



Dave Yost • Auditor of State



PHOENIX VILLAGE ACADEMY PRIMARY 2  
CUYAHOGA COUNTY

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# Dave Yost • Auditor of State

## INDEPENDENT ACCOUNTANTS' REPORT

Phoenix Village Academy Primary 2  
Cuyahoga County  
12406 Shaker Boulevard  
Cleveland, Ohio 44120

To the Board of Trustees:

We were engaged to audit the accompanying financial statements of Phoenix Village Academy Primary 2, Cuyahoga County, Ohio (the Academy), as of and for the year ended June 30, 2011. These financial statements are the responsibility of the Academy's management.

The Academy failed to provide documentation to support Net Assets, Beginning of Year.

The Academy failed to provide documentation of Advances Payable.

The Academy failed to provide support for adjustments made to amounts reported as Salaries and Fringe Benefits.

The Academy did not maintain sufficient documentation to support amounts recorded as capital assets.

They also did not maintain documentation to support the disclosures related to the items listed in paragraphs three through five above.

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* 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 Academy's accounting basis; the availability of original financial records and related data, the completeness and availability of all minutes of the legislative or other bodies and committee meetings, management's responsibility for the Academy'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.

AU Section 337 permits auditors to rely on the judgment of lawyers and management as to the disclosure of unasserted claims. Letters of audit inquiry sent to the Academy's legal counsel were not responded to. Therefore, we were unable to obtain sufficient evidence regarding the completeness of unasserted claims.

Since the Academy did not provide written representations or sufficient evidential matter as described in paragraphs two through eight above, the scope of our procedures was not sufficient to enable us to express, and we do not express, an opinion of these financial statements referred to above for the year ended June 30, 2011.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 5, 2012, 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 engagement.

The accompanying financial statements have been prepared assuming that the Academy will continue as a going concern. As discussed in Note 16 to the basic financial statements, the Statement of Net Assets shows the Academy has a net deficit of \$174,058. In addition, in September of 2011, the Ohio Department of Education notified Ashe Cultural Center, the Academy's sponsor, that they are no longer permitted to sponsor community schools in Ohio. These conditions raise substantial doubt about the Academy's ability to continue as a going concern. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

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



**Dave Yost**  
Auditor of State

October 5, 2012

**PHOENIX VILLAGE ACADEMY PRIMARY 2  
CUYAHOGA COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011  
(UNAUDITED)**

Our discussion and analysis of Phoenix Village Academy Primary 2 (the Academy) financial performance provides an overall review of the Academy's financial activities for the fiscal year ended June 30, 2011. The intent of this discussion and analysis is to look at the Academy's financial performance as a whole; readers should also review the basic financial statements and notes to the basic financial statements to enhance their understanding of the Academy's financial performance.

The Management's Discussion and Analysis (MD&A) is an element of the 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 the Academy for the 2010-2011 school year are as follows:

- Total assets increased by \$8,057 or 14%.
- Total liabilities increased by \$75,146 or 46%.
- Total net assets decreased by \$67,089 or 63%.
- Total operating revenues were \$403,979. Total operating expenses were \$758,890.

## USING THIS ANNUAL REPORT

This report consists of three parts: Management's Discussion and Analysis, 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 Statement of Net Assets and Statement of Revenues, Expenses, and Changes in Net Assets reflect how the Academy did financially during fiscal year 2011. 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 the Academy's net assets and changes in those assets. This change in net assets is important because it tells the reader whether the financial position of the Academy has improved or diminished. The causes of this change may be the result of many factors, some financial, some not. Non-financial factors include the Academy's student enrollment, per-pupil funding as determined by the State of Ohio, change in technology, required educational programs and other factors.

The Academy uses enterprise presentation for all of its activities.

PHOENIX VILLAGE ACADEMY PRIMARY 2  
CUYAHOGA COUNTY

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011  
(UNAUDITED)

## STATEMENT OF NET ASSETS

The Statement of Net Assets answers the question of how the Academy did financially during 2011. 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 Academy's net assets for fiscal years 2011 and 2010.

