

CLEVELAND ACADEMY OF SCHOLARSHIP TECHNOLOGY AND LEADERSHIP ENTERPRISE

CUYAHOGA COUNTY

REGULAR AUDIT

FOR THE FISCAL YEAR ENDED JUNE 30, 2007

FISCAL YEAR AUDITED UNDER GAGAS: 2007

CAUDILL & ASSOCIATES, CPA's

725 5th Street
Portsmouth, Ohio 45662



Mary Taylor, CPA
Auditor of State

Board of Directors
Cleveland Academy of Scholarship, Technology and Leadership Enterprise
1729 Superior Avenue
Cleveland, Ohio 44114

We have reviewed the *Independent Auditor's Report* of the Cleveland Academy of Scholarship, Technology and Leadership Enterprise, Cuyahoga County, prepared by Caudill & Associates, CPA's, for the audit period July 1, 2006 through June 30, 2007. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The Cleveland Academy of Scholarship, Technology and Leadership Enterprise is responsible for compliance with these laws and regulations.

Mary Taylor

Mary Taylor, CPA
Auditor of State

May 18, 2009

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**CLEVELAND ACADEMY OF SCHOLARSHIP
TECHNOLOGY AND LEADERSHIP ENTERPRISE
CUYAHOGA, OHIO**
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For the Fiscal Year Ended June 30, 2007

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CAUDILL & ASSOCIATES, CPA's

725 5th Street
Portsmouth, Ohio 45662

Member American Institute of Certified Public Accountants

Member Ohio Society of Certified Public Accountants
Member Kentucky Society of Certified Public Accountants

Independent Auditor's Report

Cleveland Academy of Scholarship, Technology and Leadership Enterprise
Cuyahoga County
1729 Superior Avenue
Cleveland, Ohio 441144

To the Board of Directors:

We have audited the accompanying financial statements of the business-type activities of the Cleveland Academy of Scholarship, Technology and Leadership Enterprise, Cuyahoga County, (the School), as of and for the year ended June 30, 2007, which collectively comprise the School's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the School's management. Our responsibility is to express an opinion on these financial statements based on our audit.

Except as discussed in the following paragraph, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about 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 the 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 opinions.

There was insufficient evidence regarding capital assets, accounts payable, non-payroll and payroll expenses during the audit period. We were unable to satisfy ourselves about capital assets, accounts payable, non-payroll and payroll expenses by means of other auditing procedures.

In our opinion, except for the effects of audit adjustments, if any, as might have been determined to be necessary had we been able to satisfy ourselves about capital assets and accounts payable, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business type activities of the School, as of June 30, 2007, and the respective changes in financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 31, 2008, on our consideration of the School's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Cleveland Academy of Scholarship, Technology and Leadership Enterprise
Cuyahoga County
1729 Superior Avenue
Cleveland, Ohio 441144

The Management's Discussion and Analysis on pages 3 through 6 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Caudill & Associates, CPAs

Caudill & Associates, CPA's
December 31, 2008

CLEVELAND ACADEMY OF SCHOLARSHIP, TECHNOLOGY AND LEADERSHIP ENTERPRISE
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(UNAUDITED)

The management's discussion and analysis of the Cleveland Academy of Scholarship, Technology and Leadership Enterprise's financial performance provides an overall review of the School's financial activities for the fiscal year ended June 30, 2007. The intent of this discussion and analysis is to look at the School'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 School's financial performance.

Financial Highlights

Key financial highlights for the period from July 1, 2006 through June 30, 2007 are as follows:

- The School had net assets of \$362,898 as of June 30, 2007.
- Total assets as fiscal year-end were \$460,210 and total liabilities were \$97,312.
- The School had operating revenues for fiscal year 2007 of \$2,096,469 and operating expenses of \$2,446,573.

Using this Financial Report

This annual report consists of a series of financial statements and notes to those statements.

The statement of net assets and the statement of revenues, expenses, and change in net assets reflect how the School did financially during fiscal year 2007. These statements include all assets and liabilities using the accrual basis of accounting similar to that which is used by most private-sector companies. This basis of accounting considers all of the current fiscal years' revenues and expenses regardless of when cash is received or paid.

