



**CLEVELAND ARTS AND SOCIAL SCIENCES ACADEMY  
CUYAHOGA COUNTY**

**REGULAR AUDIT**

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



**Mary Taylor, CPA**  
Auditor of State



**CLEVELAND ARTS AND SOCIAL SCIENCES ACADEMY  
CUYAHOGA COUNTY**

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# Mary Taylor, CPA

## Auditor of State

### INDEPENDENT ACCOUNTANTS' REPORT

Cleveland Arts and Social Sciences Academy  
Cuyahoga County  
10701 Shaker Boulevard  
Cleveland, Ohio 44115

To the Board of Directors:

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

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 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 that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Cleveland Arts and Social Sciences Academy, Cuyahoga County, Ohio, as of June 30, 2007, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 18 to the financial statements, the Academy had an operating loss of (\$405,979) as of June 30, 2007 and experienced certain financial difficulties during the year. Note 18 describes management's plans regarding these issues.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 15, 2008 on our consideration of the Academy's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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

A handwritten signature in black ink that reads "Mary Taylor". The signature is written in a cursive, flowing style.

**Mary Taylor, CPA**  
Auditor of State

September 15, 2008

**CLEVELAND ARTS AND SOCIAL SCIENCES ACADEMY  
CUYAHOGA COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2007  
UNAUDITED**

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The discussion and analysis of the Cleveland Arts and Social Sciences Academy's (the "Academy") financial performance provides an overall review of the Academy's financial activities for the fiscal year ended June 30, 2007. While 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 enhance their understanding of the Academy's financial performance.

**Highlights**

The Academy finished its second year of operation during fiscal year 2007 serving Kindergarten through fifth grade. Enrollment varied during the year but averaged 123 students.

Key highlights for fiscal year 2007 are as follows:

- Net assets decreased \$180,288 as compared to a decrease of \$233,163 for the prior fiscal year.
- Academy had an operating loss of \$405,979 compared to an operating loss of \$454,005 in the prior fiscal year.
- Total assets decreased \$58,877, or 15.2 percent, primarily due to a \$92,701 decrease in receivables.
- Total liabilities increased \$121,411, or 19.6 percent, primarily due to a \$174,356 increase in payables. This increase was offset by a \$56,583 decrease in long term debt.

**Overview of the Financial Statements**

The financial report consists of three parts - management discussion and analysis, the basic financial statements and the basic financial statements. These statements are organized so the reader can understand the financial position of the Academy. Enterprise accounting uses a flow of economic resource measurement focus. With this measurement focus, all assets and all liabilities are included on the Statement of Net Assets. The Statement of Net Assets represents the statement of position of the Academy. The Statement of Revenues, Expenses, and Changes in Net Assets present increases (e.g., revenues) and decreases (e.g. expenses) in net total assets. The Statement of Cash Flows reflects how the Academy finances and meets its cash flow needs. Finally, the Notes to the Basic Financial Statements provide additional information that is essential to fully understand the data provided on the basic financial statements.

**Financial Analysis of the Academy as a Whole**

The Academy is not required to present government-wide financial statements as the Academy is engaged in only business-type activities. Therefore, no condensed financial information derived from the governmental-wide financial statements is included in the discussion and analysis.

**CLEVELAND ARTS AND SOCIAL SCIENCES ACADEMY  
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**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2007  
UNAUDITED  
(Continued)**

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

Table 1  
Net Assets

	2007	2006	Change
<u>Assets:</u>			
Current Assets	\$170,988	\$206,432	(\$35,444)
Capital Assets	155,805	179,238	(23,433)
Total Assets	<u>326,793</u>	<u>385,670</u>	<u>(58,877)</u>
<u>Liabilities:</u>			
Current Liabilities	689,271	503,426	185,845
Long-Term Liabilities	50,973	115,407	(64,434)
	<u>740,244</u>	<u>618,833</u>	<u>121,411</u>
<u>Net Assets:</u>			
Invested in Capital Assets, Net of Related Debt	40,398	7,248	33,150
Restricted for Other Purposes	51	0	51
Unrestricted	(453,900)	(240,411)	(213,489)
Total Net Assets	<u>(\$413,451)</u>	<u>(\$233,163)</u>	<u>(\$180,288)</u>

Total net assets decreased \$180,288. The cause of the decrease was the Board's desire to continue to offer programming that would be attractive to the families of the area and to offer services and student staff ratios necessary to accelerate learning of students faster than the traditional single grade level gains. The goal of this investment is to grow enrollment to be closer to the capacity of the facility at which point the school would generate surpluses on an annual basis sufficient to eliminate accumulated deficits. Although the Academy was unable to make significant progress towards operating at breakeven during the 2007 fiscal year, the school continues to try to increase enrollment and make strides toward breaking even. Based on the analysis that was done at the time the decision was made to open the school, the Board and its management made the decision to make an investment in the future of the children of this community, not based on a plan that was expected to general large economic profits, but rather on a plan that is economically sustainable and that would generate dividends to the community in the form of enhanced opportunities for children and families. Resources for the necessary programs have been made available by delaying payment on invoices from the Academy's management company for management services, other operating expenses and invoices for leasing the Academy's staff.



