



Dave Yost • Auditor of State

**CLEVELAND COMMUNITY SCHOOL
CUYAHOGA COUNTY**

TABLE OF CONTENTS

TITLE	PAGE
Independent Auditor's Report	1
Management's Discussion and Analysis.....	3
Statement of Net Position as of June 30, 2013.....	7
Statement of Revenues, Expenses and Changes in Net Position For the Fiscal Year Ended June 30, 2013	8
Statement of Cash Flows for the Fiscal Year Ended June 30, 2013	9
Notes to the Basic Financial Statements	10
Independent Auditor's 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
Schedule of Prior Audit Findings.....	29
Independent Accountants' Report on Applying Agreed-Upon Procedure	31

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Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT

Cleveland Community School
Cuyahoga County
1701 East 12th Street
Cleveland, Ohio 44114

To the Board of Directors:

Report on the Financial Statements

We were engaged to audit the accompanying financial statements of the Cleveland Community School, Cuyahoga County, Ohio (the School), as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the School's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for preparing and fairly presenting these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes designing, implementing, and maintaining internal control relevant to preparing and fairly presenting financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to opine on these financial statements based on our audit. We audited in accordance with auditing standards generally accepted in the United States of America and the financial audit standards in the Comptroller General of the United States' *Government Auditing Standards*. Because of the matters described in the Basis for Disclaimer of Opinion paragraph, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

Basis for Disclaimer of Opinion

Auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in the Comptroller General of the United States' *Government Auditing Standards* require us to obtain written representations from management. Management has not provided the Auditor of State written representations, including but not limited to, management's responsibility for preparing the financial statements in conformity with the School's accounting basis; the availability of original records and related data; management's responsibility for the School's compliance with laws and regulations; the identification and disclosure to the Auditor of State of all laws, regulations, and provisions of contracts and grant agreements directly and materially affecting the determination of financial statement amounts; and; the presence or absence of regulations, and provisions of contracts and grant agreements, and compliance with any debt covenants.

In addition to the circumstances listed above the School did not maintain sufficient documentation to support amounts recorded as cash, capital assets, long term liabilities, or debt and purchased services expenses as reported on the Statement of Cash Flows. The School also did not maintain documentation to support the Defined Benefit Pension Plans and Post-Employment Benefits disclosure or the disclosures related to the items listed above. The effect on the financial statements for the previously mentioned balances and disclosures is presumed to be material and would have resulted in an additional opinion modification if we had opined on the financial statements.

Disclaimer of Opinion

Because of the significance of the matters described in the Basis for Disclaimer of Opinion paragraph, we were unable to obtain sufficient appropriate audit evidence to support an opinion. Accordingly, we do not express an opinion on these financial statements.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require this presentation to include *Management's discussion and analysis* listed in the table of contents, to supplement the basic financial statements. Although this information is not part of the basic 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 applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, consisting of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries to the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not opine or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to opine or provide any other assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated May 19, 2014, on our consideration of the School'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. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School's internal control over financial reporting and compliance.



Dave Yost
Auditor of State
Columbus, Ohio

May 19, 2014

**CLEVELAND COMMUNITY SCHOOL
CUYAHOGA COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

Our discussion and analysis of The Cleveland Community School (CCS) financial performance provides an overall review of CCS's financial activities for the fiscal year ended June 30, 2013. The intent of this discussion and analysis is to look at CCS'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 CCS's financial performance.

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

FINANCIAL HIGHLIGHTS

Key Financial Highlights for CCS for the 2012-2013 school year are as follows:

- Total assets decreased by \$26,309 or 5%.
- Total liabilities increased by \$223,871 or 38%.
- Total net position decreased by \$250,180.
- Total operating revenues were \$999,812. Total operating expenses were \$1,699,082.

USING THIS ANNUAL REPORT

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

The Statement of Net Position and Statement of Revenues, Expenses, and Changes in Net Position reflect how CCS did financially during fiscal year 2013. These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting includes all of the current year revenues and expenses regardless of when cash is received or paid.

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

CCS uses enterprise presentation for all of its activities.

**CLEVELAND COMMUNITY SCHOOL
CUYAHOGA COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

STATEMENT OF NET POSITION

The Statement of Net Position answers the question of how CCS did financially during 2013.

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

Table 1 provides a summary of the School's net position for fiscal years 2012 and 2013.

