



Dave Yost • Auditor of State



STEVE SANDERS ACADEMY OF OHIO  
CUYAHOGA COUNTY

TABLE OF CONTENTS

TITLE	PAGE
Independent Accountants' Report.....	1
Management's Discussion and Analysis.....	3
Statement of Net Assets .....	7
Statement of Revenues, Expenses, and Changes in Net Assets .....	8
Statement of Cash Flows.....	9
Notes to the Financial Statements .....	11
Independent Accountants' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by <i>Government Auditing Standards</i> .....	23
Schedule of Findings.....	25
Independent Accountants' Report on Applying Agreed-Upon Procedures.....	27

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# Dave Yost • Auditor of State

## INDEPENDENT ACCOUNTANTS' REPORT

Steve Sanders Academy of Ohio  
Cuyahoga County  
C/O Dan Lamb, Treasurer  
Charter School Specialists LLC  
40 Hill Road South  
Pickerington, Ohio 43147

To the Board:

We have audited the accompanying basic financial statements of the Steve Sanders Academy of Ohio, Cuyahoga County, Ohio (the Academy), as of and for the year ended June 30, 2012, as listed in the table of contents. These financial statements are the responsibility of the Academy's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to reasonably assure whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Steve Sanders Academy of Ohio, Cuyahoga County, Ohio, as of June 30, 2012, and the respective changes in financial position and cash flows, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As disclosed in Note 16, the Academy suspended operations on August 7, 2012.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 14, 2013, on our consideration of the Academy's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require this presentation to include *Management's discussion and analysis*, as listed in the table of contents, to supplement the financial statements. Although this information is not part of the financial statements, the Governmental Accounting Standards Board considers it essential for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any other assurance.

A handwritten signature in black ink that reads "Dave Yost". The signature is written in a cursive style with a large, looping "D" and "Y".

**Dave Yost**  
Auditor of State

March 14, 2013

**STEVE SANDERS ACADEMY OF OHIO  
CUYAHOGA COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012  
UNAUDITED**

The Management's Discussion and Analysis of the Steve Sanders Academy of Ohio (the "Academy") financial performance provides an overall review of the Academy's financial activities for the year ended June 30, 2012. The intent of this discussion and analysis is to look at the Academy's financial performance as a whole; readers should also review the notes to the basic financial statements and basic financial statements to enhance their understanding of the Academy's financial performance.

The Management's Discussion and Analysis (the "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". Certain comparative information between the current fiscal year and the prior fiscal year is required to be presented in the MD&A. However, because this is the first fiscal year of financial reporting for the Academy, comparative prior fiscal year information does not exist.

### **Financial Highlights**

Key financial highlights for 2012 are as follows:

- In total, net assets were a deficit of \$81,962 at June 30, 2012.
- The Academy had operating revenues of \$617,212, operating expenses of \$716,421, non-operating revenues of \$18,051 and non-operating expenses of \$804 for fiscal year 2012. The operating loss was \$99,209 in the Academy's first year of operations.

### **Using these Basic Financial Statements**

This annual report consists of the MD&A, a series of financial statements, and notes to those statements. These statements are organized so the reader can understand the Academy's financial activities. The basic financial statements include a Statement of Net Assets, a Statement of Revenues, Expenses, and Changes in Net Assets, and a Statement of Cash Flows. The Statement of Net Assets and Statement of Revenues, Expenses and Changes in Net Assets provide information about the activities of the Academy, including all short-term and long-term financial resources and obligations.

### **Reporting the Academy's Financial Activities**

#### ***Statement of Net Assets, Statement of Revenues, Expenses, and Changes in Net Assets and the Statement of Cash Flows***

These documents look at all financial transactions and ask the question, how did we do financially during 2012? The Statement of Net Assets and the Statement of Revenues, Expenses and Changes in Net Assets answer this question. These statements include all assets, liabilities, revenues and expenses using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting takes into accounts all of the current year's revenues and expenses regardless of when cash is received or paid.

These two statements report the Academy's net assets and changes in those assets. This change in net assets is important because it tells the reader that, for the Academy as a whole, the financial position of the Academy has improved or diminished. The causes of this change may be the result of many factors, some financial, some not. These statements can be found on pages 7 and 8 of this report.

The Statement of Cash Flows provides information about how the Academy finances and meets the cash flow needs of its operations. The Statement of Cash Flows can be found on page 9 of this report.

STEVE SANDERS ACADEMY OF OHIO  
CUYAHOGA COUNTY

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012  
UNAUDITED

The table below provides a summary of the Academy's net assets for the fiscal year ended June 30, 2012.

Statement of Net Assets

	<u>2012</u>
<b><u>Assets</u></b>	
Current assets	\$ 120,342
Capital assets, net	<u>18,900</u>
Total assets	<u>139,242</u>
<b><u>Liabilities</u></b>	
Total liabilities	<u>221,204</u>
<b><u>Net Assets</u></b>	
Invested in capital assets	18,900
Restricted	1,244
Unrestricted (deficit)	<u>(102,106)</u>
Total net assets (deficit)	<u>\$ (81,962)</u>

Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2012, the Academy's net assets were a deficit of \$81,962.

At June 30, 2012, capital assets represented 13.6 percent of total assets. Capital assets, at June 30, 2012, were \$18,900. These capital assets are used to provide services to the students and are not available for future spending.