**CLEVELAND ARTS AND SOCIAL SCIENCES ACADEMY  
CUYAHOGA COUNTY**

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

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

Table 2  
Change in Net Assets

	2007	2006	Change
<u>Operating Revenues:</u>			
Foundation	\$878,645	\$1,320,086	(\$441,441)
Charges for Services	23,112	5,772	17,340
Miscellaneous	621	3,149	(2,528)
<u>Non-Operating Revenues:</u>			
Federal/State Restricted Grants	283,656	220,842	62,814
<b>Total Revenues</b>	<b>\$1,186,034</b>	<b>\$1,549,849</b>	<b>(\$363,815)</b>
<u>Operating Expenses:</u>			
Building	103,571	107,374	(3,803)
Purchased Services	1,046,950	1,363,043	(316,093)
Depreciation	23,433	5,786	17,647
General Supplies	119,833	212,852	(93,019)
Other Operating Expense	14,570	93,957	(79,387)
<u>Non-Operating Expenses:</u>			
Interest	57,965	0	57,965
<b>Total Expenses</b>	<b>\$1,366,322</b>	<b>\$1,783,012</b>	<b>(\$416,690)</b>
<b>Total Increase (Decrease) in Net Assets</b>	<b>(\$180,288)</b>	<b>(\$233,163)</b>	<b>\$52,875</b>

The fiscal year 2007 decrease in revenues and expenses is primary due to a decrease in the number of students served by the Academy from 189 in fiscal year 2006 to 123 in fiscal year 2007.

**Budgeting**

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

**Capital Assets and Debt Administration**

**Capital Assets**

At the end of fiscal year 2007, the Academy had \$155,805 invested in capital assets (net of accumulated depreciation) for computer and other equipment, a decrease of \$23,433 or 13.1 percent. The following table shows fiscal year 2007 compared to 2006:

**CLEVELAND ARTS AND SOCIAL SCIENCES ACADEMY  
CUYAHOGA COUNTY**

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

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Capital Assets at June 30 (Net of Depreciation)

	<u>2007</u>	<u>2006</u>	<u>Change</u>
Furniture & Equipment	155,805	179,238	(23,433)

The decrease reflects the depreciation expense for the year on furniture and equipment. For further information regarding the Academy's capital assets, refer to Note 6 of the basic financial statements.

**Debt**

At June 30, 2007, the Academy had \$115,407 capital leases outstanding, of which \$64,434 is due within one year. The following outstanding table summarized the Academy's debt outstanding as of June 30, 2007.

Outstanding Debt, at Year End

	<u>2007</u>	<u>2006</u>	<u>Change</u>
Capital Leases Payable	\$115,407	\$171,990	(\$56,583)

For further information regarding the Academy's debt, refer to Note 13 to the basic financial statements.

**Economic Factors**

Management is not currently aware of any facts, decision or conditions that have occurred that are expected to have a significant effect on the financial position or results of operation.

**Operations**

Cleveland Arts and Social Sciences Academy is a nonprofit corporation established pursuant to Ohio Revised Code Chapter 1702. The Academy offers education for Ohio children in grades K-5. The Academy is independent of any school district and is nonsectarian in its programs, admission policies, employment practices, and all other operations. The Academy may lease or acquire facilities as needed and contract for any services necessary for the operation of the Academy.

**Requests for Information**

This financial report is designed to provide citizens, taxpayers, investors, and creditors with a general overview of the Academy's finances and to show the Academy's accountability for the money it receives. If you have any question concerning this report, please contact Robert Schirhart, Controller of the Cleveland Arts and Social Sciences Academy, 3333 Chippewa Street, Columbus, Ohio 43204.

**CLEVELAND ARTS AND SOCIAL SCIENCES ACADEMY  
CUYAHOGA COUNTY**

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

**Assets:**

**Current Assets:**

Cash and Cash Equivalents	\$8,483
Accounts Receivable	2,475
Intergovernmental Receivable	133,213
Prepaid Expense	26,817
<b>Total Current Assets</b>	<u>170,988</u>

**Non-Current Assets:**

Capital Assets, Net of Accumulated Depreciation	155,805
<b>Total Non-Current Assets</b>	<u>155,805</u>

<b>Total Assets</b>	<u>326,793</u>
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**Liabilities:**

**Current Liabilities:**

Accounts Payable, Trade	156,690
Accounts Payable, Related Party	464,509
Deferred Revenue	3,638
Current Portion of Long-Term Debt	64,434
<b>Total Current Liabilities</b>	<u>689,271</u>

**Non-Current Liabilities:**

Non-Current Portion of Long-Term Debt	50,973
<b>Total Non-Current Liabilities</b>	<u>50,973</u>

<b>Total Liabilities</b>	<u>740,244</u>
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**Net Assets**

Invested in Capital Assets, Net of Related Debt	40,398
Restricted	51
Unrestricted	(453,900)
<b>Total Net Assets</b>	<u><u>(\$413,451)</u></u>