**Table 1**  
**Statement of Net Assets**

	<u>2011</u>	<u>2010</u>
<b>Assets</b>		
Current Assets	\$50,360	\$32,782
Capital Assets, Net of Accumulated Depreciation	14,862	24,383
Total Assets	65,222	57,165
<b>Liabilities</b>		
Current Liabilities	239,280	164,134
Total Liabilities	239,280	164,134
<b>Net Assets</b>		
Invested in Capital Assets, Net of Related Debt	14,862	24,383
Unrestricted	(188,920)	(131,352)
Total Net Assets	<u>(\$174,058)</u>	<u>(\$106,969)</u>

Net assets decreased to \$(174,058). Liabilities increased from 2010 by \$75,146.



**PHOENIX VILLAGE ACADEMY PRIMARY 2  
CUYAHOGA COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011  
(UNAUDITED)**

## STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

Table 2 shows the changes in net assets for fiscal years 2011 and 2010, 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  
Revenues, Expenses, and Changes in Net Assets**

	<u>2011</u>	<u>2010</u>
<b>Operating Revenues:</b>		
State Foundation (Aid)	\$401,545	\$420,698
Other Revenue	2,434	691
<b>Total Operating Revenues</b>	<u>403,979</u>	<u>421,389</u>
<b>Operating Expenses:</b>		
Salaries	275,122	248,467
Fringe Benefits	73,451	52,398
Purchased Services	338,521	310,192
Materials and Supplies	60,889	73,684
Depreciation	9,521	9,713
Other	1,386	1,885
<b>Total Operating Expenses</b>	<u>758,890</u>	<u>696,339</u>
Net Operating Loss	(354,911)	(274,950)
<b>Non-Operating Revenues and (Expenses)</b>		
Federal and State Grants	<u>287,822</u>	<u>198,622</u>
Total Non-Operating Revenue/Expense	<u>287,822</u>	<u>198,622</u>
Change in Net Assets	(67,089)	(76,328)
Net Assets at Beginning of Year	<u>(106,969)</u>	<u>(30,641)</u>
Net Assets at End of Year	<u><u>(\$174,058)</u></u>	<u><u>(\$106,969)</u></u>

**PHOENIX VILLAGE ACADEMY PRIMARY 2  
CUYAHOGA COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011  
(UNAUDITED)**

Operating revenues decreased by \$17,410 or 4% from 2010. Operating expenses increased by \$62,551 or 9% from 2010.

## **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 prescribe a budgetary process. The Academy 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**

The Academy has invested in capital assets, net of accumulated depreciation. Detailed information regarding capital asset activity is included in the Note 4 to the basic financial statements.

## **DEBT OBLIGATIONS**

The Academy has debt obligations comprised of loans totaling \$156,038 at June 30, 2011. See Note 5 to the basic financial statement for further details.

## **CONTACTING THE ACADEMY'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizen's, taxpayers, investors and creditors with a general overview of the Academy's finances and to demonstrate accountability for the money it receives. If you have questions about this report or need additional information contact Mr. Edward E. Dudley, Sr. CPA, MBA, of LED Consulting, 676 Brook Hollow, Gahanna, Ohio 43230 or e-mail at [ed@eddudleycpa.com](mailto:ed@eddudleycpa.com).

**PHOENIX VILLAGE ACADEMY PRIMARY 2  
CUYAHOGA COUNTY**

**Statement of Net Assets  
at June 30, 2011**

**Assets**

*Current Assets:*

Cash	\$ 14,051
Accounts Receivable	19,059
Deposits and Escrows	<u>17,250</u>

*Total Current Assets* 50,360

*Noncurrent Assets:*

Capital Assets, Net of Depreciation	<u>14,862</u>
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*Total Noncurrent Assets* 14,862

**Total Assets** 65,222

**Liabilities**

*Current Liabilities:*

Accounts Payable	53,631
Accrued Payroll	29,223
Intergovernmental Payable	388
Advances Payable	<u>156,038</u>

*Total Current Liabilities* 239,280

**Total Liabilities** 239,280

**Net Assets**

Invested in Capital Assets, Net of Related Debt	14,862
Unrestricted	<u>(188,920)</u>

Total Net Assets \$ (174,058)

