PHOENIX VILLAGE ACADEMY - PRIMARY 1
SUMMIT COUNTY

INITIAL AUDIT

FOR THE PERIOD SEPTEMBER 14, 2006 THROUGH JUNE 30, 2007

Mary Taylor, CPA
Auditor of State

PHOENIX VILLAGE ACADEMY – PRIMARY 1
SUMMIT COUNTY

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Mary Taylor, CPA
Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

Phoenix Village Academy – Primary 1
Summit County
760 E. Archwood Street
Akron, Ohio 44306-2324

To the Board of Trustees:

We have audited the accompanying basic financial statements of the Phoenix Village Academy – Primary 1, Summit County, Ohio, (the Academy), for the period September 14, 2006 through June 30, 2007, as listed in the Table of Contents. These financial statements are the responsibility of the Academy's management. Our responsibility is to express an opinion on these financial statements based on our audit.

Except as discussed in the following two paragraphs, 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 that our audit provides a reasonable basis for our opinion.

Because of the inadequacy of accounting records, we were unable to obtain sufficient evidence regarding the $27,027 of equipment and furniture capital assets net of depreciation recorded in the accompanying statement of net assets and the $3,994 of related depreciation expense recorded in the statement of revenues, expenses, and changes in net assets and statement of cash flows for the period September 14, 2006 through June 30, 2007. Due to our inability to obtain assurance on the amount recorded as capital assets, we are also unable to obtain assurance as to the $27,072 recorded as Invested in Capital Assets, Net of Related Debt. We were unable to satisfy ourselves regarding capital assets net of depreciation, depreciation expense, and Invested in Capital Assets Net of Related Debt amounts by other auditing procedures.

In addition, because of the inadequacy of accounting records we were unable to obtain sufficient evidence regarding the classification of certain expenses in the accompanying statement of revenues, expenses and changes in net assets for the period September 14, 2006 through June 30, 2007.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to satisfy ourselves about capital assets net of depreciation, depreciation expense, invested in capital assets net of related debt, and expenses the financial statements referred to above present fairly, in all material respects, the financial position of Phoenix Village Academy – Primary 1, for the period September 14, 2006 through June 30, 2007, and the changes in its financial position and its cash flows for the period September 14, 2006 through June 30, 2007 in conformity with accounting principles generally accepted in the United States of America.

As described in Note 15, the Sponsor suspended operations of the Academy effective December 18, 2008.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 2, 2009, on our consideration of the Academy's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information accounting principles generally accepted in the United States of America requires. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measuring and presenting the required supplementary information. As a result of our limited procedures, we believe Management's Discussion and Analysis does not conform to Government Accounting Standards Board guidelines, since as discussed in paragraph three, we were unable to satisfy ourselves about equipment and furniture, net of depreciation, accumulated depreciation, depreciation expense and invested in capital assets, net of related debt. Also, as discussed in paragraph four, because of the inadequacy of accounting records, we were unable to obtain sufficient evidence regarding the classification of certain expenses.

Mary Taylor

Mary Taylor, CPA
Auditor of State

February 2, 2009

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE PERIOD SEPTEMBER 14, 2006 TO JUNE 30, 2007
(Unaudited)**

The discussion and analysis of the Phoenix Village Academy Primary 1 (the Academy) financial performance provides an overall review of the Academy's financial activities for the period September 14, 2006 to June 30, 2007. The intent of this discussion and analysis is to look at the Academy's financial performance as a whole; readers should also review the basic financial statements and the notes to the basic financial statements to enhance their understanding of the Academy's financial performance.

The Management's Discussion and Analysis (MD&A) is an element of the reporting model adopted by the Governmental Accounting Standards Board (GASB) in their Statement No. 34 Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments issued June 1999. The period September 14, 2006 to June 30, 2007 was the Academy's first year of operation; therefore, there are no prior year comparisons.

Financial Highlights

- In total, net assets were ($12,528) for the period September 14, 2006 to June 30, 2007, which was the Academy's first academic school year.
- Total assets were $48,248.
- Liabilities were $60,776.
- Total revenues were $409,608 and total expenses were $422,072 for the year.

Using this Financial Report

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

The Academy uses enterprise presentation for all of its activities.

Statement of Net Assets

The Statement of Net Assets answers the question of how the Academy did financially during the period September 14, 2006 to June 30, 2007. 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 resources 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 Academy's net assets for the period September 14, 2006 to June 30, 2007. Since this is the first year of operating the Academy, only current year information has been presented. In future years, a two year comparison will be made.

(Table 1)
Statement of Net Assets

	2007
Assets	
Current Assets	$21,176
Capital Assets, Net	27,072
Total Assets	$48,248
Liabilities	
Current Liabilities	$60,776
Net Assets	
Investment in Capital Assets	$27,072
Unrestricted	(39,600)
Total Net Assets	($12,528)

Statement of Revenues, Expenses and Changes in Net Assets

Table 2 shows the changes in net assets for the period September 14, 2006 to June 30, 2007, as well as a listing of revenues and expenses. 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 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 Assets

		2007
Operating Revenues		
State Aid		$253,546
Local Aid		250
Non-Operating Revenue		
Federal Aid		155,805
Miscellaneous		7
	Total Revenues	409,608
Operating Expenses		
Purchased Services		289,161
Materials & Supplies		43,078
Salaries & Wages		65,528
Fringe Benefits		15,328
Employer Payroll Taxes		3,572
Depreciation		3,994
Miscellaneous		1,411
	Total Expenses	422,072
Change in Net Assets		($12,464)

The Academy received $155,805 in federal grants to improve the Academy through staff training, purchase of capital assets, the purchase of support and the purchase of professional development services. The period September 14, 2006 to June 30, 2007 was the Academy's first year of operation; therefore, there are no prior year comparisons. In future years, a two year comparison will be made.

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 the Academy and its Sponsor does not prescribe a budgetary process.

Capital Assets

At the end of the period September 14, 2006 to June 30, 2007 the Academy had $27,072, invested in Equipment and Furniture, net of depreciation.

For more information on capital assets, see Note 4 in the Notes to the Basic Financial Statements.

Debt Activity

During the period September 14, 2006 through January 30, 2007, the Academy's payroll and fringe benefit expenditures of $36,489 were paid for by Phoenix Village Academy - Primary 2 and the Academy repaid Phoenix Village Academy – Primary 2 $20,000. The remaining balance of $16,489 is reflected as a short term loan payable on the Statement of Net Assets.

Current Financial Issues

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

The main challenge is the state economy. The primary source of funding is the state foundation program. An economic slowdown in the state could result in budgetary cuts to education, which would have a negative impact on the Academy.

Contacting the Academy's Financial Management

This financial report is designed to provide a general overview of the Academy's finances and to show the Academy's accountability for the money it receives. If you have questions about this report or need additional information, contact Edward Dudley, Sr., CPA, Fiscal Officer for the Phoenix Village Academy - Primary 1, 4200 Regent Street, Suite 200, Columbus, OH 43219 or e-mail at dudleye_l@msn.com.

