PHOENIX VILLAGE ACADEMY SECONDARY 1
CUYAHOGA COUNTY

REGULAR AUDIT

FOR THE YEAR ENDED JUNE 30, 2009

Dave Yost • Auditor of State

PHOENIX VILLAGE ACADEMY SECONDARY - 1
CUYAHOGA COUNTY

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INDEPENDENT ACCOUNTANTS' REPORT

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

To the Board of Directors:

We were engaged to audit the accompanying basic financial statements of Phoenix Village Academy Secondary 1, Cuyahoga County, Ohio (the Academy), as of and for the year ended June 30, 2009. These financial statements are the responsibility of the Academy's management.

The Academy failed to provide documentation of Advances Payable to Others.

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

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

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

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

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

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

Since the Academy did not provide sufficient evidential matter as described in paragraphs two through seven above, the scope of our engagement procedures was not sufficient to enable us to express, and we do not express, an opinion of these financial statements referred to above for the year ended June 30, 2009.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 14, 2012, on our consideration of the Academy's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our engagement.

The accompanying financial statements have been prepared assuming that the Academy will continue as a going concern. In September of 2011, the Ohio Department of Education notified Ashe Cultural Center, the Academy's sponsor, that they are no longer permitted to sponsor community schools in Ohio. The Ohio Department of Education took over sponsorship of the Academy while it seeks another sponsor. Under the Ohio Revised Code, a community school may not operate without a sponsor. These conditions raise substantial doubt about the Academy's ability to continue as a going concern. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

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 did not audit and do not express an opinion on this information. However, we have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measuring and presenting the supplementary information. As described above the Academy failed to provide documentation supporting changes in Net Assets and Changes in Net Assets. Therefore, we are unable to determine if Management's Discussion and Information conforms to Government Accounting Standards Board guidelines.

Dave Yost

Dave Yost
Auditor of State

May 14, 2012

PHOENIX VILLAGE ACADEMY SECONDARY - 1
CUYAHOGA COUNTY

MANAGEMENT' DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009
(UNAUDITED)

Our discussion and analysis of The Phoenix Village Academy Secondary - 1 (the Academy) financial performance provides an overall review of the Academy's financial activities for the fiscal year ended June 30, 2009. The intent of this discussion and analysis is to look at the Academy's' financial performance as a whole; readers should also review the basic financial statements and notes to the basic financial statements to enhance their understanding of the Academy's financial performance.

The Management's Discussion and Analysis (MD&A) is an element of the new reporting model adopted by the Governmental Accounting Standards Board (GASB) in their Statement No. 34 Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Government issued June 1999. Certain comparative information between the current year and the prior year is required to be presented in the MD&A.

FINANCIAL HIGHLIGHTS

Key Financial Highlights for the Academy for the 2009-08 school year are as follows:

- Total current assets increased by $892, or 23%.
- Total liabilities decreased by $91,152, or 10% from 2008. The increase is due to the change in current liabilities.
- Total net assets decreased by $13,295.
- Total operating revenues were $236,621. Total operating expenses were $293,701.

USING THIS ANNUAL REPORT

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

The Statement of Net Assets and Statement of Revenues, Expenses, and Changes in Net Assets reflect how the Academy did financially during fiscal year 2009. These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting includes all of the current year revenues and expenses regardless of when cash is received or paid.

These statements report the Academy's net assets and changes in those assets. This change in net assets is important because it tells the reader whether the financial position of the Academy has improved or diminished. The causes of this change may be the result of many factors, some financial, some not. Non-financial factors include the Academy's' student enrollment, per-pupil funding as determined by the State of Ohio, change in technology, required educational programs and other factors.

The Academy uses enterprise presentation for all of its activities.

Statement of Net Assets

The Statement of Net Assets answers the question of how the Academy did financially during 2009. This statement includes all assets and liabilities, both financial and capital, and short-term and long-term using the accrual basis of accounting and economic resource focus, which is similar to the accounting used by most private-sector companies. This basis of accounting takes into account all revenues and expenses during the year, regardless of when the cash is received or paid.

Table 1 provides a summary of the Academy's net assets for fiscal years 2009 and 2008.

Table 1
Statement of Net Assets

	2009	2008
Assets		
Current Assets	$ 4,765	$ 3,873
Capital Assets, Net of Accumulated Depreciation	63,913	84,253
Total Assets	68,678	88,126
Liabilities		
Current Liabilities	78,208	68,583
Long Term Liabilities	3,000	3,000
Total Liabilities	81,208	71,583
Net Assets		
Investment in Capital Assets, Net of Related Debt	63,913	84,253
Unrestricted	(76,442)	(67,710)
Total Net Assets	$ (12,529)	$ 16,543

Net assets decreased $13,295. A significant amount of resources (current assets) were expended to maintain operations, specifically in services purchased which increased accounts payable by $18,010. Capital Assets, net of depreciation, reduce the carrying value in capital assets after the annual depreciation charge. Liabilities increased from 2008, by 10%, or $9152.

Statement of Revenues, Expenses and Changes in Net Assets

Table 2 shows the changes in net assets for fiscal years 2009 and 2008, as well as a listing of revenues and expenses. This change in net assets is important because it tells the reader that, for the Academy as a whole, the financial position of the Academy has improved or diminished. The cause of this may be the result of many factors, some financial, some not. Non-financial factors include the current laws in Ohio restricting revenue growth, facility conditions, required educational programs and other factors.