See accompanying notes to the basic financial statements

**PHOENIX VILLAGE ACADEMY PRIMARY 2  
CUYAHOGA COUNTY**

**Statement of Revenues,  
Expenses and Changes in Fund Net Assets  
For the Fiscal Year Ended June 30, 2011**

<b>Operating Revenues:</b>	
State Foundation (Aid)	\$ 401,545
Local Revenue	2,434
<b>Total Operating Revenues</b>	<u>403,979</u>
<b>Operating Expenses:</b>	
Salaries	275,122
Fringe Benefits	73,451
Purchased Services	338,521
Materials and Supplies	60,889
Depreciation	9,521
Other	1,386
<b>Total Operating Expenses</b>	<u>758,890</u>
<b>Operating Loss</b>	(354,911)
<b>Non-Operating Revenues:</b>	
Federal and State Grants	287,822
<b>Total Non-Operating Revenues</b>	<u>287,822</u>
<b>Change in Net Assets</b>	(67,089)
Net Assets, Beginning of Year	<u>(106,969)</u>
<b>Net Assets, End of Year</b>	<u><u>\$ (174,058)</u></u>

See accompanying notes to the basic financial statements

**PHOENIX VILLAGE ACADEMY PRIMARY 2  
CUYAHOGA COUNTY**

**Statement of Cash Flows  
For the Fiscal Year Ended June 30, 2011**

**Increase (Decrease) in Cash and Cash Equivalents**

**Cash Flows from Operating Activities**

Cash Received from State of Ohio	\$ 401,545
Cash Received from Other Operating Sources	2,434
Cash Payments to Supplies for Goods and Services	(413,000)
Cash Payments to Employees for Services	(276,204)
Cash Payments for Employee Benefits	(73,451)
Other Cash Payments	<u>(1,386)</u>
Net Cash Used for Operating Activities	(360,062)

**Cash Flows from Noncapital Finance Activities**

Cash Received from Federal and State Grants	<u>273,324</u>
Net Cash Provided by Noncapital Finance Activities	273,324

**Cash Flows from Capital and Related Financing Activities**

Cash Receipts from Schools	<u>103,168</u>
Net Cash Used in Capital and Related Financing Activities	103,168

**Net Increase in Cash and Cash Equivalents** 16,430

Cash and Cash Equivalents, Beginning of Year (2,379)

**Cash and Cash Equivalents, End of Year** \$ 14,051

**Reconciliation of Operating Loss to Net Cash Provided by Operating Activities**

Operating Loss \$ (354,911)

**Adjustments to Reconcile Operating Loss to Net Cash Used for Operating Activities**

Depreciation	9,521
Increase in Accounts Payable	(10,693)
Increase in Accrued Payroll	(1,082)
Increase in Intergovernmental Payable	388
Decrease in Settlement Payable	<u>(3,285)</u>
Total Adjustments	<u>(5,151)</u>
Net Cash Provided by Operating Activities	<u><u>\$ (360,062)</u></u>

See accompanying notes to the basic financial statements

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**PHOENIX VILLAGE ACADEMY PRIMARY 2  
CUYAHOGA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2011**

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**1. DESCRIPTION OF ENTITY**

Phoenix Village Academy Primary 2 (the Academy) 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. The Academy qualified as a tax 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 the Academy's tax-exempt status.

The Academy, which is part of the State's education program, is independent of any school district and is nonsectarian in its programs, admissions policies, employment practices, and all other operations. The Academy may sue and be sued, acquire facilities as needed, and contract for any services necessary for the operation of the Academy. The Academy was approved for operation under a contract with Ohio State Board of Education. The Sponsor is responsible for evaluating the performance of the Academy and has the authority to deny renewal of the contract at its expiration or termination the contract prior to its expiration.

The Academy signed a contract with Ashe Culture Center, Inc. to act as its sponsor for the period of June 30, 2003 through April 14, 2009. The contract was renewed until June 30, 2013. In October of 2011 Ashe was removed as a Sponsor. The Ohio Department of Education is currently the Sponsor of the School.

The Academy operates under the direction of a five-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.

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**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial Statements of the Academy have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental nonprofit organizations. The Governmental Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989, provided they do not conflict with or contradict GASB pronouncements. The more significant of the Academy's accounting policies are described below.

**A. BASIS OF PRESENTATION**

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

**PHOENIX VILLAGE ACADEMY PRIMARY 2  
CUYAHOGA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2011  
(CONTINUED)**

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**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 balance sheet. The operating statement 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 the Academy 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 the Academy are maintained in a demand deposit account. The Academy considers all short-term, highly liquid and investments with an initial maturity of 3 months or less to be cash equivalents. The Academy has no investments at June 30, 2011.