PHOENIX VILLAGE ACADEMY PRIMARY 1
SUMMIT COUNTY

STATEMENT OF NET ASSETS
JUNE 30, 2007

ASSETS		
Current assets		
Cash and Cash Equivalents	$	9,976
Short Term Loan Receivable		11,200
Total current assets		21,176
Non-current assets		
Capital assets, net of accumulated depreciation		27,072
Total assets	$	48,248
LIABILITIES & NET ASSETS		
Current liabilities		
Accounts payable	$	13,603
Short Term Loan Payable		16,489
Intergovernmental Payable		30,684
Total current liabilities		60,776
Net assets		
Invested in capital assets		27,072
Unrestricted		(39,600)
Total net assets		(12,528)
Total liabilities and net assets	$	48,248

The accompanying notes to the financial statements are an integral part of this statement.

PHOENIX VILLAGE ACADEMY PRIMARY 1
SUMMIT COUNTY

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
FOR THE PERIOD SEPTEMBER 14, 2006 TO JUNE 30, 2007

Operating revenues	
State Aid	253,546
Local Aid	250
Total operating revenues	253,796
Operating expenses	
Purchased services	289,161
Materials & Supplies	43,078
Salaries & Wages	65,528
Fringe Benefits	15,328
Employer Payroll Taxes	3,572
Depreciation	3,994
Miscellaneous	1,411
Total operating expenses	422,072
Operating (loss)	(168,276)
Non-operating revenues	
Federal Aid	155,805
Miscellaneous	7
Total non-operating revenue	155,812
Change in net assets	(12,464)
Net assets at beginning of year	(64)
Net assets at end of year	$ (12,528)

The accompanying notes to the financial statements are an integral part of this statement.

PHOENIX VILLAGE ACADEMY PRIMARY 1
SUMMIT COUNTY

STATEMENT OF CASH FLOWS
FOR THE PERIOD SEPTEMBER 14, 2006 TO JUNE 30, 2007

Increase (decrease) in cash	
Cash flows from operating activities	
Cash from the State of Ohio	$ 253,546
Cash from other operating sources	250
Cash from other governments	16,489
Cash payments to suppliers for good and services	(290,042)
Cash payments for personal service	(83,749)
Cash payments to other governments	(11,200)
Net cash (used for) operating activities	(114,706)
Cash flows from noncapital financing activities	
State and Federal grants	155,805
Miscellaneous	7
Net cash provided by noncapital financing activities	155,812
Cash flows from capital and related financing activities	
Capital expenses	(31,066)
Net increase in cash	10,040
Cash at beginning of year	(64)
Cash at end of year	$ 9,976
Reconciliation of operating (loss) to net cash (used for) operating activities:	
Operating (loss)	$ (168,276)
Adjustments to reconcile operating (loss) to net cash (used for) operating activities:	
Depreciation	3,994
Change in assets and liabilities:	
(Increase) in assets:	
Loan receivable	(11,200)
Increase in liabilities:	
Accounts payable	13,603
Loan payable	16,489
Intergovernmental Payable	30,684
Total adjustments	53,570
Net cash (used for) operating activities	$ (114,706)

The accompanying notes to the financial statements are an integral part of this statement.

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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE PERIOD SEPTEMBER 14, 2006 TO JUNE 30, 2007

1. DESCRIPTION OF THE ACADEMY AND REPORTING ENTITY

Phoenix Village Academy Primary 1 (the Academy) is a state nonprofit corporation established pursuant to Ohio Rev. Code Chapters 3314 and 1702 to address the needs of students in kindergarten through sixth grade. The Academy, which is part of the State's education program, is independent of any school district. The Academy may sue and be sued, acquire facilities as needed, and contract for any services necessary for the operation of the Academy.

The Academy has entered into a management contract with Greater Educational Services Centers, LLP, for most of its functions.

The Academy signed a contract with the Ashe Culture Center (the Sponsor), to operate for a period from June 30, 2006 through April 14, 2009.

The Academy operates under the direction of a five-member Board of Trustees (the Board). The Board is responsible for carrying out the provisions of the contract with the Sponsor, which include, but is not limited to, state-mandated provisions regarding student population, curriculum, academic goals, performance standards, admission standards, and qualifications of teachers. The Board also operates Phoenix Village Academy - Primary 2 and Phoenix Village Academy - Secondary 1 in the City of Cleveland.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the Academy have been prepared in conformity with generally accepted accounting principles as applied to governmental nonprofit organizations. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The Academy also applies Financial Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989, provided they do not conflict with GASB pronouncements. The Academy does not apply FASB statements and interpretations issued after November 30, 1989. The more significant of the Academy's accounting policies are described below.

A. Basis of Presentation

The Academy's basic financial statements consist of a Statement of Net Assets, a Statement of Revenues, Expenses and Changes in Net Assets, and a Statement of Cash Flows. Enterprise fund reporting focuses on the determination of the change in net assets, financial position and cash flows.

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-end reporting purposes. Enterprise accounting is used to account for operations that are financed and operated in a manner similar to private business enterprises where the intent is that the costs (expenses) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. Enterprise accounting uses a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities are included on the Statement of Net Assets. Operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in total net assets. The accrual basis of accounting is utilized for reporting purposes. Revenues are recognized when they are earned, and expenses are recognized when they are incurred.

C. Budgetary Process

Unlike traditional public schools located in the State of Ohio, community schools are not required to follow budgetary provisions set forth in Ohio Rev. Code Section 5705, unless specifically provided in the Academy's contract with its Sponsor. The contract between the Academy and its Sponsor does not prescribe a budgetary process. However, Ohio Rev. Code Section 3314.03(A)(11)(d) requires the Academy to comply with section 5705.391(A) of the Ohio Rev. Code, which requires the Academy to prepare a five year projections of revenues and expenses.

D. Cash and Cash Equivalents

All cash received by the Academy is maintained in a demand deposit account.

E. Intergovernmental Revenues

The Academy currently participates in the State Foundation Program, which is reflected under "State Aid" on the Statement of Revenues, Expenses and Changes in Net Assets. Revenues received from this program are recognized as operating revenues in the accounting period in which all eligibility requirements have been met.

Non-exchange transactions, in which the Academy receives value without directly giving equal value in return, include grants, entitlements, and contributions. Grants, entitlements, and contributions are recognized as non-operating revenues in the accounting period in which all eligibility requirements have been met.

Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted; matching requirements, in which the 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. Amounts received under the above programs for the period September 14, 2006 to June 30, 2007 totaled $155,805.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. Capital Assets and Depreciation

For purposes of recording capital assets, the Academy has a capitalization threshold of $1,000. Expenditures for repairs and maintenance are expensed when incurred. All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and deletions during the year.

The capital assets are recorded on the accompanying Statement of Net Assets at cost, net of accumulated depreciation of $27,072. Depreciation is computed by the straight-line method over seven years for equipment and furniture.

Aside from the assets mentioned above, the Academy has no other capital assets, as the Academy has entered into an operating lease for classroom space.

G. Use of Estimates

In preparing the financial statements, management is sometimes required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

H. Net Assets

Net assets represent the difference between assets and liabilities. Net assets consist of capital assets, net of accumulated depreciation, and unrestricted net assets.

I. Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the Academy's primary activities. For the Academy, these revenues are primarily State Aid payments. Operating expenses are necessary costs incurred to provide the goods and services that are the primary activities of the Academy. Revenues and expenses not meeting this definition are reported as non-operating.

