



**THE ARTS ACADEMY WEST
CUYAHOGA COUNTY**

REGULAR AUDIT

FOR THE YEAR ENDED JUNE 30, 2008



Mary Taylor, CPA
Auditor of State

**THE ARTS ACADEMY WEST
CUYAHOGA COUNTY
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Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

The Arts Academy West
Cuyahoga County
2259 Columbus Road
Cleveland, Ohio 44113

To the Board of Directors:

We were engaged to audit the accompanying basic financial statements of The Arts Academy West, Cuyahoga County, Ohio (the Academy), as of and for the year ended June 30, 2008, as listed in the table of contents. These financial statements are the responsibility of the Academy's management.

Net Assets at the Beginning of the Year (July 1, 2007) as reported on the Statement of Revenues, Expenses and Changes in Net Assets is overstated by \$156,241 in comparison to the amount reported as Net Assets at June 30, 2007 as reported in the fiscal year 2007 financial statements. The Academy did not provide documentation reconciling the difference.

The Academy failed to provide original supporting documentation for many of the non payroll expenses tested.

The Academy failed to provide documentation for accounts payable. Therefore, we were unable to obtain evidence supporting the existence and rights and obligations related to these payables.

We were unable to obtain sufficient evidence to determine whether events occurred subsequent to June 30, 2008 that might have required recognition in the financial statements or disclosure in the notes.

Many of the amounts reported on the Statement of Cash Flows were misstated, including:

- Cash Payments for personal services;
- Cash Payments for contract services;
- Cash Payments for supplies and materials;
- Cash Payments for miscellaneous;
- Cash and cash equivalents at the beginning of the year; and
- Increase in accounts payable.

The pension disclosure was not accurately reported. The Academy's required contributions for pension obligations were not accurately reported.

Because of the inadequacies of the accounting records described in paragraphs two through five, we were unable to express, and we do not express, an opinion on the accompanying financial statements for the year ended June 30, 2008.

During the year ended June 30, 2008, the Academy suffered a net loss in the amount of \$49,287 and accumulated a total net asset deficit of \$48,690

In accordance with *Government Auditing Standards*, we have also issued our report dated May 11, 2010, 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 engagement 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. Because of the inadequacies of accounting records described in paragraphs two through five, we were unable to apply certain limited procedures to the required supplementary information. We express no opinion or any other assurance on it.

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

Mary Taylor, CPA
Auditor of State

May 11, 2010

The Arts Academy West
Cuyahoga County
Management's Discussion and Analysis
For the Year Ended June 30, 2008
Un-audited

Our discussion and analysis of the Arts Academy West's (The Academy) financial performance provides an overall review of the Academy's financial activities for the fiscal year ended June 30, 2008. The intent of this discussion and analysis is to look at the Academy's financial performance as a whole; readers should also review the basic financial statements and notes to the basic financial statements to enhance their understanding of the Academy's financial performance.

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

Financial Highlights

- Total assets were: \$23,399
- Total liabilities were: \$72,089
- The Academy had net assets of \$ (48,690)
- Net income for the year ended June 30, 2008 was (\$49,287)

Using the Financial Report

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

One of the most important questions asked about the Academy's finances is "Is the Academy better or worse off as a result of the year's activities?" The Statement of Net Assets and the Statement of Revenues, Expense and Changes in Net Assets report information about the Academy as a whole and about its activities in a manner that helps to answer this question. These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting used by private sector corporations. All of the current year's revenues and expenses are taken into consideration regardless of when cash is received or paid.

The Arts Academy West
 Cuyahoga County
 Management's Discussion and Analysis
 For the Year Ended June 30, 2008
 Un-audited

These two statements report the Academy's net assets and changes in them. The change in net assets provides the reader a tool to assist in determining whether the Academy's Financial health is improving or deteriorating. The reader will need to consider other non-financial factors such as state revenue, student enrollment growth, and facility conditions in arriving at their conclusion regarding the overall health of the Academy.

Net Assets

	<u>2008</u>	<u>2007</u>
Current Assets	<u>\$23,399</u>	<u>\$5,803</u>
Total Assets	\$23,399	\$5,803
Current Liabilities	<u>\$72,089</u>	<u>\$65,634</u>
Total Liabilities	\$72,089	\$65,634
Net Assets:		
Unrestricted	<u>\$(48,690)</u>	<u>\$(59,831)</u>
Total Net Assets	\$(48,690)	\$(59,831)

Current assets consisted of Cash and Investments and Accounts Receivables while current liabilities consisted of Accounts Payable due various vendors, primarily the management company for expenses incurred on behalf of the Academy.