Table 2
Change in Net Assets

	2009	2008
Operating Revenue :		
Foundation (State Aid)	$234,221	$ 143,957
Federal and State Subsidies		80,062
Other Operating Revenues	2,400	4,707
Total Operating Revenues	236,621	228,726
Operating Expenses :		
Salaries	140,486	80,382
Fringe Benefits	28,628	9,024
Purchased Services	102,413	138,405
Materials and Supplies	515	871
Depreciation Expense	20,340	19,760
Capital Outlay		38,304
Other Operating Expense	1,319	1,636
Total Operating Expenses	293,701	288,382
Operating Income (Loss)	(57,080)	(128,283)
Non-Operating Revenues and (Expenses)		
Grants – Federal & State	33,258	82,370
Total Non-Operating Revenues and (Expenses)	33,258	82,370
Increase (Decrease) in Net Assets	$ (23,822)	$ (59,656)

Operating revenues increased $90,264, or 61.7% from 2008. The increase is due to the increased enrollment which resulted in an increase in additional State Aid. Expenses increased slightly from 2008 by 6.94%, or $19,061. The largest expense of the Academy is Purchase Services, which includes sponsor and management fees and other contracted services to maintain and use the educational facility and provide student lunch, although purchase services decreased by $61,061.

BUDGETING HIGHLIGHTS

Unlike other public schools located in the State of Ohio, community schools are not required to follow budgetary provisions set forth in Ohio Rev. Code Chapter 5705, unless specifically provided in the community school's contract with its sponsor.

The contract between the Academy and its Sponsor does prescribe a budgetary process. The Academy has developed a one year spending plan and a five-year forecast that is reviewed semi-annually by the Board of Trustees. The five-year forecast is also submitted to the Sponsor and the Ohio Department of Education, annually.

CAPITAL ASSETS

The Academy has $69,913 invested in capital assets, net of accumulated depreciation. No additional investments in capital asset in the fiscal year were made. Detailed information regarding capital asset activity is included in the Note 3 in the notes to the basic financial statements.

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

CONTACTING THE ACADEMY'S FINANCIAL MANAGEMENT

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

PHOENIX VILLAGE ACADEMY SECONDARY 1
CUYAHOGA COUNTY

Statement of Net Assets
at June 30, 2009

Assets	
Current Assets:	
Cash and Cash Equivalents	$ 1,002
Grant Receivable	12,353
Due to Other Governments	1,115
Total Current Assets	14,470
Noncurrent Assets:	
Capital Assets:	
Depreciable Capital Assets, net	63,913
Total Noncurrent Assets	63,913
Total Assets	78,383
Liabilities	
Current Liabilities:	
Accounts Payable	26,368
Wages Payable	7,423
Intergovernmental Payables	831
Advances from Schools	26,247
Total Current Liabilities	60,869
Long-Term Liabilities:	
Due within more than one year	3,000
Total Long-Term Liabilities	3,000
Total Liabilities	63,869
Net Assets	
Investment in Capital Assets, Net of Related Debt	63,913
Unrestricted	(49,399)
Total Net Assets	$ 14,514

See accompanying notes to the basic financial statements

PHOENIX VILLAGE ACADEMY SECONDARY 1
CUYAHOGA COUNTY

Statement of Revenues,
Expenses and Changes in Fund Net Assets
For the Period ending June 30, 2009

Operating Revenues:	
State Foundation (State Aid)	$251,584
EMIS	2,400
Total Operating Revenues	253,984
Operating Expenses:	
Salaries	139,780
Fringe Benefits	28,628
Purchased Services	93,438
Materials and Supplies	515
Depreciation	20,340
Other	1,320
Total Operating Expenses	284,021
Operating Loss	(30,037)
Non-Operating Revenues (Expenses):	
Federal Grants	33,258
Total Non Operating Revenues	33,258
Change in Net Assets	3,221
Restated Net Assets Beginning of Year	11,293
Net Assets End of Year	14,514

See accompanying notes to the basic financial statements

PHOENIX VILLAGE ACADEMY SECONDARY 1
CUYAHOGA COUNTY

Statement of Cash Flows
For the Fiscal Year Ended June 30, 2009

Increase (Decrease) in Cash and Cash Equivalents	
Cash Flows from Operating Activities	
Cash Received from State of Ohio	$234,817
Cash Received from Other Operating Sources	2,400
Cash Payments to Suppliers for Goods and Services	(103,953)
Cash Payments to Employees for Services	(140,486)
Cash Payments for Employee Benefits	(28,628)
Other Cash Payments	(531)
Net Cash Used for Operating Activities	(36,381)
Cash Flows from Noncapital Financing Activities	
Cash Received from Operating Grants	20,905
Net Cash Provided by Noncapital Financing Activities	20,905
Cash Flows from Capital and Related Financing Activities	
Cash Received from Advances from Schools	2,900
Net Cash Provided by (Used in) Capital Financing Activities	2,900
Net Decrease in Cash and Cash Equivalents	(12,576)
Cash and Cash Equivalents Beginning of Year	3,873
Cash and Cash Equivalents End of Year	(8,703)
Reconciliation of Operating Gain (Loss) to Net Cash Provided by (Used in) Operating Activities	
Operating Gain (Loss)	(57,080)
ADJUSTMENTS TO RECONCILE OPERATING LOSS TO NET CASH USED FOR OPERATING ACTIVITIES	
Depreciation	20,340
Changes in Assets and Liabilities:	
Accounts Payable	15,181
Intergovernmental Payable	(11,895)
Advance from Schools	(2,927)
Net Cash Provided by (Used in) Operating Activities	($36,381)

See accompanying notes to the basic financial statements.

