incurred during the funding period and any pre-award costs authorized by the Secretary. The Ohio Department of Education (ODE) 2006 Continuous Comprehensive Improvement Planning (CCIP) Consolidated Application defines the available period as July 1, 2005 through June 30, 2006. ODE Federal Fiscal Report Procedures #1 requires that obligations must be liquidated prior to September 30, 2006.

During fiscal year 2007, the Academy charged expenditures to its 2006 CCIP grants that were outside the period of availability in the amounts of \$13,154 and \$845 for Title I and IDEA Part-B respectively. Those expenditures were posted throughout the fiscal year; as late as June 8, 2007. The Academy further overspent its 2006 and 2007 CCIP grant allocations as shown below, with no additional funding available to cover the deficits. The Academy then reported the full amount of the posted expenditures as federal expenditures on its Federal Schedule. However, the deficits have to be covered with State funding due to no additional federal funding remaining for the enumerated grants.

**CHASE ACADEMY FOR COMMUNICATION ARTS  
FRANKLIN COUNTY**

**SCHEDULE OF FINDINGS  
JUNE 30, 2007  
(Continued)**

<b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)</b>
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<b>Finding Number</b>	<b>2007-007 (Continued)</b>
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**Federal Expenditures – Significant Deficiency / Noncompliance Finding (Continued)**

CFDA	Federal Program	Grant Year	Amount Overspent
84.027	IDEA Part B	2006	\$ 11,542
84.010	Title I	2006	15,477
84.010	Title I	2007	587
			\$ 27,606

Additionally, the 2006 Community School Grant was not included on the Federal Schedule, which had federal expenditures during fiscal year 2007 totaling \$14,467.

This resulted in the Academy overstating its Federal Schedule by a net amount of \$13,139 which was required to be adjusted. Federal expenditures originally reported by the Academy would have subjected the Academy to an A-133 federal single audit.

We recommend the Academy charge allowable costs to its federal funds only within the period of availability and budgeted allocation of funding to be received. We further recommend the Academy ensure proper reporting of federal receipts and expenditures schedule, including the proper amount of federal receipts and expenditures; federal agency; pass-through entity name and number (where applicable); and the Catalog of Federal Domestic Assistance (CFDA) number.

**Officials' Response:** The Treasurer, Board of Directors, and federal funds coordinator have begun tracking expenditures more accurately to ensure expenditures are within budget and time periods are correct.

<b>Finding Number</b>	<b>2007-008</b>
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**Treasurer Bonding – Noncompliance Finding**

Ohio Admin. Code Section 117-6-07 requires the fiscal officer to execute a bond prior to entering upon the duties of the fiscal officer as provided for in Ohio Rev. Code Section 3314.011. The bond amount and surety is to be established by a resolution of the governing authority.

The Academy's Treasurer representative assigned by Harris Computer ACE Charter School Services through their contract, which became effective January 1, 2006, was not bonded for the Academy until April 30, 2007. Failure to bond the Treasurer may result in the Academy being exposed to liabilities of theft or error by the Academy's Treasurer in the event of a loss from the occurrence of such. \$7,886 of findings for recovery were not covered by an executed bond for fiscal year 2007,

We recommend the Treasurer timely execute a bond in an amount approved by the Board.

**Officials' Response:** The former treasurer obtained a \$35,000 bond from Hartford Insurance Company in May 2007. The current treasurer has provided the Board with documentation of bond coverage.

**CHASE ACADEMY FOR COMMUNICATION ARTS  
FRANKLIN COUNTY**

**SCHEDULE OF FINDINGS  
JUNE 30, 2007  
(Continued)**

<b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)</b>
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<b>Finding Number</b>	<b>2007-009</b>
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**Payroll Expenditures – Noncompliance Finding / Finding for Recovery**

Thirty-seven percent of payroll disbursements tested were not paid in accordance with the employee's rate of pay per their employment contract or Board approved pay raise resolution for the 2006-2007 school year. Nine percent had no records documenting extra hours for additional work or supplemental contracts to evidence the additional components of pay.