**STEVE SANDERS ACADEMY OF OHIO  
CUYAHOGA COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012  
UNAUDITED**

The table below shows the changes in net assets for fiscal year 2012.

**Change in Net Assets**

	2012
<b><u>Operating Revenues:</u></b>	
State Foundation	\$ 616,740
Other	472
Total operating revenue	617,212
<b><u>Non-operating Revenues:</u></b>	
Federal and State grants	18,051
Total Revenues	635,263
<b><u>Operating Expenses:</u></b>	
Salaries and wages	158,701
Fringe benefits	30,987
Purchased services	473,074
Materials and supplies	38,432
Depreciation	2,100
Other	13,127
Total operating expenses	716,421
<b><u>Non-operating Expenses:</u></b>	
Interest expense	804
Total Expenses	717,225
Change in net assets	(81,962)
Net assets at beginning of year	-
Net assets (deficit) at end of year	\$ (81,962)

The revenue generated by a community school is almost entirely dependent on per-pupil allotment given by the State Foundation and from Federal entitlement programs. Federal and State grants include monies received from the Federal Breakfast and Lunch program and the Title I program. The Academy's most significant expense is purchased services, which \$152,498 is for management services and \$38,500 is for facility rent.

**Budgeting**

Unlike traditional schools located in the State of Ohio, community schools are not required to follow budgetary provisions set forth in the Ohio Revised Code Chapter 5705, unless specifically provided by the Academy's contract with its sponsor. The contract between the Academy and its sponsor, St. Aloysius Orphanage, does not prescribe a budgetary process for the Academy.

**Capital Assets**

At June 30, 2012, the Academy had \$18,900 invested in furniture and equipment. See Note 4 to the basic financial statements for more detail on capital assets.

**STEVE SANDERS ACADEMY OF OHIO  
CUYAHOGA COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012  
UNAUDITED**

**Debt Administration**

The Academy had \$48,264 of outstanding line of credit borrowed during fiscal year 2012 that is due within one year. See Note 5 to the basic financial statements for more detail on the line of credit debt.

**Current Financial Related Activities**

The Academy is sponsored by St. Aloysius Orphanage. The Academy is reliant upon State Foundation monies and State and Federal Grants to offer quality, educational services to students.

The Academy relies primarily on State foundation revenues, which are based on student enrollment.

On August 7, 2012, the Sponsor suspended the operations of the Academy.

**Contacting the Academy's Financial Management**

This financial report is designed to provide our clients 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 financial information contact Dan Lamb, Treasurer at Charter School Specialists, 40 Hill Road South, Pickerington, Ohio, 43147.

**STEVE SANDERS ACADEMY OF OHIO  
CUYAHOGA COUNTY**

**STATEMENT OF NET ASSETS  
JUNE 30, 2012**

**Assets:**

Current assets:

Cash . . . . .	\$	111,950
Receivables:		
Intergovernmental . . . . .		8,392
Total current assets . . . . .		120,342

Non-current assets:

Depreciable capital assets, net . . . . .		18,900
Total assets . . . . .		139,242

**Liabilities:**

Current liabilities:

Accounts payable. . . . .		148,752
Accrued wages and benefits . . . . .		16,873
Pension obligation payable. . . . .		5,245
Intergovernmental payable . . . . .		1,266
Accrued interest payable . . . . .		804
Credit line payable . . . . .		48,264
Total liabilities . . . . .		221,204

**Net assets:**

Invested in capital assets . . . . .		18,900
Restricted for:		
Public school support . . . . .		472
Federal programs. . . . .		772
Unrestricted (deficit) . . . . .		(102,106)
Total net assets (deficit). . . . .	\$	(81,962)

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**STEVE SANDERS ACADEMY OF OHIO  
CUYAHOGA COUNTY**

**STATEMENT OF REVENUES, EXPENSES AND  
CHANGES IN NET ASSETS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

<b>Operating revenues:</b>	
State Foundation . . . . .	\$ 616,740
Other . . . . .	472
Total operating revenues. . . . .	617,212
 <b>Operating expenses:</b>	
Salaries and wages. . . . .	158,701
Fringe benefits. . . . .	30,987
Purchased services. . . . .	473,074
Materials and supplies . . . . .	38,432
Depreciation . . . . .	2,100
Other. . . . .	13,127
Total operating expenses . . . . .	716,421
 Operating loss . . . . .	 (99,209)
 <b>Non-operating revenues (expenses):</b>	
Federal and State grants . . . . .	18,051
Interest expense . . . . .	(804)
Total nonoperating revenues (expenses) . . . . .	17,247
 Change in net assets. . . . .	 (81,962)
 <b>Net assets at beginning of year . . . . .</b>	 -
 <b>Net assets at end of year (deficit) . . . . .</b>	 \$ (81,962)