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1. DESCRIPTION OF THE ENTITY

Phoenix Village Academy Secondary - 1 (the Academy) is a nonprofit corporation established pursuant to Ohio Revised Code Chapters 3314 and 1702 to address the needs of students in kindergarten through the sixth grade. The Academy applied for exemption under Section 501 (c) (3) of the Internal Revenue Code. (See Note 17) Management is not aware of any course of action or series of events that have occurred that might adversely affect the Academy's tax-exempt status.

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

The Academy signed a contract with Ashe Culture Center, Inc. to act as its sponsor for the period of June 30, 2006 through April 14, 2009. The contract was renewed through June 30, 2010.

The Academy entered into a management contract with Greater Educational Services Centers, LLP, to conduct most of its functions. The contract expired December 31, 2008 and the Academy did not contract with another management co. (See Note 14)

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Basis of Presentation

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Measurement Focus and Basis of Accounting

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

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

C. Budgetary Process

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

D. Cash and Cash Equivalents

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

E. Estimates

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. Capital Assets

Capital assets are capitalized at cost. The costs of additions are capitalized and expenditures for repairs and maintenance are expensed when incurred. When property is sold or retired, the related costs and accumulated depreciation are removed from the accounts and any gain or loss is included in additions to or deductions from net assets. Capital assets were $112,973, as of June 30, 2009 with accumulated depreciation of $49,060. Deprecation of capital assets is calculated utilizing the straight-line method over the estimated useful lives of the assets. The useful lives follow:

Asset	Useful Life
Furniture and Equipment	5 years
Computers	7 years

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. Capital Assets (Continued)

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

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

G. Intergovernmental Revenues

The Academy currently participates in the State Foundation Program; Revenues received from this program are recognized as operating revenues in the accounting period in which all eligibility requirements have been met.

Grants and entitlements are recognized as non-operating revenues in the accounting period in which eligibility requirements have been met.

Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the Academy must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the Academy on a reimbursement basis.

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

Under the above programs, the Academy received $287,242 this fiscal year.

H. Compensated Absences

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

I. Accrued Liabilities

Obligations incurred but unpaid at June 30 are reported as accrued liabilities in the accompanying financial statements. As of June 30, 2009 accounts payable was $25,638.

J. Exchange and Non-Exchange Transactions

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

K. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets consist of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use through external restriction imposed by creditors, grantors, or law and regulations of other governments. The Academy applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available. Net Assets as of June 30, 2008 were restated as follows:

Net Assets at June 30, 2008	$	16,543
Adjstment to beginning balance		(5,250)
Restated Net Assets as of June 30, 2008	$	11,293

L. Operating Revenues and Expenses

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

M. Advances to/from Schools

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

These advances are considered collectable.

3. CASH AND CASH EQUIVALENTS

The following information classifies deposits by category of risk as defined in GASB Statement No.3 "Deposits with Financial Institutions, Investments (including Repurchase Agreements) and Reverse Repurchase Agreements," as amended by GASB Statement No.40, "Deposit, and Investment Risk Disclosures". The School maintains its cash balances at one financial institution located in Ohio. The balances are insured by the Federal Deposit Insurance Corporation (FDIC) up to $250,000, per qualifying account. At June 30, 2009, the book amount of the School's deposits was $1,002 and the bank balance was $1,503.

3. CASH AND CASH EQUIVALENTS

The Academy had no deposit policy for custodial risk beyond the requirement of state statute. Ohio law requires that deposits either be insured or be protected by eligible securities pledged to and deposited either with the Academy or a qualified trustee by the financial institution as security for repayment or by a collateral pool of eligible securities deposited with a qualified trustee to secure repayment of all public monies deposited in the financial institution whose market value shall be at least 105% of deposits being secured. At June 30, 2009, none of the bank balance was exposed to custodial credit risk.

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

4. CAPITAL ASSETS AND DEPRECIATION

For the year ended June 30, 2009, the Academy's capital assets consisted of the following:

	Balance 06/30/08	Additions	Deletions	Balance 06/30/09
Capital Assets Being Depreciated:				
Equipment	$ 112,974	$ -	$ -	$ 112,974
Total Capital Assets Being Depreciated	112,974	-	-	112,974
Less Accumulated Depreciation:				
Equipment	(28,720)	(20,340)	-	(49,060)
Total Accumulated Depreciation	(28,720)	(20,340)	-	(49,060)
Net Total Capital Assets	$ 84,254	$ (20,340)	$ -	$ 63,914

5. INTERGOVERNMENTAL PAYABLE and GRANT RECEIVABLE

City, state, federal taxes and other payroll withholdings unpaid at June 30, 2009 are recorded in the Statement of Net Assets, as Intergovernmental Payable, which amounted to $18,900.

The Academy received $12,353 in assistance under the federal programs after June 30, 2009, but intended to finance programs conducted prior to June 30, 2009.