Additionally, under Ohio law, any public official who either authorizes an illegal expenditure of public funds or supervises the accounts of a public office from which such illegal expenditure is made is strictly liable for the amount of such expenditure. *Seward v. National Surety Co.* (1929), 120 Ohio St. 47; 1980 Op. Att'y Gen. No. 80-074; Ohio Rev. Code Section 9.39; *State, ex. rel. Village of Linndale v. Masten* (1985), 18 Ohio St.3d 228. Public officials controlling public funds or property are secondarily liable for the loss incurred should such funds or property be fraudulently obtained by another, converted, misappropriated, lost or stolen. Public officials will be liable if and to the extent that recovery or restitution is not obtained from the persons who unlawfully obtained such funds or property. 1980 Op. Att'y Gen. No. 80-074.

During this period, Harris Computer ACE Charter School Services contracted with the Academy to provide them with fiscal agent services, and Stephen Sites was assigned by Harris Computer ACE Charter Schools Services to function as Treasurer for Chase Academy.

In accordance with the forgoing facts, and pursuant to Ohio Rev. Code 117.28, a Finding for Recovery for public monies illegally expended is hereby issued against the employees listed in the chart below, individually, in the corresponding dollar amounts, and against Celia Jones, Executive Director, and against Stephen Sites of Harris Computer ACE Charter School Services, Treasurer Services, and Hartford Fire Insurance Co., his bonding company for \$384, and against Celia Jones, Executive Director, and against Stephen Sites of Harris Computer ACE Charter School Services, Treasurer Services, for \$2,684 (for the period that Stephen was not bonded), in their supervisory capacities for assuring that all such payments are in accordance with Academy policy, jointly and severally, in favor of the Academy's General Fund.

<b>Employee Name</b>	<b>Finding Amount</b>	<b>Finding Repaid Under Audit</b>	<b>Date Finding Repaid</b>
Jasmine Featherstone	\$437	\$0	
Charlane Thomas	425	0	
Gail Clarkson	606	0	
Rodney Norwood	250	0	
Delores Warfield	850	0	
Jeff Kiser	<u>500</u>	<u>500</u>	11/20/2008
<b>Total</b>	<b>\$3,068</b>	<b>\$500</b>	

Celia Jones, Executive Director, and Stephen Sites, assigned by Harris Computer ACE Charter School Services to provide Treasurer Services, shall be secondarily liable for such illegal expenditures to the extent that recovery or restitution is not obtained from those individuals listed above.

CHASE ACADEMY FOR COMMUNICATION ARTS  
FRANKLIN COUNTY

SCHEDULE OF FINDINGS  
JUNE 30, 2007  
(Continued)

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

Finding Number	2007-009 (Continued)
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**Payroll Expenditures – Noncompliance Finding / Finding for Recovery (Continued)**

We recommend the Board approve all employment contracts, salary schedules, and annual raises on an annual basis prior to the beginning of the contract/employment period. All employees should be contracted and paid in accordance with their Board approved rates.

**Officials' Response:** The Board will approval all contracts, determine salary and annual raises. Every employee's contract will be maintained by the Treasurer. The \$3,068 in overpayment to employees represents less than one-half of 1% for a salary budget of \$550,000. In the future, the Treasurer and Director will ensure that employees will be paid the amount specified in Board approved contracts.

Finding Number	2007-010
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**Annual Report Filing – Noncompliance Finding**

Ohio Rev. Code Section 117.38 states that each public office, other than a state agency, shall file a financial report for each fiscal year. The report should be filed with the auditor of within sixty days after the close of the fiscal year, except that public offices reporting pursuant to generally accepted accounting principles (GAAP) shall file their reports within one hundred fifty days after the close of the fiscal year. Also, the public office must publish notice in a local newspaper stating the financial report is available for inspection.

The Academy did not file their fiscal year 2007 GAAP basis financial report with the Auditor of State or publish a notice announcing the report was available for review.