3. DEPOSITS AND INVESTMENTS

A. Deposits with Financial Institutions

At June 30, 2007, the carrying amount of all Academy deposits was $9,976. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2007, $100,000 of the Academy's bank balance of $108,713 was covered by the Federal Deposit Insurance Corporation, $8,713 was exposed to custodial risk as discussed below.

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

3. DEPOSITS AND INVESTMENTS (Continued)

B. Investments

As of June 30, 2007, the Academy had no investments.

4. CAPITAL ASSETS AND DEPRECIATION

For the period September 14, 2006 to June 30, 2007, the Academy's capital assets consisted of the following:

Capital Assets Being Depreciated:	Balance 09/14/06	Additions	Deletions	Balance 6/30/07
Equipment and Furniture	$ -	$31,066	$ -	$31,066
Total Capital Assets Being Depreciated	-	31,066	-	31,066
Less Accumulated Depreciation:				
Equipment and Furniture	-	(3,994)	-	(3,994)
Total Accumulated Depreciation	-	(3,994)	-	(3,994)
Total Capital Assets Being Depreciated Net	$ -	$ 27,072	$ -	$ 27,072

5. LOANS RECEIVABLE

The Fiscal Officer of the Academy is also the Fiscal Officer of Phoenix Village Academy - Primary 2 and Phoenix Village Academy - Secondary 1. During the period September 14, 2006 to June 30, 2007, the Fiscal Officer transferred $6,200 to Phoenix Village Academy - Primary 2 and $5,000 to Phoenix Village Academy - Secondary 1. Neither of the amounts have been repaid and are recognized as a Short Term Loan Receivable on the Statement of Net Assets.

6. NOTE PAYABLE

During the period September 14, 2006 through January 30, 2007, the Academy's payroll and fringe benefit expenses of $36,489 were paid for by Phoenix Village Academy – Primary 2 and the Academy repaid Phoenix Village Academy – Primary 2 $20,000. The remaining balance of $16,489 is reflected as a short term loan payable on the Statement of Net Assets.

7. RISK MANAGEMENT

Property and Liability - The Academy is exposed to various risks of loss related to torts; theft or damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. Contrary to Ohio Rev. code Section 3314.03(A)(11)(B), the Academy did not contract for property and general liability insurance during the period September 14, 2006 to June 30, 2007.

8. DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

The Academy contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing multiple-employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by State Statute Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746 by calling (800) 878-5853 or by visiting the SERS website at www.ohsers.org.

Plan members are required to contribute 10 percent of their annual covered salary and the 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 period September 14, 2006 to June 30, 2007, 10.68 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS' Retirement Board. The Academy's required contribution for pension obligations to SERS for the period September 14, 2006 to June 30, 2007 was $4,416 of which 100% has been contributed.

B. State Teachers Retirement System

The Academy 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 or by calling (614) 227-4090, or by visiting the STRS Ohio website at www.strsoh.org.

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan, and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The Combined Plan offers features of both the 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. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan. Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one time irrevocable decision to transfer their account balances from the existing DB Plan into the DC Plan or the Combined Plan. This option expired on December 31, 2001. Benefits are established by Chapter 3307 of the Ohio Revised Code.

8. DEFINED BENEFIT PENSION PLANS (Continued)

B. State Teachers Retirement System (Continued)

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

For the period September 14, 2006 to June 30, 2007, plan members were required to contribute 10 percent of their annual covered salaries. The Academy was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 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 contribution for pension obligations to STRS Ohio for the period September 14, 2006 to June 30, 2007, was $10,559, of which 100% has been contributed.

9. POSTEMPLOYMENT BENEFITS

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

STRS Ohio retirees who participated in the DB or Combined Plans and their dependents are eligible for health care coverage. The STRS Ohio Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. All benefit recipients pay a portion of health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS Ohio funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the period September 14, 2006 to June 30, 2007, the STRS Ohio Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. For the Academy, this amount equaled $812 for the period September 14, 2006 to June 30, 2007.

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

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

9. POSTEMPLOYMENT BENEFITS (Continued)

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2007, employer contributions to fund health care benefits were 3.32 percent of covered payroll compared to 3.42 percent of covered payroll for fiscal year 2006. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2007, the minimum pay was established at $35,800. However, the surcharge is capped at 2 percent of each employer's SERS salaries. For the period September 14, 2006 to June 30, 2007, the Academy paid $1,373 to fund health care benefits, including the surcharge.

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

10. CONTINGENCIES

A. Grants

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

B. Pending Litigation

The Academy is party to a legal proceeding seeking damages generally incidental to its operations. The matter was resolved subsequent to year end, through a negotiated settlement. The original claim was for $133,000 against two other academies and this Academy. A settlement of $50,000 was offered, but as of the date of this report, a payment schedule has not been accepted by the Plaintiffs. The Academy's management is of the opinion this settlement will not have a material effect on the financial condition of the Academy, since the Sponsor suspended operations of the Academy on December 18, 2008, management is of the opinion the Academy will not be liable for any of the settlement.

C. Full Time Equivalency

The Ohio Department of Education conducts reviews of enrollment data and full-time equivalency (FTE) calculations made by the Academy. These reviews are conducted to ensure the Academy is reporting accurate student enrollment data to the State, upon which state foundation funding is calculated. The Academy did have a review for the period September 14, 2006 through June 30, 2007 which resulted in $30,684 being owed to the Ohio Department of Education. This amount is reported as an "intergovernmental payable" on the financial statements for the period September 14, 2006 through June 30, 2007.

11. SPONSORSHIP FEES

The Academy contracted with Ashe Culture Center Inc. as its sponsor effective June 30, 2006. The Academy pays the Sponsor three percent of the State Aid. Total fees for the period September 14, 2006 to June 30, 2007 were $6,014. The contract is for three years ending April 14, 2009. The Sponsor is to provide oversight, monitoring and technical assistance for the Academy.

12. TAX EXEMPT STATUS

The Academy has filed for status as an exempt organization under Internal Revenue Code Section 501(c)(3). As of June 30, 2007, the Internal Revenue Service has not yet granted this exemption. Should the Academy fail to obtain federal tax-exempt status, it will be subject to federal income tax, the effect of which has not been determined.

13. RELATED PARTY TRANSACTIONS

Financial Accounting Standards Board (FASB) 57: “Related Party Disclosures”, requires any transactions that occurred between related parties be disclosed. The following is a list of the related party transactions that occurred:

- The Academy paid $99,106 including $6,014 for sponsorship fees to Ashe Culture Center, Inc. to purchase computers and other technology equipment; refine the school program design; conduct staff development; purchase furniture, office equipment, etc. The wife and daughter of the CEO of Ashe Culture Center, Inc. served on the Board of Trustees of the Academy. In addition, the wife of the CEO of Ashe Culture Center, Inc. was the COO/CFO of Ashe Culture Center, Inc.

- The Academy paid $6,200 to Professional Community School Sponsorship Committee which is part of Ashe Culture Center, Inc. for sponsorship related activities.

- The Academy paid $6,500 to the CEO of Ashe Culture Center, Inc. whose wife and daughter served on the Board of Trustees of the Academy, for consulting services.

- The Academy paid $7,286 to the daughter of the CEO of Ashe Culture Center, Inc. and who served on the Board of Trustees of the Academy for various services within her areas of expertise and credentials.