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**STEVE SANDERS ACADEMY OF OHIO  
CUYAHOGA COUNTY**

**STATEMENT OF CASH FLOWS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

<b>Cash flows from operating activities:</b>	
Cash received from State foundation . . . . .	\$ 608,738
Cash received from other operations . . . . .	472
Cash payments for salaries and benefits . . . . .	(166,304)
Cash payments for contractual services . . . . .	(326,401)
Cash payments for materials and supplies . . . . .	(37,501)
Cash payments for other expenses. . . . .	<u>(11,979)</u>
Net cash provided by operating activities . . . . .	<u>67,025</u>
<b>Cash flows from noncapital financing activities:</b>	
Cash received from Federal and State grants . . . . .	17,661
Cash received from proceeds from line of credit . . . . .	<u>48,264</u>
Net cash provided by noncapital financing activities. . . . .	<u>65,925</u>
<b>Cash flows from capital and related financing activities:</b>	
Acquisition of capital assets . . . . .	<u>(21,000)</u>
Net cash used in capital and related financing activities. . . . .	<u>(21,000)</u>
Net increase in cash . . . . .	111,950
<b>Cash at beginning of year . . . . .</b>	<b>-</b>
<b>Cash at end of year. . . . .</b>	<b><u><u>\$ 111,950</u></u></b>
<b>Reconciliation of operating loss to net cash provided by operating activities:</b>	
Operating loss . . . . .	\$ (99,209)
Adjustments:	
Depreciation. . . . .	2,100
Changes in assets and liabilities:	
(Increase) in intergovernmental receivable . . . . .	(8,002)
Increase in accounts payable. . . . .	148,752
Increase in accrued wages and benefits . . . . .	16,873
Increase in intergovernmental payable . . . . .	1,266
Increase in pension obligation payable. . . . .	<u>5,245</u>
Net cash provided by operating activities . . . . .	<u><u>\$ 67,025</u></u>

COMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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**STEVE SANDERS ACADEMY OF OHIO  
CUYAHOGA COUNTY**

**NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

**NOTE 1 - DESCRIPTION OF THE ACADEMY**

The Steve Sanders Academy of Ohio (the "Academy") is a nonprofit corporation established pursuant to Ohio Revised Code Chapters 3314 and 1702. 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 might adversely affect the Academy's tax-exempt status. The Academy specializes in providing an educational program, to grades kindergarten through eighth, which allows its students to dream, set goals, and become empowered with the tools that ensure higher educational achievement and a vision of educational success. The Academy, which is part of the State's education program, is nonsectarian in its programs, admission policies, employment practices and all other operations. The Academy may sue and be sued, acquire facilities as needed, and contract for any services necessary for the operation of the Academy.

On May 15, 2011, the Academy, was approved under contract with St. Aloysius Orphanage (the "Sponsor") commencing on July 1, 2011 and ending on June 30, 2015. The Sponsor is responsible for evaluating the performance of the Academy and has the authority to deny renewal of the contract at its expiration.

For the period July 1, 2011 through December 31, 2011, the Academy contracted with Mosaica Education, Inc. (MEI) for management services (See Note 13). On January 1, 2012 the Academy ended the management contract with MEI and the Academy employed its own staff.

The Academy is located in Cleveland, Ohio, Cuyahoga County. The Academy operates under the direction of a five-member Governing Authority. New members of the Governing Authority are voted on by the existing members of the Governing Authority. The Governing Authority 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 qualification of teachers who provide services to 99 students. The Academy is staffed by 2 full time non-certified staff members and 9 certified full time teaching personnel.

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The basic financial statements (BFS) of the Academy have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The Academy also applies Financial Accounting Standards Board (FASB) guidance issued prior to November 30, 1989, provided those pronouncements do not conflict with or contradict GASB pronouncements. The Academy has elected not to apply FASB guidance issued after November 30, 1989. The Academy's significant accounting policies are described below.

**A. Basis of Presentation**

The Academy's basic financial statements consist of a Statement of Net Assets, a Statement of Revenues, Expenses, and Changes in Net Assets, and a Statement of Cash Flows.

The Academy uses a single enterprise presentation. Enterprise reporting focuses on the determination of operating income, changes in net assets, financial position, and cash flows.

**STEVE SANDERS ACADEMY OF OHIO  
CUYAHOGA COUNTY**

**NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012  
(Continued)**

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)**

**B. Measurement Focus**

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

**C. Basis of Accounting**

Basis of accounting determines when transactions are recognized in the financial records and reported on the financial statements. The Academy's financial statements are prepared using the accrual basis of accounting. Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. Revenue resulting from nonexchange transactions, in which the Academy receives value without directly giving equal value in return, such as grants and entitlements, is recognized in the period in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the period when the resources are required to be used or the period when use is first permitted, matching requirements, in which the Academy must provide local resources to be used for a specific purpose, and expenditure requirements, in which the resources are provided to the Academy on a reimbursement basis. Expenses are recognized at the time they are incurred.

**D. Budgetary Process**

Unlike traditional public schools located in the State of Ohio, the Academy is not required to follow budgetary provisions set forth in Ohio Revised Code Section 5705, unless specifically provided in the contract between the Academy and its sponsor. The contract between the Academy and its Sponsor prescribes an annual budget requirement in addition to preparing a five-year forecast which is updated on an annual basis.

**E. Cash**

Cash received by the Academy is reflected as "Cash" on the Statement of Net Assets. Unless otherwise noted, all monies received by the Academy are pooled and deposited in a central bank account as demand deposits. The Academy did not have any investments during fiscal year 2012.