We recommend the Academy file their annual GAAP financial report with the Auditor of State within one hundred and fifty days after the close of the fiscal year and publish a notice announcing when the report is available for review.

**Officials' Response:** Chase Academy's treasurer will submit an annual GAAP report to the auditor within 150 days after the close of the fiscal year and will publish a notice to allow for public review of the document.

CHASE ACADEMY FOR COMMUNICATION ARTS  
FRANKLIN COUNTY

SCHEDULE OF FINDINGS  
JUNE 30, 2007  
(Continued)

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

Finding Number	2007-011
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**5 Year Forecast – Noncompliance Finding**

Ohio Rev. Code Section 5705.391, through Ohio Admin. Code Section 3301-92-04, requires that community schools submit a five year forecast by October 31<sup>st</sup> of each year to the Ohio Department of Education. This section also includes references to annual appropriations and annual revenue estimates although these measures need not follow other 5705 requirements. The client’s assumptions should be reasonable and the projections should be resulted from the assumptions documented.

The Academy did submit a five year forecast to the Ohio Department of Education by the required date; however, the written assumptions used to support the amounts on the forecast did not illustrate how past results and future expectations were reflected in the forecasted amounts. The Academy projected a significant increase in student enrollment; however, did not project a proportionate increase in teaching and support staff salaries. The Academy’s amended budget was submitted May 29, 2007; however, it still contained multiple significant variances between their amended budget and their actual revenues and expenditures for fiscal year 2007 and did not contain proper supporting assumptions.

Failure to develop a supported five year forecast results in a failure to plan for financial operations and results of the Academy and an inability for monitoring agencies to ensure proper tracking of the Academy’s financial plan and funding status.

We recommend the Academy provide supportable assumptions and revise the five year forecast if any material new revenues or expenditures occur. The Academy should also prepare an annual budget with appropriations and estimated receipts. The Board of Directors should monitor the budget monthly to help ensure the Academy does not overspend and should modify such forecasting tools when events occur that significantly modify the underlying assumptions.

**Officials’ Response:** The treasurer and Board will implement the auditor’s recommendation by August 15, 2008.

CHASE ACADEMY FOR COMMUNICATION ARTS  
FRANKLIN COUNTY

SCHEDULE OF FINDINGS  
JUNE 30, 2007  
(Continued)

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

Finding Number	2007-012
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**Financial Reporting – Significant Deficiency/ Material Weakness**

Sound financial reporting is the responsibility of the Academy's management and fiscal agent and is essential to ensure the information provided to the readers of the financial statements is complete and accurate.

The following items have been corrected in the accompanying financial statements:

**Cash Basis Audit Adjustment**

- Federal food service subsidy revenues were misclassified as State subsidy revenues for \$97,969.

**GAAP Basis Audit Adjustments**

- Intergovernmental receivable was understated by \$41,944, due to no grant receivables being recorded.
- Intergovernmental payable was understated by \$15,548 due to unrecorded liabilities and retirement liabilities being incorrectly calculated.

The following unadjusted difference was noted during the review of the June 30, 2007 year end financial accounting reports:

- Salaries and wages were understated by \$2,245 due to the payroll bank account being improperly reconciled.

The items identified above should be reviewed by the Academy's management and fiscal agent to ensure that similar errors are not recorded in the financial accounting system and the financial statements in subsequent years.

**Officials' Response:** Recordkeeping changes were implemented at the start of the 2007-2008 to avoid financial reporting errors.