- The Academy paid $5,000 to another member of the Board of Trustees of the Academy for the development, design and printing of 10,000 school marketing brochures.

- The Academy paid $3,750 to the brother of the CEO of Ashe Culture Center, Inc. to conceptualize, design and develop a student-friendly silk screening machine that would permit students to design and print their own school tee-shirts as a way of reducing cost, teaching a valuable skill and providing a fund-raising activity for the school.

- The Academy paid $8,500 to Exceptional Psychological Services which is owned by a member of the Board of Trustees and the wife of the CEO of Ashe Culture Center, Inc. for various services within her areas of expertise and credentials.

- The Academy paid $2,300 to Professional Psychological Services whose CEO and Clinical Director are members of the Board of Trustees for various services within her areas of expertise and credentials.

13. RELATED PARTY TRANSACTIONS (Continued)

- The Academy paid $2,867 to Undiscovered Star which is owned by the husband of the former Treasurer of the Academy.

14. START-UP PERIOD

The Academy began its operations on September 14, 2006. Prior to the period beginning September 14, 2006, the Academy received and spent $150,000 of state start-up grant funds from the Ohio Department of Education. These funds were used to pay for materials and supplies, purchased services and equipment to prepare the Academy for operations. At September 14, 2006, the Academy recorded $174,919 in cash and $174,983 payable to various vendors. The combination of these transactions resulted in beginning net assets at September 14, 2006 of ($64).

15. SUBSEQUENT EVENTS

On December 18, 2008, the Sponsor suspended operations due to a decline in enrollment.

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Mary Taylor, CPA
Auditor of State

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

Phoenix Village Academy – Primary 1
Summit County
760 E. Archwood Street
Akron, Ohio 44306-2324

To the Board of Trustees:

We have audited the financial statements of Phoenix Village Academy – Primary 1, Summit County, Ohio, (the Academy) for the period September 14, 2006 through June 30, 2007, and have issued our report thereon dated February 2, 2009, where we noted we were unable to obtain sufficient evidence regarding capital assets net of depreciation recorded in the Academy's financial statements of $27,072. We also were unable to obtain sufficient evidence regarding the classification of certain expenses. Except as discussed in the preceding sentences, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards.*

Internal Control Over Financial Reporting

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

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

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

We consider findings 2007-001 through 2007-003, and 2007-010 through 2007-018 described in the accompanying Schedule of Findings to be significant deficiencies in internal control over financial reporting.

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

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and accordingly, would not necessarily disclose all significant deficiencies that are also material weaknesses. Of the significant deficiencies described above, we believe findings number 2007-001 through 2007-003, and 2007-010 through 2007-018 are also material weaknesses.

We also noted certain internal control matters that we reported to the Academy's management in a separate letter dated February 2, 2009.

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 instances of noncompliance or other matters that we must report under *Government Auditing Standards* which are described in the accompanying Schedule of Findings as items 2007-001 through 2007-010.

We also noted certain noncompliance or other matters not requiring inclusion in this report that we reported to the Academy's management in a separate letter dated February 2, 2009.

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, the Board of Trustees, and Ashe Culture Center. We intend it for no one other than these specified parties.

Mary Taylor

Mary Taylor, CPA
Auditor of State

February 2, 2009

SCHEDULE OF FINDINGS
SEPTEMBER 14, 2006 THROUGH JUNE 30, 2007

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

FINDING NUMBER 2007-001

Material Noncompliance / Material Weakness

Ohio Admin. Code Rule 117-2-02(D)(4)(c) requires capital asset records to include such information as the original cost, acquisition date, voucher number, the asset type (land, building, vehicle, etc.), asset description, location, and tag number. Local governments preparing financial statements using generally accepted accounting principles will want to maintain additional data. Capital assets are tangible assets that normally do not change form with use and should be distinguished from repair parts and supply items.

The following conditions were noted during our testing of the Academy's capital assets:

- The Academy's total recorded capital assets amounted to $31,066, which was a result of payment to a computer company; however, an invoice or other support documentation was not provided to substantiate the assets value.
- The Academy had nine expenses that totaled to $114,123 that could be capital assets; however, inclusion/exclusion of capital assets could not be determined because adequate support documentation, such as an invoice was not provided.
- The Academy did not capitalize an Apple Mac Pro Desktop computer purchased amounting to $3,879 during the audit period. As a result, capital assets were understated

To improve accountability over capital assets:

- The Academy should retain documentation, such as invoices, to support recorded capital asset values.
- The Academy should review their expenses, at least annually, to determine if any represent capital assets and record and maintain a listing of those assets for financial statement purposes.
- The Academy should establish procedures to ensure all assets meeting the capitalization threshold are capitalized.

Officials' Response: The former school fiscal officer held herself out as having the expertise to complete these tasks in a timely manner, in accordance with statutory requirements. She was also provided with a complete manual detailing all of the required mandates and procedures, as well as training options (which she refused), to ensure compliance with all required provisions. She has been replaced and these deficiencies have been addressed.

FINDING NUMBER 2007-002

Material Noncompliance / Material Weakness

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

During our testing of non-payroll expenditures, we noted 19 out of 107 transactions tested totaling $38,052 had no supporting documentation. Of this amount, $11,971 was paid to individuals including $1,084 to Board members; $5,000 to fiscal officers; and $1,000 to an employee of the Academy. In addition, $10,133 was paid to the management company and $1,200 to a business owned by the former fiscal officer with no supporting documentation.

The Academy's failure to maintain original supporting documentation for expenditures could result in a loss of accountability over the Academy's finances, make it difficult to identify errors which could go undetected, and possibly result in expenditures that are not for a proper public purpose.

However, we performed alternate procedures to determine the proper public purpose of these expenses.

In addition, the following was noted during our audit:

- Cancelled checks nor copies of cancelled checks were provided for eight disbursements selected for testing.
- The October 2005 Business Checking bank statement was not provided.

We recommend the Academy not expend public monies unless the original supporting documentation is attached to attest to the authenticity and validity of the expense.

The Academy should develop policies and procedures outlining the security of all records or take a written inventory of all records noting the records description and location. All records should be maintained in a secure central location. This will help ensure records are not lost or destroyed.

Officials' Response: The former school fiscal officer held herself out as having the expertise to complete these tasks in a timely manner, in accordance with statutory requirements. She was also provided with a complete manual detailing all of the required mandates and procedures, as well as training options (which she refused), to ensure compliance with all required provisions. She has been replaced and these deficiencies have been addressed.

FINDING NUMBER 2007-003

Material Noncompliance / Material Weakness

Ohio Rev. Code Section 2921.42(A)(1) prohibits a public official from authorizing or using the authority or influence of the public official's office to secure a public contract in which the public official, a member of the public official's family, or any of the public official's business associate has an interest. **Ohio Rev. Code Section 102.03(D)** prohibits a public official from authorizing or using the authority or influence of office or employment, to secure anything of value or the promise or offer of anything of value that is of such a character as to manifest a substantial and improper influence upon the public official with respect to that person's duties.

Additionally, **Ohio Rev. Code Section 2921.42(A)(4)** states that no public official shall knowingly have an interest in the profits or benefits of a public contract entered into by or for the use of the political subdivision or governmental agency or instrumentality with which the public official is connected.