The Arts Academy West
Cuyahoga County
Management's Discussion and Analysis
For the Year Ended June 30, 2008
Un-audited

Changes in Net Assets

	<u>2008</u>	<u>2007</u>
Operating Revenues:		
Foundation Payments	\$530,534	\$597,488
Other Revenues	<u>\$25,952</u>	<u>\$ 25,811</u>
Total Revenues	\$556,486	\$ 623,299
Operating Expense:		
Salaries & Wage	\$198,989	0
Fringe Benefits	\$56,197	0
Purchased Services	\$261,931	\$687,848
Material & Supplies	\$16,584	\$3,451
Miscellaneous	<u>\$72,072</u>	<u>\$490</u>
Total Expense	\$605,773	\$691,789
Change in Net Assets	(\$49,287)	(\$68,490)

For the year ended June 30, 2008, foundation payments accounted for 95.3% of total revenues.

Purchased services accounted for 43.2% of total expenses. This is due to the Academy contracting with Titus Group Inc to provide all management services for the day to day operations of the Academy. See footnote 7 of the Notes to the Financial Statements for a more detailed accounting of the services provided by the management company of the Academy.

The Academy had a change in Net Assets of (\$49,287) for the fiscal year ended June 30, 2008 primarily due to this being the third year of operations and expensive occupancy cost. Management intends to participate in various federal and state grants in future years to provide additional revenue.

Current Financial Issues

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

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

The Arts Academy West
Cuyahoga County
Management's Discussion and Analysis
For the Year Ended June 30, 2008
Un-audited

Contracting the Academy's Financial Management

This financial report is designed to provide our citizen's 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 questions about this report or need additional information contact Edward Dudley Sr., Treasurer 676 Brook Hollow Columbus, Ohio 43230, (614) 337-8122.

The Arts Academy West
Cuyahoga County
Statement of Net Assets
As of June 30, 2008

Assets	
Current Assets	
Cash and Cash Equivalents:	\$ 23,399
	<hr/>
Total current assets	23,399
	<hr/>
<i>Total Assets</i>	<u>23,399</u>
 Liabilities	
Accounts Payable	57,350
Payable to Lorain Arts Academy	<u>14,739</u>
<i>Total Liabilities</i>	<u>72,089</u>
 Net Assets	
Unrestricted (Deficit)	<u>(48,690)</u>
<i>Total Net Assets</i>	<u>\$ (48,690)</u>

The accompanying notes are an integral part of the financial statements

The Arts Academy West
Cuyahoga County
Statement of Revenues, Expenses, and Changes in Net Assets
For the Fiscal Year Ended June 30, 2008

Operating revenues:	
Foundation payments	\$ <u>530,534</u>
<i>Total operating revenues</i>	<u>530,534</u>
 Operating expenses:	
Salaries	198,989
Benefits	56,197
Purchased services	261,931
Supplies and materials	16,584
Other objects	72,072
<i>Total operating expenses</i>	<u>605,773</u>
<i>Operating income</i>	<u>(75,239)</u>
 Nonoperating revenues:	
Student activity collection	8,570
CCIP	2,744
Other Revenue	14,638
<i>Total nonoperating revenues</i>	<u>25,952</u>
 <i>Change in net assets</i>	 (49,287)
 <i>Net Assets - Beginning of Year</i>	 598
<i>Net Assets - End of Year</i>	<u>\$ (48,689)</u>

The accompanying notes are an integral part of the financial statements

The Arts Academy West
Cuyahoga County
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2008