These statements report the School's net assets and change in those assets. This change in net assets is important because it tells the reader whether the financial position of the School has increased or decreased from the prior fiscal year. Over time, these increases and/or decreases are one indicator of whether the financial position is improving or deteriorating.

CLEVELAND ACADEMY OF SCHOLARSHIP, TECHNOLOGY AND LEADERSHIP ENTERPRISE
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(UNAUDITED)

Table 1 provides a summary of the School's net assets for fiscal years 2006 and 2007.

(Table 1)			
Net Assets			
	2006	2007	Change
Assets			
Current Assets	\$142,842	\$48,519	(\$94,323)
Capital Assets, Net	307,252	411,691	104,439
Total Assets	450,094	460,210	10,116
Liabilities			
Current Liabilities	24,596	97,312	72,716
Total Liabilities	24,596	97,312	72,716
Net Assets			
Invested in Capital Assets	307,252	411,691	104,439
Restricted Net Assets	62,652	0	(62,652)
Unrestricted (Deficit)	55,594	(48,793)	(104,387)
Total Net Assets (Deficit)	\$425,498	\$362,898	(\$62,600)

Total assets decreased \$94,323 as capital assets (net) increased by \$104,439. Total liabilities increased \$72,716. Total net assets decreased \$62,600. Unrestricted net assets decreased by \$62,652. Invested in Capital Assets increased by \$104,439 from fiscal year 2006 due to capital asset additions in 2007.

CLEVELAND ACADEMY OF SCHOLARSHIP, TECHNOLOGY AND LEADERSHIP ENTERPRISE
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(UNAUDITED)

Table 2 shows the changes in net assets for fiscal years 2006 and 2007.

(Table 2)
Change in Net Assets

	2006	2007	Change
Operating Revenues			
State Foundation	\$1,217,756	\$2,056,643	\$838,887
Poverty Based Assistance	30,636	39,826	9,190
Total Operating Revenues	1,248,392	2,096,469	848,077
Non-Operating Revenues:			
Federal and State Grants	196,161	249,029	52,868
Gifts and Contributions	0	728	728
Miscellaneous/Interest	815	37,747	36,932
Total Non-Operating Revenues	196,976	287,504	90,528
Total Revenues	1,445,368	2,383,973	938,605
Operating Expenses			
Salaries	411,531	944,597	533,066
Fringe Benefits	58,858	130,749	71,891
Purchased Services	358,159	822,121	463,962
Rent	262,588	491,903	
Materials and Supplies	47,683	57,203	9,520
Total Expenses	1,138,819	2,446,573	\$1,078,439
Change in Net Assets	306,549	(62,600)	(369,149)
Net Assets (Deficit) at Beginning of Year	118,949	425,498	306,549
Net Assets (Deficit) at End of Year	\$425,498	\$362,898	(62,600)

There was an increase in revenues of \$938,605 and an increase in expenses of \$1,078,439 from fiscal year 2006. Of the increase in revenues, State Foundation increased by \$838,887 due to an increase in enrollment in fiscal year 2007.

Salaries increased by \$533,066 from fiscal year 2006. Fringe benefits also increased by \$71,891 due to an increase in staff.

The School spent nearly 45% of its total revenue on personnel cost. A net loss of \$62,600 was incurred for the 2007 fiscal year.

CLEVELAND ACADEMY OF SCHOLARSHIP, TECHNOLOGY AND LEADERSHIP ENTERPRISE
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(UNAUDITED)

Capital Assets

At the end of fiscal year 2007 the School had \$411,691, invested in furniture and equipment. Table 3 shows fiscal year 2007.

(Table 3)
**Capital Assets at June 30,
(Net of Depreciation)**

	<u>2007</u>
Furniture and Equipment	<u>\$411,691</u>
Totals	<u><u>\$411,691</u></u>

Debt Administration

The School does not have any outstanding debt at June 30, 2007.