**Table 1
Statement of Net Position**

	<u>2013</u>	<u>2012</u>	<u>Change</u>
Assets			
Current Assets	\$252,070	\$234,632	\$17,438
Capital Assets, Net of Accumulated Depreciation	<u>235,409</u>	<u>279,156</u>	<u>(43,747)</u>
<i>Total Assets</i>	<u><u>487,479</u></u>	<u><u>513,788</u></u>	<u><u>(26,309)</u></u>
Liabilities			
Current Liabilities	452,688	96,817	355,871
Long Term Liabilities	<u>365,279</u>	<u>497,279</u>	<u>(132,000)</u>
<i>Total Liabilities</i>	<u>817,967</u>	<u>594,096</u>	<u>223,871</u>
Net Position			
Net Investment in Capital Assets	235,409	279,156	(43,747)
Unrestricted	<u>(565,897)</u>	<u>(359,464)</u>	<u>(206,433)</u>
Total Net Position	<u><u>(\$330,488)</u></u>	<u><u>(\$80,308)</u></u>	<u><u>(\$250,180)</u></u>

Net position decreased to (\$250,180), a significant decrease which resulted in significantly more accounts payable than 2012 which caused the liabilities to increase by almost 38%. The School also reported a liability for the overdraft of the bank balance at June 30, 2013. Capital Assets, net of depreciation, changed as a result of depreciation expense plus some small additions.

**CLEVELAND COMMUNITY SCHOOL
CUYAHOGA COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

Table 2 shows the changes in net position for fiscal years 2012 and 2013, as well as a listing of revenues and expenses. This change in net position is important because it tells the reader that, for the CCS as a whole, the financial position of the CCS has improved or diminished. The cause of this may be the result of many factors, some financial, some not. Non-financial factors include the current laws in Ohio restricting revenue growth, facility conditions, required educational programs and other factors.

Table 2 – Change in Net Position

	<u>2013</u>	<u>2012</u>	<u>Change</u>
Revenues			
Operating revenues:			
Foundation payments	\$983,252	\$1,545,836	(\$562,584)
Other operating revenues	16,560	0	16,560
Non-operating revenues:			
Federal and state grants	<u>449,090</u>	<u>357,304</u>	<u>91,786</u>
Total revenues	<u>1,448,902</u>	<u>1,903,140</u>	<u>(454,238)</u>
Expenses			
Operating expenses:			
Salaries	631,627	532,654	98,973
Fringe benefits	133,786	25,050	108,736
Purchased services	716,610	839,135	(122,535)
Materials and supplies	54,593	68,646	(14,053)
Depreciation	61,747	61,747	0
Other expenses	<u>100,719</u>	<u>112,878</u>	<u>(12,159)</u>
Total Expenses	<u>1,699,082</u>	<u>1,640,110</u>	<u>58,972</u>
Change in Net Position	(250,180)	263,030	<u>(\$513,210)</u>
Beginning Net Position	<u>(80,308)</u>	<u>(343,338)</u>	
Ending Net Position	<u>(\$330,488)</u>	<u>(\$80,308)</u>	

**CLEVELAND COMMUNITY SCHOOL
CUYAHOGA COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

Total revenues were down between years as a result of CCS seeing the student count drop from 200 in fiscal year 2012 to 129 in fiscal year 2013. This created significant cash flow issues for CCS which has contributed to the increase in accounts payable. Although CCS experienced total revenue reduction of almost 24% during the year, the expenses actually went up resulting in the overdraft and large deficit net position at June 30.

BUDGETING HIGHLIGHTS

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

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

CAPITAL ASSETS

CCS has invested in capital assets, net of accumulated depreciation. CCS added \$18,000 to capital assets for technology equipment that was acquired by year end but reported as an account payable. Detailed information regarding capital asset activity is included in the Note 4 in the notes to the basic financial statements.

DEBT OBLIGATIONS

CCS has debt obligations comprised of loans totaling \$431,279 at June 30, 2013. See Note 14 to the basic financial statement for further details.

CONTACTING CCS'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizen's, taxpayers, investors and creditors with a general overview of CCS's finances and to demonstrate accountability for the money it receives. If you have questions about this report or need additional information contact Dr. Marlaina Palmeri, President and Chief Education Officer – Believe to Achieve International, Superintendent – Cleveland Community Schools (585) 734-3210 or mpalmeri@b2a-intl.com.