Cash flows from operating activities	
Cash received from foundation payments	\$ 530,534
Cash payments for personal services	(253,120)
Cash payments for contract services	(261,540)
Cash payments for supplies and materials	(14,698)
Cash payments for miscellaneous	<u>(19,066)</u>
<i>Net cash used for operating activities</i>	<u>(17,890)</u>
 Cash Flows from noncapital financing activities	
Cash from student activities	8,570
CCIP	2,744
Other Revenue	<u>14,638</u>
<i>Net cash from noncapital financing activities</i>	<u>25,952</u>
<i>Net decrease in cash and cash equivalents</i>	8,062
<i>Cash and cash equivalents at beginning of year</i>	<u>15,337</u>
<i>Cash and cash equivalents at end of year</i>	<u><u>\$ 23,399</u></u>
 Reconciliation of operating income to net cash provided by (used for) operating activities	
Operating income/(loss)	\$ (75,239)
 Adjustments to reconcile operating income to net cash provided by (used for) operating activities	
Changes in assets and liabilities	
Accounts payable	<u>57,349</u>
Total adjustments	<u>57,349</u>
<i>Net cash provided (used) by operating activities</i>	<u><u>\$ (17,890)</u></u>

The accompanying notes are an integral part of the financial statements

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The Arts Academy West
Cuyahoga County
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2008

1. DESCRIPTION OF THE SCHOOL DISTRICT AND REPORTING ENTITY

The Arts Academy West (the Academy) is a non-profit corporation established pursuant to the Ohio Revised Code Chapters 3314 and 1702 to address the needs of students in grade kindergarten through eight. The Academy is an approved tax-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 may adversely affect the Academy's tax exempt status. The Academy which is part of the State's education program is independent of any school district and is nonsectarian in its programs, admissions policies, employment practices, and all other operations. The Academy may sue and be sued, acquire facilities as needed, and contract for any services necessary for the operation of the Academy.

The Academy was approved for operation under contract with the Ashe Culture Center, Inc. (the Sponsor) for a period of three years commencing June 30, 2006. The sponsor is responsible for evaluating the performance of the Academy and has the authority to deny renewal of the contract at its expiration or terminate the contract prior to its expiration.

The Academy operates under the direction of a three 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 Board of Directors controls the Academy's instructional/support facilities staffed by 15 teaching personnel and 5 support personnel who provide services to 77 students

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Academy have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental nonprofit organizations. 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 more significant of the Academy's accounting policies are described below.

A. Basis of Presentation

The Academy uses enterprise accounting to maintain its financial records during the school year. Enterprise accounting focuses on the determination of operating income, changes in net assets, financial position and cash flows. Enterprise accounting may

The Arts Academy West
Cuyahoga County
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2008

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICES (Continued)

A. Basis of Presentation (Continued)

be used to account for any activity for which a fee is charged to external users for goods and services.

B. Measurement Focus and Basis of Accounting

Enterprise accounting uses a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities are included on the Statement of Net Assets. Operating statements present increase and decreases in net total assets. The Statement of Cash Flows reflects how the Academy finances and meets its cash flow needs.

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made. The accrual basis of accounting is used for reporting purposes. Revenues are recognized when earned and expenses are recognized when they are incurred.

C. Budgetary Process

Unlike other public schools located in the State of Ohio, community schools are not required to follow the budgetary provisions set forth in Ohio Revised Code Chapter 5705, unless specifically provided in the Academy's contract with its Sponsor. The contract between the Academy and its Sponsor does prescribe an annual budget requirement.

D. Cash and Investments

All monies received by the Academy are pooled and maintained in a separate account in the Academy's name. Monies for the Academy are maintained in the account or temporarily used to purchase short term investments.

For purposes of the statement of cash flows and for presentation on the balance sheet, investments with a maturity of three months or less at the time they are purchased are considered to be cash equivalents.

The Arts Academy West
Cuyahoga County
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2008

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICES (Continued)

E. Estimates

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

F. Capital Assets and Depreciation

Capital assets are capitalized at cost and updated for additions and retirements during the year. Donated capital assets are recorded at their fair values as of the dates received. The Academy maintains a capitalization threshold of \$5,000.00. The Academy does not possess any infrastructure Improvements are capitalized, the cost 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.

The Academy did not possess any capital assets at June 30, 2008.

G. Intergovernmental Revenue

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

Amounts awarded under the above named program for the 2008 school year totaled \$530,534.

H. Net Assets

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

The Arts Academy West
Cuyahoga County
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2008

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICES (Continued)

I. Operating Revenues and Expenses

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

3. DEPOSITS

At June 30, 2008, the carrying amount of all Academy deposits was \$23,399. Based on the criteria described in GASB Statement No. 40 "Deposits and Investment Risk Disclosures", as of June 30, 2008, \$5,000.00 of the Academy's bank balance was covered by the Federal Deposit Insurance Corporation and was not exposed to custodial credit risk.