6. ADVANCES FROM OTHERS

The table below details the Academy's Advance from Others activity for the fiscal year:

	Advance From at 6/30/2008	Additions	Reductions	Advance From at 6/30/2009
From LED Consulting, Inc	$ 0	$ 6,100	$ 1,000	$ 5,100
From Phoenix Primary 2	17,698	3,500	5,250	15,948
From Phoenix Primary 1	12,000	-	6,800	5,200
Total Short-Term Liabilities	$ 29,698	$ 9,600	$ 13,050	$ 26,248

The Academy makes payments based on the availability of cash.

7. RISK MANAGEMENT

A. Property & Liability

The Academy is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. For the fiscal year 2009, the Academy contracted with Pinkney Perry Insurance Company for property and general liability insurance. The Academy also had a treasurer bond from Hanover Insurance.

B. Workers' Compensation

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

8. DEFINED BENEFIT PENSIONS PLANS

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

Plan Description – The Academy contributes to the School Employees Retirement System (SERS), a cost-sharing multiple employer pension plans. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by contacting School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746, or by calling toll free 1-800-878-5853. It is also posted at the SERS' website at www.ohsers.org under Employer/ Audit Resources.

8. DEFINED BENEFIT PENSIONS PLANS (Continued)

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

Funding Policy - Plan members are required to contribute 10 percent of their annual covered salary and the Academy is required to contribute 14 percent of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to a statutory maximum amount by the SERS' Retirement Board. The Retirement Board acting with the advice of the actuary, allocates the employer contribution rate among four of the funds (Pension Trust Fund, Death Benefit Fund, Medicare B and Health Care Fund.) of the System. For the fiscal year ending June 30, 2009, the allocation to pension and death benefits is 9.09 percent. The remaining 4.91 percent of the 14 percent employer contribution rate is allocated to the Health Care and Medicare B Funds. The Academy contributions to SERS for the year ended June 30, 2009, 2008 and 2007 were $46,827, $6,066 and $5,706, respectively, which equaled the required contributions each year

B. State Teachers Retirement System (STRS Ohio)

Plan Description – The Academy contributes to the State Teachers Retirement System of Ohio (STRS Ohio), which is a cost-sharing, multiple-employer public employee retirement system. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report, which may be obtained by writing to STRS Ohio, 275 East Broad Street, Columbus, Ohio 43215-3771, by calling (888) 227-7877, or by visiting the STRS Ohio website at www.strsoh.org.

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan, and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member's lifetime contributions and earned interest matched by STRS Ohio funds divided by an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment.

The member may elect to receive a lifetime monthly annuity or a lump sum withdrawal. The Combined Plan offers features of both the DB Plan and the DC Plan.

In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. The DB portion of the Combined Plan payment is payable to a member on or after age 60; the DC portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50. Benefits are established by Chapter 3307 of the Ohio Revised Code.

8. DEFINED BENEFIT PENSIONS PLANS (Continued)

B. State Teachers Retirement System (STRS Ohio)

A DB or Combined Plan member with five or more years credited service that becomes disabled may qualify for a disability benefit. Eligible spouses and dependents of these active members who die before retirement may qualify for survivor 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.

Funding Policy - For the fiscal year ended June 30, 2009, 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 2009, the portion used to fund pension obligations was also 13 percent. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The Academy's required contribution for pension obligations to STRS for the fiscal years ended June 30, 2008, 2007 and 2006 were $48,013, $40,755 and $43,916 respectively, of which 100% has been contributed.

The above is the latest information available.

C. Social Security System

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

9. POST EMPLOYMENT BENEFITS

A. School Employee Retirement Systems

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

Medicare Part B

Medicare B plan reimburse Medicare B premiums paid by eligible retirees and beneficiaries as set forth in Ohio Revised Code (ORC) 3309.69. Qualified benefits recipients who pay Medicare Part B premiums may apply for and receive a monthly reimbursement from SERS. The reimbursement amount is limited by statute to the lesser of the January 1, 1999 Medicare Part premium or the current premium. The Medicare Part B premium for calendar year 2009 was $96.40; SERS' reimbursement for retirees was $45.50.

9. POST EMPLOYMENT BENEFITS (Continued)

A. School Employee Retirement Systems (Continued)

The Retirement Board, acting with the advice of the actuary, allocates a portion of the current employer contribution rate to the Medicare B Fund, For fiscal 2009, the actuarial required allocation is .75 percent The Academy's contributions for the years ended June 30, 2009, 2008 and 2007 were $3,864, $3,238, and $1,906.

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

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

The Health Care Fund was established under, and is administered in accordance with the Internal Revenue Code 105(e). Each year after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer 14 percent contribution to the Health Care Fund. For the year ended June 30, 2009, the health care allocation is 4.16. An additional health care surcharge on employers is collected for employees earning less than the actuarially determined minimum compensation amount, pro-rated according to service credit earned. Statutes provides that no employer shall pay a health care surcharge greater than 2 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the total statewide SERS-covered payroll for the health care surcharge.

For the fiscal year June 30, 2009, the minimum compensation level was established at $35,800. The surcharge added to the unallocated portion of the 14 percent employer contribution rate is the total amount assigned to the Health Care Fund. . The Academy's contributions assigned to health care for the years ended June 30, 2009, 2008 and 2007 were zero.