CHASE ACADEMY FOR COMMUNICATION ARTS  
FRANKLIN COUNTY

SCHEDULE OF FINDINGS  
JUNE 30, 2007  
(Continued)

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

Finding Number	2007-013
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**SAS 70 Report – Harris Computer ACE Charter School Services – Significant Deficiency / Material Weakness**

The Academy has contracted with Harris Computer ACE Charter School Services (ACE) for Treasurer and finance function services, including processing accounting transactions on their ACE software, which was developed by ACE and provides a significant accounting function. The Academy has not established procedures to determine whether the service organization has sufficient controls in place which are operating effectively to reduce the risk that financial transactions have not been authorized or completely and accurately processed in accordance with the contract and Academy guidelines

We recommend the Academy assure the completeness and accuracy of their accounting transactions processed by its service organization. Statement of Auditing Standards (SAS) No. 70, as amended, prescribes standards for reporting on service organizations. An unqualified Type Two *Report on Policies and Procedures Placed in Operation and Tests of Operating Effectiveness* in accordance with SAS No. 70 should provide the Academy with reasonable assurance that transactions are completely and accurately processed.

We recommend the Academy specify in its contract with the third-party administrator that an annual Type II SAS 70 audit be performed. The Academy should be provided a copy of the SAS 70 audit report timely and should review the report's content. A SAS 70 audit should be conducted in accordance with American Institute of Certified Public Accountants' (AICPA) standards by a firm registered and considered in "good standing" with the Accountancy Board of the respective State. If the third-party administrator refuses to provide a Type II SAS 70 audit report, we recommend the Academy only contract with a third-party administrator that will provide such a report.

**Officials' Response:** The Board will implement the auditor's recommendation.

CHASE ACADEMY FOR COMMUNICATION ARTS  
FRANKLIN COUNTY

SCHEDULE OF FINDINGS  
JUNE 30, 2007  
(Continued)

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

Finding Number	2007-014
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**Board Monitoring – Significant Deficiency / Material Weakness**

Monitoring controls should be comprised of regular management and supervisory activities established to oversee whether management’s objectives are being achieved, including operational, legal compliance, and financial control objectives. Effective monitoring controls should identify unexpected results or exceptions (including significant compliance exceptions), investigate underlying causes, and take corrective action.

The Board of Directors should monitor the financial operations of the Academy regularly so that appropriate actions may be taken in response to financial conditions on a timely basis. Such monitoring should include review of system generated reports such as resources received, expenditures, invoices received that cannot be paid, financial forecasts, etc. Such review and action should take place during meetings of the Board of Directors and should be reflected in the minutes of such meetings.

For 10 of the 12 months of the fiscal year financial reports were not given to the Board. There was no evidence presented that the Board performed any type of review and approval of the Academy’s financial information. In addition, four of the 13 Board meeting minutes were not approved by the Board at the following meeting or at a later date. Furthermore, there was no evidence provided that the Director and Board members document their approval by signing transcribed meeting minutes. Lack of timely effective monitoring controls could allow for operational failures and errors to occur without timely detection and appropriate management action.

We recommend the Board be provided with system generated financial information and meeting minutes on a timely basis, after the close of the month. Financial reports provided should be reviewed and accepted in the minutes of the Board meetings to identify any potential errors, mispostings, or unusual items that may be followed up on for correction. Further, all Board meeting minutes should be signed by the preparer and Board president and should be reviewed and accepted to indicate their accuracy and completeness at the following Board meeting.

**Officials’ Response:** Corrective measures have been employed to address the issue. The finance committee and treasurer have collaborated more to ensure the Academy’s finances are better monitored.

**CHASE ACADEMY FOR COMMUNICATION ARTS  
FRANKLIN COUNTY**

**SCHEDULE OF FINDINGS  
JUNE 30, 2007  
(Continued)**

<b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)</b>
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<b>Finding Number</b>	<b>2007-015</b>
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**Segregation of Duties – Significant Deficiency / Material Weakness**

Control activities and duties should be segregated to allow for a system of checks and balances within an organization. During fiscal year 2007, the Academy approved a purchasing policy that states all equipment, goods and services are to be purchased through the Board of Directors. However, the policy further delegates the authority for purchasing of textbooks, materials, classroom supplies, student activities and enrichment activities to the Executive Director.

During fiscal year 2007, the Executive Director executed many significant operational duties for the Academy, including approving a teacher contract; drafting and approving purchase requisitions and reimbursements (including her own); and approval of the majority of the Academy expenditures. The Executive Director also wrote and issued manual checks and made debit card purchases without independent approval. The results of these duties were rarely presented to the Board and documentation of Board review or approval was not present.

