MARCUS GARVEY ACADEMY
CUYAHOGA COUNTY

REGULAR AUDIT

FOR THE YEAR ENDED JUNE 30, 2005

Mary Taylor, CPA
Auditor of State

MARCUS GARVEY ACADEMY
CUYAHOGA COUNTY

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Mary Taylor, CPA
Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

Marcus Garvey Academy
Cuyahoga County
13830 Euclid Avenue
East Cleveland, Ohio 44112

To the Board of Trustees:

We have audited the accompanying basic financial statements of the Marcus Garvey Academy, Cuyahoga County, Ohio, (the Academy) as of and for the year ended June 30, 2005, 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 basic financial statements.

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 opinions.

The Academy did not provide sufficient original supporting documentation for certain non-payroll expenditures.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to examine evidence regarding nonpayroll expenses, the financial statements referred to above present fairly, in all material respects, the financial position of the Marcus Garvey Academy, Cuyahoga County, Ohio, as of June 30, 2005, and the changes in financial position and its cash flows for the year ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 17, 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.

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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 inquires 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. Further, we were unable to apply certain procedures to the information related to nonpayroll expenses due to a lack of evidential matter supporting these amounts.

The Auditor of State had billed the Academy for audit services provided for fiscal years 2005 and 2004. As of the date of this report, the Academy has been billed, for the fiscal years noted, a total of $21,549 and has yet to pay $18,051.

Mary Taylor

Mary Taylor, CPA
Auditor of State

April 17, 2008

Marcus Garvey Academy
A Community School
Cuyahoga County

Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2005

The discussion and analysis of the Marcus Garvey Academy's (the Academy's) financial performance provides an overall review of the Academy's financial activities for the fiscal year ended June 30, 2005. The intent of this discussion and analysis is to look at the Academy's financial performance as a whole; readers should also review the basic financial statements and notes to the basic financial statements to enhance their understanding of the Academy's financial performance.

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

Financial Highlights

- In total, net assets increased $77,128 which represents a 106% increase from 2004. This increase was due mainly to decreasing outstanding debt obligations.

- Total revenues increased $415,687, or 73% and total expenses increased by $386,941 over those reported in the prior year. The majority of these increases are attributable to an increase in the Academy's enrollment which results in both an increase in federal and state funding as well as the increase in related operating expenses to provide services to students.

- The total assets of the Academy increased by $104,232 over 2004, primarily due to a significant additions of capital assets purchased during the fiscal year.

Using this Financial Report

This financial report contains the basic financial statements of the Academy, as well as the Management's Discussion and Analysis and notes to the basic financial statements. The basic financial statements include a statement of net assets, a statement of revenues, expenses and changes in net assets, and a statement of cash flows. As the Academy reports its operations using enterprise fund accounting, all financial transactions and accounts are reported as one activity, therefore the entity wide and the fund presentation information is the same.

Statement of Net Assets

The statement of net assets answers the question, "How did we do financially during the fiscal year?" This statement includes all assets and liabilities, both financial and capital, and short-term and long-term, using the accrual basis of accounting and the economic resources focus, which is similar to the accounting used by most private-sector companies. This basis of accounting takes into account all revenues and expenses during the year, regardless of when cash is received or paid.

This statement reports 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.

Table 1 provides a summary of the Academy's net assets for fiscal years 2005 and 2004.

Table 1
Net Assets

	2005	2004
Current Assets	$ 64,805	$ 18,738
Capital Assets, Net	63,383	5,218
Total Assets	128,188	23,956
Current Liabilities	123,617	96,513
Total Liabilities	123,617	96,513
Net Assets:		
Invested in Capital Assets, net	63,383	5,218
Unrestricted	(58,812)	(77,775)
Total Net Assets	$ 4,571	$ (72,557)

The positive portion of the Academy's total assets reflects its investment in capital assets net of related debt. The Academy uses capital assets to provide services; consequently, these assets are not available for future spending.

Net Assets of the Academy have increased $77,128 but unrestricted net assets reflect a negative balance of $58,812. The increase in net assets is primarily the result of reducing the debt for the Academy's line of credit.

Table 2 shows the changes in net assets for the fiscal years ended June 30, 2005 and 2004, as well as revenues and expenses.

Table 2
Changes in Net Assets

	2005	2004
Operating Revenues:		
Foundation payments	$ 729,011	$ 499,065
Other Operating Revenues	12,465	5,663
Non-Operating Revenues:		
Federal and State subsidies	243,584	64,074
Other	0	571
Total Revenues	$ 985,060	$ 569,373
Operating Expenses:		
Salaries & Wages	422,899	224,177
Fringe Benefits	59,734	52,241
Purchased Services	245,198	120,823
Materials & Supplies	82,535	38,691
Depreciation	2,942	1,195
Building Lease	36,000	49,830
Miscellaneous	55,660	23,368
Non-Operating Expenses:		
Interest expense	2,964	8,366
Total Expenses	$ 907,932	$ 520,991
Change in Net Assets	$ 77,128	$ 48,382

The Academy's net assets improved significantly during 2005, increasing 106% from the deficit balance in 2004. During fiscal year 2005, the Academy's revenue increased in the area of foundation payments due to increased enrollment over the prior school year. Similarly, the expenses for salaries and fringes increased as a result of having more staff members to serve the increased number of students.

Capital Assets

The Academy maintains a capitalization threshold of $500. At June 30, 2005 the Academy had invested $67,520 in capital assets, and had reported $4,137 in accumulated depreciation. Additional information regarding capital asset activity is included in the notes to the basic financial statements (Note 2).

Debt Activity

During fiscal year 2003, the Academy found it necessary to borrow against a line of credit it has with a local financial institution for cash flow purposes at various times during its initial year of operation. During fiscal year 2005, the Academy repaid $30,000 against the line of credit principal leaving $19,364 outstanding at June 30, 2005.

Restrictions and Other Limitations

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

The first 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.

The second challenge facing the Academy is the future of state funding. On October 6, 2004, a suit was filed in the US District Court challenging the funding of charter schools under Equal Protection, Due Process and claims violation of a right to vote on the bodies administering public schools. The Academy is unable to determine what effect, if any, this suit might have on future funding from the State.

Contacting the Academy

This financial report is designed to provide a general overview of the finances of the Marcus Garvey Academy and to show the Academy's accountability for the monies it receives to all vested and interested parties, as well as meeting the annual reporting requirements of the State of Ohio. Any questions about the information contained within this report or requests for additional financial information should be directed to Marcus Garvey Academy, Attn: Treasurer, 13830 Euclid Avenue, East Cleveland, Ohio 44112.