Contacting the School's Financial Management

This financial report is designed to provide our citizens with a general overview of the School's finances and to show the School's accountability for the money it receives. If you have questions about this report or need additional information contact Carl Shye, Treasurer at Cleveland Academy of Scholarship, Technology and Leadership Enterprise, 1739 Superior Avenue, Cleveland, OH 44114.

CLEVELAND ACADEMY OF SCHOLARSHIP, TECHNOLOGY AND LEADERSHIP ENTERPRISE

STATEMENT OF NET ASSETS

JUNE 30, 2007

Assets

Current Assets:

Cash and Cash Equivalents	\$48,519
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Total Current Assets	48,519
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Non-Current Assets

Capital Assets, Net	411,691
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Total Assets	460,210
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Liabilities

Current Liabilities:

Accounts Payable	2,750
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Accrued Wages and Benefits Payable	76,446
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Intergovernmental Payable	18,116
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Total Current Liabilities	97,312
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Net Assets

Invested in Capital Assets	411,691
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Unrestricted	(48,793)
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Total Net Assets	\$362,898
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See accompanying notes to the basic financial statements

CLEVELAND ACADEMY OF SCHOLARSHIP, TECHNOLOGY AND
STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN NET ASSETS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

Operating Revenues:

State Foundation	\$2,056,643
Poverty Based Assistance	39,826
	<hr/>
Total Operating Revenues	2,096,469
	<hr/>

Operating Expenses

Salaries	944,597
Fringe Benefits	130,749
Purchased Services	822,121
Rent	491,903
Materials & Supplies	57,203
Depreciation	0
	<hr/>
Total Operating Expenses	2,446,573
	<hr/>

Operating Loss	(350,104)
	<hr/>

Non-Operating Revenues

Federal and State Grants	249,029
Gifts and Contributions	728
Miscellaneous	37,747
	<hr/>
Total Non-Operating Revenues	287,504
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Change in Net Assets	(62,600)
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Net Assets at Beginning of Year	425,498
	<hr/>

Net Assets at End of Year	\$362,898
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See accompanying notes to the basic financial statements

CLEVELAND ACADEMY OF SCHOLARSHIP, TECHNOLOGY AND LEADERSHIP ENTERPRISE
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	\$2,059,398
Cash Received from Other Operating Services	38,475
Cash Payments for Employee Services and Benefits	(998,900)
Cash Payments for Goods and Services	(1,371,936)
Net Cash Used For Operating Activities	<u>(272,963)</u>

Cash Flows from Noncapital Financing Activities:

Federal and State Grants	182,337
Net Cash Provided by Noncapital Financing Activities	<u>182,337</u>

Cash Flows from Investing Activities

Interest	728
Net Cash provided for Capital and Related Financing Activities	<u>728</u>

Net decrease in Cash and Cash Equivalents (89,898)

Cash and Cash Equivalents - July 1, 2006 138,417

Cash and Cash Equivalents - June 30, 2007 48,519

Reconciliation of Operating Income to Net

Cash Provided By Operating Activities:

Operating Loss (\$350,104)

Adjustments to Reconcile Operating Loss to

Net Cash Provided by Operating Activities:

Depreciation \$0

Decrease in intergovernmental receivable 4,425

Increase in accounts payable 2,750

Increase in Accrued Wages and Benefits Payable 60,598

Increase in Intergovernmental Payable 9,368

Net Cash Used For Operating Activities (\$272,963)

See accompanying notes to the basic financial statements

NOTE 1 – DESCRIPTION OF THE SCHOOL AND REPORTING ENTITY

Cleveland Academy of Scholarship, Technology and Leadership Enterprises (the “School”) is an Ohio Public Benefit Corporation established pursuant to Ohio Revised Code Chapter 3314 and Section 1702.01(P) to address the needs of students in grades 9 through 12. The School, which is part of the State’s education program, is independent of any school district and is nonsectarian in its programs, admission policies, employment practices, and all other operations. The School may sue and be sued, acquire facilities as needed and contract for any services necessary for the operation of the School.

The School qualifies as an exempt organization under Section 501(c)(3) of the Internal Revenue Code. Management is not aware of any course of action or series of events that have occurred that might adversely affect the school’s tax-exempt status.