See Accompanying Notes to the Basic Financial Statements

**CLEVELAND ARTS AND SOCIAL SCIENCES ACADEMY  
CUYAHOGA COUNTY**

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

<b>Operating Revenues:</b>	
Foundation Receipts	\$878,645
Charges for Services	23,112
Miscellaneous	621
<b>Total Operating Revenues</b>	<u>902,378</u>
<b>Operating Expenses:</b>	
Building	103,571
Purchased Services	1,046,950
Depreciation	23,433
General Supplies	119,833
Other Operating Expenses	14,570
<b>Total Operating Expenses</b>	<u>1,308,357</u>
<b>Operating Loss</b>	<u>(405,979)</u>
<b>Non-Operating Revenues and Expenses:</b>	
Federal Restricted Grants	283,656
Interest Expense	(57,965)
<b>Net Non-Operating Revenues and Expenses</b>	<u>225,691</u>
<b>Change in Net Assets</b>	(180,288)
<b>Net Assets Beginning of Year</b>	<u>(233,163)</u>
<b>Net Assets End of Year</b>	<u><u>(\$413,451)</u></u>

See Accompanying Notes to the Basic Financial Statements

**CLEVELAND ARTS AND SOCIAL SCIENCES ACADEMY  
CUYAHOGA COUNTY**

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

**Increase (Decrease) in Cash and Cash Equivalents**

**Cash Flows from Operating Activities:**

Cash Received from State of Ohio	\$935,466
Cash Received from Charges for Services	23,112
Cash Received from Miscellaneous	621
Cash Payments for Building	(103,571)
Cash Payments for Goods and Services	(971,226)
Cash Payments for Other Operating Expenses	(14,570)
Net Cash used for Operating Activities	<u>(130,168)</u>

**Cash Flows from Noncapital Financing Activities:**

Federal and State Restricted Grants	237,390
Interest Expense	(57,965)
Net Cash Provided by Noncapital Financing Activities	<u>179,425</u>

**CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES**

Capital Lease Principal Retirement	(56,583)
Net Decrease in Cash and Cash Equivalents	(7,326)
Cash and Cash Equivalents at Beginning of Year	15,809
Cash and Cash Equivalents at End of Year	<u>8,483</u>

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

Operating Loss	(405,979)
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**Adjustments to Reconcile Operating Loss to Net Cash Used for Operating Activities:**

Depreciation	23,433
Changes in Assets and Liabilities:	
(Increase)/Decrease in Intergovernmental Receivable	53,183
(Increase)/Decrease in Accounts Receivable	39,518
(Increase)/Decrease in Prepaid Expense	(18,317)
Increase/(Decrease) in Accounts Payable	174,356
Increase/(Decrease) in Deferred Revenue	3,638
Net cash used for Operating Activities	<u><u>(\$130,168)</u></u>

See Accompanying Notes to the Basic Financial Statements

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**CLEVELAND ARTS AND SOCIAL SCIENCES ACADEMY  
CUYAHOGA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2007**

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**Note 1 - Description of the School**

The Cleveland Arts and Social Sciences Academy (the "Academy") is a nonprofit corporation established pursuant to Ohio Revised Code Chapter 1702. The Academy offers education for Ohio children in grades K-5. The Academy is independent of any school district and is nonsectarian in its programs, admission policies, employment practices, and all other operation. The Academy may lease or acquire facilities as needed and contract for any services necessary for the operation of the academy.

The Academy was approved for operation pursuant to Ohio Revised Code Chapter 3314 under a contract with The Toledo Charter School Council (the Sponsor) for a period of three academic years commencing April 26, 2005 and ending June 30, 2009. The Sponsor is responsible for evaluating the performance of the Academy and has the authority to deny renewal of the contract at its expiration or terminate the contract prior to its expiration. The Sponsor has delegated its oversight authority to the Ohio Council of Community Schools.

Ohio Revised Code Section 3314.02(E) states in part that the Academy operate under the direction of a Governing Board that consists of not less than five individuals who are not owners or employees, or immediate relatives or owners or employees of any for-profit firm that operates or manages an academy for the Governing Board. The Board is responsible for carry out the provisions of the contract that include, but are not limited to, state-mandated provisions regarding student population, curriculum, academic goals, performance standards, admission standards, and qualification of teachers.

The Academy contracts with Mosaica Education, Inc, for management services including management of personnel and human resources, the program of instruction, marketing data management, purchasing, strategic planning, public relation, financial reporting, recruiting, compliance issues, budgets, contracts, and equipment and facilities. (See Note 16).

**Note 2 - Summary of Significant Accounting Policies**

The financial statements of the Academy have been prepared in conformity with generally accepted accounting principals (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The Academy also applies Financial Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989, provided they do not conflict with or contradict GASB pronouncements. The entity has elected not to apply FASB pronouncements and interpretations issued after November 30, 1989. 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 Revenues, Expenses, and Changes in Net Assets; and a Statement of Cash Flows. The Academy uses a single enterprise presentation for its financial records. Enterprise reporting focuses on the determination of operating income, changes in net assets, financial position, and cash flows.

**B. Measurement Focus**

The enterprise activity is accounted for using a flow of economic resources measurement focus. All assets and liabilities associated with the operation of the Academy are included on the Statement of Net Assets. The Statement of Revenues, Expenses, and Changes in Net Assets presents increases (e.g. revenues) and decreases (e.g. expenses) in total net assets. The Statement of Cash Flows reflects how the Academy finances meet its cash flow needs.