Marcus Garvey Academy
Cuyahoga County
Statement of Net Assets
as of June 30, 2005

Assets	
Current Assets	
Cash and Investments	$ 53,597
Receivable - Accounts	11,208
Total Current Assets	64,805
Non-Current Assets	
Capital assets (Net of Accumulated Depreciation)	63,383
Total Assets	128,188
Liabilities and Net Assets	
Current Liabilities	
Accounts Payable	62,148
Accrued Wages & Benefits	35,200
Due to Other Governments	6,905
Interest Payable	0
Line of Credit	19,364
Total Current Liabilities	123,617
Long-Term Liabilities	
Loans payable	0
Total Liabilities	123,617
Net Assets	
Invested in Capital Assets	63,383
Unrestricted	(58,812)
Total Net Assets	$4,571

The accompanying Notes are an integral part of the Financial Statements

Marcus Garvey Academy
Cuyahoga County
Statement of Revenues, Expenses,
and Changes in Net Assets
for the Fiscal Year ended June 30, 2005

Operating Revenues	
Foundation Payments	$ 729,011
Other Operating Revenues	12,465
Total Operating Revenues	741,476
Operating Expenses	
Salaries & Wages	422,899
Fringe Benefits	59,734
Building Rental	36,000
Other Purchased Services	245,198
Materials & Supplies	82,535
Depreciation	2,942
Miscellaneous	55,660
Total Operating Expenses	904,968
Operating Income	(163,492)
Non-Operating Revenues and (Expenses)	
Federal subsidies and State Grants	243,584
Interest Expense	(2,964)
Total Non-Operating Revenues and (Expenses)	240,620
Change in Net Assets	77,128
Net Assets (Deficit) beginning of year	(72,557)
Net Assets (Deficit) end of year	$ 4,571

The accompanying Notes are an integral part of the Financial Statements

Marcus Garvey Academy
Cuyahoga County
Statement of Cash Flows
for the Fiscal Year ended June 30, 2005

Cash Flows from Operating Activities	
Cash received from Foundation Payments	$ 729,011
Cash received from Other Operating Revenues	12,465
Cash payments for personal services	(468,850)
Cash payments for contract services	(284,426)
Cash payments for supplies and materials	(80,031)
Cash payments for Miscellaneous	(63,214)
Net Cash Provided By/(Used for) Operating Activities	(155,045)
Cash Flows from Noncapital Financing Activities	
Cash from Federal & State Subsidies	236,146
Proceeds borrowed	0
Principal repaid	(30,000)
Interest Expense	(2,964)
Net Cash from Noncapital Financing Activites	203,182
Cash Flows from Capital and Related Financing Activities	
Payments for Capital Acquisitions	(9,508)
Net Cash Used for Capital and Related Financing Activities	(9,508)
Cash Flows from Investing Activities	
Interest on cash and cash equivalents	0
Net cash from investing activites	0
Net increase in cash and cash equivalents :	38,629
Cash and cash equivalents at beginning of year	14,968
Cash and cash equivalents at end of year	$ 53,597
Reconciliation of Operating Income to Net Cash Provided By (Used for) Operating Activities	
Operating Income	($163,492)
Adjustments to Reconcile Operating Income to Net Cash Provided by (Used for) Operating Activities	
Depreciation	2,942
Changes in Assets and Liabilities:	
Accounts receivable	0
Prepaid expenses	0
Accounts Payable	(10,607)
Accrued Wages and Benefits	13,585
Intergovernmental Payable	2,527
Total Adjustments	8,447
Net cash provided (used) by operating activities	$ (155,045)

The accompanying Notes are an integral part of the Financial Statements

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I. Description of the School and Reporting Entity

Marcus Garvey Academy (the Academy) is a non-profit corporation established July 1, 2002 pursuant to Ohio Revised Code Chapters 1702 and 3314 to address the needs of students from low income families in grades sixth through eighth. 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 sue and be sued, acquire facilities as needed, and contract for any services necessary for the operation of the Academy.

On November 19, 2001 the Academy submitted a proposal to the Ohio Department of Education to open a community school in the fall of 2002. The Ohio Department of Education approved the proposal and entered into a contract with the Academy, which provided for the commencement of operations at the beginning of the 2002-2003 school year.

The Academy was approved for operation under contract with the Ohio State Board of Education (the Sponsor) for a period of five years commencing July 1, 2002 and shall terminate on June 30, 2007. The Sponsor is responsible for evaluating the performance of the school and has the authority to deny renewal of the contract at its expiration or terminate the contract prior to its expiration.

The Academy operates under the direction of a 5-member Governing Board. The Board is responsible for carrying out the provisions of the contract, which includes, but is not limited to, state-mandated provisions regarding student population, curriculum, academic goals, performance standards, admission standards, and qualification of teachers. The Board controls the Academy's instructional facility staffed by nine classified and eleven certified full time personnel who provide services to 107 students.

II. Summary of Significant Accounting Policies

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

1. Basis of Presentation

The Academy uses enterprise accounting to track and report on its financial activities. Enterprise accounting is used to account for operations that are financed and operated in a manner similar to private business enterprises where the intent is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges or where it has been decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

II. Summary of Significant Accounting Policies (Continued)

2. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment applied to a fund is determined by its 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 balance sheet. Operating statements present increases (e,g. revenues) and decreases (e.g. expenses) in net total assets.

The basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made.

The accrual basis of accounting is used for reporting purposes. Revenues are recognized when they are earned, and expenses are recognized when they are incurred. Contributions and grants are recognized when the donor makes a promise to give to the Academy that is unconditional.

3. Budgetary Process

Unlike other public schools located in the state of Ohio, community schools are not required to follow budgetary provisions set forth in Ohio Rev. Code Section 5705, unless specifically provided in the schools contract with its sponsor. The contract between the Academy and its sponsor requires a detailed budget for each year of the contract.

4. Cash and cash equivalents

All monies received by the Academy are maintained in a demand deposit account in the name of Marcus Garvey Academy. For internal accounting purposes, the Academy segregates its cash.

5. Estimates

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

6. Intergovernmental Receivables

All receivables are considered collectible in full due to the stable condition of State programs, and the fiscal year guarantee of federal funds. Intergovernmental receivables of the Academy at June 30, 2005, of which all grant requirements had been satisfied, consisted of the School Nutrition Program funding in the amount of $11,208.

II. Summary of Significant Accounting Policies (Continued)

7. Capital Assets and Depreciation

Capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market value on the date received. The Academy maintains a capitalization threshold of $500. The Academy does not possess any infrastructure.

Depreciation and amortization of leasehold improvements, computers, and equipment are computed using the straight-line method over their estimated useful lives. Improvements to capital assets are depreciated over the remaining useful lives of the related capital assets.

Assets	Years
Computers and Equipment	5

8. Intergovernmental Revenues

The Academy currently participates in the State Foundation Program, the State Disadvantaged Pupil Impact Aid (DPIA) Program, and the State Special Education Program. Revenues received from these programs are recognized as operating revenues in the accounting period in which they are earned and become measurable.