**CLEVELAND COMMUNITY SCHOOL
 CUYAHOGA COUNTY, OHIO
 STATEMENT OF NET POSITION**

AS OF JUNE 30, 2013

Assets:

Current assets:

Intergovernmental Receivable	193,013
Due from Villaview Community	59,057
Total current assets	<u>252,070</u>

Noncurrent assets:

Capital assets, net	235,409
Total noncurrent assets	<u>235,409</u>

Total Assets	<u>487,479</u>
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Liabilities:

Current liabilities

Accounts payable	277,735
Overdraft payable	26,779
Accrued wages and benefits payable	71,177
Intergovernmental payable	10,997
Current portion of long term debt	66,000
Total current liabilities	<u>452,688</u>

Long term debt	<u>365,279</u>
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Total Liabilities	<u>817,967</u>
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Net Position:

Net investment in capital assets	235,409
Unrestricted	<u>(565,897)</u>

Total Net Position	<u>\$ (330,488)</u>
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See accompanying notes to the basic financial statements

**CLEVELAND COMMUNITY SCHOOL
 CUYAHOGA COUNTY, OHIO
 STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION**

For the Fiscal Year Ended June 30, 2013

Operating Revenues:	
Foundation payments	\$ 983,252
Other operating revenues	16,560
	<hr/>
Total operating revenues	999,812
	<hr/>
Operating Expenses:	
Salaries	631,627
Fringe benefits	133,786
Purchased services	716,610
Materials and supplies	54,593
Depreciation	61,747
Other operating expenses	100,719
	<hr/>
Total operating expenses	1,699,082
	<hr/>
Operating Loss	(699,270)
	<hr/>
Non-Operating Revenues:	
Federal grants	428,517
State grants	20,573
	<hr/>
Total non-operating revenues	449,090
	<hr/>
Change in net position	(250,180)
Net position at beginning of year	(80,308)
Net position at end of year	<hr/>
	\$ (330,488)
	<hr/> <hr/>

See accompanying notes to the basic financial statements

**CLEVELAND COMMUNITY SCHOOL
 CUYAHOGA COUNTY, OHIO
 STATEMENT OF CASH FLOWS**

For the Fiscal Year Ended June 30, 2013

Increase (Decrease) in cash and cash equivalents

Cash flows from operating activities:

Cash received from State of Ohio - Foundation	\$ 983,252
Cash received from other operating revenues	16,560
Cash payments for personal services	(752,662)
Cash payments for contract services	(532,949)
Cash payments for supplies and materials	(7,799.00)
Cash payments for other expenses	(119)
Net cash used by operating activities	<u>(293,717)</u>

Cash flows from noncapital financing activities:

Cash received from state and federal grants	335,926
Bank coverage of overdraft liability	26,779
Principal paid on debt obligations	(66,000)
Net cash provided by noncapital financing activities	<u>296,705</u>

Net change in cash and cash equivalents	(15,012)
Cash and Cash Equivalents at beginning of year	<u>15,012</u>
Cash and Cash Equivalents at end of year	<u><u>-</u></u>

Reconciliation of operating loss to net cash used by operating activities:

Operating loss	(699,270)
Adjustments to reconcile operating loss to net cash provided for operating activities:	
Depreciation	61,747
Change in assets and liabilities:	
Decrease in Due from Villaview Community	100,600
Increase in accounts payable	232,406
Increase in accrued wages and benefits	9,353
Increase in intergovernmental payable	1,447
Net cash used by operating activities	<u><u>\$ (293,717)</u></u>

See accompanying notes to the basic financial statements

**CLEVELAND COMMUNITY SCHOOL
CUYAHOGA COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

1. DESCRIPTION OF ENTITY

Cleveland Community School (CCS) is a nonprofit corporation established pursuant to Ohio Revised Code Chapters 3314 and 1702 to address the needs of students in kindergarten through the sixth grade. CCS qualified as an exempt organization under Section 501 (c) (3) of the Internal Revenue Code effective August 18, 2005. Management is not aware of any course of action or series of events that have occurred that might adversely affect CCS's tax-exempt status.

CCS, 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. CCS may sue and be sued, acquire facilities as needed, and contract for any services necessary for the operation of CCS.

In 2007, the CCS legally changed its name from Cleveland Lighthouse Charter Community School – East to Cleveland Community School. In 2009 the name was changed to Cleveland Community School.

On April 27, 2005 CCS was approved for operation under a contract between the governing authority of CCS and Ashe Culture Center, Inc. (the Sponsor), as their sponsor. Under the terms of the contract, the Sponsor will provide sponsorship services for a fee. The Sponsor is responsible for evaluating the performance of CCS and has the authority to deny renewal of the contract at its expiration or terminate the contract prior to its expiration. Ashe Culture Center, the CCS sponsor, had renewed its sponsorship with CCS and the current agreement would have expired on June 30, 2013; however, the Ohio Department of Education removed Ashe Culture Center's authority to sponsor charter schools in September 2011. Pursuant to Ohio Revised Code, CCS may not operate without a sponsor. The Ohio Department of Education took over sponsorship of CCS while it sought another sponsor. Effective July 1, 2013, Portage County Educational Service Center took over sponsorship for CCS.