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

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

9. POST EMPLOYMENT BENEFITS (Continued)

B. State Teachers Retirement System

Plan Description – The Academy contributes to the cost sharing multiple employer defined benefit Health Plan administered by the State Teachers Retirement System of Ohio (STRS Ohio) for eligible retirees who participated in the defined benefit or combined pension plans offered by STRS Ohio. Benefits include hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare Part B premiums. The Plan is included in the report of STRS Ohio which may be obtained by visiting www.strsoh.org or by calling (888) 227-7877.

Funding Policy - Ohio law authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For 2008, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. The School's contributions for health care for the fiscal years ended June 30, 2008, 2007, and 2006 were $3,693, $3,155, and $3,378 respectively all of which has been contributed for all fiscal years.

10. CONTINGENCIES

A. Grants

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

B. Litigation

The Academy was party to a legal proceeding seeking damages generally incidental to its operations. The original claim was for $133,000 against the family of Academy schools. A settlement was reached among the parties requiring the aforementioned to pay $50,000 in damages. The Academy's share of the settlement is $16,667. At June 30, 2009, the remaining unpaid balance is $9,072, which is included in the Accounts Payable balance in the Statement of Net Assets at June 30, 2009.

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

C. Full-Time Equivalency

The Ohio Department of Education (ODE) conducts reviews of enrollment data and full-time equivalency (FTE) calculations made by the Academy. These reviews are conducted to ensure the Academy is reporting accurate student enrollment data to the State, upon which state foundation funding is calculated. A review for the fiscal years ending June 30, 2009, June 30, 2008 and June 30, 2007 has been conducted in which the Academy determined to have been overpaid (underpaid) by the State for ($2,280), $26 and $27,451, respectively. Monthly payments were made to the State with the deduction of an established amount from the current fiscal year foundation receipts.

11. SPONSORSHIP-ASHE CULTURE CENTER, INC.

The Academy contracted with Ashe Culture Center Inc. as its sponsor effective June 30, 2006. The Academy pays the Sponsor three percent of its State Aid. Total fees expense for the period July 1, 2008 to June 30, 2009 was $6,627. The Sponsor is to provide oversight, monitoring and technical assistance for the Academy. The contract was renewed through June 30, 2010. Other payments were made to the Sponsor for services provided in accordance with the agreement.

12. MANAGEMENT COMPANY- GREATER EDUCATIONAL SERVICES CENTER, LLP

The Academy entered into a Management Agreement (Agreement) with Greater Educational Service Center, LLP (Management, Co). Substantially all functions of the Academy have been contracted to the Management, Co. The Management, Co. is responsible and accountable to the Board of Trustees for the administration, day-to-day operations and special projects. Per the contract, the Academy is to pay three percent of its “general operating revenue” (State Aid) for these services. The Agreement’s term ran through December 31, 2008 and the Academy did not contract with a new Management Company.

13. EAGLE EYE SERVICES, LLC

The Academy entered into a contract with Eagle Eye Services, LLC. to conduct agreed upon services in preparing, submitting and monitoring CCIP, preparing cash requested, and conducting monitoring activities. The contract is for the period of August 1, 2008 through June 30, 2009. The Academy agreed to pay $1,800 per month, with a three percent fee on late payments. Fees increase to $3,400 per month, with 100 student enrollment. For every 50 student increase, the monthly fee increases by $300.

14. PURCHASED SERVICES

For the period of July 1, 2008 through June 30, 2009, the Academy made the following purchase service commitments. These commitments include sponsor, management and CCIP, and Treasurer fees, where applicable.

	2009
Professional and Technical Services	$80,240
Property Services	5,094
Utilities	4,829
Contractual Trade Services	3,275
	$93,438

15. TAX EXEMPT STATUS

The Academy has filed for status as an exempt organization under Internal Revenue Code Section 501(c)(3). As of June 30, 2009, the Internal Revenue Service has not yet granted this exemption. Should the Academy fail to obtain federal tax-exempt status, it will be subject to federal income tax, the effect of which has not been determined.

16. RELATED PARTY TRANSACTION

Exceptional Psychological Services is owned by Dr. Jorethia Chuck, a Board Member of Phoenix Village Academy Secondary 1. Exceptional Psychological Services was paid $8,400 during fiscal year 2009.

Dionne Whitaker, the daughter of Dr Kwa Whitaker owner of the Academy's Sponsor, is the owner of Kennedy Educational Consultants, LTD which provided lesson plans and other related services to the Academy. Dionne Whitaker and Kennedy Education Consultants were paid a total of $6,088 for these services during the year.

DeShawn King, the daughter of Dr. Whitaker owner of the Academy's Sponsor, performs administrative support services for the Phoenix Village Academy Primary 2.

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

17. EMPLOYEE BENEFITS

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

18. NOTES PAYABLE

	Principal Outstanding 6/30/2008	Additions	Reductions	Principal Outstanding 6/30/2009
From Ashe, Inc	$ 3,000	$ -	$ -	$ 3,000
Total Notes Payable	$ 3,000	$ -	$ -	$ 3,000

Ashe Culture Center, Inc., the Sponsor, lent the Academy money to meet payroll expenses. No payment was made during the fiscal year, nor is there a payment schedule. The monies shall be paid as cash flow dictates.