**F. Capital Assets and Depreciation**

Capital assets are capitalized at cost (or estimated historical cost) and updated for additions and reductions during the year. Donated capital assets are recorded at their fair market value on the date donated. The Academy maintains a capitalization threshold of \$1,000. The Academy does not have any infrastructure. Improvements are capitalized. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized. The Academy does not capitalize interest.

All capital assets are depreciated. The Academy's capital assets consist of furniture and equipment. Depreciation is computed using the straight-line method. Equipment is depreciated over a period of five years.



**STEVE SANDERS ACADEMY OF OHIO  
CUYAHOGA COUNTY**

**NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012  
(Continued)**

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)**

**G. Net Assets**

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists 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, either through enabling legislation or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

The Academy first applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

**H. Intergovernmental Revenues**

The Academy currently participates in the State Foundation Program, Special Education, and the Parity Aid Program. Revenue received from these programs is recognized as operating revenues. Amounts awarded under these programs for the 2012 school year totaled \$616,740.

Grants and entitlements are recognized as non-operating revenues in the accounting period in which all eligibility requirements have been met. Eligibility includes timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted; matching requirements, in which the Academy must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the Academy on a reimbursement basis. Federal and State grant revenue received during fiscal year 2012 was \$18,051.

**I. Accrued Liabilities**

All payables and other accrued liabilities are reported on the Statement of Net Assets.

**J. Operating Revenues and Expenses**

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

**K. Estimates**

The preparation of financial statements in conformity with GAAP 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.

**NOTE 3 - DEPOSITS**

Custodial credit risk is the risk that, in the event of bank failure, the Academy's deposits may not be returned. The Academy does not have a deposit policy for custodial credit risk. At June 30, 2012, the carrying amount of the Academy's deposits was a balance of \$111,950 and the bank balance was \$136,661. The entire bank balance was covered by the Federal Deposit Insurance Corporation (FDIC). There are no significant statutory restrictions regarding the deposit and investment of funds by the non-profit corporation.

**STEVE SANDERS ACADEMY OF OHIO  
CUYAHOGA COUNTY**

**NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012  
(Continued)**

**NOTE 4 - CAPITAL ASSETS**

Capital asset activity for the fiscal year ended June 30, 2012, was as follows:

	<u>Balance</u> <u>June 30, 2011</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance</u> <u>June 30, 2012</u>
Depreciable capital assets:				
Furniture and equipment	\$ -	\$ 21,000	\$ -	\$ 21,000
Less: accumulated depreciation	<u>-</u>	<u>(2,100)</u>	<u>-</u>	<u>(2,100)</u>
Capital assets, net	<u>\$ -</u>	<u>\$ 18,900</u>	<u>\$ -</u>	<u>\$ 18,900</u>

**NOTE 5 - LINE OF CREDIT**

During fiscal year 2012, the Academy borrowed \$48,264, through a line of credit from GEMS Americas, Inc., a Delaware corporation (GEMS). This line of credit was established to cover operating expenses of the Academy. The following activity occurred on the line of credit during the fiscal year 2012:

	<u>Balance</u> <u>June 30, 2011</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance</u> <u>June 30, 2012</u>
Line of credit	<u>\$ -</u>	<u>\$ 48,264</u>	<u>\$ -</u>	<u>\$ 48,264</u>

During fiscal year 2012, the Academy negotiated with GEMS for management services, including terms of the line of credit. However, a final agreement between GEMS and Steve Sanders Academy of Ohio was not agreed upon, and as a result, the line of credit was terminated. The line of credit became payable immediately, and thus the entire amount is classified as a current liability.

During fiscal year 2012, the Academy incurred \$804 in interest charges related to the line of credit.

**NOTE 6 - OPERATING LEASE**

The Academy school facilities are located in a space leased at 4129 Superior Avenue, Cleveland, Ohio. The lease agreement is with Immaculate Conception Parish for the period of August 11, 2011 through August 11, 2013. The base rental of the lease is \$5,500 per month. Payments totaling \$40,500 were made during fiscal year 2012.

**NOTE 7 - RECEIVABLES**

At June 30, 2012, receivables consisted of intergovernmental receivables of \$8,392 in State and Federal grants and reimbursements. The receivables are expected to be collected in full within one year.

**STEVE SANDERS ACADEMY OF OHIO  
CUYAHOGA COUNTY**

**NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012  
(Continued)**

**NOTE 8 - PENSION PLANS**

**A. School Employees Retirement System**

Plan Description - The Academy contributes to the School Employees Retirement System (SERS), a cost-sharing, multiple-employer defined benefit pension plan. SERS provides retirement, disability, survivor 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. It is also posted on the SERS' Ohio website, [www.ohsers.org](http://www.ohsers.org), under "Employers/Audit Resources".

Funding Policy - Plan members are required to contribute 10 percent of their annual covered salary and the Academy is required to contribute at an actuarially determined rate. The current Academy rate is 14 percent of annual covered payroll. A portion of the Academy's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal year 2012, 12.65 percent and 0.05 percent of annual covered salary was the portion used to fund pension obligations and death benefits, respectively. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to a statutory maximum amount of 10 percent for plan members and 14 percent for employers. Chapter 3309 of the Ohio Revised Code provides statutory authority for member and employer contributions. The Academy's required contributions for pension obligations and death benefits to SERS for the fiscal year ended June 30, 2012, was \$4,714; 73.87 percent has been contributed for fiscal year 2012.