**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.



PHOENIX VILLAGE ACADEMY PRIMARY 2  
CUYAHOGA COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2011  
(CONTINUED)

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**F. CAPITAL ASSETS**

Fixed 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 assets. Fixed assets were \$55,722, as of June 30, 2011 with accumulated depreciation of \$40,860. Depreciation of fixed 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	5 years
Computers and Office Equipment	7 years

The Academy has an asset capitalization threshold policy of \$1,000. (See Note 4)

**G. INTERGOVERNMENTAL REVENUES**

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

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

Under the above programs the Academy received \$689,367 this fiscal year.

**H. COMPENSATED ABSENCES**

The Academy does not record a liability for compensated absences because its policy is not to payout accumulated leave balance upon termination of employment.

**I. ACCRUED LIABILITIES**

Obligations incurred but unpaid at June 30 are reported as accrued liabilities in the accompanying financial statements. As of June 30, 2011 accounts payable was \$53,631.

**PHOENIX VILLAGE ACADEMY PRIMARY 2  
CUYAHOGA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2011  
(CONTINUED)**

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**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**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 the Academy 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 the Academy must provide local resources to be used for a specified purpose, and expenditures requirements, in which the resources are provided to the Academy on a reimbursement basis.

**K. NET ASSETS**

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

**L. OPERATING REVENUES AND EXPENSES**

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

**M. ADVANCES PAYABLE**

Phoenix Village Academy Primary 2 and Phoenix Village Academy Secondary 1 are considered sister schools. These academies have the same educational philosophy, methodology and provide continuity in the student's educational career, from the primary to the secondary buildings. Charter schools traditionally are underfunded and rely primarily on the state foundation, state and federal grants to finance operations. From time to time, the academies experience cash flow shortages. These academies advance cash to each other to ensure there is sufficient cash to meet payroll and operational expenses. This activity is reported for the Academy in the Statement of Net Assets as Advances Payable and is detailed in Note 5.

**PHOENIX VILLAGE ACADEMY PRIMARY 2  
CUYAHOGA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2011  
(CONTINUED)**

**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”.

The Academy maintains its cash balances at one financial institution located in Ohio. The balances are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000, per qualifying account. At June 30, 2011, the book amount of the Academy’s deposits was \$14,051 and the bank balance was \$12,408.

The Academy 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 the Academy or a qualified trustee by the financial institution as security for repayment or by a collateral pool of eligible securities deposited with a qualified trustee 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, 2011, none of the bank balances were exposed to custodial credit risk.

The total bank balance was insured by the (FDIC) up to \$250,000. Deposits in excess of \$250,000 are secured by pooled collateral. The Academy had no investments.

**4. CAPITAL ASSETS AND DEPRECIATION**

For the year ended June 30, 2011 the Academy’s capital assets consisted of the following:

	<b>Balance 6/30/10</b>	<b>Additions</b>	<b>Deletions</b>	<b>Balance 6/30/11</b>
<b>Capital Assets Being Depreciated:</b>				
Computer Equipment	\$ 49,855	\$ -	\$ -	\$ 49,855
Furniture and Appliances	5,867	-	-	5,867
<b>Total Capital Assets Being Depreciated</b>	<b>55,722</b>	<b>-</b>	<b>-</b>	<b>55,722</b>
<b>Less Accumulated Depreciation:</b>				
Computer Equipment	(29,998)	(9,140)	-	(39,138)
Furniture and Appliances	(1,341)	(381)	-	(1,722)
<b>Total Accumulated Depreciation</b>	<b>(31,339)</b>	<b>(9,521)</b>	<b>-</b>	<b>(40,860)</b>
<b>Total Capital Assets, Net</b>	<b>\$ 24,383</b>	<b>\$ (9,521)</b>	<b>\$ -</b>	<b>\$ 14,862</b>

**PHOENIX VILLAGE ACADEMY PRIMARY 2  
CUYAHOGA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2011  
(CONTINUED)**

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**5. ADVANCES PAYABLE**

The Academy's Advances Payable at June 30, 2011 are detailed in the table below:

	<b>Advances Payable 6/30/2010</b>	<b>Additions</b>	<b>Reductions</b>	<b>Advances Payable 6/30/2011</b>
ASHE Culture Center	\$ 21,320	\$ -	\$ -	\$ 21,320
Phoenix Village Academy S-1	44,900	90,318	500	134,718
	<u>\$ 66,220</u>	<u>\$ 90,318</u>	<u>\$ 500</u>	<u>\$ 156,038</u>

These payments were received to assist the Academy in meeting its financial obligations; no written agreements exist governing these types of transactions. No interest is assessed.