The lack of segregation of duties increases the risk that the Academy’s funds could be misappropriated or fraudulent activity could occur and go undetected by management. In addition, lack of segregation allows for errors perpetuated by the Executive Director to have no system of checks and balances to identify and correct unrecorded expenditures, contracts, and miscoded expenditures with the financial statements.

We recommend the Board take a more active role in approving employee salary schedules; hiring of personnel; and the approval of purchases and contracts. A more active role by the Board allows for segregation of duties which enhance an organization’s ability to properly safeguard assets. We further recommend the Board revise its purchasing policy so as not to delegate all authorization and execution authority to the same individual for such a significant portion of the Academy’s financial transactions. Expenditures involving reimbursements to the Executive Director should also be authorized by the Board.

**Officials’ Response:** The Board has implemented procedures to create a system of checks and balances. Board members review and authorize major purchases, hiring of employees, and entering into contracts.

CHASE ACADEMY FOR COMMUNICATION ARTS  
FRANKLIN COUNTY

SCHEDULE OF FINDINGS  
JUNE 30, 2007  
(Continued)

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

Finding Number	2007-016
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**Bank to Book Reconciliation – Significant Deficiency / Material Weakness**

A bank to book reconciliation should be performed monthly and reviewed and approved by an individual with appropriate fiscal authority. All bank accounts of the Academy should be included in the monthly bank to book reconciliation process.

The Academy did not include their debit card account, which acts as a petty cash account, within the monthly bank to book reconciliation. The Academy transferred monies from the general checking account to the debit card account to replenish the account after the balance of funds had been depleted. The expenses recorded to the ledgers of the Academy were that of a disbursement to fund the debit card account and were not expensed in the manner of the disbursements made with the debit card. Detailed receipts were not required when the account was replenished to evidence the expenditures made. As a result, we were not able to obtain sufficient competent evidence to support the activities, balances and disclosures related to the expenditures made through this account, which resulted in the Academy receiving a qualified opinion on its financial statements.

Additionally, the Academy incorrectly reconciled the payroll account throughout the fiscal year due to inconsistent and inaccurate recording of withholding payments. Upon notification under audit the Academy's Treasurer re-performed the reconciliations. Upon re-performance of the reconciliations a variance of \$2,245 of unrecorded expenditures was determined.

Failure to maintain all accounts of the Academy on the bank reconciliation could lead to possible theft or mismanagement of funds without the timely detection by management. Failure to ensure appropriate documentation was maintained at the time of account replenishment resulted in findings for recovery for debit card transactions (See Finding 2007-001). Additionally, failing to correctly reconcile all bank accounts to the books resulted in financial statement misstatements.

We recommend the Academy reconcile all bank accounts as part of the monthly reconciliation process, including documentation and support of any noted reconciling factors or errors. As a monitoring control, we recommend the monthly bank reconciliation be reviewed and approved by an individual with appropriate fiscal authority. Furthermore, we recommend that detailed receipts be provided to evidence all debit card disbursements made, so that transactions may be appropriately reflected under the categories of the actual disbursements made.

**Officials' Response:** The treasurer began implementing procedures similar to the ones suggested by the auditor at the onset of the 2007-2008 school year.

**CHASE ACADEMY FOR COMMUNICATION ARTS  
FRANKLIN COUNTY**

**SCHEDULE OF FINDINGS  
JUNE 30, 2007  
(Continued)**

<b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)</b>
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<b>Finding Number</b>	<b>2007-017</b>
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**Employee vs. Independent Contractor Status – Significant Deficiency**

IRS Publication 15(a) states, in part, generally an employer must withhold federal income tax, withhold and pay social security and Medicare taxes, and pay unemployment taxes on wages paid to an employee. However, to determine whether an individual is an employee or an independent contractor, under common law, the relationship of the worker and the business must be examined. Facts that provide the evidence of the degree of control and independence fall into three categories: behavior control; financial control; and the type of relationship of the parties. Behavior control facts are demonstrated by the instructions and training that the business gives the worker. Financial control facts are demonstrated whether the business has a right to control the aspects of the worker's job. The type of relationship the parties intend to create can be demonstrated in a contract, but should also consider other factors.