The School was approved for operation under contract with the Lucas County Educational Service Center (the Sponsor) commencing October 4, 2004 and ending June 30, 2009. The Sponsor is responsible for evaluating the performance of the School and has the authority to deny renewal of the contract at its expiration or terminate the contract prior to its expiration. The School contracted with Kids 2000 and Educational Management Alliance to perform extended educational services. One employee of Kids 2000 also serves on the School’s Governing Board. Related party transaction is further discussed in Note 12 of the notes to the basic financial statements.

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

The primary government of the School consists of one fund, several departments and the Board. School programs include general operations and student related activities of the School. The School is associated with the Metropolitan Dayton Educational Cooperative Association, which is defined as a jointly governed organization. It is a computer consortium of area schools sharing computer resources. (See Note 13).

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the School have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental nonprofit organizations. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The School 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 School has elected not to apply FASB statements and interpretations issued after November 30, 1989. The more significant of the School’s accounting policies are described below.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

A. Basis Of Presentation

The School'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 School uses a single enterprise fund to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts.

Enterprise fund reporting focuses on the determination of the change in net assets, financial positions and cash flows. An enterprise fund may be used to account for any activity for which a fee is charged to external users for goods and services.

B. Measurement Focus

The accounting and financial reporting treatment of an entity's financial transactions is determined by the entity's measurement focus. The enterprise activity is accounted for using a flow of economic resources measurement focus. All assets and all liabilities associated with the operation of the School are included on the statement of net assets. The statement of revenues, expenses, and changes in net assets presents increases (i.e., revenues) and decreases (i.e., expenses) in net assets. The statement of cash flows provides information about how the School finances and meets the cash flow needs.

C. Basis of Accounting

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

D. Revenues

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 School receives value without directly giving equal value in return, include grants, entitlements, and donations. Revenue from grants, and entitlements, 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 School must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the School on a reimbursement basis.

E. Expenses

Expenses are recognized at the time they are incurred.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

F. Cash and Cash Equivalents

All monies received by the School are maintained in demand deposit accounts. All funds of the School are maintained in these accounts. Total cash is presented as “Cash and Cash Equivalents” on the accompanying statement of net assets.

G. Capital Assets

Capital assets are capitalized at cost or estimated historical cost (which is determined by indexing the current replacement cost back to the year of acquisition) 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 School maintains a capitalization threshold of one thousand dollars. The School does not possess any infrastructure. Per the policy at the School, no depreciation is taken in the fiscal year of acquisition. 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.

All reported 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:

Furniture and Equipment	5-30 years
Vehicles	10-20 years

H. Compensated Absences

Sick leave benefits are accrued as a liability using the vesting method. The liability includes the employees who are currently eligible to receive termination benefits and those the School has identified as probable of receiving payment in the future. The amount is based on accumulated sick leave and employees’ wage rates at fiscal year-end, taking into consideration any limits specified in the School’s termination policy. The School records a liability for accumulated unused sick leave for all employees with ten years of current service for all positions (including certified and non-certified staff). Since the School has not been in operation for ten years, there is no sick leave benefits liability.

I. Net Assets

Net assets represent the difference between assets and liabilities. Net assets, invested in capital assets, consists of capital assets, net of accumulated depreciation. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the School or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. Restricted net assets include federal and State grants restricted to expenditures for specific purposes. The School applies restricted resources when an expense is incurred for purposes which both restricted and unrestricted net assets are available.

The government-wide statement of net assets reports \$0 of restricted net assets, none of which is restricted by enabling legislation.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

J. Operating Revenues and Expenses

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

K. Intergovernmental Revenues

The School currently participates in the State Foundation Program and the State Special Education Program. Revenues received from these programs are recognized as operating revenues in the accounting period in which all eligibility requirements have been met. Eligibility requirements include timing requirements which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements in which the School must provide local resources to be used for a specified purpose and expenditure requirements in which the resources are provided to the School on a reimbursement basis.