**CLEVELAND ARTS AND SOCIAL SCIENCES ACADEMY  
CUYAHOGA COUNTY**

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

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**Note 2 - Summary of Significant Accounting Policies (Continued)**

**C. Basis of Accounting**

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. The Academy's financial statements are prepared using the accrual basis of accounting. 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. Revenue resulting from nonexchange transactions, in which Academy receives value without directly giving equal value in return, such as grants and entitlements, are recognized in the period in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the period when the resources are required to be used or the period 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. Expenses are recognized at the time they are incurred.

**D. Budgetary Process**

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

**E. Cash and Cash Equivalents**

Cash received by the Academy is reflected as "Cash and Cash Equivalents" on the Statement of Net Assets. The Academy had no investments during the fiscal year ended June 30, 2007.

**F. Prepaid Items**

The Academy records payments made to vendors for services that will benefit periods beyond June 30, 2007, as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expense is reported in the year in which services are consumed.

**G. Capital Assets**

The Academy's capital assets during fiscal year 2007 consisted of computers and other equipment. All capital assets are capitalized at cost and updated for additions and retirements during the fiscal year. Donated capital assets are recorded at their fair market values as of the date received. The Academy maintains a capitalization threshold of one thousand five hundred dollars. The Academy does not have any infrastructure. Improvements are capitalized. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized.



**CLEVELAND ARTS AND SOCIAL SCIENCES ACADEMY  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2007  
(Continued)**

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**Note 2 - Summary of Significant Accounting Policies (Continued)**

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

<u>Description</u>	<u>Useful Lives</u>
Furniture, Fixtures, and Equipment	5-20 years

**H. 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 either through the enabling legislation adopted by Academy or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. The Academy applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

The statement of net assets reports \$51 in restricted net assets related to certain unspent federal grant receipts and \$40,398 invested in capital assets net of related debt.

**I. Operating Revenues and Expenses**

Operating revenues are those revenues that are generated directly from the primary activity of the Academy. Operating expenses are necessary costs incurred to provide the service that is the primary activity of the Academy. All revenues and expenses not meeting this definition are reported as non-operating.

**J. Estimates**

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

**K. Economic Dependency**

The Academy receives approximately 97% of its operating revenue from the Ohio Department of Education. Due to the significance of this revenue source, the Academy is considered to be economically dependent on the State of Ohio Department of Education.

**Note 3 – Changes in Accounting Principles**

There were no changes in accounting principals implemented during 2007 that would have a material effect on the financial statements.

**CLEVELAND ARTS AND SOCIAL SCIENCES ACADEMY  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2007  
(Continued)**

**Note 4 - Deposits**

Custodial credit risk is the risk that, in the event of a bank failure, the Academy's deposits may not be returned. The Academy does not have a deposit policy for custodial credit risk. At June 30, 2007, the bank balance of Academy's deposits was \$20,521. The bank balance was covered by federal depository insurance which covers deposits up to \$100,000. There are no significant statutory restrictions regarding the deposit and investment of funds by the nonprofit corporation.

**Note 5 – Receivables**

At June 30, 2007, the Academy had intergovernmental receivables, in the amount of \$133,213. The receivables are expected to be collected within one year.

	Amount
National School Lunch Programs	\$8,697
Arts and Sciences Preparatory Academy	49,853
Title I	5,710
Title II A	2,040
Title II D	111
Title IV	668
IDEA	8,902
Federal Community School Implementation	57,232
Total Intergovernmental Receivables	\$133,213

**Note 6 - Capital Assets**

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

	Balance June 30, 2006	Additions	Deletions	Balance June 30, 2007
Furniture & Equipment	185,024	0	0	185,024
Less Accumulated Depreciation	(5,786)	(23,433)	0	(29,219)
Capital Assets, Net	\$179,238	(\$23,433)	\$0	\$155,805

**Note 7 - Risk Management**

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. During fiscal year 2007, the Academy contracted with Pashley Insurance Agency insurance coverage with the Hartford Casualty Insurance Company. The types and amounts of coverage provided are as follows:

**CLEVELAND ARTS AND SOCIAL SCIENCES ACADEMY  
CUYAHOGA COUNTY**

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

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**Note 7 - Risk Management (Continued)**

General Liability:	
Each Occurrence	\$1,000,000
Aggregate Limit	2,000,000
Products - Completed Operations Aggregate Limit	2,000,000
Medical Expense Limit - Any One Person/Occurrence	10,000
Damage to Rented Premises - Each Occurrence	300,000
Personal and Advertising Injury	1,000,000
Automobile Liability:	
Combined Single Limit	1,000,000
Business Personal Property	484,100
Excess/Umbrella Liability:	
Each Occurrence	3,000,000
Aggregate Limit	3,000,000

Settled claims have not exceeded this commercial coverage in any prior years and there have been no significant reductions in insurance coverage from the prior year.

**Note 8 – Purchased Services**

For the fiscal year ended June 30, 2007, purchased service expenses were as follows:

Service	Amount
Personnel	\$442,862
Taxes and Benefits Related to Personnel Cost	125,889
Building/Custodial	66,713
Auditing Fees	772
Food Service	63,659
Legal Fees	23,041
Management Fee	163,627
Special Education/Nursing	31,948
Sponsor Fee	19,709
Training	8,492
Temporary Services	52,085
Consulting Fees	29,393
Miscellaneous	18,760
Total	<u><u>\$1,046,950</u></u>

**CLEVELAND ARTS AND SOCIAL SCIENCES ACADEMY  
CUYAHOGA COUNTY**

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

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**Note 9 – Defined Benefit Pension Plans**

The Academy has contracted with Mosaica Education, Inc. to provide employee services. However, these contracted services do not relieve the Academy of the obligation for remitting pension contributions. The retirement system considers the Academy as the Employer-of-Record and the Academy is ultimately responsible for remitting retirement contributions to each of the systems noted below.