The Academy has employees that are being compensated as if they were independent contractors for various duties. Three such employees were approved in the minutes as personnel, but are being paid as independent contractors. Although the contract may demonstrate the intention of the parties, it alone does not define the type of business relationship. Payment of an individual as an independent contractor instead of an employee results in benefits not being paid or offered and taxes not being withheld from wages. The payment status additionally effects the classification of the compensation provided to the individual on the Academy's financial statements.

We recommend the Academy make evaluations using the guidance noted in IRS Publication 15(a) before declaring any worker as an employee or independent contractor upon soliciting their services. In the event such worker is considered an independent contractor, the Academy should have evidence to support the determination in line with the degree of control and independence as defined in the IRS Publication 15(a). Upon determination the Academy should additionally ensure the proper coding of the employees compensation as that of either a purchased service or salaries and wages expenditure.

**Officials' Response:** The Board will comply with the IRS guidelines regarding independent contractors.

<b>Finding Number</b>	<b>2007-018</b>
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**Reimbursement Policy – Significant Deficiency**

In February 2007, the Academy established a reimbursement policy which describes the travel expenses employees may be reimbursed for, documentation required to obtain reimbursements, and individual(s) authorized to approve reimbursements. However, it does not cover who is responsible for the approval of the Director's reimbursements or whether there are any dollar amount limits on any reimbursements. Also, except for travel reimbursements, the policy does not describe the types of expenses that the Academy permits to be reimbursable.

The Academy does not have a formal reimbursement policy. Academy employees were reimbursed for various items (i.e. gas, classroom supplies, van rentals, etc.) relating to Academy business for an amount of \$18,688 during the fiscal year. Of these reimbursements, the Executive Director was reimbursed for \$10,331 of purchases, for which she alone authorized reimbursement.

CHASE ACADEMY FOR COMMUNICATION ARTS  
FRANKLIN COUNTY

SCHEDULE OF FINDINGS  
JUNE 30, 2007  
(Continued)

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

Finding Number	2007-018 (Continued)
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**Reimbursement Policy – Significant Deficiency (Continued)**

\$1,822 in reimbursements for the Director and an employee lacked supporting documentation. As a result, the nature of the expenditures made were unable to be identified to determine if they were properly classified on the financial statements and represented a proper public purpose of the Academy and findings for recovery have been issued (see Finding 2007-002).

We recommend the Board update the reimbursement policy to include the individuals responsible for reviewing and approving the Executive Directors reimbursement requests; dollar limits on reimbursements; and the types of expenses that are and are not reimbursable. We further recommend all expenses be carefully monitored to ensure that supporting documentation is on file for all expenses.

**Officials' Response:** The reimbursement policy will be updated during the August 2008 Board of Directors' meeting.

Finding Number	2007-019
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**Debit Card Policy – Significant Deficiency**

The Academy has established the use of a debit card to make purchases on a day-to-day basis to operate the Academy. The Academy does have a Board approved policy in place to regulate the use of debit cards which was approved February 2007; however, the policy is not being adhered to. The policy mandates a \$500 per month maximum, however all 12 months exceeded the \$500 limit with 11 percent of individual transactions exceeding the limit. In addition, \$4,450 in miscellaneous cash withdraws were made, for which no requirements for cash withdraws were established or permitted per the Board approved policy.

Utilization of the debit card in excess of established limits and the use of cash withdraws circumvent the regularly established purchasing protocols, resulted in unsupported transactions which could not be determined as to financial statement classification and led to findings for recovery (See Finding 2007-001), and may result in cash flow difficulties with extended uncapped and unmonitored use.