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

The board members of the CCS are also board members of Villaview Community School, formerly named Cleveland Lighthouse Charter Community School – West.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial Statements of the CCS 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. CCS also applies Financial Accounting Standards Board (FASB) Statements and Interpretations issued prior to November 30, 1989, provided those pronouncements do not conflict with or contradict GASB pronouncements. CCS's significant accounting policies are described below.

A. BASIS OF PRESENTATION

CCS's basic financial statements consist of a Statement of Net Position, a Statement of Revenues, Expenses and Changes in Fund Net Position, and a Statement of Cash Flows. Enterprise fund reporting focuses on the determination of the changes net position, financial position and cash flows.

**CLEVELAND COMMUNITY SCHOOL
CUYAHOGA COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

A. BASIS OF PRESENTATION (CONTINUED)

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

B. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

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

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

C. BUDGETARY PROCESS

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

D. CASH AND CASH EQUIVALENTS

All monies received by CCS are maintained in a demand deposit account. For internal accounting purposes, CCS segregates its cash. CCS has no investments at June 30, 2013.

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.

**CLEVELAND COMMUNITY SCHOOL
 CUYAHOGA COUNTY
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

F. CAPITAL ASSETS

Capital assets are capitalized at cost. The costs of additions are capitalized and expenditures for repairs and maintenance are expensed when incurred. When property is sold or retired, the related costs and accumulated depreciation are removed from the accounts and any gain or loss is included in additions to or deductions from net position. Depreciation of capital assets is calculated utilizing the straight-line method over the estimated useful lives of the assets. The useful lives follow:

<u>Asset</u>	<u>Useful Life</u>
Furniture, Equipment and Materials	10 years
Computers and Office Equipment	3 years
Leasehold Improvements	10 years

CCS has an asset capitalization threshold policy of \$5,000. (See Note 4)

G. INTERGOVERNMENTAL REVENUES

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

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

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

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

Under the above programs, CCS received \$1,432,342 this fiscal year.

H. COMPENSATED ABSENCES

Vacation is taken in a manner in which corresponds with CCS calendar; therefore CCS does not accrue vacation time as a liability. Sick days are earned at a rate of four hours per month and can be accrued up to the amount of paid personal days included in the contract year. CCS does not accept a transfer of sick days. No financial accrual for sick leave is made since unused sick leave is not paid to employees upon separation.

**CLEVELAND COMMUNITY SCHOOL
CUYAHOGA COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

I. ACCRUED LIABILITIES

Obligations incurred but unpaid at June 30 are reported as accrued liabilities in the accompanying financial statements. These liabilities consisted of accounts payable, overdraft payable, accrued wages and benefits, and long term liabilities.

J. EXCHANGE AND NON-EXCHANGE TRANSACTIONS

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

K. NET POSITION

Net position represents the difference between assets and liabilities. Net investment 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 position is 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. CCS applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position is available.

L. OPERATING REVENUES AND EXPENSES

Operating revenues are those revenues that are generated directly from the primary activities of CCS. For CCS, 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 CCS. Revenue and expenses not meeting this definition are reported as non-operating.

M. INTERGOVERNMENTAL RECEIVABLES

All receivables are considered collectible in full due to the stable condition of State programs, and the fiscal year guarantee of federal funds. Intergovernmental receivables of the CCS at June 30, 2013, of which all grant requirements had been satisfied, consisted of title funding grants which totaled \$193,013.

N. DUE FROM VILLAVIEW COMMUNITY

The School loaned money to Villaview throughout the year to help cover payroll and other related expenses. The amount recorded on the statement of net position is expected to be repaid within one year.

**CLEVELAND COMMUNITY SCHOOL
CUYAHOGA COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

3. CASH AND CASH EQUIVALENTS

The following information classifies deposits by category of risk as defined in GASB Statement No.3 "Deposits with Financial Institutions, Investments (including Repurchase Agreements) and Reverse Repurchase Agreements," as amended by GASB Statement No.40, "Deposit, and Investment Risk Disclosures".

CCS maintains its cash balances at one financial institution located in Ohio. The entire bank balances are insured by the Federal Deposit Insurance Corporation (FDIC). At June 30, 2013, the book amount of CCS's deposits was (\$26,779) and the bank balance was also (\$9,275).