**A. School Employees Retirement System**

The Academy contributes to the School Employees Retirement System (SERS), a cost-sharing multiple-employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to 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 writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746.

Plan members are required to contribute 10 percent of their annual covered salary and the Academy is required to contribute at an actuarially determined rate. The current Academy rate is 14 percent of annual covered payroll. A portion of the Academy's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2007, 10.68 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The Academy's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2007 and 2006 were \$8,080, and \$16,616 respectively; 100 percent has been contributed for fiscal year 2007 and 100 percent for fiscal year 2006.

**B. State Teachers Retirement System of Ohio**

The School District participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement system. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3371, by calling (614) 227-4090, or by visiting the STRS Ohio web site at [www.strsoh.org](http://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 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 Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan. Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one time irrevocable decision to transfer their account balances from the existing DB Plan into the DC Plan or the Combined Plan. This option expired on December 31, 2001. Benefits are established by Chapter 3307 of the Ohio Revised Code.

**CLEVELAND ARTS AND SOCIAL SCIENCES ACADEMY  
CUYAHOGA COUNTY**

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

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**Note 9 – Defined Benefit Pension Plans (Continued)**

A DB or Combined Plan 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 DC Plan who become disabled are entitled only to their account balance. If a member dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

For the fiscal year ended June 30, 2007, plan members were required to contribute 10 percent of their annual covered salaries. The Academy was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal year 2006, the portion used to fund pension obligations was also 13 percent. Contribution rates are established by the State Teachers Retirement Board, upon 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 contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2007 and 2006, were \$47,348 and \$83,169, respectively; 100 percent has been contributed for fiscal year 2007 and 100 percent for fiscal year 2006. No employees contribute to the DCP and CP for the fiscal year ended June 30, 2006.

**Note 10 – Postemployment Benefits**

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

All STRS Ohio retirees who participated in the DB or Combined Plans and their dependents are eligible for health care coverage. The STRS Ohio Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. All benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS Ohio funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2007, the STRS Ohio Board allocated employer contributions equal to one percent of covered payroll to the Health Care Stabilization Fund. For the Academy, this amount equaled \$3,671 for fiscal year 2007.

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

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

**CLEVELAND ARTS AND SOCIAL SCIENCES ACADEMY  
CUYAHOGA COUNTY**

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

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**Note 10 – Postemployment Benefits (Continued)**

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2007, employer contributions to fund health care benefits were 3.32 percent of covered payroll, compared to 3.42 percent of covered payroll for fiscal year 2006. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2007, the minimum pay was established at \$35,800. However, the surcharge is capped at two percent of each employer's SERS salaries. For the Academy, the amount contributed to fund health care benefits, including the surcharge, during the 2007 fiscal year equaled \$2,511.

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

**Note 11 - Contingencies**

**A. 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 are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the Academy. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the Academy at June 30, 2007.

**B. Ohio Department of Education Enrollment Review**

The Ohio Department of Education (ODE) conducts reviews of enrollment data and full-time equivalency (FTE) calculations made by community schools. These reviews are conducted to ensure the Academy is reporting accurate student enrollment data to the State, upon which state foundation funding is calculated. The conclusion of this review could result in state funding being adjusted. A review conducted by the Ohio Department of Education reflected the Academy owes \$3,638 to the Ohio Department of Education. This is reported as a deferred revenue on the June 30, 2007 Statement of Net Assets.

**Note 12 – Building Leases**

The Academy has entered into a sublease for the period from August 15, 2005 through June 30, 2007 with CAC Building Properties for the use of the main building and grounds as a school facility. Rent charges and allowable facility cost passthroughs totaled \$103,571 for the fiscal year.

The Academy has assigned its interest in the sublease agreement and subsequent renewal options to Arts and Sciences Preparatory Academy. For the 2007-08 school year, the Academy has relocated to a different facility at 1071 Shaker Boulevard, Cleveland, Ohio 44104 and agreed to pay \$13,753 per month for 11 modular classrooms.

**CLEVELAND ARTS AND SOCIAL SCIENCES ACADEMY  
CUYAHOGA COUNTY**

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

**Note 13 – Long-Term Obligations**

Changes in the Academy’s long-term obligations during fiscal year 2007 were as follows:

	<u>Balance 6/30/2006</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance 6/30/2007</u>	<u>Amount Due Within One Year</u>
Capital Leases Payable	171,990	0	(56,583)	115,407	64,434

**Note 14 – Capital Lease-Lessee Disclosure**

The Academy entered into lease agreements in fiscal year 2006 with Relational LLC for technology equipment (computers). The Academy’s lease obligations met the criteria of a capital lease as defined by Statement of Financial Accounting Standards No. 13 “Accounting for Leases”. The technology equipment has been capitalized in the amount of \$185,024, the present value of the minimum lease payments at the inception of the lease. The following is a schedule of the future long-term minimum lease payments required under the capital leases and the present value of the minimum lease payments are as follows:

<u>Year Ending June 30</u>	<u>Technology</u>
2008	\$ 75,774
2009	53,672
Total future minimum lease payments	<u>129,446</u>
Less: amount representing interest	(14,039)
Present value of future minimum lease payments	<u><u>\$ 115,407</u></u>

**Note 15 –Tax Exempt Status.**

The Academy has filed for its tax-exempt status under Section 501(c)(3) of the Internal Revenue Code. The Academy has made no provision for any potential tax liability resulting from not obtaining the Section 501(c)(3) tax-exempt status.