We recommend the Board update the debit card policy to prohibit usage relating to cash withdraws. Furthermore, we recommend the Academy ensure capped limitations on debit card use are followed and that monitoring procedures are put in place to monitor usage and ensure that appropriate documentation is maintained for purchases.

**Officials' Response:** The policy has been updated and will be adhered to. The finance committee will monitor debit card activity.

**CHASE ACADEMY FOR COMMUNICATION ARTS  
FRANKLIN COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS  
JUNE 30, 2007**

<b>Finding Number</b>	<b>Finding Summary</b>	<b>Fully Corrected?</b>	<b>Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i></b>
2006-001	Related Party Transactions, ORC 102.03(D)	Yes	No Longer Valid
2006-002	Executive Session, ORC 121.22(h) – in executive session while increasing salary of Director	Yes	Corrected
2006-003	Not-for-Profit status, ORC 3314.03 – Academy did not file for Federal income tax exemption	Yes	No Longer Valid
2006-004	Treasurer Bond – OAC 117-6-07 – Fiscal officer must execute a bond	No	Not Corrected – Reissued as 2007-008
2006-005	Five Year Forecast, ORC 5705.391 – Community schools must submit 5 year forecast and accurate assumptions to ODE	No	Partially Corrected – Reissued as 2007-011
2006-006	Annual report filing, ORC 117.38 – Academy did not file annual financial report to the Auditor of State	No	Not Corrected – Reissued as 2007-010
2006-007	Proper public purpose – ORC 117.28 - Academy expended funds to vendors with no supporting documentation	No	Not Corrected – Reissued as 2007-001
2006-008	Reimbursements – ORC 117.28 – Academy reimbursed employees for expenses that had no supporting documentation	No	Not Corrected – Reissued as 2007-002
2006-009	Payroll Expenditures – ORC 117.28 – payroll disbursements were not in accordance with employee's rate of pay per their contract	No	Not Corrected – Reissued as 2007-009

**CHASE ACADEMY FOR COMMUNICATION ARTS  
FRANKLIN COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS  
JUNE 30, 2007  
(Continued)**

2006-010	Service organization, SAS70 – no procedures to determine if ACE’s accounting software had sufficient controls in place and operates effectively	No	Not Corrected – reissued as 2007-013
2006-011	Academy has no capital assets tracking system and does not tag assets	Yes	Corrected
2006-012	Personnel Files – inadequate or outdated personnel files were maintained by the Academy	No	Partially corrected – reissued in management letter
2006-013	Loan agreements – Academy entered into a loan agreement with an individual without Board agreement	Yes	Corrected
2006-014	Board approval of expenditures – expenditures were not reviewed by the Board at the monthly meetings	Partially	Not corrected – reissued as 2007-014
2006-015	Segregation of duties – Exec. Director was responsible for many significant operational duties for the Academy	No	Not corrected – reissued as 2007-015
2006-016	Reimbursement policy – Academy should have formal Board approved reimbursement policy	Partially	Partially corrected – reissued as 2007-018
2006-017	Board Monitoring – Academy should be regularly monitored by the Board on all matters, including financial information	No	Not corrected – reissued as 2007-014
2006-018	Academy re-created and altered Invoices to provide false supporting documentation for expenditures	Yes	Corrected
2006-019	Executive Director was not adequately bonded respective to her financial duties	No	Not corrected – reissued in management letter



**CHASE ACADEMY FOR COMMUNICATION ARTS  
FRANKLIN COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS  
JUNE 30, 2007  
(Continued)**

2006-020	Debit Card Policy – Board should adopt formal debit card expenditures policy	Partially	Partially corrected – reissued as 2007-019
2006-021	Board should adapt a Student Uniform Policy to authorize expenditures to pay for student uniforms/clothing	Yes	Corrected





**Mary Taylor, CPA**  
Auditor of State

**CHASE ACADEMY FOR COMMUNICATION ARTS**

**FRANKLIN 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  
DECEMBER 24, 2008**