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**6. EDUCATIONAL FACILITY LEASE**

The Academy leases its facility at the former Our Lady of Peace Parish a ten year lease agreement effective July 1, 2010, is expiring June 30, 2020. Monthly payments under the terms of the lease increase each year according to an agreed upon schedule. In fiscal year 2011, the Academy paid \$77,690 in rental and related occupancy payments and expenses. This amount is recorded and reflected in the Statement of Revenue, Expenses and Change in Fund Net Assets as purchase services.

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**7. RISK MANAGEMENT**

**A. PROPERTY & LIABILITY**

The Academy is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. For the fiscal year 2011, the Academy contracted with Market Insurance Company for all of its insurance.

**B. WORKERS' COMPENSATION**

The Academy 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**

The Academy 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.

**PHOENIX VILLAGE ACADEMY PRIMARY 2  
CUYAHOGA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2011  
(CONTINUED)**

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**8. PENSION PLANS**

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

Plan Description - The Academy contributes to the school Employees Retirement System (SERS), a cost sharing, multiple-employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Charter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746, or by calling 1-800-878-5853. It is also posted on the SERS' Ohio website, [www.ohsers.org](http://www.ohsers.org), under *Employers/Audit Resources*.

Funding Policy – Plan members are required to contribute 10 percent of their annual covered salary and the Academy is required to contribute at an actuarially determined rate. The current Academy rate is 14 percent of the annual covered payroll. A portion of the Academy's contribution is used to fund health care benefits. For fiscal year 2011, 11.77% and 0.04% of the annual covered salary was the portion used to fund pension obligations and death benefits, respectively. The remaining 2.19% of other 14% employer contribution is allocated to the Health Care and Medicare B Funds. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to a statutory maximum amount of 10 percent for plan members and 14 percent for employers. Chapter 3309 of the Ohio Revised Code provides statutory authority for member and employer contributions. The Academy's required contributions for pension obligations and death benefits to SERS for the fiscal years ended June 30, 2011, 2010 and 2009 were \$12,406, \$5,502 and \$9,895, respectively; 100 percent has been contributed for fiscal years 2011, 2010, and 2009.

**B. STATE TEACHERS RETIREMENT SYSTEM (STRS OHIO)**

Plan Description – The Academy participates in the State Teachers Retirement of Ohio (STRS Ohio), a cost sharing, multiple-employer public employee retirement plan. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, Ohio 43215-3771, by calling 614-227-4090, or by visiting the STRS Ohio Web site at [www.strsoh.org](http://www.strsoh.org).

**PHOENIX VILLAGE ACADEMY PRIMARY 2  
CUYAHOGA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2011  
(CONTINUED)**

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**8. PENSION PLANS (CONTINUED)**

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

Plan Options – 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 a member's lifetime contributions and earned interest matched by STRS Ohio funds divided by an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5% of earned compensation into an investment account. Investment decisions are made by the member. A member may elect to receive a lifetime monthly annuity or lump sum withdrawal. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined 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 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 Combined Plan member with five or more years credited service who becomes disabled may qualify for a disability benefit. Eligible spouses and dependents of these active members who die before retirement may qualify for survivor benefits. Members in the DC Plan who become disabled are entitled only to their account balance. If a member of the DC plan dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

Funding Policy – For fiscal year 2011, plan members were required to contribute 10 percent of their annual covered salaries. The Academy was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The Academy's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2011, 2010 and 2009 were \$26,358, \$23,201 and \$7,848, respectively; 100 percent has been contributed for the fiscal years 2011, 2010, and 2009.

**B. SOCIAL SECURITY SYSTEM**

Effective July 1, 1991, all employees not otherwise covered by SERS/STRS Ohio have an option to choose Social Security or the SERS/STRS Ohio. As of June 30, 2011, certain members of the Board of Education have elected Social Security. The Academy's liability is 6.2 percent of wages paid.

**PHOENIX VILLAGE ACADEMY PRIMARY 2  
CUYAHOGA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2011  
(CONTINUED)**

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**9. POSTEMPLOYMENT BENEFITS**

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

Plan Description – The Academy contributes to the School Employees Retirement System (SERS), a cost-sharing, multiple employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost of living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. The financial reports may be obtained by writing to the SERS at 300 East Broad St., Suite 100, Columbus, Ohio 43215-3746 or calling toll free 800-878-5853. It is also posted on the SERS' Ohio Website, [www.ohsers.org](http://www.ohsers.org), under *Employers/Audit Resources*.