**Note 16 – Related Party Transactions/Management Company**

The Academy shares a common Governing Board with Arts and Sciences Preparatory Academy. During 2007, the Academy utilized vacant classrooms in the Arts and Sciences Preparatory Academy facility and paid a proportionate share of the cost of the lease directly to Arts and Sciences Preparatory Academy’s landlord, CAC Building Properties. The facility rent and facility cost passthroughs paid in addition to the building rent paid by the Academy for 2007 amounted to \$10,237. Arts and Sciences Preparatory Academy also split administrative costs with the Academy based on the number of students enrolled at each Academy. Total shared costs for 2007 were \$23,334. For the 2008 fiscal year, Arts and Sciences Preparatory Academy is no longer sharing administrative costs or facility space with the Academy. The two Academies continue to share the same Governing Board however. At June 30, 2007, the Academy was owed \$49,853 from Arts and Sciences Preparatory Academy.

**CLEVELAND ARTS AND SOCIAL SCIENCES ACADEMY  
CUYAHOGA COUNTY**

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

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**Note 16 – Related Party Transactions/Management Company (continued)**

The Academy contracts with Mosaica Education, Inc. for variety of services including management of personnel and human resources, board relation, financial management, marketing, technology services, the program of instruction, purchasing, strategic planning, public relations, financial reporting, recruiting, compliance issues, budgets, contracts, and equipment and facilities. Financial management services include, but are not limited to, financial statement, budget preparation, accounts payable, and payroll preparation.

Per the management agreement with the Academy, Mosaica Education, Inc. is entitled to a management fee that is equivalent to 12.5% of Academy revenue. The management fee for fiscal year 2007 was \$163,627.

At June 30, 2007, the Academy had payables to Mosaica Education, Inc. in the amount of \$464,509. The following is a schedule of payables to Mosaica Education, Inc.

	<u>Amount</u>
Payroll	\$322,928
Management Fee	73,159
Interest/Finance Charges	25,764
Miscellaneous	<u>42,658</u>
Total June 30, 2007	<u>\$464,509</u>

**Note 17 – Sponsor**

The Academy was approved for operation under a contract with The Toledo Charter School Council for a period of three academic years commencing April 26, 2005. As part of this contract, the Sponsor is entitled to a maximum of three percent of all revenues. As enrollment reaches certain benchmarks, the Sponsor fee reduces to two or even one percent. Total amount due and paid for fiscal year 2007 was \$19,709.

**Note 18 – Management’s Plan**

For fiscal year 2007, the Academy had an operating loss of \$405,979, a net loss of \$180,288, and net asset deficit of \$413,451. Projected revenues and expenses for fiscal year 2008 indicate these financial difficulties will not be completely eliminated during fiscal year 2008.

The Academy’s net loss in fiscal year 2007 of \$180,288 was less than the net loss in fiscal year 2006 of \$233,136 primarily due to leasing cost. Final full-time equivalent student enrollment was 123 and 189 students for the fiscal years ending June 30, 2007 and 2006, respectively. Current full-time equivalent student enrollment as of July 2008 is 78 students. The reduction in enrollment from 123 student in 2007 to 78 student at July 2008 is a result of the school relocating and having to establish its presence in its new community. A large number of students did not relocate to the new site, choosing rather to remain school continuing to occupy the Academy’s former facility.

Management plans to increase enrollment through active advertising via print, radio, mailings and through referrals of current parents which will help reduce future deficits and operating losses. As of August 31, 2008, the Academy had a cash balance of \$31,710.





# Mary Taylor, CPA

## Auditor of State

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

Cleveland Arts and Social Sciences Academy  
Cuyahoga County  
10701 Shaker Boulevard  
Cleveland, Ohio 44115

To the Board of Directors:

We have audited the financial statements of the Cleveland Arts and Social Sciences Academy, Cuyahoga County, Ohio (the Academy), as of and for the year ended June 30, 2007, and have issued our report thereon dated September 15, 2008, wherein we noted the Academy experienced certain financial difficulties. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

#### **Internal Control Over Financial Reporting**

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider significant deficiencies.

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

We consider the following deficiencies described in the accompanying schedule of findings to be significant deficiencies in internal control over financial reporting: 2007-002 and 2007-003.

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

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

We also noted a certain internal control matter that we reported to the Academy's management in a separate letter dated September 15, 2008.

### **Compliance and Other Matters**

As part of reasonably assuring whether the Academy's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed an instance of noncompliance or another matter that we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2007-001.

We also noted certain noncompliance or other matters not requiring inclusion in this report that we reported to the Academy's management in a separate letter dated September 15, 2008.