CCS had no deposit policy for custodial risk beyond the requirement of state statute. Ohio law requires that deposits either be insured or be protected by eligible securities pledged to and deposited either with CCS or a qualified trustee by the financial institution as security for repayment or by a collateral pool of eligible securities deposited with a qualified trustee to secure repayment of all public monies deposited in the financial institution whose market value shall be at least 105% of deposits being secured. At June 30, 2013, none of the bank balance was exposed to custodial credit risk.

4. CAPITAL ASSETS AND DEPRECIATION

For the period ending June 30, 2013, CCS's capital assets consisted of the following:

	Balance 06/30/2012	Additions	Deletions	Balance 06/30/13
Capital Assets Being Depreciated:				
Leasehold Improvements	\$399,958	\$0	\$0	\$399,958
Equipment	236,575	18,000	0	254,575
Total Capital Assets Being Depreciated:	636,533	18,000	0	654,533
Less: Accumulated Depreciation				
Leasehold Improvements	(240,000)	(40,000)	0	(280,000)
Equipment	(117,377)	(21,747)	0	(139,124)
Total Accumulated Depreciation	(357,377)	(61,747)	0	(419,124)
Net Capital Assets	\$279,156	(\$43,747)	\$0	\$235,409

**CLEVELAND COMMUNITY SCHOOL
CUYAHOGA COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

5. EDUCATIONAL FACILITY LEASE

CCS leases its facility at Reserve Square, 1701 East 12th Street, Cleveland from Reserve Apartment, Ltd. CCS entered renewed a one year lease from July 2012 to June 2013 and entered into a new one year lease from July 2013 to June 2014. Monthly payments under the terms of the lease increase each year according to an agreed upon schedule. In fiscal year 2013, CCS paid \$286,062 in rental payments. This amount is recorded and reflected in the Statement of Revenues, Expenses and Change in Fund Net Position within purchased services.

6. RISK MANAGEMENT

A. PROPERTY & LIABILITY

CCS is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. For the fiscal year 2013, CCS contracted with Philadelphia Indemnity Insurance Company for all of its insurance.

B. WORKERS' COMPENSATION

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

C. EMPLOYEE BENEFITS

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

7. DEFINED BENEFIT PENSIONS PLANS

A. SCHOOL EMPLOYEES RETIREMENT SYSTEM OF OHIO (SERS OHIO)

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

**CLEVELAND COMMUNITY SCHOOL
CUYAHOGA COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

7. DEFINED BENEFIT PENSIONS PLANS (CONTINUED)

A. SCHOOL EMPLOYEES RETIREMENT SYSTEM OF OHIO (SERS OHIO)

Funding Policy - Plan members are required to contribute 10 percent of their annual covered salary and CCS is required to contribute 14 percent of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to a statutory maximum amount by the SERS' Retirement Board. The Retirement Board acting with the advice of the actuary, allocates the employer contribution rate among four of the funds (Pension Trust Fund, Death Benefit Fund, Medicare B and Health Care Fund.) of the System. For the fiscal year ending June 30, 2013, the allocation to pension and death benefits is 13.10 percent. The remaining 0.90 percent of the 14 percent employer contribution rate is allocated to the Health Care and Medicare B Funds. CCS contributions to SERS for the years ended June 30, 2013, 2012, and 2011 were \$40,457, \$30,147, and \$84,473, respectively, which equaled the required contributions each year.

B. STATE TEACHERS RETIREMENT SYSTEM (STRS OHIO)

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

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

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

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

**CLEVELAND COMMUNITY SCHOOL
CUYAHOGA COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

7. DEFINED BENEFIT PENSIONS PLANS (CONTINUED)

B. STATE TEACHERS RETIREMENT SYSTEM (STRS OHIO)

Funding Policy - For the fiscal year ended June 30, 2013, plan members were required to contribute 10 percent of their annual covered salaries. CCS was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal year 2012, the portion used to fund pension obligations was also 13 percent. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

CCS's required contribution for pension obligations to STRS for the fiscal years ended June 30, 2013, 2012, and 2011 were \$42,956, \$43,044, and \$99,796 respectively, of which 100% has been contributed.

The above is the latest information available.