The amount of these grants is directly related to the number of students enrolled in the School. The Ohio Department of Education conducts reviews of enrollment data and full-time equivalency (FTE) calculations made by the School. These reviews are conducted to ensure the schools are reporting accurate student enrollment data to the State, upon which State Foundation funding is calculated. The review for fiscal year 2007 did not identify any over payments.

The remaining grants and entitlements received by the School are recognized as non-operating revenues in the accounting period in which eligibility requirements have been met.

L. 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.

M. 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 in the contract between the School and its sponsor. The contract between the School and its Sponsor does not prescribe a budgetary process for the School.

CLEVELAND ACADEMY OF SCHOLARSHIP, TECHNOLOGY AND LEADERSHIP ENTERPRISE
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2007

NOTE 3 – DEPOSITS

Custodial credit risk for deposits is the risk that in the event of bank failure, the School will not be able to recover deposits or collateral securities that are in the possession of an outside party. At fiscal year-end, of the School’s bank balance of \$49,462, none was exposed to custodial credit risk because it was FDIC insured.

The School has no policy for custodial credit risk for deposits.

NOTE 4 – CAPITAL ASSETS

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

	Balance 6/30/06	Additions	Deletions	Balance 6/30/07
Capital Assets Being Depreciated:				
Furniture and Equipment	\$307,252	\$104,439	\$0	\$411,691
Total Capital Assets Being Depreciated	307,252	104,439	0	411,691
Less Accumulated depreciation:				
Furniture and Equipment	0	0	0	0
Vehicles	0	0	0	0
Total Accumulated Depreciation	0	0	0	0
Total Capital Assets Being Depreciated, Net	\$307,252	\$104,439	\$0	\$411,691

NOTE 5 - RECEIVABLES

There were no outstanding receivables as of June 30, 2007.

NOTE 6 - RISK MANAGEMENT

A. Property and Liability

The School 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. Buildings and contents are covered under Westfield Insurance Company with a \$1,000 deductible. Electronic data processing equipment is covered under Westfield Insurance Company with a \$1,000 deductible. The School carries liability insurance with Westfield Insurance Company of \$1,000,000 per single occurrence and \$2,000,000 aggregate.

There have been no significant reductions in insurance coverage from the last fiscal year. Settled claims have not exceeded insurance coverage for the past two fiscal years.

B. Worker's Compensation

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

NOTE 7 - DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

The School 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, by calling (800) 878-5853 or by visiting the SERS website at www.ohsers.org.

Plan members are required to contribute 10 percent of their annual covered salary and the School is required to contribute at an actuarially determined rate. The current School rate is 14 percent of annual covered payroll. A portion of the School's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2007, 10.58 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 School's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2007 and 2006, were \$42,816 and \$13,183, respectively; 100 percent has been contributed for fiscal year 2007 and 96.07 percent for fiscal year 2006.

B. State Teachers Retirement System of Ohio

The School 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 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 contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The Combined Plan offers features of 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.

NOTE 7 - DEFINED BENEFIT PENSION PLANS (continued)

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

For the fiscal year ended June 30, 2007, plan members were required to contribute 10 percent of their annual covered salaries. The School was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal year 2005, 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 School's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2007 and 2006 were \$78,792 and \$37,868 respectively; 100 percent has been contributed for fiscal year 2007 and 96.54 percent for fiscal year 2006.

NOTE 8 - POSTEMPLOYMENT BENEFITS

The School 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 reimbursement of monthly Medicare premiums. Benefit provisions and the obligations to contribute are established by the Systems based on authority granted by State statute. Both systems are funded on a pay-as-you-go basis.

All STRS Ohio retirees who participated in the DB or Combined Plans and their dependents are eligible for health care coverage. The STRS Ohio Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. All benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of 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 School, this amount equaled \$5,826 for fiscal year 2007.

STRS Ohio pays health care benefits from the Health Care Stabilization Fund. At June 30, 2007, the balance in the Fund was \$3.5 billion. For the fiscal year ended June 30, 2007, net health care costs paid by STRS Ohio were \$300,690,000 and STRS Ohio had 119,184 eligible benefit recipients.