The following issues were noted during our audit:

- Dr. Kwa David Whitaker is the Chief Executive Officer of Ashe Culture Center, Inc. Ashe Culture Center, Inc. is the sponsor for the Academy. Dionne Whitaker is the daughter of Dr. Kwa David Whitaker and served on the Board of Trustees of the Academy during the audit period. Ashe Culture Center, Inc. was paid a total of $6,586. These checks were co-signed by Dionne Whitaker. Additionally, Dr. Kwa David Whitaker was paid a total of $6,500. These checks were co-signed by Dionne Whitaker. Finally, Dionne Whitaker co-signed $7,286 payments made out to her name.

- Exceptional Psychological Services is owned by Dr. Jorethia L. Chuck, who served on the Board of Trustees. Exceptional Psychological Services was paid $1,400 after July 1, 2006 while Dr. Chuck served on the Board of Trustees.

- Undiscovered Star is owned by Bernard Pettus, who is the husband of the former Treasurer of the Academy, Marsha Pettus. Undiscovered Star was paid $2,867. These checks were signed by Marsha Pettus.

This matter will be referred to the Ohio Ethics Commission for their review.

Officials' Response: In accordance with the Ashe Culture Center, Inc. (Ashe) sponsorship agreement (a copy of which has been provided), community school contract provisions and prevailing statutory requirement during the audit period, we offer the following explanation regarding this finding and request that it be considered in conjunction with the audit review. Finally, we ask that the finding be modified accordingly based upon evaluation of this information.

1) **Article IV. Responsibilities of the GOVERNING AUTHORITY (of the community school contract)** delineates all of the pertinent Ohio Revised Code (ORC) provisions with which the community school governing authority must comply. Specific ORC provisions that must be complied with can be found in the contract. The ORC sections referenced in this finding, i.e. (2921.42(A)(1); 2921.42(A)(4); and 102.03(D) were are not included in the list of governing authority responsibilities during the audit period. While these provisions are part of the current community school requirements this was not the case at the time this contract was consummated.

FINDING NUMBER 2007-003 (Continued)

Officials' Response: (Continued)

2) A close reading of Section 102.01's definition of 'public official' makes it clear that none of the individuals referenced in this finding are included within the definition.

   "(B) 'Public official or employee' means any person who is elected or appointed to an office or is an employee of any public agency…" Based upon this express statutory language it is the schools' position that ORC section 102.03(D) is also inapplicable to the governing authority and individuals associated with the school's operation during the audit period.

3. As with ORC section 102, a careful reading of ORC 2921 reveals that a 'Public official' means any elected or appointed officer, or employee, or agent of the state or any political subdivision, whether in a temporary or permanent capacity, and includes, but is not limited to, legislators, judges, and law enforcement officers. Again it is respondents' opinion that the express language of Section 2921 excludes all of the listed individuals.

   While our ORC interpretations indicate it to be unlikely that these provisions apply, we nevertheless realize that there can be differing opinions as to the applicability of these provisions during the contract term. With this in mind the following is provided for further consideration and evaluation:

   1) Ashe's sponsorship agreement with the Ohio Department of Education (ODE), a copy of which is provided for your review and records, includes all of the additional services (that could exceed the 3% payment) that the sponsor may provide to the schools that it sponsors. The itemized services, as well as, the hourly rate for any desired service, are included in all community school contracts as follows: "The SPONSOR, in accordance its Sponsorship Agreement with the Ohio Department of Education, offers the following services on an hourly fee basis not to exceed Two Hundred Fifty Dollars ($250) per hour. It is expressly understood and agreed that The GOVERNING AUTHORITY is under no obligation to contract for any of these services nor is it a precondition to sponsorship of the school. The available services are as follows:" Accordingly, it is our position, that any and all services provided were within the state approved guidelines and were therefore not inappropriate.

   2) The audit predated the implementation of HB 530 and, as such, it was permissible to serve as a member of a community school governing authority and receive compensation for professional services that may be rendered to the community school. As of this writing Dionne Whitaker, consistent with HB 530, no longer serves as a member of the school's governing authority.

   3) As sponsors of other community schools exigent circumstances have developed where it has become necessary for the sponsor to intervene in the governing authority activities as a means of ensuring that the school was provided with the necessary oversight and assistance needed to address or alleviate issues that a given school might be experiencing. This was the case here. Dr. Chuck was not an original member of the school's governing authority. She joined the board when it became obvious that greater sponsor oversight was needed.

   4) We have no information or explanation relative to Marsha Pettus' payment to her husband.

FINDING NUMBER 2007-003 (Continued)

Officials' Response: (Continued)

5) Finally, we offer the following to clarify the type of services that were provided that correspond to the stated invoice amounts:

a) Ashe Culture Center, as stated, is the schools sponsor and, as such, is entitled to receive a 3% fee for its oversight and technical assistance as well as other available services that are enumerated in the school's contract. In addition, Dr. Whitaker holds dual doctoral degrees in Educational Psychology and Law which qualify him to provide consulting services in various areas. This amount ($6,500) reflects payment for various services within his areas of expertise and credentials.

b) Ms. Dionne Whitaker, in addition to her relationship to Dr. Whitaker, is also a Master Teacher with dual master's degrees in educational Psychology and Reading Instruction. She has provided curriculum development, student reporting text book evaluations, classroom enhancement consultations/workshops and staff development activities and in the areas of reading and math instruction. During her board tenure she served as second endorser on checks and inadvertently co-endorsed a check that was made payable to her. This amount ($7,286) reflects payment for various services within her areas of expertise and credentials.

c) Dr. Jorethia L. Chuck, in addition to being the Co-founder of Ashe Culture Center and spouse of Dr. Whitaker, holds a doctoral degree in School Psychology and is a Licensed Psychologist in the state of Ohio. Her vast experience includes serving as Manager for 100 school psychologist in the Cleveland Municipal School District. She maintains a private psychology practice (under the names of Professional Psychological Services and Exceptional Psychological Services) and provides special education evaluations and related services for various community schools across Ohio. This amount ($1,400) reflects payment for various services within her areas of expertise and credentials.

Auditor of State Conclusion: Based on Ohio's Ethics Laws and Ohio Ethics Commission (OEC) advisory opinions, sufficient questions of fact exist to warrant referral to the OEC.

First, effective June 30, 2006, House Bill 530 amended R.C. 3314.03(A)(11)(e) to require that each contract entered into between a sponsor and the governing authority of a community school to specify that the school shall comply with Chapter 102 and section 2921.42 of the Revised Code. Also, the audit period includes fiscal year July 1, 2006 to June 30, 2007, and, therefore, does not predate the implementation of House Bill 530.

Furthermore, Article IV of the Community School Contract between Phoenix Village Academy and its sponsor, Ashe Culture Center, Inc., states that "[i]n accordance with Ohio Revised Code Section 3314.03(A)(11)(e), the Governing Authority shall comply with Chapter 102 of the Ohio Revised Code and Section 2921.42 of the Ohio Revised Code".

Finally, OEC Advisory Op. No. 2003-01 provides that a member of the governing board of a community school is subject to the restrictions imposed upon "public officials and employees" by R.C. Chapter 102, and is considered an "agent of the state", and, thus, a "public official", for purposes of the contract restrictions of R.C. 2921.42. The Opinion goes on to state that a community school treasurer is equally subject to the restrictions in R.C. Chapter 102 and Section 2921.42.