8. POST EMPLOYMENT BENEFITS

A. SCHOOL EMPLOYEE RETIREMENT SYSTEMS (SERS)

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

Medicare Part B

Medicare B plan reimburse Medicare B premiums paid by eligible retirees and beneficiaries as set forth in Ohio Revised Code (ORC) 3309.69. Qualified benefits recipients who pay Medicare Part B premiums may apply for and receive a monthly reimbursement from SERS. The reimbursement amount is limited by statute to the lesser of the January 1, 1999 Medicare Part premium or the current premium. The Medicare Part B premium for calendar year 2013 was \$96.40; SERS' reimbursement for retirees was \$45.50.

The Retirement Board, acting with the advice of the actuary, allocates a portion of the current employer contribution rate to the Medicare B Fund, For fiscal 2013, the actuarial required allocation is 0.74 percent CCS's contributions for the years ended June 30, 2013, 2012, and 2011 were \$2,290, \$1,780, and \$4,586.

**CLEVELAND COMMUNITY SCHOOL
CUYAHOGA COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

8. POST EMPLOYMENT BENEFITS (CONTINUED)

A. SCHOOL EMPLOYEE RETIREMENT SYSTEMS (SERS) (CONTINUED)

Health Care Plan

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

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

The Health Care Fund was established under, and is administered in accordance with the Internal Revenue Code 105(e). Each year after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer 14 percent contribution to the Health Care Fund. For the year ended June 30, 2013, the health care allocation is 0.16. An additional health care surcharge on employers is collected for employees earning less than the actuarially determined minimum compensation amount, pro-rated according to service credit earned.

Statutes provides that no employer shall pay a health care surcharge greater than 2 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the total statewide SERS-covered payroll for the health care surcharge.

For the fiscal year June 30, 2013, the minimum compensation level was established at \$20,250. The surcharge added to the unallocated portion of the 14 percent employer contribution rate is the total amount assigned to the Health Care Fund. CCS's contributions assigned to health care for the years ended June 30, 2013 and 2012 was \$3,304 and \$1,306, respectively, which equaled the required contributions each year.

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

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

B. STATE TEACHERS RETIREMENT SYSTEM (STRS)

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

**CLEVELAND COMMUNITY SCHOOL
CUYAHOGA COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

8. POST EMPLOYMENT BENEFITS (CONTINUED)

B. STATE TEACHERS RETIREMENT SYSTEM (STRS) (CONTINUED)

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 2013, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. The School's contributions for health care for the fiscal years ended June 30, 2013, 2012, and 2011 were \$3,304, \$3,311, and \$7,128, respectively all of which has been contributed for all fiscal years.

The above is the latest information available.

9. CONTINGENCIES

A. GRANTS

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

B. LITIGATION

In August 2010, CCS and Villaview Community School were sued by Lighthouse Academies, Inc. for the past due management fees, a revolving loan and an operating loan. The suit has been settled for a fixed amount of \$300,000 payable at \$2,500 per month with no interest. The note will be satisfied in ten years and is completely the responsible of CCS with Villaview Community School retaining no obligation for repayment.

10. SPONSORSHIP- OHIO DEPARTMENT OF EDUCATION

CCS was under the Ohio Department of Education as its sponsor and oversight services as required by law. CCS pays the Sponsor three percent of State Aid. Sponsorship fees are calculated as three percent of state funds received by CCS from the State of Ohio. For the fiscal year ended June 30, 2013, sponsorship fees totaled \$29,764.

**CLEVELAND COMMUNITY SCHOOL
 CUYAHOGA COUNTY
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

11. Jarvis and Associates – Treasury Services

CCS entered into a contract with Jarvis and Associates to provide treasury services, as defined by the contract. Contract provision binds CCS to pay \$1,700 per month for the duration of the agreement until terminated by mutual agreement of both parties. CCS paid \$17,000 for these services for the fiscal year ending June 30, 2013.

12. PURCHASED SERVICES

For the period of July 1, 2012 through June 30, 2013, CCS made the following purchase service commitments. These commitments include sponsor, management and CCIP fees, were applicable.

Professional and Technical Services	\$290,919
Communications	4,078
Property Services	164,034
Food Service	144,349
Other	<u>113,230</u>
Total Purchased	<u><u>\$716,610</u></u>

13. RELATED PARTIES

The members of CCS Board of Trustees are also members of the Villaview Community School.

Brandon Whitaker, nephew of Dr. Whitaker, performs maintenance and custodial services for CCS. Payments to Brandon Whitaker totaled \$20,532.

**CLEVELAND COMMUNITY SCHOOL
CUYAHOGA COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

14. DEBT OBLIGATIONS

The following table summarizes the debt obligation activity for fiscal year ended June 30, 2013.