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

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



**Mary Taylor, CPA**  
Auditor of State

September 15, 2008

**CLEVELAND ARTS AND SOCIAL SCIENCES ACADEMY  
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS  
JUNE 30, 2007**

<b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS</b>
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**FINDING NUMBER 2007-001**

**Governing Authority – Material Noncompliance**

**Ohio Rev. Code § 3314.02(E)** states in part that each community school established under this chapter shall be under the direction of a governing authority which shall consist of a board of not less five individuals.

As of June 30, 2007 the academy only had four individuals participating on the Board of Directors. Not only is the current number of board members insufficient to be compliant with the above Ohio Revised Code requirement, but it is also a violation of the Academy's agreement with its sponsor, which also stipulates that the Academy must maintain a five-member governing board.

We recommend the Academy takes steps to secure not less than five governing board members that comply with all aspects of Ohio Revised Code § 3314.02(E)(1) to act as the governing authority for the Academy. By establishing the required five-member governing board, the Academy can gain assurance that it is in compliance with the Ohio Revised Code and sponsorship agreement requirements.

**Officials' Response:** The membership of the Governing Board of the Academy has been increased to meet the minimum requirements of the Ohio Revised Code.

**FINDING NUMBER 2007-002**

**Board Monitoring—Significant Deficiency and Material Weakness**

Mosaica Education, Inc., the Academy's management company, prepares monthly bank reconciliation and year-to-date and month-to-date budget versus actual financial reports that are presented to the Board of Directors. However, the Academy reports on a full accrual basis of accounting throughout the year and the revenue and expenditures reported on the budget versus actual reports include receivable and payable amounts outstanding. A Statement of Net Assets is not presented to the Board of Directors. Therefore, the Board of Directors can not monitor the Academy's assets, liabilities, and net assets throughout the year.

In addition, the management agreement entered into with Mosaica Education, Inc. states that the following services would be provided: management of personnel and human resources, board relations, financial management, marketing, the program of instruction, purchasing, strategic planning, public relation, financial reporting, recruiting, compliance issues, budgets, contracts, and equipment and facilities. Currently the Board does not have procedures in place to monitor the services being provided by Mosaica Education, Inc.

Monitoring comprises of regular management activities established to oversee whether management's financial objectives are being achieved. Data from financial reports provided by Mosaica Education, Inc may indirectly provide assurance as to the reliability of financial reporting information if it conforms to the users' expectation. Lack of effective legislative monitoring may lead to errors, irregularities, or misappropriation of the Academy's funds.

We recommend that the following items be reviewed and approved by the Board of Directors at the monthly meetings.

**CLEVELAND ARTS AND SOCIAL SCIENCES ACADEMY  
CUYAHOGA COUNTY**

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

<b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)</b>
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**FINDING NUMBER 2007-002 (continued)**

**Board Monitoring—Significant Deficiency and Material Weakness (continued)**

1. A Statement of Net Assets that reports the assets, liabilities, and net assets as of the last day of each month.
2. All invoices from Mosaica Education, Inc. and the supporting documentation of the expenses incurred by Mosaica Education, Inc. on behalf of the Academy. Supporting documentation should include payroll reports, the calculation of the management fee charged, rental agreements, and invoices of any other miscellaneous expenses billed to the Academy.

These items should be reviewed by the Board of Directors for any unusual or unexpected financial activity and for discrepancies between the Academy's Management Agreement and the actual services provided and billed by Mosaica Education, Inc. Appropriate follow-up should be made regarding any unusual balances or transactions.

**Officials' Response:** Management submits monthly financial reports to the Board of the Academy. Until spring of 2008, those financial reports were just the statement of revenues and expenses comparing budget to actual. In the spring of 2008 when the Auditor of State was working through the fieldwork for the 2005-06 audit, it was recommended that the monthly financial reporting package be expanded to include a balance sheet and invoices from the management company. At that time, management expanded the monthly financial reporting package to include the following items: a balance sheet, statement of revenues and expenses comparing budget to actual, a detailed payables listing, bank reconciliations, check registers and management company invoices. In the past, these reports have been available to the Board upon request.

In addition to the monthly financial reporting package, the Board is provided a monthly report from management and the site administration regarding operational activities to provide the Board with the information it deems necessary to monitor the services and the outcomes of the services provided by management. Other monitoring of compliance from the Academy's sponsor is reported directly to the Academy's Board.

**FINDING NUMBER 2007-003**

**Development and Implementation of Payroll Processing Procedures**

Mosaica Education Incorporated developed payroll policies and procedures to be followed during the payroll process at the Academy. Based on a review of these policies we noted the following:

- Approval signatures of the Regional Vice President, (RVP), Chief Administrative Officer, (CAO), or their designees were type written on the Excel spreadsheet used to record the time worked by the school employees. We were unable to verify the validity of who approved the payroll;
- Personnel Action Forms (PAF's) were not always signed by the RVP, CAO, and employee as required by the payroll policies and procedures. Consequently; changes were made to the payroll master file without the required authorizations;
- Payroll records provided by the controller were incomplete;
- The Automated Data Processing (ADP) reports of payroll changes, by pay period and authorizing PAF's were not signed by the Assistant Controller as required;
- We were unable to locate evidence the Assistant Controller signed the payroll register to authenticate the reconciliation of the payroll to the general ledger;