9. Compensated Absences

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

Sick leave/ Personal leave benefits are earned by full time employees at the rate of eight days per year and cannot be carried into the subsequent year. No accrual for sick time is made since unused time is not paid to employees upon employment termination.

10. Accrued Liabilities Payable

The Academy has recognized certain liabilities on its balance sheet relating to expenses, which are due but unpaid as of June 30, 2005, including:

Wages Payable – a liability has been recognized at June 30, 2005 for salary payments made after year-end that were for services rendered in fiscal year 2005.

Intergovernmental Payable – payment for the employer's share of the retirement contribution, workers' compensation, and Medicare associated with services rendered during fiscal year 2005, but where not paid until the subsequent fiscal year.

II. Summary of Significant Accounting Policies (Continued)

11. Net Assets

Net assets represent the difference between assets and liabilities. Net assets are reported as restricted when there are limitations imposed on their use through external restrictions imposed by creditors, grantors, or laws and regulations of other governments. The Academy applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

III. Deposits and Investments

At fiscal year end June 30, 2005, the carrying amount of the Academy's deposits totaled $53,597 and its bank balance was $73,123. All of the bank balance was covered by the Federal Depository Insurance Corporation. As of June 30, 2005, the Academy had $287 in petty cash.

IV. Capital Assets

A summary of the Academy's capital assets as of June 30, 2005 follows:

Computers and Equipment	$ 67,520
Less: Accumulated Depreciation	(4,137)
Net Capital Assets	$ 63,383

V. Purchased Services

Purchased Services include the following:

Administrative	$ 64,273
Building Services	48,542
Financial Services	106,640
Instruction Services	293
Pupil Support Services	12,583
Transportation Services	12,867
Total Purchased Services	$ 245,198

VI. Debt

The Academy held the following debt during the fiscal year:

1. Line of Credit

During fiscal year ending 2003 the Academy entered into a short-term debt agreement with National City Bank for a line of credit. The following is a summary:

Line of Credit	Credit Limit	Balance June 30, 2005
6.25% National City	$100,000	$19,364

Principal payments of $30,000 were made during fiscal year 2005. Interest payments in the amount of $2,964 were made during the year. The line of credit is uncollateralized. This line of credit is presented on the financial statements as current liabilities.

VII. Risk Management

1. 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 fiscal year 2005, Marcus Garvey Academy contracted with Pinkney-Perry Ins. Agency Inc. for all of its insurance.

General liability coverage has a $2,000,000 single occurrence limit and $4,000,000 aggregate. Hired and Non-Owned Vehicles are covered at $1,000,000 combined single limit of liability.

2. Employee Medical, and Dental Benefits

The Academy provides medical insurance benefits through United Health Care, and dental benefits through Humana, Inc. to all full time employees. The Academy pays 50% of the monthly premium for medical insurance and no payment for dental coverage.

3. Workers' Compensation

The Academy makes premium payments to the Ohio Worker's Compensation System for employee injury coverage. As of June 30, 2005 there have been no claims filed by Marcus Garvey employees with the Ohio Worker's Compensation System.

VIII. Defined Benefit Pension Plans

1. 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 administered by the School Employees Retirement Board. SERS provides retirement and disability benefits, annual

VIII. Defined Benefit Pension Plans (Continued)

1. School Employees Retirement System (Continued)

cost-of-living adjustments, and death benefits to members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215.

For the fiscal year ended June 30, 2005, plan members were required to contribute 10 percent of their annual covered salary and the Academy was required to contribute an actuarially determined rate. The rate for fiscal year 2005 was 14 percent of annual covered payroll; 10.57 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 ended June 30, 2005, 2004 and 2003 were $18,509, $8,900 and $4,416 respectively. 100% has been paid for 2005, 2004 and 2003.

2. State Teachers Retirement System

The Academy contributes to the State Teachers Retirement System of Ohio (STRS), a cost-sharing multiple employer public employee retirement system administered by the State Teachers Retirement Board. STRS provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. Benefits are established by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3771.

New members have a choice of three retirement plans, a Defined Benefit Plan (DBP), a Defined Contribution Plan (DCP), and a Combined Plan (CP). The DBP offers an annual retirement allowance based on final average salary multiplied by a percentage that varies based on years of service or on an allowance based on member contributions and earned interest matched by STRS funds multiplied by an actuarially determined annuity factor. The DCP allows members to place all of 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 fifty and termination of employment. The CP offers features of both the DBP and DCP. In the CP, member contributions are invested by the member and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DBP. DCP and CP members will transfer to the DBP during their fifth year of membership unless they permanently select the DCP or CP. 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 balance from the existing DBP into the DCP or CP. This option expired on December 31, 2001.

VIII. Defined Benefit Pension Plans (Continued)

2. State Teachers Retirement System (Continued)

A DBP or CP member with five or more years of 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 DCP 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, 2005, plan members were required to contribute 10 percent of their annual covered salary and the Academy was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by STRS, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. The Academy's required contribution for pension obligations for the DBP for the fiscal years ending June 30, 2005, 2004 and 2003 were $32,213, $16,233 and $13,465, respectively; 88.05% has been contributed for fiscal year 2005 and 100% for 2004 and 2003. $3,848 representing the unpaid contribution for 2005 is recorded as a liability. .

3. 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 classified 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 obligation 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.

STRS retirees who participated in the Defined Benefit Plan or the Combined Plan and their dependents are eligible for health care coverage. The State Teachers Retirement Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. All benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14 percent of covered payroll. For fiscal year 2005, the Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. For the Academy, this amount was $2,478 for fiscal year 2005.

STRS pays health care benefits from the Health Care Stabilization Fund. The balance in the Fund was $3.3 billion at June 30, 2005. For the fiscal year ended June 30, 2005, net health care costs paid by STRS were $254,780,000, and STRS had 115,395 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 members must pay a portion of their premium for health care. The portion is based on years of service, Medicare eligibility, and retirement status. A safety net is in place for retirees whose household income falls below federal poverty levels. Premiums are reduced by fifty percent for those who apply.

VIII. Defined Benefit Pension Plans (Continued)

3. Postemployment Benefits (Continued)

For the fiscal year ended June 30, 2005, employer contributions to fund health care benefits were 3.43 percent of covered payroll. 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 2005, the minimum pay was established at $27,400. For the Academy, the amount to fund health care benefits, including the surcharge, was $8,767 for fiscal year 2005.

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 annual health care expenses. Expenses for health care at June 30, 2004 (the latest information available), were $223,443,805, and the target level was $335.2 million. At June 30, 2004, SERS had net assets available for payment of health care benefits of $300.8 million. SERS has approximately 62,000 participants currently receiving health care benefits.