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

Plan Description - The Academy participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement plan. 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 43215-3771, by calling (888) 227-7877, or by visiting the STRS Ohio website at [www.strsoh.org](http://www.strsoh.org), under "Publications".

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 a member's lifetime contributions and earned interest matched by STRS Ohio funds divided by an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump sum withdrawal. The Combined Plan offers features of both the 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. The DB portion of the Combined Plan payment is payable to a member on or after age 60; the DC portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50. Benefits are established by Chapter 3307 of the Ohio Revised Code.

**STEVE SANDERS ACADEMY OF OHIO  
CUYAHOGA COUNTY**

**NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012  
(Continued)**

**NOTE 8 - PENSION PLANS - (Continued)**

**B. State Teachers Retirement System of Ohio (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 of the DC Plan dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

Funding Policy - For fiscal year 2012, 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 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The Academy's required contributions for pension obligations to STRS Ohio for the fiscal year ended June 30, 2012 was \$17,680; 94.91 percent has been contributed for fiscal year 2012.

**NOTE 9 - POSTEMPLOYMENT BENEFITS**

**A. School Employees Retirement System**

Plan Description - The Academy participates in two cost-sharing, multiple employer postemployment benefit plans administered by the School Employees Retirement System (SERS) for non-certificated retirees and their beneficiaries, a Health Care Plan and a Medicare Part B Plan. The Health Care Plan includes hospitalization and physicians' fees through several types of plans including HMO's, PPO's, Medicare Advantage, and traditional indemnity plans. A prescription drug program is also available to those who elect health coverage. SERS employs two third-party administrators and a pharmacy benefit manager to manage the self-insurance and prescription drug plans, respectively. The Medicare Part B Plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries as set forth in Section 3309.69 of the Ohio Revised Code. Qualified benefit recipients who pay Medicare Part B premiums may apply for and receive a monthly reimbursement from SERS. The reimbursement amount is limited by statute to the lesser of the January 1, 1999 Medicare Part B premium or the current premium. The Medicare Part B premium for calendar year 2012 was \$99.90 for most participants, but could be as high as \$319.70 per month depending on their income and the SERS' reimbursement to retirees was \$45.50. Benefit provisions and the obligations to contribute are established by the System based on authority granted by State statute. The financial reports of both Plans are included in the SERS Comprehensive Annual Financial Report which is available by contacting SERS at 300 East Broad St., Suite 100, Columbus, Ohio 43215-3746. It is also posted on the SERS' Ohio website, [www.ohsers.org](http://www.ohsers.org), under "Employers/Audit Resources".

**STEVE SANDERS ACADEMY OF OHIO  
CUYAHOGA COUNTY**

**NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012  
(Continued)**

**NOTE 9 - POSTEMPLOYMENT BENEFITS - (Continued)**

**A. School Employees Retirement System (Continued)**

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 105(e). For 2012, 0.55 percent of covered payroll was allocated to health care. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. Statutes provide that no employer shall pay a health care surcharge greater than 2.0 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the statewide SERS-covered payroll for the health care surcharge. For fiscal year 2012, the actuarially determined amount was \$35,800.

Active members do not contribute to the postemployment benefit plans. The Retirement Board establishes the rules for the premiums paid by the retirees for health care coverage for themselves and their dependents or for their surviving beneficiaries. Premiums vary depending on the plan selected, qualified years of service, Medicare eligibility and retirement status.

The Academy's contribution for health care for the fiscal year ended June 30, 2012 was \$204; 73.87 percent has been contributed for fiscal year 2012.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For fiscal year 2012, this actuarially required allocation was 0.75 percent of covered payroll. The Academy's contribution for Medicare Part B for the fiscal year ended June 30, 2012, was \$278; 73.87 percent has been contributed for fiscal year 2012.

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

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

Funding Policy - Ohio law authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For 2012, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. The Academy's contribution for health care for the fiscal year ended June 30, 2012, was \$1,360; 94.91 percent has been contributed for fiscal year 2012.

**STEVE SANDERS ACADEMY OF OHIO  
CUYAHOGA COUNTY**

**NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012  
(Continued)**

**NOTE 10 - RISK MANAGEMENT**

**A. Property and Liability**

The Academy is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the fiscal year ended June 30, 2012, the Academy was insured by Cincinnati Insurance Co. for the following coverage:

General Liability	
Per Occurrence	\$1,000,000
Damage to Rented Premises	300,000
Medical Expense	10,000
Personal and Advertising Injury	1,000,000
General Aggregate	2,000,000
Products - Comp/OP AGG	2,000,000
 Umbrella Liability	
Per Occurrence	\$5,000,000

Settled claims did not exceed this commercial coverage in fiscal year 2012.

**B. Workers' Compensation**

The Academy pays the State Workers' Compensation System a premium for employee injury coverage. The premium is calculated by multiplying the monthly total gross payroll by a factor determined by the State. At June 30, 2012, the Academy owed \$912 for this premium on January through June 2012 wages and \$109 on accrued wages. The liability is reflected in the financial statements at June 30, 2012.