	Principal at 06/30/2012	Additions	Deletions	Principal at 06/30/13
City First Bank	\$247,279	\$0	\$36,000	\$211,279
Loan Payable – LHA	\$250,000	0	30,000	220,000
Total Debt Obligations	\$497,279	\$0	\$66,000	\$431,279

The original loan payable for \$283,279 is from Charter School Development Corporation to the School for leasehold improvements made to property leased by CCS. The original amortization schedule required CCS to make principal and interest payments through 2009. At June 30, 2010, the amount was still due with no repayment schedule specified. This obligation was re-negotiated and extended during November 2010 allowing a repayment of \$3,000 at a 0% interest rate.

The original loan payable for \$275,000 is a liability to LHA for unpaid management fees. At June 30, 2011, there was no repayment schedule specified. This obligation was included as part of an agreement reached in October 2011 for a fixed amount of \$275,000 payable at \$2,500 per month with no interest. The note will be satisfied in 10 years.

15. FISCAL DISTRESS

As of June 30, 2013, CCS had a deficit of \$330,488. The Treasurer and Board plan institute budgetary constraints which ensure discretionary expenditures remain within annual resources. The Treasurer shall monitor the actual to budget activity to report to the Board and management needed budgetary revisions to maintain solvency.

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Dave Yost • Auditor of State

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

Cleveland Community School
Cuyahoga County
1701 East 12th Street
Cleveland, Ohio 44114

To the Board of Directors:

We were engaged to audit the financial statements of Cleveland Community School, Cuyahoga County, Ohio, (the School) as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the School's basic financial statements and have issued our report thereon dated May 19, 2014 wherein we noted we did not opine on the School's financial statements due to the failure to provide written representations. Additionally the School did not maintain sufficient documentation to support amounts recorded as cash, capital assets, long term liabilities, or debt and purchased services expenses as reported on the Statement of Cash Flows. Additionally the School also did not maintain documentation to support the Defined Benefit Pension Plans and Post-Employment Benefits disclosure or the disclosures related to the items listed above.

Internal Control Over Financial Reporting

As part of our financial statement engagement, we considered the School's internal control over financial reporting (internal control) to determine the procedures appropriate in the circumstances to the extent necessary to support our opinion on the financial statements, but not to the extent necessary to opine on the effectiveness of the School's internal control. Accordingly, we have not opined on it.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Therefore, unidentified material weaknesses or significant deficiencies may exist. 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 internal control deficiencies resulting in a reasonable possibility that internal control will not prevent or detect and timely correct a material misstatement of the School's financial statements. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider findings 2013-001 through 2013-002 described in the accompanying schedule of findings to be material weaknesses.

Compliance and Other Matters

As part of reasonably assuring whether the School'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, opining 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 we must report under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 2013-001 through 2013-002.

Entity's Response to Findings

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

Purpose of this Report

This report only describes the scope of our internal control and compliance testing and our testing results, and does not opine on the effectiveness of the School's internal control or on compliance. This report is an integral part of an audit performed under *Government Auditing Standards* in considering the School's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Dave Yost
Auditor of State
Columbus, Ohio

May 19, 2014

**CLEVELAND COMMUNITY SCHOOL
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS
JUNE 30, 2013**

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

FINDING NUMBER 2013-001

Condition of Accounting Records – Noncompliance and Material Weakness

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 School. Also, management is responsible for developing and maintaining complete and accurate financial records.

Instead of complete and accurate financial records, we noted the following deficiencies:

- The School's reported cash balance did not agree to the School's accounting records;
- The School does not perform a monthly School-wide bank-to-book reconciliation. Reconciliations are generated from the School's accounting software on a monthly basis, and are not accurate, nor is there evidence they were reviewed;
- Checking account reconciliations contained outstanding checks that were either voided or not outstanding at year-end and did not agree to the amounts reported in the financial statements;
- Attendance records were not provided for the complete school year and the records provided were not complete,
- The School did not provide a signed agreement for its loan transfer from City First bank to Charter School Development Corporation or other debt agreements;
- The School reported a \$250,000 liability to Lighthouse Academies (LHA), for which there was no evidence that the school was still liable, seeing as LHA is no longer in business;
- The School does not have a capital asset policy which specifies the threshold for capital assets, depreciation, useful lives or tagging procedures;
- The School did not provide capital asset support on leasehold improvements, which had a net balance of \$119,958 at fiscal year-end;
- The School did not maintain sufficient documentation to support amounts reported in the Defined Benefit Pension Plans and Post-Employment Benefits note disclosures;
- A receivable related to federal grants was overstated by \$40,445;
- 3 out of 15 Non-payroll expenses were not adequately supported;
- Supporting documentation provided to ensure the proper amount of pension and income tax was remitted to the proper authority was inadequate;
- An entry for the payment of debt principal for \$66,000 was evidenced on the financial statements, however, the debt payment has not been made;
- One out of four employee personnel files tested did not contain the necessary retirement enrollment forms; and
- The report submitted to LGS contained misstatements related to long term liabilities, cash, and debt principle payments; and furthermore, there was no evidence provided that a notification in a paper circulated in the taxing district that the reports were available for review