IX. Contingencies

1. Grants

The Academy received financial assistance from 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 is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of Marcus Garvey Academy. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of Marcus Garvey Academy at June 30, 2005.

2. Federal Tax Exemption Status

The Academy has applied for status as an exempt organization under Internal Revenue Code Section 501 (c)(3). The Internal Revenue Service (IRS) issued a proposed conclusion that the Academy does not qualify for federal tax exemption under Section 501 (c)(3) of the Internal Service Code and must file federal income tax returns. Should the Academy fail to obtain federal tax exempt status, it will be subject to federal income tax, the effect of which has not been assessed.

3. Litigation

A lawsuit entitled ***Beverly Blount-Hill, et al. v. State of Ohio, et al., Case #: 3:04CV197*** was filed in the U.S. District Court, Southern District of Ohio, Western Division in October 2004. The suit alleges that the funding provisions of the Ohio Community Schools Act, O.R.C. Section 3314, violate both the Ohio and Federal constitutions. If the funding scheme is determined to be unconstitutional, it could have financial ramifications for all community/charter schools. The case is still currently pending, and the effect of this suit, if any, on the Education Alternative Community School cannot presently be determined.

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

Marcus Garvey Academy
Cuyahoga County
13830 Euclid Avenue
East Cleveland, Ohio 44112

We have audited the basic financial statements of the Marcus Garvey Academy, Cuyahoga County, Ohio, (the Academy) as of and for the year ended June 30, 2005 and have issued our report thereon dated April 17, 2008, wherein we noted the Academy did not provide sufficient documentation for certain non-payroll transactions. 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 to determine our auditing procedures in order to express our opinion on the financial statements and not to opine on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Academy's ability to record, process, summarize, and report financial data consistent with management's assertions in the financial statements. Reportable conditions are described in the accompanying schedule of findings as items 2005-004 through 2005-007, 2005-025, and 2005-026.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements which, we audited, may occur and not be timely detected by employees when performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered material weaknesses. We consider reportable conditions 2005-004 through 2005-007, and 2005-025 listed above to be material weaknesses.

Compliance and Other Matters

As part of reasonably assuring whether the Academy's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed instances of noncompliance or other matters we must report under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 2005-001 through 2005-003, 2005-008 through 2005-024.

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 the management and the Board of Trustees. It is not intended for anyone other than these specified parties.

Mary Taylor

Mary Taylor, CPA
Auditor of State

April 17, 2008

SCHEDULE OF FINDINGS
FOR THE YEAR ENDED JUNE 30, 2005

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

FINDING NUMBER	**2005-001**

Community School Contract – Board Hiring Approval

Exhibit III to the contract between the Ohio Department of Education and the Academy provides "by a majority vote, the Board shall approve the employment and initial salary of instructional and non-instructional employees".

During the review of the available minute records of the Board of Trustees, no evidence could be located that the Board had approved the employment contracts or the initial salaries of the Academy's employees.

We recommend that the Board approve all employee employment contracts in accordance with the provisions of the Community Academy contract. In addition, as employees are hired during the school year the Board should approve their employment contracts and salaries; and should also approve any increases and/or decreases in salary amount during the school year.

This lack of approval required by the Ohio Department of Education's contract contributed to our noncompliance determination reported for the bonuses described in findings 2005-008 and 2005-009.

FINDING NUMBER	**2005-002**

Books, Records of Accounts, and Minutes

Ohio Revised Code Section 1702.15 provides, in part, that "[e]ach corporation shall keep correct and complete books and records of account, together with minutes of the proceedings of its incorporators, members, directors, and committees of its directors or members."

The Academy failed to maintain files of original supporting documentation for non-payroll transactions. Also, the minute records of the Board of Trustees did not provide board approval of salaries and wages paid to the employees, lease agreements entered into by the Academy, bonuses paid to Academy officials and employees. Consequently, we were unable to determine the completeness, accuracy, and validity of the non-payroll and payroll transactions. The opinion qualification included in our opinion on the Academy's financial statements is a direct result of the Academy's failure to maintain the proper records. This lack of supporting documentation also contributed to our noncompliance determination reported in findings 2005-008 through 2005-19.

We recommend the Academy maintain financial records which are complete and accurate. If necessary the Academy should review all of the available training and obtain the training necessary to maintain complete and accurate records of account.

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

FINDING NUMBER	**2005-003**

Board Meetings

Ohio Revised Code Section 121.22 requires schools take all official actions and conduct all deliberations upon official business in open meetings, unless the subject matter is specifically exempted by law. This section further outlines that Schools must establish a reasonable method by which any person can determine the time and place of all regular meetings and that the minutes of the meetings or special meetings be promptly prepared, filed, maintained, and approved by the governing authority.

Although the Board held meetings which were evidenced by minute records, we were unable to verify support to authenticate appropriate board action for all items presented. This lack of supporting documentation also contributed to our noncompliance determinations reported in findings 2005-008 through 2005-019.

We recommend the Board memorialize all of its activities, decisions, deliberations, and resolutions in their meeting record book.

FINDING NUMBER	**2005-004**

Developing and Implementing an Effective Monitoring Control System

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

Some effective monitoring controls include:

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

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

FINDING NUMBER	**2005-004**

Developing and Implementing an Effective Monitoring Control System (Continued)

The lack of effective monitoring controls could lead to the misallocation or misstatement of Academy funds, expenditure of funds contrary to the directives of the governing board, non-compliance with federal or state laws or regulations, which could result in a loss of funding from these sources, and errors or irregularities occurring in financial transactions affecting the bank reconciliations which go undetected.

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

FINDING NUMBER	**2005-005**

Development and Implementation of Purchasing Cycle Controls

The Academy does not require written authorization prior to a purchase being initiated. In addition, verbal authorizations obtained from management are not regularly documented (e.g. as part of the minutes). Formal purchase requisitions, purchase orders, or tally sheets were not utilized and there was no process in place to match invoices and checks prior to making payment. Monthly financial statements were not prepared during the year.

We recommend the Academy utilize purchase requisitions and/or purchase orders along with the payment record and obtain proper authorization before committing Academy funds. Academy personnel should provide written acknowledgment when goods and services are received. This lack of supporting documentation also contributed to our noncompliance determination reported in findings 2005-10 through 2005-19.

Management should compare invoices, purchase orders, and receiving acknowledgments prior to authorizing payment. Board approval of monthly financial statements and the implementation of an accounting package would provide the necessary financial information to allow the Academy to make informed financial decisions.

We were unable to locate Board approval for salaries and wages of the Academy employees and we were provided employment contracts for 5 of the 12 Academy employees.