**NOTE 11 - PURCHASED SERVICES**

For fiscal year ended June 30, 2012, purchased services expenses were as follows:

Professional and technical services	\$ 289,189
Property services	49,980
Communications	31,063
Utility services	12,909
Contracted craft or trade services	59,503
Pupil transportation services	<u>30,430</u>
Total	<u>\$ 473,074</u>

**STEVE SANDERS ACADEMY OF OHIO  
CUYAHOGA COUNTY**

**NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012  
(Continued)**

**NOTE 12 - SPONSOR CONTRACT**

The Academy entered into a four-year contract commencing on May 15, 2011 and continuing through June 30, 2015 with the St. Aloysius Orphanage (the "Sponsor") for its establishment. The sponsor shall carry out the responsibilities established by law, including:

- Monitor the Academy's compliance with the laws applicable to the Academy and with the terms of this contract;
- Monitor and evaluate the academic and fiscal performance and the organization of the Academy on at least an annual basis;
- Provide reasonable technical assistance to the Academy in complying with this contract and with applicable laws (provided, however, the Sponsor shall not be obligated to give legal advice to the Academy);
- Take steps to intervene in the Academy's operation to correct problems in the Academy's overall performance, declare the Academy to be on probationary status under Ohio Revised Code Section 3314.073, suspend operation of the Academy pursuant to Ohio Revised Code Section 3314.072, or terminate or non-renew this contract pursuant to Ohio Revised Code Section 3314.07, as determined necessary by the Sponsor;
- Establish and/or require a plan of action to be undertaken if the Academy experiences financial difficulties or losses before the end of the school year;
- Provide in writing the annual assurances for the Academy no later than ten business days prior to the opening of the Academy, as required in Ohio Revised Code Section 3314.19;
- Abiding by the requirements in its contract with the Ohio Department of Education, even should those requirements affect the Academy and/or the Governing Authority; and
- The Sponsor shall not enter into any contracts with current vendors of the Governing Authority without proper notice to the Governing Authority.

For the services listed above, the Academy is required to pay a fee to the Sponsor for the oversight and monitoring of the Academy. The fee is equal to 3 percent of all funds received from the State. The Academy paid the Sponsor \$16,645 for services during fiscal year 2012.

**STEVE SANDERS ACADEMY OF OHIO  
CUYAHOGA COUNTY**

**NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012  
(Continued)**

**NOTE 13 - MANAGEMENT COMPANY CONTRACT**

For the period July 1, 2011 through December 31, 2011, the Academy contracted with MEI for management services. On January 1, 2012, the Academy ended the contract with MEI. MEI provided the following management services to the Academy through December 31, 2011:

- Educational Services - Curriculum, instruction, instructional tools, extra-curricular and co-curricular programs.
- Administrative Services - Personnel management and facility operations management.
- Business Administration - Payroll, transportation and food services, public relations, budgeting and financial reporting, maintenance of financial and student records, admissions, student hearings, academic progress reports, rules and procedures, and parent satisfaction forms.

Per the management agreement, the Academy was required to pay MEI a management fee that was equivalent to 12.5 percent of State and local funds received by the Academy, which amounted to \$16,039 for fiscal year 2012.

Also, per the management agreement, there were expenses that were billed to the Academy based on the actual costs incurred for the Academy by MEI. These expenses include rent, salaries of MEI employees working at the Academy, and other costs related to providing educational and administrative services. The total expenses paid to MEI during fiscal year 2012 were \$128,073, which includes \$87,410 reported in accounts payable.

**NOTE 14 - CONTINGENCIES**

**A. Grants and ADM**

The Academy received financial assistance from federal and State agencies in the form of grants. The expenditure 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 general fund or other applicable funds. This also encompasses the Auditor of State's ongoing review of student attendance data; however, the effect of any such disallowed claims on the overall financial position of the Academy at June 30, 2012, if applicable, cannot be determined at this time.

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

The Ohio Department of Education conducts reviews on enrollment data and full-time equivalency (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 foundation funding is calculated. As a result of the review after fiscal year end, the Ohio Department of Education underpaid the Academy \$8,002. This amount is reflected as intergovernmental receivable on the basic financial statements.



**STEVE SANDERS ACADEMY OF OHIO  
CUYAHOGA COUNTY**

**NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012  
(Continued)**

**NOTE 15 - MANAGEMENT'S PLAN**

For fiscal year 2012, the Academy had an operating loss of \$99,209 and a net asset deficit of \$81,962. As described in Note 16 below, the Academy's operations were suspended on August 7, 2012, and steps are being taken by the Sponsor to close the Academy.

**NOTE 16 - SUBSEQUENT EVENTS**

On August 7, 2012, the Sponsor suspended the operations of the Academy for failing to meet generally accepted standards of fiscal management and violating the provisions of applicable State and/or Federal laws and/or the provision of the charter dated May 15, 2011.