FINDING NUMBER 2007-004

Material Noncompliance

Ohio Rev. Code Section 3314.03(A)(6) states, in part, that each contract entered into between a sponsor and the governing authority of a community school shall specify the governing authority must adopt an attendance policy that includes a procedure for automatically withdrawing a student from the school if the student, without a legitimate excuse, fails to participate in one hundred five consecutive hours of the learning opportunities offered to the student.

The Board of Trustees did not approve or provide a student attendance policy that covered the period September 14, 2006 through June 30, 2007.

The Board of Trustees should draft and approve a student attendance policy. This will help ensure the process for adding and withdrawing students is being maintained and followed by the Academy.

Officials' Response: While the school relies upon the general provisions of ORC 3314 relative to attendance it will adopt a specific resolution to address this deficiency prior to the opening of school for the fall 2009 semester.

FINDING NUMBER 2007-005

Material Noncompliance

Ohio Rev. Code Section 3314.03(A)(11)(B) states, in part, that each contract entered into between a sponsor and the governing authority of a community school shall specify the governing authority will purchase liability insurance, or otherwise provide for the potential liability of the school.

The Academy did not provide documentation of liability insurance that covered the period September 14, 2006 through June 30, 2007.

The Academy should maintain liability insurance. This will help ensure the Academy is fully addressing risk management requirements.

Officials' Response: The school did carry liability insurance. Why the policy documentation was unavailable is not clear. Nonetheless, this will be addressed prior to the opening of school for the fall of 2009.

FINDING NUMBER 2007-006

Material Noncompliance

Ohio Rev. Code Section 3314.03(A)(11)(d) states that the community school will comply with section 5705.391 of the Revised Code as if it were a school district. Ohio Rev. Code Section 5705.391 and Ohio Admin. Code Section 3301-92-04 state that School boards, including community schools, must prepare five year projections. Community Schools must submit the five year projection to the Ohio Department of Education.

During the period September 14, 2006 through June 30, 2007, the Academy did not submit a five year projection to the Ohio Department of Education.

The Academy should submit the five year projection to the Ohio Department of Education to ensure compliance with the Ohio Rev. Code and to avoid jeopardizing future state funding.

FINDING NUMBER 2007-006 (Continued)

Material Noncompliance (Continued)

Officials' Response: The former school fiscal officer held herself out as having the expertise to complete these tasks in a timely manner and in accordance with statutory requirements. She was also provided with a complete manual detailing all of the required mandates and procedures, as well as training options (which were we refused), to ensure compliance with all required provisions. She has been replaced and these deficiencies have been addressed.

Mr. Edward Dudley, the current school treasurer, has filed all required five-year budget projections in accordance with the revised code.

FINDING NUMBER 2007-007

Material Noncompliance

Ohio Rev. Code Section 3314.03(A)(19) states, in part, that each contract entered into between a sponsor and the governing authority of a community school shall specify the governing authority is required to adopt a policy provision regarding the admission of students who reside outside the district in which the school is located. That policy shall comply with the admissions procedures specified in sections 3314.06 and 3314.061 of the Revised Code and, at the sole discretion of the authority, shall do one of the following:

(a) Prohibit the enrollment of students who reside outside the district in which the school is located;

(b) Permit the enrollment of students who reside in districts adjacent to the district in which the school is located;

(c) Permit the enrollment of students who reside in any other district in the state.

The Board of Trustees did not approve or provide a student admission policy that covered the period September 14, 2006 through June 30, 2007.

The Board of Trustees should draft and approve a student admission policy. This will help ensure all students enrolled in the Academy are meeting the policy requirements.

Officials' Response: This area will be specifically addressed prior to the opening of school for the fall semester 2009.

FINDING NUMBER 2007-008

Material Noncompliance

26 C.F.R. Section 1.6041-1 requires governments to report on Form 1099 "salaries, wages, commissions, fees, and other forms of compensation for services rendered aggregating $600 or more."

The Academy did not provide Form 1099's for services rendered by contractors for the 2006 year even though payments were made to individuals in excess of $600. However, 1099's were issued for 2007, but recipient's addresses and tax identification numbers were not present on the form. In addition, the Academy did not have a completed Form W-9 Request for Taxpayer Identification Number and Certification on file to indicate if the contractor was incorporated.

FINDING NUMBER 2007-008 (Continued)

Material Noncompliance (Continued)

The Academy should prepare a Form 1099 with all the required information, including, but not limited to, recipient's addresses and tax identification numbers for all non-incorporated vendors who annually provide more than $600 in goods or services to the Academy. In addition, the Academy should require all vendors to complete a Form W-9 to determine if they should be issued a Form 1099 at year end.

In addition, **26 C.F.R. Section 1.6041-2** provides that wages, as defined in section 3401, paid to an employee, are to be reported on Form W-2. This section also provides that all other payments of compensation to an employee, including fringe benefits described in the preceding paragraph, are to be reported on form W-2, if the aggregate compensation, that is, wages and other compensation, exceed $600.

Although the Academy paid employees throughout the period September 14, 2006 through June 30, 2007, the Academy was not able to provide W-2's for the 2006 calendar year or evidence they were filed with the Internal Revenue Service.

This matter will be referred to the Internal Revenue Service.

Officials' Response: It was anticipated that the transition between Ms. Pettus and Mr. Dudley would have been smooth thereby facilitating the seamless completion and distribution of all required W-2's, 1099's etceteras. However, Ms. Pettus' refusal to provide information made it virtually impossible for Mr. Dudley to complete all of the required report filings. It should be noted that the payroll was processed by Automatic Data Processing (ADP) and copies of the W-2's were requested by the current treasurer but never received.

FINDING NUMBER 2007-009

Material Noncompliance

Ohio Rev. Code Section 3309.49 requires each employer shall pay annually to the School Employees Retirement System (SERS) an amount certified by the secretary that shall be a certain per cent of the earnable compensation of all employees, and shall be known as the "employer contribution." The school employees retirement board has set the rate at 14 percent. Also, **Ohio Rev. Code Section 3309.51(A)** requires, in part, that payments by governing authorities of community schools to the employers' trust fund of the school employees retirement system shall be made from the amounts allocated under section 3314.08 of the Revised Code prior to their distribution to the individual community schools. The amount due from each community school shall be certified by the secretary of the system to the superintendent of public instruction monthly, or at such times as determined by the school employees retirement board. The School Employees Retirement System requires payments fifteen days after the end of the month being reported.

The following was noted during testing:

- For one employee tested, the Academy only paid ten percent of the gross wages instead of the required 14 percent for the employer contribution for one month.

- The employee portion of the School Employees Retirement System for the months of January, February, and March 2007 were not paid until May 2007.

FINDING NUMBER 2007-009 (Continued)

Material Noncompliance (Continued)

The following is recommended:

- The Fiscal Officer should ensure the correct employer and employee contribution rates are paid for all employees of the Academy.

- The Academy should pay no later than fifteen days after the end of the month being reported to avoid penalty and ensure compliance with the Ohio Revised Code.

These matters will be referred to the School Employees Retirement System.

Officials' Response: The computer files for the school are currently being backed up by in outside service that supports the treasurer computer information system and files. These files are remotely backed up daily.