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

FINDING NUMBER	**2005-006**

Development and Implementation of Payroll Processing Procedures

Procedures for payroll disbursements should include, but are not limited to:

- Approval by the Board of Trustees of all pay rates;
- Comparison of all employees' gross wages paid with the approved pay rates as documented in employee contracts;
- Verification of payroll deductions to properly authorized withholding forms approved by the employees signature; and
- Approval and tracking of sick time usage and balances for each employee.

The Board should formally approve employment contracts or pay scales for all employees. Without this approval, it is possible employees could be paid amounts which were not in accordance with the direction of the Board. Also, we recommend the Board monitor the amounts paid to employees.

The lack of approvals recommended above contributed to our noncompliance determination reported in findings 2005-008 and 2005-009.

FINDING NUMBER	**2005-007**

Condition of Accounting Records

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

- Supporting documentation for non-payroll expenditures was lacking or non existent;
- No records existed of Board approval for employee salary and/or wage rates;
- There was no evidence of the Board reviewing or approving any of the financial activity of the School; and,
- Monies deposited were commingled and these funds were not identified on individual receipt records.

This lack of supporting documentation and approvals described above contributed to our noncompliance determination reported in findings 2005-008 through 2005-019.

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

FINDING NUMBER	**2005-007**

Condition of Accounting Records (Continued)

We recommend the Academy develop and maintain a system of controls and financial records which exhibit the financial position of the Academy, and at a minimum, consist of the following:

- Revenue ledgers which record all sources of monies received, purpose of the receipt, and from whom received;
- Sequentially numbered duplicate receipts prepared for all monies received;
- Copies of all deposit transactions to the bank;
- Reconciliations of bank deposits to duplicate receipts and revenue ledgers;
- Development of a system to document approvals for expenditures made;
- Expenditure ledgers which record all expenditures of monies and the purpose of the expenditure;
- Files which consist of the original invoices received for all expenditures made which cross reference to the checks prepared for the payment of the invoices (if invoices are not filed with the canceled checks);
- Files of all canceled checks returned from the bank;
- Complete and accurate listings of all outstanding checks at the end of each month;
- Complete and accurate monthly bank to book reconciliations;
- Preparation of monthly financial statements;
- Development of Board policies which enumerate and describe the financial records to be maintained by the Academy;
- Development by management of a complete system of controls to help ensure the completeness, accuracy, and validity of the Academy's financial transactions; and,
- Evidence of review of the financial statements and supporting documentation by the Board and management.

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

FINDING NUMBER	**2005-008**

Finding for Recovery

On June 28, 2005 the Academy, issued check number 1948, to Ross Cockfield, Executive Director as payment of a bonus of $6,000 for a "job well done". A review of the minute record of the Board of Trustees revealed this bonus was not approved nor were we able to locate a Board policy which made provision for the award of a bonus.

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

FINDING NUMBER	**2005-008**

Finding for Recover(Continued)y

In accordance with the foregoing facts and pursuant to Ohio Revised Code 117.28 a Finding for Recovery for public monies improperly expended is hereby issued against Ross Cockfield, Executive Director, Barbara Russell, Financial Consultant, (responsible for consulting on the monthly close process, operational and capital budgets, and cash disbursements), and Irving Kerr, authorized check signatory, jointly and severally, in the amount of $6,000 and in favor of the Marcus Garvey Academy.

Officials Response:

Board will establish a policy governing the award of bonus payments. The budget will include the amount of money to be set aside for awards.

FINDING NUMBER	**2005-009**

Finding for Recovery

On June 28, 2005 the Academy, issued check number 1929, to Alexandria J. Boone, Developer and Director of Marketing, as payment of a bonus of $5,000 for a "job well done". A review of the minute record of the Board of Trustees revealed no authorization for the payment of a bonus, we were unable to locate a Board policy which made provision for the award of a bonus nor could we locate an employment contract which made provisions for the payment of this bonus.

In accordance with the foregoing facts and pursuant to Ohio Revised Code 117.28 a Finding for Recovery for public monies improperly expended is hereby issued against Alexandria J. Boone, Developer and Director of Marketing, Barbara Russell, Financial Consultant (responsible for consulting on the monthly close process, operational and capital budgets, and cash disbursements), and Irving Kerr, authorized check signatory, jointly and severally, in the amount of $5,000 and in favor of the Marcus Garvey Academy.

Officials Response:

Board will establish a policy governing the award of bonus payments. The budget will include the amount of money to be set aside for awards.

FINDING NUMBER	**2005-010**

Finding for Recovery

On July 1, 2004 Arthur Baker, Executive Director, entered into a lease agreement with Thomas Properties and Leasing Company for the lease of a 15 passenger van, which stipulated a monthly lease amount of $797. In addition, the lease agreement provided the Academy would pay a maintenance fee of $2,500.

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

FINDING NUMBER	**2005-010**

Finding for Recovery (Continued)

During the period July 1, 2004 through August 18, 2004, the Academy made 2 monthly lease payments totaling $1,594, and a payment for the maintenance fee of $2,500. A review of the minute record of the Board of Trustees revealed no Board authorization for the lease of this vehicle nor were we able to authenticate the Executive Director being given the authority to commit these funds of the Academy.

In accordance with the foregoing facts and pursuant to Ohio Revised Code 117.28 a Finding for Recovery for public monies improperly expended is hereby issued against Arthur Baker, Executive Director, Barbara Russell, Financial Consultant, (responsible for consulting on the monthly close process, operational and capital budgets, and cash disbursements), and Jennie Thomas, authorized check signatory, jointly and severally, in the amount of $4,094 and in favor of the Marcus Garvey Academy.

Officials Response:

This finding cited the payments for leasing the vehicle used to transport our students to and from school.

Our Internal Control Policy is being amended to clarify the process for obligating such funds.

At a minimum, the Director will obtain the approval of the Board prior to securing the service of vendors in excess of $5,000 but less than $20,000. Once approved, the Director's signature approves the expenditure.

The Board, by resolution, has acknowledged the vehicle leasing activity and has stipulated that these contracts will be reviewed and renewed on a regular basis.

FINDING NUMBER	**2005-011**

Finding for Recovery

On July 1, 2004 Arthur Baker, Executive Director, entered into a lease agreement with Thomas Properties and Leasing Company for the lease of a 15 passenger van, which stipulated a monthly lease amount of $797. During fiscal period August 19, 2004 through June 30, 2005, the Academy made 10 monthly lease payments totaling $9,592. A review of the minute record of the Board of Trustees revealed no Board authorization for the lease of this vehicle nor were we able to authenticate the Executive Director being given the authority to commit these funds of the Academy.

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

FINDING NUMBER	**2005-011**

Finding for Recovery (Continued)

In accordance with the foregoing facts and pursuant to Ohio Revised Code 117.28 a Finding for Recovery for public monies improperly expended is hereby issued against Arthur Baker, Executive Director, Barbara Russell, Financial Consultant, (responsible for consulting on the monthly close process, operational and capital budgets, and cash disbursements), and Irving Kerr, authorized check signatory, jointly and severally, in the amount of $9,592 and in favor of the Marcus Garvey Academy.