NOTE 8 – POSTEMPLOYMENT BENEFITS (continued)

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. Members retiring on or after August 1, 1989, with less than twenty-five years of service credit must pay a portion of their premium for health care. The portion is based on years of service up to a maximum of 75 percent of the premium.

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 3.42 percent of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 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 School, the amount contributed to fund healthcare benefits, including the surcharge, during the 2007 fiscal year equaled \$8,522.

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 annual healthcare expenses. Expenses for health care for the fiscal year ended June 30, 2007 were \$158,751,207. At June 30, 2007, SERS had net assets available for payment of health care benefits of \$295.6 million. SERS has 59,942 participants eligible to receive health care benefits.

NOTE 9 – EMPLOYEE BENEFITS

A. Compensated Absences

The criteria for determining sick leave components are derived from State Laws. Teachers, administrators, and classified employees earn sick leave at the rate of one and one-fourth days per month. Sick leave may be accumulated up to a maximum of 120 days. Upon retirement, payment is made for one-fourth of the total accumulated and unused sick leave credit, up to a maximum of 120 days for employees.

B. Medical

The School offers medical insurance through American Trust Company to full-time employees. The contribution to the monthly premium for medical insurance shall be 20 percent paid by the staff member and 80 percent paid by the Board. Monthly premiums for the medical insurance are the following:

Single:	\$367 per month
Enrollee plus spouse:	\$624 per month
Enrollee plus children:	\$637 per month
Family:	\$864 per month

CLEVELAND ACADEMY OF SCHOLARSHIP, TECHNOLOGY AND LEADERSHIP ENTERPRISE
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

NOTE 10 – OPERATING LEASE

The School subleases two office facilities from Superior Lofts, LLC for school space located at 1729 Superior Avenue, Cleveland, Ohio 44114.

The term of the lease began September 1, 2006 and continues through August 31, 2020. The lease payment is \$30,000 per month. Tenant is responsible for all repairs to the building.

The following is a schedule of future minimum payments required under the above operating lease as of June 30, 2007 are as follows:

Year Ending June 30,	Amount
2008	\$360,000
2009	360,000
2010	360,000
2011	360,000
2012	360,000
2013 - 2017	1,800,000
2018 - 2020	1,140,000
	<u>\$4,740,000</u>

NOTE 11 – CONTINGENCIES

A. Grants

The School received financial assistance from federal and State agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the School. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the School at June 30, 2007.

B. State Funding

The Ohio Department of Education conducts reviews of enrollment data and full-time equivalency (FTE) calculations made by the schools. These reviews are conducted to insure the schools are reporting accurate student enrollment data to the State, upon which State foundation funding is calculated. No payables were due as of June 30, 2007.

C. Litigation

A suit was filed in the US District Court, Southern District of Ohio, Western Division on October 6, 2004, which challenges the funding of charter schools under Equal Protection, Due Process, and claims violation of the right to vote on the bodies administering public schools. The case is still pending. The effect of this suit, if any, on the Cleveland Academy of Scholarship, Technology and Leadership Enterprises is not presently determinable.

NOTE 12 – RELATED PARTY TRANSACTION

The School contracted with Kids 2000 to perform extended educational services. One member of Kids 2000 also serves on the School's Governing Board. Total payments made for these services during the fiscal year ended June 30, 2007 were \$30,000.

NOTE 13 – JOINTLY GOVERNED ORGANIZATION

Metropolitan Dayton Educational Cooperative Association - The School is a participant in the Metropolitan Dayton Educational Cooperative Association (MDECA) which is a computer consortium. MDECA is an association of public school districts within the boundaries of Montgomery, Miami and Darke Counties and the Cities of Dayton, Troy and Greenville. The organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member school districts.

The governing board of MDECA consists of seven Superintendents of member school districts, with six of the Superintendents elected by majority vote of all member school districts except Montgomery County Educational Service Center. The seventh Superintendent is from the Montgomery County Educational Service Center. The School paid MDECA \$1,113 for services provided during the fiscal year. Financial information can be obtained from Jerry Woodyard, who serves as Director, at 225 Linwood Street, Dayton, Ohio 45405.