The following is a schedule of all receipts and expenses transactions which occurred subsequent to June 30, 2012:

Date	Receipt	Expenditure	Payee/Vendor	Description
7/9/2012		\$10,924.05	-	Payroll - Payperiod 7/9/12
7/10/2012		\$1,600.00	Cool Athletes	June Gym instruction
7/10/2012		\$158.39	Medicare transfer	Medicare - Payroll Benefit Payment
7/12/2012		\$3,443.00	O'Neil Group	Liability Insurance
7/12/2012		\$3,234.00	STRS Ohio	STRS - Payroll Benefit Payment
7/12/2012		\$292.00	SERS Ohio	SERS - Payroll benefit payment
7/12/2012	\$52,065.02		ODE	July State Foundation Payment
7/13/2012		\$500.00	Kalita Jackson	Organizing Student cumulative folder
7/16/2012	\$11,907.40		SEA-DOC	re-issue check from 6/28/12
7/16/2012		\$11,907.40	-	Check voided and re-issued.
7/16/2012	\$228.99		Dominion East	Refund for Prior year deposit - gas charges
7/17/2012	\$50.00		-	Unused Petty Cash check from FY 12
7/20/2012		\$9,336.28	-	Payroll - Payperiod 7/2-/12
7/20/2012		\$135.39	Medicare transfer	Medicare - Payroll Benefit Payment
7/26/2012		\$500.00	Jacqueline Johnson	after year NSLP and NSBP services
7/27/2012	\$16,695.86		ODE	Lunch and Breakfast Reimbursement
7/31/2012		\$975.00	Sandra D. Sanders	SOES/EMIS from July
7/31/2012		\$67.79	Huntington Bank	Bank Fee
7/31/2012		\$93.66	Huntington Bank	Bank Fee
8/2/2012	\$10.00		OBWC	Refund of application fee
8/9/2012		\$170.50	Maureen Businger	Reimbursement to Maureen Businger for postage
8/9/2012	\$389.94		ODE	Title I Grant Funds
8/30/2012		\$3,443.00	O'Neil Group	Liability Insurance
8/30/2012		\$720.00	Forest City Erectors, Inc.	Removal of Sign at School Building
8/31/2012		\$66.87	Huntington Bank	Bank Fee
9/4/2012		\$1,020.00	Reichart And Assoc.	IRS 990 filing services

**STEVE SANDERS ACADEMY OF OHIO  
CUYAHOGA COUNTY**

**NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012  
(Continued)**

**NOTE 16 - SUBSEQUENT EVENTS (Continued)**

9/4/2012	\$6,100.00		-	Capital Asset Auction
9/5/2012		\$161.62	Huntington Bank	Bank Fee
9/5/2012	\$48.64		ADP	ADP refund for FUTA payment made in January of 2012
9/6/2012	\$3,580.00		-	Capital Asset Auction
9/10/2012	\$300.00		-	Capital Asset Auction
9/20/2012		\$48,539.02	ODE	Refunded July ODE Foundation Payment
9/20/2012	\$5,400.00		-	Capital Asset Auction
10/17/2012	\$565.00		-	Capital Asset Auction
10/24/2012	\$1,000.00		-	Capital Asset Auction
11/2/2012	\$3,304.00		O'Neil Group	REFUND - CANCELLATION OF POLICY
11/5/2012		\$125.00	Huntington Bank	Bank Fee
11/19/2012		\$62.50	Huntington Bank	Bank Fee
11/19/2012	\$8,002.24		ODE	FY 12 Final Adjustment Payment
11/27/2012		\$60.00	Huntington Bank	Bank Fee
12/19/2012		\$1,371.62	SERS OH	SERS - Payroll benefit payment
12/31/2012		\$868.00	Huntington Bank	Bank Fee
1/25/2013		\$2,362.00	Julian and Grube, Inc.	Fiscal Year 2012 GAAP Conversion
2/14/2013		\$7,269.00	Buckley King	Legal Fees
2/14/2013		\$458.64	Central Purchasing Office	School Supplies
2/14/2013		\$1,784.40	Charter School Specialists	Treasurer Services
2/14/2013		\$4,789.17	Eastman and Smith	Legal Services
2/14/2013		\$55.68	First Communications	Phone Service
2/14/2013		\$1,310.30	FIT Technologies	Data and Technology Services
2/14/2013		\$24,177.70	GEMS Education	Loan Payment
2/14/2013		\$43,070.33	Mosaica Education	Management Services
2/14/2013		\$915.53	St. Aloysius Orphanage	Sponsorship Services
2/14/2013		\$324.01	Time Warner Cable	Internet Services
2/14/2013		\$623.13	Toshiba Financial Services	Copier Charges
2/14/2013		\$7,137.00	Total Education Solutions	Special Education Services
2/22/2013	\$131.00		Julian and Grube, Inc.	Refund from Julian and Grube



# Dave Yost • Auditor of State

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

Steve Sanders Academy of Ohio  
Cuyahoga County  
C/O Dan Lamb, Treasurer  
Charter School Specialists LLC  
40 Hill Road South  
Pickerington, Ohio 43147

To the Board:

We have audited the financial statements of the Steve Sanders Academy of Ohio, Cuyahoga County, Ohio (the Academy) as of and for the year ended June 30, 2012, wherein we noted the Academy suspended operations on August 7, 2012, and have issued our report thereon dated March 14, 2013. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

### Internal Control Over Financial Reporting

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

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Academy's financial statements will not be prevented, or detected and timely corrected. We consider finding 2012-001 described in the accompanying schedule of findings to be a material weakness.

A significant deficiency is a deficiency, or a combination of internal control deficiencies less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider finding 2012-02 described in the accompanying schedule of findings to be a significant deficiency.