Officials Response:

This finding cited the payments for leasing the vehicle used to transport our students to and from school.

Our Internal Control Policy is being amended to clarify the process for obligating such funds.

At a minimum, the Director will obtain the approval of the Board prior to securing the service of vendors in excess of $5,000 but less than $20,000. Once approved, the Director's signature approves the expenditure.

The Board, by resolution, has acknowledged the vehicle leasing activity and has stipulated that these contracts will be reviewed and renewed on a regular basis.

FINDING NUMBER	**2005-012**

Finding for Recovery

During the period July 1, 2004 through August 18, 2004, the Academy made two monthly payments of $797 totaling $1,594, for the lease of a van, to Thomas Properties and Leasing Company. We requested a copy of this lease agreement which was never provided and were unable to verify the Board's approval of the commitment of these funds. The Board minute records did not include approval for these payments. In addition, the Academy paid the leasing company $2,500 for van maintenance. Also, we found no documentation which empowered anyone, other than the Board, with the authority to commit these funds of the Academy.

In accordance with the foregoing facts and pursuant to Ohio Revised Code 117.28 a Finding for Recovery for public monies improperly expended is hereby issued against Arthur Baker, Executive Director, Barbara Russell, Financial Consultant, (responsible for consulting on the monthly close process, operational and capital budgets, and cash disbursements), and Jennie Thomas, authorized check signatory, jointly and severally, in the amount of $4,094 and in favor of the Marcus Garvey Academy.

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

FINDING NUMBER	**2005-012**

Finding for Recovery (Continued)

Officials Response:

This finding cited the payments for leasing the vehicle used to transport our students to and from school.

Our Internal Control Policy is being amended to clarify the process for obligating such funds.

At a minimum, the Director will obtain the approval of the Board prior to securing the service of vendors in excess of $5,000 but less than $20,000. Once approved, the Director's signature approves the expenditure.

The Board, by resolution, has acknowledged the vehicle leasing activity and has stipulated that these contracts will be reviewed and renewed on a regular basis.

FINDING NUMBER	**2005-013**

Finding for Recovery

The Academy made payments in the amount of $7,998 to Thomas Properties and Leasing Company for the lease of a van. We requested a copy of the lease agreement which was never provided and were unable to verify the Board's approval of the commitment of these funds. The Board minute records did not include approval for these payments. Also, we found no documentation which empowered anyone, other than the Board, with the authority to commit these funds of the Academy.

In accordance with the foregoing facts and pursuant to Ohio Revised Code 117.28 a Finding for Recovery for public monies improperly expended is hereby issued against Ross Cockfield, Executive Director, Barbara Russell, Financial Consultant, (responsible for consulting on the monthly close process, operational and capital budgets, and cash disbursements), and Irving Kerr, authorized check signatory, jointly and severally, in the amount of $7,998 and in favor of the Marcus Garvey Academy.

Officials Response:

This finding cited the payments for leasing the vehicle used to transport our students to and from school.

Our Internal Control Policy is being amended to clarify the process for obligating such funds.

At a minimum, the Director will obtain the approval of the Board prior to securing the service of vendors in excess of $5,000 but less than $20,000. Once approved, the Director's signature approves the expenditure.

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

FINDING NUMBER	2005-013

Officials Response: (Continued)

The Board, by resolution, has acknowledged the vehicle leasing activity and has stipulated that these contracts will be reviewed and renewed on a regular basis.

FINDING NUMBER	2005-014

Finding for Recovery

During the period August 19, 2004 through October 7, 2004, the Academy made two monthly payments of $797 totaling $1,594, for the lease of a van, to Thomas Properties and Leasing Company. We requested a copy of this lease agreement which was never provided and were unable to verify the Board's approval of the commitment of these funds. The Board minute records did not include approval for these payments. Also, we found no documentation which empowered anyone, other than the Board, with the authority to commit these funds of the Academy.

In accordance with the foregoing facts and pursuant to Ohio Revised Code 117.28 a Finding for Recovery for public monies improperly expended is hereby issued against Arthur Baker, Executive Director, Barbara Russell, Financial Consultant, (responsible for consulting on the monthly close process, operational and capital budgets, and cash disbursements), and Irving Kerr, authorized check signatory, jointly and severally, in the amount of $1,594 and in favor of the Marcus Garvey Academy.

Officials Response:

This finding cited the payments for leasing the vehicle used to transport our students to and from school.

Our Internal Control Policy is being amended to clarify the process for obligating such funds.

At a minimum, the Director will obtain the approval of the Board prior to securing the service of vendors in excess of $5,000 but less than $20,000. Once approved, the Director's signature approves the expenditure.

The Board, by resolution, has acknowledged the vehicle leasing activity and has stipulated that these contracts will be reviewed and renewed on a regular basis.

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

FINDING NUMBER	**2005-015**

Finding for Recovery

During the period which Arthur Baker was the Executive Director of the Academy, payments were made to Aria's Premier Limousine Service in the amount of $7,062. We were unable to locate a copy of a lease agreement or transportation contracts between the Academy and the leasing company. In addition, Board approval was not recorded in the minute record of the Board of Trustees.

In accordance with the foregoing facts and pursuant to Ohio Revised Code 117.28 a Finding for Recovery for public monies improperly expended is hereby issued against Arthur Baker, Executive Director, Barbara Russell, Financial Consultant, (responsible for consulting on the monthly close process, operational and capital budgets, and cash disbursements), and Irving Kerr, authorized check signatory, jointly and severally, in the amount of $7,062 and in favor of the Marcus Garvey Academy.

Officials Response:

This finding cited the payments for leasing the vehicle used to transport our students to and from school.

Our Internal Control Policy is being amended to clarify the process for obligating such funds.

At a minimum, the Director will obtain the approval of the Board prior to securing the service of vendors in excess of $5,000 but less than $20,000. Once approved, the Director's signature approves the expenditure.

The Board, by resolution, has acknowledged the vehicle leasing activity and has stipulated that these contracts will be reviewed and renewed on a regular basis.

FINDING NUMBER	**2005-016**

Finding for Recovery

During the period which Ross Cockfield was the Executive Director of the Academy, payments were made to Aria's Premier Limousine Service in the amount of $3,380. We were unable to locate a copy of a lease agreement or transportation contracts between the Academy and the leasing company. In addition, Board approval was not recorded in the minute record of the Board of Trustees.

In accordance with the foregoing facts and pursuant to Ohio Revised Code 117.28 a Finding for Recovery for public monies improperly expended is hereby issued against Ross Cockfield, Executive Director, Barbara Russell, Financial Consultant, (responsible for consulting on the monthly close process, operational and capital budgets, and cash disbursements), and Irving Kerr, Chairman of the Board jointly and severally, in the amount of $3,380 and in favor of the Marcus Garvey Academy.