NOTE 14 – COMPLIANCE

Contrary to Ohio Rev. Code Section 149.351, the School did not have supporting documentation to sufficiently test expenditures and accounts payable.

CAUDILL & ASSOCIATES, CPA's
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Member Ohio Society of Certified Public Accountants
Member Kentucky Society of Certified Public Accountants

**Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of
Financial Statements Performed in Accordance With *Government Auditing Standards***

Cleveland Academy of Scholarship, Technology and Leadership Enterprise
Cuyahoga County
1729 Superior Avenue
Cleveland, Ohio 44114

To the Board of Directors:

We have audited the financial statements of The Cleveland Academy of Scholarship, Technology and Leadership Enterprise, Cuyahoga County, (the School), as of and for the year ended June 30, 2007, and have issued our report thereon dated December 31, 2008, which was qualified for lack of evidential matter regarding capital assets, accounts payable, non-payroll expenses and payroll expenses for fiscal year 2007. Except for the scope limitation described above, 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 *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the School's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness on the School's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the School's internal control over financial reporting.

Our consideration of internal control over financing 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 to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of 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 School's ability to initiate, authorize, record, process, or report financial data reliably in accordance with *Generally Accepted Accounting Principles*, such that there is more than a remote likelihood that a misstatement of the School's financial statements that is more than inconsequential will not be prevented or detected by the School's internal control. The results of our tests disclosed five instances of significant internal control deficiencies that are required to be reported under *Government Auditing Standards*, which are described in the accompanying schedule of findings as items 2007-001, 2007-002, 2007-003, 2007-004, and 2007-005.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the School's internal control.

Cleveland Academy of Scholarship, Technology and Leadership Enterprise
Cuyahoga County
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial
Statements Performed in Accordance with *Government Auditing Standards*

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 considered to be material weaknesses. We consider the following deficiencies described in the accompanying schedule of findings and responses to be material weaknesses in internal controls over financial reporting as items 2007-001, 2007-004, and 2007-005.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the School's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants agreements, noncompliance with which could have a direct and material effect on 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 such an opinion. The results of our tests disclosed one instance of noncompliance or other matter that is required to be reported under *Government Auditing Standards*, which is described in the accompanying schedule of findings and responses as item 2007-001.

The School's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. We did not audit the School's responses and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, Board members, School's sponsor and the Ohio Department of Education, and is not intended to be and should not be used by anyone other than these specified parties.

Caudill & Associates, CPAs

Caudill & Associates, CPA's
December 31, 2008

CLEVELAND ACADEMY OF SCHOLARSHIP, TECHNOLOGY AND LEADERSHIP ENTERPRISE

Cuyahoga County

Schedule of Findings & Responses

June 30, 2007

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

Finding No.2007-001

Noncompliance Citation/Significant Internal Control Deficiency/Material Weakness – Failure to maintain adequate supporting documentation of expenditures, and accounts payable.

Ohio Rev. Code Section 149.351 states all records are property of the public office concerned and shall not be removed, destroyed, mutilated, transferred, or otherwise damaged or disposed of, in whole or in part, except as provided by law or under the rules adopted by the records commission provided for under the Ohio Rev. Code Section 149.41. Such records shall be delivered by outgoing officials and employees to their successors and shall not be otherwise removed, transferred, or destroyed unlawfully.

Adequate supporting documentation is a key control in the procurement process to determine if expenditures are for their intended use and in the control process of recording of liabilities of accounts payable.

In fiscal year 2007, it was found that 40% of the disbursements tested were not supported by adequate supporting documentation (invoice, receipts of payments or contractual agreements). Also, we noted that accounts payable were not properly supported.

The lack of adequate supporting documentation could result in funds being spent on unauthorized purchases, incorrect amounts being paid, duplication of payments and payments made to fictitious vendors and employees. The School should require that original invoices or contractual agreements be submitted and attached to the voucher before payment is made. In addition, the School should ensure that purchase orders are properly issued and approved prior to contracting or acquiring goods and services as required by the School's purchasing policy.