19. GOING CONCERN AND SUBSEQUENT EVENT

As of June 30, 2009, the Academy had a Net Asset balance of $14,514. The Treasurer and the Board plan to institute budgetary constraints which ensure discretionary expenditures remain within annual resources. The Treasurer shall monitor the actual to budget activity to report to the Board and management needed budgetary revisions to maintain solvency. Ashe Culture Center, the Academy's sponsor, has renewed its sponsorship of the Academy and the current agreement would have expired on June 30, 2012, however the Ohio Department of Education removed Ashe Culture Center's authority to sponsor charter schools in September of 2011. Pursuant to the Ohio Revised Code, the Academy may not operate without a sponsor. The Ohio Department of Education took over sponsorship of the Academy while it seeks another sponsor.

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

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

To the Board of Directors:

We were engaged to audit the financial statements of the Phoenix Village Academy Secondary 1 as of and for the year ended June 30, 2009, which collectively comprise the Government's basic financial statements and have issued our report thereon dated May 14, 2012. We did not opine on the financial statements because there was insufficient evidence to support adjustments made to Net Assets Beginning of Year, Advances from Others Payable, Salaries and Fringe Benefits expenditures, Capital Assets, related note disclosures and unsupported amounts on the Statement of Cash Flows. Letters of audit inquiry sent to the Academy's legal counsel were not responded to. We reported that the Ohio Department of Education took away Ashe Culture Center's authority to sponsor charter schools in September of 2011**.** The Ohio Department of Education took over sponsorship of the Academy while it seeks another sponsor. Therefore, our report expressed substantial doubt about the Academy's ability to continue as a going concern.

Internal Control Over Financial Reporting

In planning and performing our engagement, we considered the Academy's internal control over financial reporting as a basis for designing our engagement procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of opining on the effectiveness of the Academy's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the Academy's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. Therefore, we cannot assure that we have identified all deficiencies, significant deficiencies or material weaknesses. However, as described in the accompanying schedule of findings we identified certain deficiencies in internal control over financial reporting, that we consider material weaknesses and a deficiency that we consider to be a significant deficiency.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and timely corrected. We consider findings 2009-001 through 2009-004 described in the accompanying schedule of findings to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider finding 2009-005 described in the accompanying schedule of findings to be a significant deficiency.

Compliance and Other Matters

As part of reasonably assuring whether the Academy's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our engagement and accordingly, we do not express an opinion. The results of our tests disclosed instances of noncompliance or other matters we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as items 2009-001, 2009-002. 2009-005, 2009-006 and 2009-007.

We also noted certain matters not requiring inclusion in this report that we reported to the Academy's management in a separate letter dated May 14, 2012.

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

Dave Yost

Dave Yost
Auditor of State

May 14, 2012

SCHEDULE OF FINDINGS
FOR THE YEAR ENDED JUNE 30, 2009

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

FINDING NUMBER 2009-001

Condition of Accounting Records – Material Noncompliance and Material Weakness

Ohio Administrative Code Section 117-2-02(A) states that all local public offices shall maintain an accounting system and accounting records sufficient to enable the public office to identify, assemble, analyze, classify, record and report its transactions, maintain accountability for the related assets (and liabilities, if generally accepted accounting principles apply), document compliance with finance related legal and contractual requirements and prepare financial statements required by rule 117-2-03 of the Administrative Code.

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

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

- Capital asset records including such information as the original cost, acquisition date, voucher number, the asset type (land, building, vehicle, etc.), asset description, location, and tag number were not provided;
- The Academy did not provide support for the beginning balance of Advances to Schools and Advances from Others;
- Checks were not prepared in numerical order;
- Several versions of the June 30, 2009 financial report were provided for audit;
- The amounts reported in the statements provided for audit did not agree to underlying financial records and were incomplete;
- There was no evidence of the Board approving any financial activity of the Academy;
- The Academy failed to maintain specific and necessary documentation to support the completeness and accuracy of its accounting transactions for receipts. While receipt entries in the general ledger could be traced out to deposits in the bank statements, the Academy had no records other than the memo in the general ledger as to what the receipts were for;
- The underlying financial records of the Academy indicated that expenditures were made from a bank account that was later found to not be in existence during the fiscal year;
- The Academy improperly excluded two invoices totaling $4,500 from their accounts payable listing. In each instance, the invoice related to goods or services which were received prior to year end and payment was made subsequent to year end;
- The Academy was unable to provide a complete listing of 1099 forms for the period under audit;
- The Academy did not provide any loan collection and repayment agreements which were approved by the Board;
- The amounts reported in the MD&A for 2008 and 2009 figures did not agree to the fiscal year ending June 30, 2008 financial report or current year financial statements;

FINDING NUMBER 2009-001 (Continued)

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

- The Academy provided a consolidated trial balance but adjustments made to salaries and fringe benefit amounts were unsupported; and
- The Statement of Cash Flows was not presented consistently nor did it agree to the underlying financial statement data

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

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

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

- The Board minutes provided did not confirm contracts and annual or hourly rates. No records existed of Board approval for employee wage rates and employee contracts for 19 of 25 sampled payroll expenditures; For 16 of the 19 payroll expenditures sampled, a "new hire notification" with a rate of pay was provided but this was not a legislatively approved contract;
- Cancelled checks issued from the payroll checking account were not maintained;
- The Academy did not maintain sufficient documentation to support adjustments made to Salaries and Fringe Benefits expenditures;
- The Academy did not maintain withholding documentation or an employee master file for one employee sampled;
- For two employees, the rate of pay did not agree to the new hire notification notice and no additional approved contract was provided; and
- For two of 25 payroll expenditures sampled, retirement contributions were not withheld.