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

FINDING NUMBER	**2005-016**

Officials Response:

This finding cited the payments for leasing the vehicle used to transport our students to and from school.

Our Internal Control Policy is being amended to clarify the process for obligating such funds.

At a minimum, the Director will obtain the approval of the Board prior to securing the service of vendors in excess of $5,000 but less than $20,000. Once approved, the Director's signature approves the expenditure.

The Board, by resolution, has acknowledged the vehicle leasing activity and has stipulated that these contracts will be reviewed and renewed on a regular basis.

FINDING NUMBER	**2005-017**

<u>Finding for Recovery</u>

On January 11, 2005, check number 1686 was issued in the amount of $2,996 and made payable to the "Women of Color Events.Com", for which Board approval was not included in the minute records of the Board of Trustees. This payment was for four reservations to a "Personal and Professional Development Retreat" whose co-sponsor was GAP Communications, which is owned by the developer of the Academy. We were unable to determine the purpose of attendance in conjunction with the operation of the Academy and we were unable to locate Board approval for this payment. In addition, the attendees included three members of the Board of Trustees and a member of the office staff and the payment was charged to the federal Teacher Development fund.

In accordance with the foregoing facts and pursuant to Ohio Revised Code 117.28 a Finding for Recovery for public monies improperly expended is hereby issued against Ross Cockfield, Executive Director Barbara Russell, Financial Consultant, (responsible for consulting on the monthly close process, operational and capital budgets, and cash disbursements), and Irving Kerr, authorized check signatory, jointly and severally, in the amount of $2,996 and in favor of the Marcus Garvey Academy.

Officials Response:

Attendance at "Women of Color Conference": On September 13, 2005, the Board approves as part of it's Curriculum Development Plan, a Strategy/Tactic to begin the process of building moral character and responsibility. These Women of Color Conferences explore the codes of conduct that govern the various conditions in which people find themselves on a daily basis. Our rationale for attendance was that they would provide a valuable contribution to the teaching and cultivation of virtues like self-discipline, respect, etc. Our participants would return with suggestions and skills to relay the most appropriate conduct for the school environment as well as the community.

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

FINDING NUMBER	2005-017

Officials Response: (Continued)

We now understand that such professional development and leadership conferences must be of "Direct Benefit" to the teaching staff.

Future consideration for attendance at developmental events will limit the number of attendees to the minimum number required to transfer the knowledge to the staff. Also, the subject matter must be directly related to the school curriculum. Further, Academy sponsored attendance will have prior Board approval and be acknowledged in the Board minutes.

FINDING NUMBER	2005-018

Finding for Recovery

On March 22, 2005, check number 1806 was prepared in the amount of $1,448 and made payable to the "Women of Color Events.Com", for which Board approval was not included in the minute records of the Board of Trustees. This payment was for two registrations including overnight stay and one daytime registration for one day to the Women of Color Event.com retreat held at Walden Country Inn and Stables. The memo portion of this check noted "Teachers' Personal and Professional retreat". The attendees included three members of the Board of Trustees and a member of the office staff. This payment was charged to the Federal Teacher Development fund.

In accordance with the foregoing facts and pursuant to Ohio Revised Code 117.28 a Finding for Recovery for public monies improperly expended is hereby issued against Ross Cockfield, Executive Director, Barbara Russell, Financial Consultant, (responsible for consulting on the monthly close process, operational and capital budgets, and cash disbursements), and Irving Kerr, Chairman of the Board jointly and severally, in the amount of $1,448 and in favor of the Marcus Garvey Academy.

Officials Response:

Attendance at "Women of Color Conference": On September 13, 2005, the Board approves as part of it's Curriculum Development Plan, a Strategy/Tactic to begin the process of building moral character and responsibility. These Women of Color Conferences explore the codes of conduct that govern the various conditions in which people find themselves on a daily basis. Our rationale for attendance was that they would provide a valuable contribution to the teaching and cultivation of virtues like self-discipline, respect, etc. Our participants would return with suggestions and skills to relay the most appropriate conduct for the school environment as well as the community.

We now understand that such professional development and leadership conferences must be of "Direct Benefit" to the teaching staff.

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

FINDING NUMBER	**2005-018**

Officials Response: (Continued)

Future consideration for attendance at developmental events will limit the number of attendees to the minimum number required to transfer the knowledge to the staff. Also, the subject matter must be directly related to the school curriculum. Further, Academy sponsored attendance will have prior Board approval and be acknowledged in the Board minutes.

FINDING NUMBER	**2005-019**

Finding for Recovery

On October 7, 2005, check number 1575 was prepared in the amount of $1,200 and made payable to the Black Professionals Association (BPA) Charitable Foundation, for which Board approval was not included in the minute records of the Board of Trustees. This payment was for eight tickets to a scholarship and awards event. The BPA Charitable Foundation was co-founded by Arthur Baker, Executive Director of the Academy.

In accordance with the foregoing facts and pursuant to Ohio Revised Code 117.28 a Finding for Recovery for public monies improperly expended is hereby issued against Arthur Baker, Executive Director, Barbara Russell, Financial Consultant, (responsible for consulting on the monthly close process, operational and capital budgets, and cash disbursements), and Irving Kerr, authorized check signatory, jointly and severally, in the amount of $1,200 and in favor of the Marcus Garvey Academy.

Officials Response:

The purpose of participating in the BPA Charitable Foundation event was to establish a network of support for the Academy. This practice will be discontinued.

FINDING NUMBER	**2005-020**

Financial Report Filing

Ohio Revised Code Section 117.38 provides that each public office shall file a financial report for each fiscal year, within one hundred and fifty days for entities reporting on a GAAP basis. The Auditor of State may prescribe forms by rule or may issue guidelines, or both, for such reports. If the Auditor of State has not prescribed a rule regarding the form for the report, the public office shall submit its report on the form utilized by the public office. In part, this report shall contain the following:

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

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

FINDING NUMBER	2005-020

Financial Report Filing (Continued)

Ohio Administrative Code Section 117-2-03(B) further clarifies the filing requirements of Ohio Revised Code Section 117.38. This section provides that all school districts, including educational service centers and community schools, shall file their annual financial reports pursuant to generally accepted accounting principles. Generally accepted accounting principles (GAAP) require the following:

- Management Discussion and Analysis;
- Statement of Net Assets as prescribed by GAAP standards;
- Income and expense statement as prescribed by GAAP;
- Cash flow statement as prescribed by GAAP; and
- Notes to the financial statements as prescribed by GAAP.

The Academy had not filed its financial statements for the year ended June 30, 2005.