Custodial credit risk is the risk that, in the event of bank failure, the Academy's deposits may not be returned. All deposits are collateralized with eligible securities in amounts equal to at least 105 percent of the carrying value of the deposits. Such collateral, as permitted by the Ohio Revised Code, is held in single financial institution collateral pools at Federal Reserve Banks, or at member banks of the federal reserve system, in the name of the respective depository bank and pledged as a pool of collateral against all of the public deposits it holds or as specific collateral held at the Federal Reserve Bank in the name of the Academy.

The Academy has no deposit policy for custodial credit risk beyond the requirements of State statute. Ohio law requires that deposits be either insured or be protected by eligible securities pledged to and deposited either with the Academy or a qualified trustee by the financial institution as security for repayment, or by a collateral pool of eligible securities deposited with a qualified trustee and pledged to secure the repayment of all public monies deposited in the financial institution whose market value at all times shall be at least one hundred five percent of the deposits being secured.

The Arts Academy West
Cuyahoga County
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2008

4. RISK MANAGEMENT

A. Property and Liability

The Academy is exposed to various risk of loss related to torts; theft of; damage to and destruction of assets; errors and omission; injuries to employees; and natural disasters. For fiscal year 2008, the Academy contracted with Peerless Insurance Company and Indiana Insurance Company to have the following coverage.

General liability is covered at \$1,000,000 single occurrence limited and a \$2,000,000 aggregate. The umbrella liability has a \$1,000,000 single occurrence and \$1,000,000 aggregate. Other coverage includes sexual misconduct (\$1,000,000 limit), school leaders errors and omissions (\$1,000,000 each act), and workers compensation and employers' liability (\$1,000,000 each accident and each employee/\$2,000,000 limit).

5. CONTRACTS

A. Sponsor Contract

The Academy entered into a three – year contract commencing on June 30, 2006 continuing through April 14, 2009, with ASHE Culture Center Inc. (The Sponsor) for its establishment. Under the contract, the following terms that were agreed upon.

- The Academy shall operate in substantial compliance with its “Educational Plan”, which contains the Academy’s mission, educational philosophy, the ages and grades of students, the characteristics of the students the Academy expects to attract, the focus of the curriculum, a description of the learning opportunities offered to the students, the academic goals and the method of measurement that will be used to determine progress toward these goals, graduation requirements, and the focus of the curriculum.
- The Academy shall operate in substantial compliance with the “Financial Plan”, which establishes and estimated school budget each year and a total estimated per pupil expenditure amount for each year. It also requires the Academy to have a designated fiscal officer who will retain the financial records of the Academy in the same manner as are financial records of school districts, pursuant to rules of the Auditor of State, comply with the policies and procedures regarding internal financial control of the Academy, comply with the requirements and procedures for financial audits by the Auditor of State, and provide the Sponsor with bi-monthly financial reports.

The Arts Academy West
Cuyahoga County
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2008

5. CONTRACTS

A. Sponsor Contract (Continued)

- The Academy shall annually pay to the Sponsor, three percent (3.0%) of the Total State Support, as reported on the Community School Statement of Settlement. For the fiscal year ended June 30, 2008, this amount equaled \$15,916.

6. CONTINGENCIES

A. State Funding

The Ohio Department of Education conducts reviews of enrollment date and FTE calculations made by the schools. These reviews are conducted to ensure the schools are reporting accurate student enrollment data to the State, upon which state funding is calculated. The conclusions of this review could result in the state funding being adjusted. The Academy does not anticipate any material adjustment for fiscal year 2008, as a result of such review.

7. PURCHASED SERVICES/MANAGEMENT COMPANY EXPENSES

For the year ended June 30, 2008, purchased services expenses were payments for services rendered by various vendors as follows:

Purchased Services	
Payroll Expenses	\$ 1,969
Instructional Services	154
Health Services	4,184
Sponsor Fees	21,252
Fiscal Fees	36,000
Other Prof. Tech. Serv	607
Professional Services	18,678
Main. of Sch. Vehicles	495
Facility Rent	126,100
Equipment Leasing	2,229
Conference Expenses	4,435
Telephone	3,096
Advertising	200
Gas	75
Utilities	597
Student Transportation	41,860
Total Purchased Services	\$ 261,931

The Arts Academy West
Cuyahoga County
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2008

8. OPERATING LEASE

On October 12, 2005, The Academy entered into an operating lease for the period November 1, 2005 to October 31, 2007 with St. Wendelin Church for the use of the Academy's facility. Payment terms are \$8,000 per month due on the first day of each month. Rent expense for the fiscal year ended June 30, 2008 is being negotiated based on the school relocating.