FINDING NUMBER 2007-010

Material Noncompliance / Material Weakness

Phoenix Village Academy – Primary 1 Code of Regulations, Article V, Section 4, states in part, the Treasurer shall review preliminary annual budgets with management and assist in presenting the budget to the board for approval. In addition, the Treasurer shall ensure appropriate financial reports are made available to the board on a timely basis.

The Fiscal Officer did not prepare or submit a budget to the Board of Trustees for approval. Without a budget, the Board's ability to make informed financial decisions is reduced. Also, the Board of Trustee Minutes did not indicate the Board of Trustees received any financial reports during the period September 14, 2006 through June 30, 2007. Not reviewing and approving monthly reports demonstrates a lack of fiscal monitoring by the Board of Trustees. Unrecognized errors resulting in misstatements of the Academy's records occurred and were not timely detected as a result of not monitoring the monthly reports.

A proactive Board of Trustees is an important part of an effective system of internal controls. As an integral part of the internal control structure, the Academy's Board of Trustees should request an annual budget and monthly financial reports and formally recognize in the minutes the acceptance of budget and monthly reports they receive from the Fiscal Officer. Monthly financial reports should include, but not be limited to, monthly cash reconciliations, budget to actual statements, year-to-date receipt, expense, and fund balance reports.

These reports should reflect all activity of the Academy and should be up-to-date. This will increase the Board's awareness of all finance related activity and facilitate their decision making process. During this review, they should determine the adequacy of the budget classifications and ensure all receipts and expenses appear appropriate for the Academy.

By closely reviewing these documents, the Academy's Board of Trustees may be able to detect errors timely, thereby increasing the effectiveness of the internal control structure.

FINDING NUMBER 2007-010 (Continued)

Officials' Response: This deficiency has been properly addressed by the current school treasurer. In August 2007 at the board meeting, the budget for 2007/2008 was presented and approved by the board. Please see minutes of the meeting.

FINDING NUMBER 2007-011

Material Weakness

Recording of Financial Activity

The current Fiscal Officer recorded the detailed financial activity of the Academy from inception, approximately April 2005, through December 31, 2006 as one lump sum amount by line item account on the General Ledger used to create the financial statements of the Academy for the period September 14, 2006 through June 30, 2007.

However, not all the information provided to support the lump sum amounts was complete. The detailed amounts provided by the current Fiscal Officer did not sum to the specific line item accounts as reflected on the General Ledger. In addition, lump sum amounts on the General Ledger, indicating "old system", did not have detailed documentation provided to support those lump sum amounts. After review of the support documentation provided by the current Fiscal Officer for the lump sum amounts compared to the amounts reported on the General Ledger used to create the financial statements indicating "old system", the amounts in total represented $84,252 and $44,497, respectively.

Accurate documentation should be maintained to support all amounts reflected on the General Ledger used to create the financial statements. Before finalizing the financial statements, the Fiscal Officer should reconcile all support documentation use in the creation of the general ledger of the Academy to ensure all amounts presented are accurate and properly recorded.

Officials' Response: The prior fiscal officer provided limited financial information to the current treasurer. No bank reconciliations, detailed general ledger, trial balances or any other of the required financial statements were received. The current treasurer was forced to reconstruct needed financial information from the best sources available. Currently, monthly bank reconciliations, accounts payable schedules and financial information are being prepared.

FINDING NUMBER 2007-012

Material Weakness

Cash Reconciliation

A necessary step in the internal control over financial reporting is to prove both the balance of the bank and the balance of cash in the accounting records. A bank reconciliation means accounting for the differences between the balance on the bank statement(s) and the cash and investment balances according to the entity's records.

From inception, April 2005 through June 2007, the Academy did not resolve various differences between the bank balance and the balance reflected within the Academy's accounting records. Since the Academy did not provide reconciled financial statements or evidence to support the material reconciling items, the Academy was declared unauditable by the Auditor of State on April 23, 2008. Subsequently, the Academy was able to perform and provide bank to book reconciliations at June 30, 2007. We performed alternate procedures to determine cash was reconciled.

FINDING NUMBER 2007-012 (Continued)

Cash Reconciliation (Continued)

Without complete and accurate monthly bank reconciliations, the Academy's internal control is significantly weakened which could hinder the timely detection of errors or irregularities by management.

The Academy should perform complete monthly bank reconciliations in a timely manner. The preparer should sign the reconciliation and a copy of the monthly bank reconciliation and listing of outstanding checks and other reconciling items should be provided to the Board of Trustees each month for review and approval. All unreconciled differences should be resolved as quickly as possible so they are not carried forward month-to-month and all reconciling matters should be appropriately documented.

Officials' Response: The former school fiscal officer held herself out as having the expertise to complete these tasks in a timely manner and in accordance with statutory requirements. She was also provided with a complete manual detailing all of the required mandates and procedures, as well as training options (which were we refused), to ensure compliance with all required provisions. She has been replaced and these deficiencies have been addressed. These reconciliations are now received on a monthly basis.

FINDING NUMBER 2007-013

Material Weakness

Interbank Transfers

During the months of June and July 2007, the Fiscal Officer, by way of check, customer deposit, debit memo, credit memo and transfers to and from bank accounts moved monies around within the Academy's three bank accounts, General Operating, Federal and Payroll and between two other community schools to which the Fiscal officer was responsible.

An initial wire deposit was made for the State Public Charter Schools Program grant on June 4, 2007 for $67,509 into the Academy's General Operating Account. This was not the appropriate account to deposit the grant funds as it should have been deposited into the Academy's Federal account. Therefore, on June 7, 2007 a check was written out of the Academy's General Operating account for $135,540 and there was a customer deposit into the Academy's Federal account for $135,540. On June 12, 2007 there was a debit memo from another community school's General Operating account for $68,031 and a credit memo to the Academy's General Operating account for $68,031. Also, on June 12, 2007, a debit memo was issued from the Academy's Federal account for $68,031 and a credit memo to the Academy's Payroll account for $68,031. On June 14, 2007 the Academy made a transfer from the Payroll account to the Federal account for $68,031. On July 16, 2007 a check was written out of the Academy's Federal account for $68,031 and a customer deposit was made into another community school's Federal account for $68,031. As a result of all this movement, the original wire deposit of $67,509 deposited into the Academy's General Operating account was now in the Academy's Federal account where it should have been originally deposited. The Fiscal Officer's transfer of monies within and between community schools to which he is responsible, could lead to inappropriate transfers, commingling of monies, lack of a formal audit trail as to the source of the funds, and allow for misstatements to occur that could have a material effect on the financial statements.

FINDING NUMBER 2007-013 (Continued)

Material Weakness (Continued)

The Fiscal Officer, before moving monies around within the Academy should evaluate where the monies were initially deposited, to which bank accounts the monies should be deposited and should request Board of Trustee approval. This would provide an easier and more direct movement of monies to the appropriate accounts. In addition, money should not be transferred between community schools.

Officials' Response: These errors were caused by the bank, not the treasurer. Because there were several PVA schools, four to be exact, each having four different accounts, the teller made an error transferring federal funds from the schools operating account to the federal account. This error was caught in the subsequent month while performing the bank reconciliations and rectified accordingly.