We recommend the Academy organize its financial recordkeeping, develop tickler files as a reminder of filing dates and take all other steps necessary to file its financial statements within the prescribed time period. If these financial statements are not filed within the prescribed timetable the Academy may be assessed a late filing penalty.

FINDING NUMBER	2005-021

Expenditure of Public Funds/"Proper Public Purpose"

1982 Op. Att'y Gen. No. 82-006 addresses the expenditure of funds for public purposes. This opinion, citing the Ohio Supreme Court case of State ex rel. McClure v. Hagerman, 155 Ohio St. 320 (1951), provides guidance as to what may be construed as a public purpose. There are two criteria that demonstrate whether an expenditure is for a public purpose. First, the expenditure is required for the general good of all inhabitants. Second, the primary objective of the expenditure is to further a public purpose, even if an incidental private end is advanced.

The determination of what constitutes a public purpose is primarily a legislative function. As such, the decision to expend public funds "…must be made in accordance with the procedural formalities governing the exercise of legislative power. Specifically, the decision must be memorialized by a duly enacted ordinance or resolution and may have prospective effect only." 1982 Op. Atty. Gen No.82-006.

During our testing of non-payroll expenditures, we noted 10 out of 60 transactions tested did not have invoices attached and 11 out of 60 transactions tested were not supported by original supporting documentation. 1982 Op. Att'y Gen. No. 82-006 provides guidance concerning the expenditure of monies for a proper public purpose. Without original supporting documentation we were unable to determine if these expenditures were proper.

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

FINDING NUMBER	**2005-021**

Expenditure of Public Funds/"Proper Public Purpose" (Continued)

We recommend the Academy develop a process for the expenditure of Academy monies and provide for Board approval for expenditures. The Board should approve the expenditure of public monies unless the original supporting documentation is attached to attest to the authenticity of and validity of the expenditure made.

FINDING NUMBER	**2005-022**

Five-Year Revenue and Expenditure Projection

Ohio Revised Code Section 3314.03(A)(15) provides that the contract entered into between a sponsor and the governing authority of a community school shall specify a financial plan detailing an estimated school budget for each year of the period of the contract and specify the total estimated per pupil expenditure amount for each such year. The plan shall specify the yearly base formula amount that will be used for purposes of funding calculations under section 3314.08 of the Ohio Revised Code. This base formula amount for any year shall not exceed the formula amount defined under section 3317.02 of the Revised Code. The plan may also specify for any year a percentage figure to be used for reducing the per pupil amount of the subsidy calculated pursuant to section 3317.029 of the Revised Code the school is to receive that year under 3314.08 of the Revised Code.

Contrary to the information contained in the MD&A and the notes to the financial statements, we could not find evidence the Academy had prepared a projected budget for each year of the period of the contract or locate any evidence the Academy prepared the financial plan as required. Consequently, the Board was not able to approve a spending plan or approve the assumptions of the financial management in dealing with the finances of the Academy. This could lead to unplanned future deficits.

We recommend the Academy review the requirements of Ohio Revised Code Section 3314.03 and take the necessary steps to meet this requirement, including obtaining the approval of the governing board and reviewing the appropriateness of the amounts included in the estimated budget.

FINDING NUMBER	**2005-023**

Annual Report of Activities

Ohio Revised Code Section 3314.03(A)(11)(g) requires the community school governing authority to submit within four months after the end of each school year a report of its activities and progress in meeting the goals and standards of (A)(3) and (4) (academic goals method to determine progress and performance standards to evaluate a school's success) of this section and its financial status to the sponsor and the parents of all students enrolled in the school.

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

FINDING NUMBER	**2005-023**

Annual Report of Activities (Continued)

No evidence was provided, by the Academy, to verify the required annual report of its activities and progress in meeting the goals and standards and its financial status was published and distributed to the sponsor and the parents of all students enrolled in the school.

We recommend that the Academy prepare and submit the required annual report within the prescribed time frame.

FINDING NUMBER	**2005-024**

Fiscal Officer Designation, Bonding Requirement, and Licensing

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

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

The Board did not execute a bond for the position of fiscal officer (treasurer), nor did the Board set the amount of the surety. Should an error or theft occur without a performance bond, the Academy may not be able to recover all of its lost revenues. The Board did designate an individual as a fiscal officer. Also, the individual designated as fiscal officer failed to obtain the necessary license or training prior to assuming the position of the fiscal officer (treasurer).

We recommend the Academy review the provisions of Ohio Revised Code sections 3314.011 and 3301.074, and OAC Section 117-6-07 and take the necessary steps to ensure that the fiscal officer is identified by the Board, the individual is adequately bonded and is licensed and has completed the required continuing education training.

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

FINDING NUMBER	**2005-025**

Revenue Receipting Procedures

The Academy has ineffective application controls over receipting money. During the audit period the Academy did not prepare receipt forms documenting the sources of the money received and the date it was collected. Additionally the employees who were authorized to deposit cash to the bank were also allowed to handle and collect cash. There was no evidence of a system in place where amounts were re-checked by a second employee and subsequently recorded in the financial records prior to the amounts being deposited. The result may cause the misappropriation of public funds and an increased risk of fraudulent activity.

AOS recommends two-part receipt forms be prepared when public moneys are received with one part being distributed to the purchaser and the other being retained as a permanent record of the Academy. Also, for consistency purposes a two part receipt form should be prepared and signed for all funds received through wire transfer. The amounts recorded on the school's receipt copy should be checked against the money received by a person other than the one who collected it. The person who performs this function, preferably the Treasurer, should sign the receipt to evidence that the amounts noted on the receipt were reviewed and accounted for. The amounts received should then be recorded in the financial records. After the amounts received are reviewed, they should then be deposited by a person other than the one who entered the amounts in the financial records. After amounts are deposited, a deposit slip obtained from the bank should be forwarded to the Treasurer to reconcile against the amount recorded in the financial records.

FINDING NUMBER	**2005-026**

Policy Regarding Potential Conflicts of Interest

The Academy did not have a conflict of interest policy. Without an effective process for identifying and monitoring potential conflicts, the possibility of misuse or improper influence over purchasing or receipting is increased.

We recommend that the Academy develop and implement a policy that includes, but is not limited to the following provisions:

(a) Public officials or employees are prohibited from using or authorizing the use of the authority or influence of office or employment to secure anything of value or promise or to offer anything of value that is of such character as to manifest a substantial and improper influence upon the public official or employee with respect to that persons duties.

(b) Public officials or employees are prohibited from soliciting or accepting anything of value that is of such character as to manifest a substantial and improper influence upon the public official or employee with respect to that persons duties.

Please note that for Findings 2005-001 through 2005-007 and 2005-020 through 2005-026 there were no client responses.

Mary Taylor, CPA
Auditor of State

MARCUS GARVEY ACADEMY

CUYAHOGA COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
JUNE 17, 2008

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