9. DEFINED BENEFIT PENSION PLANS

A. School Employee Retirement System

The Academy contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing multiple employer defined benefit pension plan administered by the School Employees Retirement Board. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215 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 Academy is required to contribute an actuarially determined rate. The current 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, 10.68 percent was the portion used to fund pension obligations. The obligations requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS Retirement Board. The Academy's required contribution for pension obligations to SERS for the fiscal years ended June 30, 2008 was \$2,572.

The Arts Academy West
Cuyahoga County
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2008

9. DEFINED BENEFIT PENSION PLANS (Continued)

B. State Teachers Retirement System

The Academy contributes in the School Teachers Retirement System (STRS), a cost-sharing multiple-employer retirement system administered by the State Teachers Retirement Board. STRS Ohio provides retirement and disability benefits to members and death survivor benefits to beneficiaries. Benefits are established by Chapter 3307 of the Ohio Revised Code. STRS Ohio issues a stand-alone financial report that may obtain a copy by writing to STRS Ohio, 275 East Broad Street, Columbus, Ohio 43215-3371 or by calling (614) 227-4090 or by visiting the STRS Ohio Website at www.strsohio.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 member to place all their member contributions and employer contributions equal to 10.5% 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 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.

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.

The Arts Academy West
Cuyahoga County
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2008

9. DEFINED BENEFIT PENSION PLANS (Continued)

B. State Teachers Retirement System (Continued)

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. Contribution rates are established by the State Teachers Retirement Board; upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% 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 fiscal years ended June 30, 2008 was \$46,239. One hundred percent has been contributed for fiscal years 2008.

B. Social Security

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System of Ohio have an option to choose Social Security or the School Retirement System.

10. Postemployment Benefits

A. School Teachers Retirement System

State Teachers Retirement System of Ohio (STRS Ohio) provides comprehensive healthcare benefits to retirees and their dependents. Coverage includes hospitalization, physicians' fees, prescription drugs and partial reimbursement of monthly Medicare premiums. All benefit recipients and sponsored dependents are eligible for health care coverage. Pursuant to the Ohio Revised Code, the State Retirement Board (the Board) has discretionary authority over how much, if any, of the health care cost will be absorbed by STRS Ohio. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. The Ohio Revised Code grants authority to STRS Ohio to provide health care coverage to benefit recipients, spouses and dependents. By Ohio law, the cost of coverage paid STRS funds shall be included in the employer's contribution rate, currently 14 percent of covered payroll.

The Retirement Board allocates employer contributions to the Health Care Reserve Fund from which health care benefits are paid. For the fiscal year ended June 3, 2008, the Board allocated employer contributions equal to 1.0 percent of covered payroll to the Health Care Reserve Fund.

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Mary Taylor, CPA

Auditor of State

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

The Arts Academy West
Cuyahoga County
2259 Columbus Road
Cleveland, Ohio 44113

To the Board of Directors:

We were engaged to audit the basic financial statements of The Arts Academy West, Cuyahoga County, Ohio (the Academy) as of and for the year ended June 30, 2008, and have issued our report thereon dated May 11, 2010, wherein we disclaimed an opinion on these statements because the Academy failed to provide original supporting documentation of many non payroll expenses, failed to provide documentation for accounts payable, was unable to reconcile the difference between net assets reported as of June 30, 2007 and July 1, 2007, misstated amounts on the cash flow statement, and omitted or inaccurately reported applicable note disclosures. We also disclosed the Academy reported an unaudited net loss of \$49,287 and accumulated an unaudited total net asset deficit of \$48,690 as of June 30, 2008.

Internal Control Over Financial Reporting

As part of our engagement, we considered the Academy's internal control over financial reporting, but not for the purpose of opining on the effectiveness of the Academy's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the Academy's internal control over financial reporting.