The Academy's management has available numerous sources of information describing the process of internal controls, recordkeeping requirements and reporting procedures. It is the responsibility of management to ensure that all responsible parties have access to this literature and training sessions. As a result of inadequate oversight and weaknesses in supporting documentation, the completeness and accuracy of several of the Academy’s accounts could not be determined.

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

FINDING NUMBER 2009-002

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

Ohio Administrative Code Section 117-2-01(A) states that all public officials are responsible for the design and operation of a system of internal control that is adequate to provide reasonable assurance regarding the achievement of objectives for their respective public offices in certain categories. Subsection (C)(5) provides that internal control consists of the following component, among others: monitoring, which is a process that assesses the quality of internal control performance over time.

Monitoring is comprised of regular management and supervisory activities established to oversee whether management's objectives are being achieved. This process involves assessing the design and operation of controls on a timely basis and taking necessary corrective actions.

Monitoring should assist management in identifying unexpected results and/or possible misstatements.

Some effective monitoring practices include:

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

The Academy failed to perform adequate monitoring over financial activities. The lack of effective monitoring could lead to the misallocation or misstatement of Academy funds, expenditure of funds contrary to the directives of the Board, and non-compliance with federal or state laws or regulations. This could result in a loss of funding from federal and state sources, and errors or irregularities occurring in financial transactions which affect the bank reconciliations could go undetected. This deficiency also resulted in the audit opinion modification of several of the Academy's account balances.

FINDING NUMBER 2009-002 (Continued)

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

We recommend that management prepare monthly financial statements and submit them to the Board at each regularly scheduled meeting. The Board should 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 2009-003

Financial Reporting – Material Weakness

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

The Academy provided multiple financial reports such as the general ledgers, payable listings and bank reconciliations that were incorrect and did not accurately reflect the Academy's financial transactions during fiscal year 2009. This resulted in the following adjustments being made to the financial statements, notes and, where applicable, to the Academy's accounting records:

- Expenses paid by the Treasurer's company, LED Consulting, on the Academy's behalf were recorded as a reduction of the Academy's cash. An adjustment of $730 was required to increase the cash balance and to increase the accounts payable to LED Consulting;
- The cash reconciliation included an account that did not exist. The net misstatement resulted in an overstatement of the Academy's (negative) cash balance of $9,705; and
- An adjustment of $18,069 was required to reduce the Intergovernmental Payable amount for the prior year payable that was not reversed and for an additional amount that was added in by the Treasurer but not actually payable per the general ledger.

The Notes to The Basic Financial Statements were not presented consistently nor did they agree to the underlying financial statement data. This resulted in adjustments to amounts reported in Summary of Significant Accounting Policies, Cash and Cash Equivalents, Intergovernmental Payable and Receivable, Contingencies, Sponsorship- ASHE Culture Center, Related Party Transactions Going Concern and Subsequent Events.

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

SCHEDULE OF FINDINGS
FOR THE YEAR ENDED JUNE 30, 2009
(Continued)

FINDING NUMBER 2009-004

Entity-wide Bank Reconciliation – Material Weakness

Reconciliation of the Academy's bank accounts with its cash ledgers is a necessary control procedure to adequately safeguard cash and to provide an accurate financial picture of the Academy. A necessary step in internal control over financial reporting is to determine the accuracy of both the balance of the bank and the balance of "cash" in the accounting records. As part of the bank reconciliation, all differences between the balance appearing on the bank statements and the balance of cash according to the District's records should be accounted for.

We noted the Academy does not perform a monthly Academy-wide bank-to-book reconciliation. The only reconciliations completed during the fiscal year are individually by account. As described in the preceding finding, the year end reconciliations were inaccurate, requiring an audit adjustment to increase reported cash by $9,706.

Failure to reconcile bank accounts and resolve discrepancies may result in errors in budgeting and financial reporting. Bank and investment balances should be reconciled with the Academy's cash fund balances on a monthly basis.

We recommend the Academy complete a monthly Academy-wide cash reconciliation which compares reconciled bank and investment balances to the Academy book balances. Also, the Treasurer should perform an additional review of the Academy-wide cash and investment reconciliation. This should include reviewing support for reconciling items.

FINDING NUMBER 2009-005

Notice of Public Meetings/ Record of Minutes – Material Noncompliance and Significant Deficiency

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

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

FINDING NUMBER 2009-005 (Continued)

Notice of Public Meetings/ Record of Minutes – Material Noncompliance and Significant Deficiency (continued)

The following deficiencies in the Board meeting minutes were noted:

- The Academy did not provide an open meeting and meeting notification policy;
- Evidence of the approval of Board Resolutions or motions made by the Board during those meetings was not provided. This includes, but is not limited to, approval of loans and contracts made between the Academy and third parties, approval of salary resolutions and new employee contracts, approval of financial reports, budgets and forecasts or expenditures, etc.;
- There was no evidence of a public notice for any Board meeting;
- The Board did not have a designee for recording and maintaining Board meeting minutes;
- The Academy only provided evidence of four total unsigned regular and special board meetings during the fiscal year and a complete schedule of meetings held could not be provided; and
- The Board did not follow the School's policy by meeting five times throughout the fiscal year nor is there evidence of their annual meeting being held in June, as outlined in the Academy Code of Regulations.