**CLEVELAND ARTS AND SOCIAL SCIENCES ACADEMY  
CUYAHOGA COUNTY**

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

<b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)</b>
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**FINDING NUMBER 2007-003 (continued)**

**Development and Implementation of Payroll Processing Procedures (continued)**

- The Academy was not able to locate the sign in sheets/time sheets used for reporting payroll for the hourly employees;
- Payrolls for the audit period were processed and approved by the same individual;
- Payroll Policies and Procedures, under the school procedures section, require the CAO and RVP approve the time sheets before they are submitted. We could not locate the approval of the RVP; and
- Employees were allowed to work at additional positions prior to the approval and filing of the PAF's. When these documents were filed the employees received compensation for all additional hours worked.

Without the timely filing of properly completed forms, as outlined in the payroll policies and procedures, errors and omissions could occur and not be detected.

We recommend the following:

- Digital signatures be used to record approval signatures to payroll spreadsheets;
- A designated individual be responsible for ensuring all required signatures are on the Personnel Action Forms. Changes to the payroll standing data, based on the provisions of the policy and procedures for payroll, should not be made until all required signatures are on the form;
- To authenticate the payroll charges of hourly employees all sign in sheets should be filed and safeguarded. When completed the sign in sheets should be signed and dated by the responsible individual and secured as evidence of the accuracy of the payroll spreadsheets prepared;
- Complete payroll records should be maintained by the controller. Based on inquiry of the payroll officer all PAF's are forwarded to the controller when complete. Without a complete set of PAF forms the controller cannot attest to the accuracy of the semi-monthly payroll;
- ADP payroll reports and PAF's should be signed by the assistant controller to verify the accuracy of the posting to the payroll files;
- The CAO or the RVP of the Academy should institute procedures to help ensure the same individual is not preparing the payroll and approving the payroll;
- Prior to processing the payroll, the employees in the payroll department should ensure the appropriate signatures are affixed to the spreadsheets; and
- Employees should only be allowed to work additional or extra hours after the necessary approvals have been received.

Although the Board contracted with Mosaica Education, Inc. for the management of the Academy, the Board should review the payroll process and the final payroll amount to help verify the accuracy of the amount paid. In addition, the Board should participate in setting annual salaries and hourly wages of the employees.

**Officials' Response:** In response to the Auditor of State recommendations:

- Management has been having the Chief Administrative Officer forward the payroll spreadsheets with their approval of the information being submitted prior to payroll being processed. Since the payroll spreadsheets are excel files that are used for uploading pay information to ADP, management cannot use paper copies.
- The payroll accountant monitors PAFs to ensure that the required signatures are obtained prior to processing for entry into the payroll system.

**CLEVELAND ARTS AND SOCIAL SCIENCES ACADEMY  
CUYAHOGA COUNTY**

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

<b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)</b>
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**FINDING NUMBER 2007-003 (continued)**

**Development and Implementation of Payroll Processing Procedures (continued)**

- In the past, PAFs were submitted to the accounting office immediately upon receipt. Management has changed that procedure and payroll is submitting PAFs to accounting after the necessary salary proration calculations have been completed. That way, instead of having PAFs being released prior to accuracy verification and approval verification, the PAFs maintained in accounting match the final PAFs that are processed in payroll.
- The original journal postings maintained in accounting include the name of the accountant that posted the payroll to the accounting records. In addition, management provided auditors a reconciliation of ADP Payroll Reports to the General Ledger that documents agreement between the payroll system and the accounting system. As part of the posting process the accountant does each pay period, a reconciliation is generated and attached to the Journal Entry support.
- Sign in sheets that were unable to be located from the first year of operations are still missing. Site personnel are now maintaining hourly personnel time sheets and sign in logs in the administrative office.
- The procedures that have been in place from the start of the Academy do not permit access to ADP software for anyone outside the payroll department. Accordingly, it is not possible for the site staff that prepare the payroll spreadsheets to also process payroll in ADP.
- As noted in the first recommendation response, prior to the payroll department processing payroll, they receive an e-mail verification that the Chief Administrative Officer has reviewed and approves the payroll spreadsheets as submitted.
- Management agrees that PAFs should be approved and submitted to the payroll department in a timely manner so that personnel are not performing extra duty services with the expectation of compensation without a written agreement clearly communicating the agreed upon pay and approved hours.

**CLEVELAND ARTS AND SOCIAL SCIENCES ACADEMY  
CUYAHOGA COUNTY**

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

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i><b>Explain</b></i>
2006-001	Finding for Recovery Repaid Under Audit	Yes	
2006-002	Ohio Rev. Code Section 117.38 – Financial Report Filing	Yes	
2006-003	Ohio Rev. Code Section 1702.15 – Books, Records of Accounts, and Minutes	Yes	
2006-004	Ohio Rev. Code Section 3314.01(B) and 3314.02(E) – Governing Board Membership	No	Not corrected, reissued as 2007-001
2006-005	Development and Implementation of Payroll Processing Procedures	No	Not corrected, reissued as 2007-003







**Mary Taylor, CPA**  
Auditor of State

**CLEVELAND ARTS AND SOCIEL SCIENCE 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  
DECEMBER 24, 2008**