FINDING NUMBER 2007-014

Material Weakness

Cash Flow Statement and Basic Financial Statement Format

While the Fiscal Officer did provide a Statement of Cash Flows for the period September 14, 2006 through June 30, 2007, it was not prepared pursuant using the direct method, as mandated by Governmental Accounting Standards Board (GASB) Statement Number 34.

The operating, investing and financing activities were presented; however, it was in an indirect method, private sector format. In addition, a "reconciliation of operating gain (loss) to net cash provided by (used in) operating activities" and proper format was not presented.

In addition, the following weaknesses were noted with the original basic financial statements presented for audit:

- The Management's Discussion and Analysis included references to years prior to the Academy's existence such as 2004 and fiscal year ended June 30, 2005.
- The Statement of Net Assets included an equity section with fund balance and net income rather than a net assets section with invested in capital assets net of related debt, unrestricted net assets, and total net assets.
- The Statement of Revenues, Expenses and Changes in Net Assets included non-operating revenues with operating revenues. In addition, the statement reflected net income rather than a change in net assets along with net asset balances at the beginning and end of the year.
- Many of the footnotes to the financial statements included outdated information and/or information not applicable to the Academy such as a reference to the wrong Sponsor.
- No deposit and investment footnote in accordance with GASB Statement No. 40 was presented.
- Footnotes for loans receivable, contingency, sponsorship fees, tax exempt status, or start up period were not presented.
- The risk management footnote referred to insurance policies that were not presented for audit.

FINDING NUMBER 2007-014 (Continued)

Material Weakness (Continued

- The defined benefit pensions plan and postemployment benefits footnotes did not contain all required information such actual contributions made by the Academy and statewide information.

The Fiscal Officer should provide financial statements in accordance with GASB Statement No. 34 to properly reflect the financial activities of the Academy.

Officials' Response: Current treasurer has solicited the assistance of an outside CPA firm to assist in the preparation of these statements as of January 2009.

FINDING NUMBER 2007-015

Material Weakness

Non-Payroll Expenses

The following were noted while testing non-payroll expenses:

- Eight checks totaling $16,582 could not be traced to proper posting in the general ledger and financial statements since detail general ledgers were not provided for the start-up period prior to June 30, 2005.
- Nineteen expenses selected for testing totaling $38,052 could not be verified as being posted to the correct expense code since original invoices or other support documentation was not provided to indicate the type of expense.
- A board member was reimbursed $1,084 for supplies without providing receipts or other documentation for the purchase of those supplies. In addition, the board member signed and cashed a check made payable to "cash" in the amount of $152 without providing any support documentation for the use of the money.
- An employee was reimbursed $50.39 for supplies without providing receipts or other documentation for the purchase of those supplies.
- Cancelled checks nor copies of cancelled checks were provided for eight disbursements selected for testing.
- The payee on two checks was entered in the check register as a different payee.
- The payee for one expense was not recorded on the check register/trial balance.
- One expense was recorded in the general ledger with a date 17 days after the check had been cashed by the bank.
- One expense in the amount of $337 was paid from a hand-written invoice.

FINDING NUMBER 2007-015 (Continued)

Material Weakness (Continued)

- One invoice from the Academy's Sponsor in the amount of $2,960 indicated payment should be made to a vendor other than the Sponsor.

These issues could result in material misstatement to the financial statements and money spent on unauthorized expenses. We recommend the Academy implement the following:

- Ensure all financial transactions are timely and properly posted to detail ledgers which are maintained to support the Academy's financial statements.

- Original invoices or other support documentation must be maintained for all expenses.

- Original receipts or other support documentation must be maintained when reimbursing individuals for purchases or other expenses.

- Original or electronic copies of cancelled checks must be maintained to support all expenses.

Officials' Response: The current accounting system in place will address and correct these issues.

FINDING NUMBER 2007-016

Material Weakness

Payroll Testing

The following was noted during payroll testing:

- No employees had a written employment contract.

- Personnel files did not always contain salary notices and/or authorized pay rates, or position titles for each employee.

- Individual hiring, termination, and pay rates were not documented in the Board of Trustee Minutes.

- Payroll activity prior to January 1, 2007 was recorded by the current Fiscal Officer as one lump sum, because the prior Fiscal Officer did not maintain adequate documentation. As a result, we were unable to verify if the individual payroll transactions were posted to the general ledger accurately.

- For six individual payroll payments tested, adequate documentation to support the payment was not included in the employee personnel file or provided by the Academy.

FINDING NUMBER 2007-016 (Continued)

Material Weakness (Continued)

The following is recommended:

- Individual written employment contracts should be entered into with all employees.
- Personnel files should contain all pertinent payroll information such as salary notices, pay rates, position title, etc.
- The Board of Trustee Minutes should contain all information related to hiring, termination, pay rates, etc. for each Academy employee.
- Each pay periods payroll activity should be recorded in the financial accounting records of the Academy.

Although the Board of Trustees provided explanations for the payroll payments; adequate documentation should be maintained for any deviation from the authorized salary amount.

Officials' Response: While state law did not require written contracts during the audit period all current school employees now receive written contracts. The remaining issues listed in this finding have been or are being addressed by the school treasurer and governing authority.

FINDING NUMBER 2007-017

Material Weakness

Payroll Processing

The previous Fiscal Officer paid payroll for the period of September 14, 2006 through December 31, 2006 from another Community Schools payroll bank account which the Fiscal Officer was also financially responsible.

As a result, comingling of the Academy's funding occurred and the financial statements did not properly reflect the financial activity of the Academy for the period September 14, 2006 through June 30, 2007. The current Fiscal Officer set up a short term loan payable for $36,489, the amount of payroll paid by the other community school, in which Phoenix Village Academy – Primary 1 had repaid $20,000 by the end of the period September 14, 2006 through June 30, 2007.

The Fiscal Officer should only process the Academy's payroll financial activity through its own payroll bank account to avoid misstated or misleading financial statements.

Officials' Response: This has been corrected by the governing authority and current school treasurer. The proper loan amounts, between the PVA schools, were determined as of the end of the 2008 fiscal year. Repayment of the outstanding amounts will be repaid as funds are available to each school.

FINDING NUMBER 2007-018

Material Weakness

Capital Asset Policy

The Academy does not have a Board approved capital asset policy for reporting its land and improvements, buildings and improvements, furniture and equipment, vehicles, and construction in progress. This may allow items to be inadvertently omitted from the capital asset accounting records or allow those items which are not intended to be recognized to be included in the capital asset accounting records.

The Board of Trustees should adopt a written Capital Asset policy that includes, but is not limited to, the following:

- The threshold amount for capital assets to be capitalized, including the useful life.
- Whether items that are purchased which, in aggregate, exceed the threshold, but individually do not, should be capitalized.
- Whether the Academy will capitalize software or textbooks.
- How will depreciation be computed (straight-line, fraction of years).
- How will assets be deleted.
- Accounting procedures for capital assets changes.

Officials' Response: These issues have been or are being addressed by the current school treasurer.

NOTE: The correction of deficiencies listed in this or other audit reports are being overseen by Ashe's Fiscal Review Officers to ensure full compliance.

Mary Taylor, CPA
Auditor of State

PHOENIX VILLAGE ACADEMY – PRIMARY 1

SUMMIT 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 19, 2009

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