It is the Board's responsibility to oversee the Academy's operation and make decisions to ensure the Academy's goals and objectives are accomplished. The Board minutes represent the official record of the Academy events and resolutions passed by the Governance Board. Without complete minute recordings of the Board meeting proceedings, it cannot be reasonably assured that the Board is meeting its obligation to oversee the Academy.

We recommend the Academy establish an open meeting and meeting notification policy, a method to notify the public of the meetings and establish a timely method of recording the Board minutes and making them available to the public for inspection. We also recommend the Board meet on a regular basis in order to approve proceedings and to stay apprised of financial matters of the Academy.

FINDING NUMBER 2009-006

Income Tax Withholding Remittances – Material Noncompliance

26 U.S.C. Section 3402 requires an employer to deduct and withhold federal income tax from the wages of any School employees. Circular E of the Internal Revenue Service Publication 15 requires that a Form W-4 (exemptions) for federal income tax deductions be filed for each employee. If a Form W-4 is not filed by the employee, deductions are to be made as single with no dependents. Further, this publication provides that an employer is required to deduct and withhold federal income tax from the salaries and wages of their employees. Such withholdings are to be remitted to the Internal Revenue Service. 26 U.S.C. Section 3102(a) requires employers to withhold a Medicare tax from an employee's wages if the employee was hired after April 1, 1986.

FINDING NUMBER 2009-006 (Continued)

Income Tax Withholding Remittances – Material Noncompliance (Continued)

Ohio Revised Code Section 5747.07 states in part, that every employer required to deduct and withhold any amount of taxes in section 5747.06 of the Revised Code shall file a return and shall pay the amount required by law.

For eight months out of the year, payroll withholding taxes were not remitted to the respective tax collection agencies. The Academy contracted with Paychex Inc. for payroll processing services and for the months of October through January the company withheld and submitted the respective taxes on the Academy and employee's behalf. For the remaining months, payroll withholding taxes were accrued by the Academy but not submitted by the due date or by fiscal year end.

We recommend that the Academy remit federal, state and local taxes by the due dates for each respective agency. This will ensure that the Academy's financial statements accurately reflect the funds that the Academy actually has ownership and right to. By not submitting the taxes in a timely fashion, the Academy will accumulate penalty charges.

These matters will be referred to the IRS and the Ohio Department of Taxation.

FINDING NUMBER 2009-007

Interest in a Public Contract – Material Noncompliance

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

Additionally, Ohio Revised Code Section 2921.42(A)(4) states that no public official shall knowingly have an interest in the profits or benefits of a public contract entered into by or for the use of the political subdivision or governmental agency or instrumentality with which the public official is connected.

The following issue was noted during our engagement:

- Exceptional Psychological Services is owned by Dr. Jorethia Chuck, a board of member of Phoenix Village Academy Secondary 1. Exceptional Psychological Services was paid $8,400 during fiscal year 2009.

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

These matters will be referred to the Ohio Ethics Commission.

Official’s Response:

The Academy did not respond to the findings reported.

PHOENIX VILLAGE ACADEMY SECONDARY 1
CUYAHOGA COUNTY

SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2009

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected, Significantly Different Corrective Action Plan Takes, or Finding no longer valid; Explain
2008-001	Finding for Recovery	No	Documentation not presented
2008-002	Finding for Recovery	No	Documentation not presented
2008-003	Finding for Recovery	No	Documentation not presented
2008-004	Finding for Recovery	No	Documentation not presented
2008-005	Finding for Recovery	No	Documentation not presented
2008-006	Finding for Recovery	No	Documentation not presented
2008-007	Five Yr Forecast	No	Re-issued as Management Letter Comment
2008-008	Record Of Minutes	No	Re-Issued as 2009-005
2008-009	Capital Assets	No	Re-Issued as 2009-001
2008-010	Developing and Implementing an Effective Monitoring Control System	No	Re-Issued as 2009-002
2008-011	Development and Implementation of Payroll Processing Procedures	No	Partially Corrected; Re-Issued in 2009-001
2008-012	Condition of Accounting Records	No	Re-Issued as 2009-001
2008-013	Salary Approval	No	Re-issued as 2009-001
2008-014	Related Party Transactions	No	Re-Issued as 2009-007
2008-015	Financial Reporting	No	Re-Issued as 2009-003

INDEPENDENT ACCOUNTANTS' REPORT ON APPLYING AGREED-UPON PROCEDURES

Phoenix Village Academy Secondary 1
Cuyahoga County
3120 Euclid Avenue
Cleveland, Ohio 44115

To the Board of Directors:

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

Accordingly, we have performed the procedures enumerated below, which were agreed to by the Board, solely to assist the Board in evaluating whether the Phoenix Village Academy Secondary 1 (the Academy) has adopted an anti-harassment policy in accordance with Ohio Rev. Code Section 3313.666. Management is responsible for complying with this requirement. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of the Board. Consequently; we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

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

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

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

Dave Yost

Dave Yost
Auditor of State

May 14, 2012

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PHOENIX VILLAGE ACADEMY SECONDARY 1

CUYAHOGA COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
JUNE 26, 2012

88 East Broad Street, Fifth Floor, Columbus, Ohio 43215-3506
Phone: 614-466-4514 or 800-282-0370 Fax: 614-466-4490
www.auditor.state.oh.us