Our consideration of internal control over financial reporting 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 findings 2008-003 through 2008-005 described in the accompanying schedule of findings to be significant deficiencies in internal control over financial reporting.

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

Our consideration of the internal control over financial reporting 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. Of the significant deficiencies described above, we believe findings 2008-003 and 2008-004 are also material weaknesses.

We also noted certain internal control matters that we reported to the Academy's management in a separate letter dated May 11, 2010

Compliance and Other Matters

As part of our procedures, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed instances of noncompliance or other matters that we must report under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 2008-001 through 2008-004.

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 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 May 11, 2010.

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

May 11, 2010

**THE ARTS ACADEMY WEST
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS
FOR THE YEAR ENDED JUNE 30, 2008**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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FINDING NUMBER	2008-001
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Finding for Recovery

Ohio Rev. Code Section 3314.03(A)(11)(d) requires that each contract entered into between a sponsor and the governing authority of a community school shall specify that the school will comply with Section 149.43 of the Ohio Rev. Code. Ohio Rev. Code Section 149.43(B) states, in part, that all public records shall be promptly prepared and made available for inspection to a person at all reasonable times during regular business hours. In order to facilitate broader access to public records, public offices shall maintain public records in a manner that they can be made available for inspection in accordance with this division.

During fiscal year 2008, the Academy issued the following payments which were unsupported and the Academy did not provide supporting documentation for these payments.

1. On July 18, 2007, check number 4090 in the amount of \$1,000 payable to Venice Financial was issued and authorized by Franklin Carter, Treasurer, which was unsupported and we could not determine the purpose of the expenditure.
2. On September 17, 2007, check number 4117 in the amount of \$2,000 payable to Venice Financial was issued and authorized by Franklin Carter, Treasurer. Included in this payment was \$500 which was unsupported and we could not determine the purpose of the expenditure.
3. On November 12, 2007, check number 4152 in the amount of \$2,000 payable to All About Learning Financial Services was issued and authorized by Franklin Carter, Treasurer, which was unsupported and we could not determine the purpose of the expenditure.
4. On December 19, 2007, a debit card in the name of the Academy was used to purchase items totaling \$256 from Staples, which was unsupported and we could not determine the purpose of the expenditure.
5. On January 28, 2008, a debit card in the name of the Academy was used to pay for lodging totaling \$117 at the Sheraton Airport, which was unsupported and we could not determine the purpose of the expenditure.
6. On January 30, 2008, a debit card in the name of the Academy was used to purchase a rental car totaling \$169 from Enterprise Rent-a-Car, which was unsupported and we could not determine the purpose of the expenditure.

The Academy's failure to maintain adequate support for expenditures could result in a loss of accountability over the Academy's finances, making it difficult to identify errors which could go undetected.

Under Ohio law, any public official who either authorizes an illegal expenditure of public funds or supervises the accounts of a public office from which such illegal expenditure is made is strictly liable for the amount of this expenditure. *Steward v. National Surety Corp.* (1929), 120 Ohio St. 47; 1980 Op. Att'y Gen. No. 80-074; Ohio Rev. Code Section 9.39; State, ex. rel. *Village of Linndale v. Masten* (1985), 18 Ohio St.3d 228. Public officials controlling public funds or property are liable for the loss incurred should such funds or property be fraudulently obtained by another, converted, misappropriated, lost or stolen.

**THE ARTS ACADEMY WEST
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS
FOR THE YEAR ENDED JUNE 30, 2008
(Continued)**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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FINDING NUMBER	2008-001
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Finding for Recovery (Continued)

The extent that recovery or restitution is not obtained from the persons who unlawfully obtained such funds or property. 1980 Op. Att’y Gen. No. 80-074.

In accordance with the foregoing facts and pursuant to Ohio Revised Code Section 117.28, a Finding for Recovery for public monies illegally expended is hereby issued against Franklin Carter, Treasurer, in the amount of \$4,042 and in favor of the Arts Academy West.

Client’s Response:

I know that I was acting treasurer when these debit card purchases were made, however, the card was never in my possession, that is, the academy personnel signed out an in relative to the use of the debit card. I do know, however, that the purchase for \$117.10 was for reservations for the Board Chairman who resided in St. Louis and would come down for board meetings.