The School should also take steps to insure that all transactions and journal entries have adequate supporting documentation. As well, all invoices and purchase orders should be maintained to serve as supporting documentation for the financial transactions of the School.

Client Response:

The School made no response.

Finding No.2007-002

Significant Internal Control Deficiency – Computer System Controls

Several computer system control inefficiencies were noted including the following: (1) The School does not have a formal disaster recovery plan. (2) Management does not back up financial data on a consistent basis.

During the audit period, the accounting system had to be reinstalled after a program failure that resulted in the loss of 100% of computerized financial data. No backups of the data existed, resulting in an attempt to recreate the financial transactions for the year.

CLEVELAND ACADEMY OF SCHOLARSHIP, TECHNOLOGY AND LEADERSHIP ENTERPRISE
Cuyahoga County
Schedule of Findings & Responses
June 30, 2007

**1. FINDINGS RELATED TO THE FINANCIAL STATEMENTS
REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
(CONTINUED)**

Finding No.2007-002

Significant Internal Control Deficiency – Computer System Controls (Continued)

The lack of supporting documentation and data backup could result in misstatement of revenue, expenses, receivables, and payables.

In case of a disaster, or data failure, the School needs policies and procedures in place to recover data and minimize the effects. Backups should be consistently made and kept off-site.

Client Response:

The School made no response.

Finding No.2007-003

Significant Internal Control Deficiency – Cash Controls

The treasurer performed monthly cash reconciliations; however, the Board of Directors did not sign off on the reconciliations. Therefore, there was no evidence of their review and approval of the cash transactions performed by the treasurer.

During testing, it was noted that several copies existed of the same cash reconciliation with dissimilar amounts. Neither was approved nor signed by the Board.

Failure by the Board of Directors to review and approve all cash transactions compromises the internal control environment of the School.

The School should develop and adopt appropriate procedures to ensure that cash transactions are consistently reviewed and approved.

Client Response:

The School made no response.

CLEVELAND ACADEMY OF SCHOLARSHIP, TECHNOLOGY AND LEADERSHIP ENTERPRISE
Cuyahoga County
Schedule of Findings & Responses
June 30, 2007

**1. FINDINGS RELATED TO THE FINANCIAL STATEMENTS
REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
(CONTINUED)**

Finding No.2007-004

Significant Internal Control Deficiency/Material Weakness – Failure to maintain a capital assets listing

Adequate capital assets inventory and listing is a key control in the School’s ability to determine if capital assets are purchased and maintained for their intended use. A complete capital asset listing should be maintained at all times, updated by additions to and disposals of capital assets.

Without a proper capital assets listing, the School’s capital assets will be difficult to monitor, and this could lead to the misappropriation of the School’s fixed assets.

The School should take steps to insure that a complete listing of capital assets is in place and is monitored by appropriate personnel.

Client Response:

The School made no response.

Finding No.2007-005

Material Weakness – Accounts Payable

The School did not maintain an accounts payable subsidiary ledger and payables could not be substantiated by adequate support such as invoices.

Failure to properly record accounts payable could result in material misstatements in the financial statements.

The School should set up a detailed accounts payable subsidiary ledger and properly record payments to vendors on the actual date that the payments occur.

Client Response:

The School made no response.

CLEVELAND ACADEMY OF SCHOLARSHIP, TECHNOLOGY AND LEADERSHIP
ENTERPRISE
Cuyahoga County
Schedule of Prior Audit Findings

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain
2006-001	ORC Section 149.351 – Accounting Records Missing	No	Reissued as Finding 2007-001
2006-002	Computer System Controls	No	Reissued as Finding 2007-002
2006-003	Cash Controls	No	Reissued as Finding 2007-003
2006-004	Bank Reconciliation Discrepancy	Yes	N/A
2006-005	Failure to maintain a capital asset listing	No	Reissued as Finding 2007-004
2006-006	Accounts Payable	No	Reissued as Finding 2007-005



Mary Taylor, CPA
Auditor of State

**CLEVELAND ACADEMY OF SCHOLARSHIP, TECHNOLOGY AND LEADERSHIP ENTERPRISE
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 23, 2009**