### Compliance and Other Matters

As part of reasonably assuring whether the Academy's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed an instance of noncompliance or other matters we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2012-002.

We also noted certain matters not requiring inclusion in this report that we reported to the Academy's management in a separate letter dated March 14, 2013.

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

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



**Dave Yost**  
Auditor of State

March 14, 2013

**STEVE SANDERS ACADEMY OF OHIO  
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS  
JUNE 30, 2012**

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

**FINDING NUMBER 2012-001**

**Debt Agreement – Material Weakness**

Debt should be entered into only through official debt agreements that include the terms of the debt. These terms should include, but are not limited to, minimum payments or an amortization schedule of payments to be made, including the timing and amount of payments on the debt, and any applicable interest that is owed on the debt.

The Academy entered into a line of credit totaling \$48,264, from GEMS Education Community School Services in fiscal year 2012 and the line of credit remained open throughout the audit period with no repayment activity. However, the Academy could not provide a letter of credit agreement between the parties. The debt was approved by the Board on March 15, 2012.

By entering into debt agreements without an official signed debt agreement, the terms, such as payment schedule and interest, and amount owed, could result in disputes with the debtor, lawsuit claims, errors in reporting and ineffective management oversight.

We recommend the Board only enter into debt with an official signed debt agreement.

**Official's Response:** The Board of Director's failed to exhibit adequate governance over the Steve Sanders Academy. This resulted in the sponsor taking over operations of the school on June 25, 2012 and ultimately suspending the Steve Sanders Academy on August 7, 2012

STEVE SANDERS ACADEMY OF OHIO  
CUYAHOGA COUNTY

SCHEDULE OF FINDINGS  
JUNE 30, 2012  
(Continued)

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

FINDING NUMBER 2012-002

**Board Minutes – Noncompliance/Significant Deficiency**

Ohio Revised Code Section 149.43(B)(1) states that all public records shall be promptly prepared and made available to any member of the general public at all reasonable times during regular business hours for inspection. Upon request, a person responsible for public records shall make copies available at cost, within a reasonable period of time. In order to facilitate broader access to public records, public offices shall maintain public records in such a manner that they can be made available for inspection. Ohio Revised Code Section 121.22(C) states the minutes of a regular or special meeting of any such public body shall be promptly recorded and open to public inspection. The minutes need only reflect the general subject matter of discussions in executive sessions.

Ohio Rev. Code Section 149.351(A) states that all records are the 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 commissions provided for under sections 149.38 to 149.42 of the Revised Code.

All Board minute records were not retained. The Academy only retained the February through May 2012 meeting minutes. Furthermore, the Academy did not provide any indication prior to February 2012, that accurate reports or the necessary detail needed to have effective monitoring controls, such as the inclusion of bank reconciliations, financial position reports that show all revenues, expenditures, fund balances, assets, liabilities and budget versus actual information were reviewed by the Board.

By not retaining Board meeting minutes, it leads to unsubstantiated, unclear, and possibly inaccurate official actions and approvals enacted by the Board of Education, which may further lead to an inability to determine the classification, existence, completeness, and valuation of cash receipts and disbursements, in addition to related receivables and liabilities. Also a lack of effective legislative monitoring may lead to errors, irregularities, or misappropriation of the Academy funds.

Additionally, the Board of Directors should monitor the financial data of the Academy. Monitoring comprises regular management activities established to oversee whether management's financial objectives are being achieved. Data from such reports may indirectly provide assurance as to the reliability of financial reporting information if it conforms to the users' expectations. Effective monitoring controls should identify unexpected results or exceptions, investigate underlying causes, and take corrective action.

We recommend the Board document all pertinent information pertaining to official Board actions in the minutes. Additionally, we recommend the minutes be properly stored for public inspection and that subject reasoning be provided in the minutes for all executive sessions that the Board enters into. We further recommend the Board receive monthly detailed financial data reports for its review. These reports should include a summary of all bank reconciliations, revenues, expenditures, fund balances, assets, liabilities and budget versus actual reports and that this review at the Board meetings is documented in the monthly Board minutes.

**Official's Response:** The Board of Director's failed to exhibit adequate governance over the Steve Sanders Academy. This resulted in the sponsor taking over operations of the school on June 25, 2012 and ultimately suspending the Steve Sanders Academy on August 7, 2012



# Dave Yost • Auditor of State

## INDEPENDENT ACCOUNTANTS' REPORT ON APPLYING AGREED-UPON PROCEDURE

Steve Sanders Academy of Ohio  
Cuyahoga County  
C/O Dan Lamb  
Charter School Specialist LLC  
40 Hill Road South  
Pickerington, Ohio 43147

To the Board:

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

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

1. The Academy was new during fiscal year 2012. We noted the Academy had an anti-harassment policy on hand that included violence within a dating relationship within its definition of harassment, intimidation or bullying. We also noted the policy included all of the other previously required elements. However, no documentation was retained signifying that it was Board approved.

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

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

A handwritten signature in black ink that reads "Dave Yost". The signature is written in a cursive style with a large, looping initial "D" and a long, sweeping tail on the "y".

**Dave Yost**  
Auditor of State

March 14, 2013





# Dave Yost • Auditor of State

**STEVE SANDERS ACADEMY OF OHIO**

**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  
MAY 28, 2013**