Auditor’s Conclusion:

Per section Section 5.32 of *Government Auditing Standards* (2007 amendment) we have included the Client’s response as part of our audit report. Generally Accepted Auditing Standards section 326.01 states “The auditor must obtain sufficient appropriate audit evidence by performing audit procedures to afford a reasonable basis for an opinion regarding the financial statements under audit.” We do not believe that sufficient competent evidential matter was obtained to support that these payments were for a proper public purpose.

FINDING NUMBER	2008-002
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Notice of Public Meetings

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

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

**THE ARTS ACADEMY WEST
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS
FOR THE YEAR ENDED JUNE 30, 2008
(Continued)**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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FINDING NUMBER	2008-002
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Notice of Public Meetings (Continued)

The Academy did not provide an open meeting and meeting notification policy, did not evidence the approval of Board Resolutions or motions made by the Board during those meetings, and there was no evidence of a public notice of the meetings. Furthermore, the Academy only provided to us evidence of five board meetings during the fiscal year.

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

FINDING NUMBER	2008-003
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Developing and Implementing an Effective Monitoring Control System

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

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

Some effective monitoring controls include:

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

**THE ARTS ACADEMY WEST
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS
FOR THE YEAR ENDED JUNE 30, 2008
(Continued)**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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FINDING NUMBER	2008-003
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Developing and Implementing an Effective Monitoring Control System (Continued)

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

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

FINDING NUMBER	2008-004
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Condition of Accounting Records

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

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

- Support for accounts payable on the financial statements were not provided;
- The Academy did not provide support for seven checks out of 34 (20.5%) tested. Due to lack of support, we were unable to determine whether these checks were for proper public purpose;
- The Academy did not provide support for four out of 10 (40%) debit card transactions tested;
- During our testing of non payroll expenditures, nine out of 34 checks (26.4%) had the wrong transaction date recorded in the general ledger; and
- Checks were not sequentially listed in the general ledger.

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

**THE ARTS ACADEMY WEST
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS
FOR THE YEAR ENDED JUNE 30, 2008
(Continued)**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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FINDING NUMBER	2008-005
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Financial Reporting

Section 2200.102 and 2300.106 of the Codification of Governmental Accounting and Financial Reporting Standards provides the minimum requirements for general purpose external financial reporting as follows:

- Management's Discussion and Analysis;
- Basic financial statements which include
- Statement of Net Assets;
- Statement of Revenues, Expenditures, and Changes in Net Assets;
- Statement of Cash Flows; and
- Note disclosures

Although the Academy prepared the above noted financial statements and notes, the amount reported on the Statement of Revenues, Expenses, and Changes in Net Assets specifically Net Assets at the Beginning of the Year is inaccurate. Also, amounts reported on the Statement of Cash Flows specifically Cash Flows from Operating Activities are inaccurate. Cash payments reported do not agree to the cash basis records. Also, the cash and cash equivalents at beginning of the year is not correct. Therefore, the Statement of Cash Flows does not provide accurate information about how the Academy finances and meets its operating cash flow needs. Also, the Notes to the Financial Statements were incomplete and inaccurate. The Notes to the Financial Statements did not include a subsequent event note disclosure.

In addition the pension note disclosure was inaccurately reported.

We recommend the Academy review the note disclosures required by the Codification of Governmental Accounting and Financial Reporting Standards to ensure complete disclosures are made.

The Client did not submit responses to Findings 2008-002 through 2008-005

**THE ARTS ACADEMY WEST
CUYAHOGA COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2008**

<u>Finding Number</u>	<u>Finding Summary</u>	<u>Fully Corrected?</u>	Not Corrected, Partially Corrected; Significantly Different Corrective Action Plan Taken; or Finding No <u>Longer Valid</u> ; Explain:
2007-001	Finding for Recovery	No	Documentation not presented
2007-002	Finding for Recovery	No	Documentation not presented
2007-003	Five Year Forecast	Yes	
2007-004	Developing and Implementing an Effective Monitoring Control System	No	Reissued as 2008-004
2007-005	Condition of Accounting Records	No	Reissued as 2008-005
2007-006	Financial Report Filing	Yes	
2007-007	Notice of Public Meetings	No	Reissued as 2008-003
2007-008	Note Disclosures Required by Generally Accepted Accounting Principles	Yes	



Mary Taylor, CPA
Auditor of State

THE ARTS ACADEMY WEST

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 22, 2010**