**CLEVELAND COMMUNITY SCHOOL
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS
JUNE 30, 2013**

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

(CONTINUED)

FINDING NUMBER 2013-001 (Continued)

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

Management failed to provide all supporting documentation. Consequently we were unable to analyze, review, inspect for completeness, or verify the accuracy of existence of certain aspects of the School's financial records.

The School's management has available numerous sources of information describing the process of internal controls, recordkeeping requirements and reporting procedures. It is the responsibility of management to ensure that all responsible parties have access to this literature and training sessions. Failure to implement and maintain a system of controls over the School's financial records increases the chances of misstatement.

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

FINDING NUMBER 2013-002

Developing and Implementing an Effective Internal Control System – Noncompliance and Material Weakness

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 consists of the following component, among others: monitoring, which is a process that assesses the quality of internal control performance over time.

Monitoring is comprised of regular management and supervisory activities established to oversee whether management's objectives are being achieved. 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.

**CLEVELAND COMMUNITY SCHOOL
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS
JUNE 30, 2013**

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

(CONTINUED)

FINDING NUMBER 2013-002 (Continued)

Developing and Implementing an Effective Internal Control System – Noncompliance and Material Weakness

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

The School should monitor financial activities to help ensure the proper use of School funds as directed by the Board and as required by federal and state laws or regulations.

Officials' Response: Since the current Management Team, Sponsor and Treasurer were not involved with the School during this audit period, we neither concur nor object with the findings as presented.

However, in order to significantly improve compliance and accountability in addressing fiscal oversight under our purview for FY14, Believe to Achieve International will continue to working diligently in close partnership with our Sponsor (Portage County Educational Services Center) and our Treasurer (Mangen and Associates) to address the material findings in this audit.

We want to assure all concerned parties that during our tenure, which began in July of 2014, with full implementation in September 2014, we have adopted a compendium of Board approved policies/procedures, controls and fiscal practices that have vastly improved the fiscal oversight and governance of Cleveland and Villaview Community Schools.

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**CLEVELAND COMMUNITY SCHOOL
CUYAHOGA COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2013**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2012-001	Condition of Accounting Records	No	Reissued as Finding 2013-001
2012-002	Developing and Implementing an Effective Internal Control System.	No	Reissued as Finding 2013-002
2012-003	Governing Board Membership, Record of Minutes, and Notice of Public Meetings	Yes	Finding No longer valid
2012-004	Annual Financial Reporting	No	Partially corrected and reissued combined with Finding 2013-001
2012-005	Activities Allowed and Unallowed	Yes	Finding No Longer Valid
2012-006	Cash Management	Yes	Finding No Longer Valid
2012-007	Equipment and Real Property Management	Yes	Finding No Longer Valid
2012-008	Maintenance and Level of Effort	Yes	Finding No Longer Valid
2012-009	Procurement and Suspension and Debarment	Yes	Finding No Longer Valid
2012-010	Special Test Provisions- Highly Qualified Teachers and Paraprofessionals	Yes	Finding No Longer Valid
2012-011	Special Test and Provisions- Identifying Schools and LEAs Needing improvement	Yes	Finding No Longer Valid

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Dave Yost • Auditor of State

Independent Accountants' Report on Applying Agreed-Upon Procedure

Cleveland Community School
Cuyahoga County
1701 East 12th Street
Cleveland, Ohio 44114

To the Board of Directors:

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

Accordingly, we have performed the procedure enumerated below, which were agreed to by the Board, solely to assist the Board in evaluating whether Cleveland Community School (the School) has adopted an anti-harassment policy in accordance with Ohio Rev. Code Section 3313.666. Management is responsible for complying with this requirement. This agreed-upon 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.

The Board amended the policy on March 22, 2014. We read the amended policy, noting it now includes all the requirements listed in Ohio Rev. Code 3313.666.

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

This report is intended solely for the information and use of the Board and 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".

Dave Yost
Auditor of State

May 19, 2014

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Dave Yost • Auditor of State

CLEVELAND COMMUNITY SCHOOL

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 10, 2014**