Funding Policy – State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 105(e). For 2011, 1.43 percent of covered payroll was allocated to health care. An additional healthcare surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, prorated according to service credit earned. Statutes provide that no employer shall pay a health care surcharge greater than 2.0 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the statewide SERS covered payroll for the health care surcharge. For fiscal year 2011, the actuarially determined amount was \$35,800.

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

The Academy's contributions for health care (including surcharge) for fiscal years ended June 30, 2011, 2010, and 2009 were \$2,206, \$1,443 and \$1,198 respectively; 100 percent has been contributed for fiscal years 2011, 2010 and 2009.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For fiscal year 2011, this actuarially required allocation was 0.76 percent of covered payroll. The Academy's contributions for Medicare Part B for the fiscal years ended June 30, 2011, 2010, and 2009 were \$798, \$354 and \$637 respectively; 100 percent has been contributed for fiscal years 2011, 2010 and 2009.

**PHOENIX VILLAGE ACADEMY PRIMARY 2  
CUYAHOGA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2011  
(CONTINUED)**

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**9. POSTEMPLOYMENT BENEFITS (CONTINUED)**

**B. STATE TEACHERS RETIREMENT SYSTEM OF OHIO**

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

Funding Policy – Ohio law authorizes STRS Ohio to offer the Plan and give 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 2011, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. The Academy's contributions for health care for fiscal years ended June 30, 2011, 2010 and 2009 were \$2,028, \$1,771, and \$604 respectively; 100 percent has been contributed for the fiscal years 2011, 2010 and 2009.

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**10. CONTINGENCIES**

**A. GRANTS**

The Academy 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 the Academy, any such adjustments will not have a material adverse effect on the financial position of the Academy.

**B. FULL-TIME EQUIVALENCY**

The Ohio Department of Education (ODE) 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. A review for the period of July 1, 2010 through June 30, 2011 has not been performed as of June 30, 2011.



**PHOENIX VILLAGE ACADEMY PRIMARY 2  
CUYAHOGA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2011  
(CONTINUED)**

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**11. SPONSORSHIP- ASHE CULTURE CENTER INC.**

The Academy contracted with Ashe Culture Center Inc. as its sponsor and oversight services as required by law. The Academy pays the Sponsor three percent of State Aid. Sponsorship fees are calculated as three percent of state funds received by the Academy from the State of Ohio. For the fiscal year ended June 30, 2011, sponsorship fees totaled \$10,739.

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**12. L.E.D. CONSULTING, INC. – TREASURY SERVICES**

The Academy entered into a contract with L.E.D. Consulting, Inc. effective August 15, 2009 to provide treasury services, as defined by the contract. Contract provision bound the Academy to pay \$4,000 per month through November 2010, and \$5,000 per month for the remainder of the fiscal year, as well as reimbursements for any mailing fees. Payments to L.E.D. Consulting totaled \$59,487 during fiscal year 2011.

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**13. PURCHASED SERVICES**

For the period of July 1, 2010 through June 30, 2011, the Academy made the following purchase service commitments. These commitments include sponsor, management and CCIP fees, were applicable.

	<u>2011</u>
Professional and Technical Services	\$35,313
Occupancy	76,603
Other Purchase Services	74,182
Utilities	10,607
Other Contract Services	<u>141,816</u>
	<u>\$338,521</u>

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**14. RELATED PARTIES**

Dr. Jorethia Chuck, wife of Dr. Kwa David Whitaker, owner of ASHE Culture Center, Inc., the Academy's Sponsor during fiscal year 2011, is the owner of Exceptional Psychological Services. Exceptional Psychological Services was paid \$8,725 during fiscal year 2011.

Dionne Whitaker, daughter of Dr. Whitaker, is the owner of Kennedy Educational Consultants, LTD, a company which provided lesson plans and other related services to the Academy. Dionne Whitaker and Kennedy Education Consultants were paid a total of \$18,188 for these services during the year.

DeShawn King, daughter of Dr. Whitaker, performs administrative support services for the Academy.

**PHOENIX VILLAGE ACADEMY PRIMARY 2  
CUYAHOGA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2011  
(CONTINUED)**

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**15. EMPLOYEE BENEFITS**

The Academy 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 employee depending on the terms of the agreement with the employee.

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**16. GOING CONCERN AND SUBSEQUENT EVENTS**

As of June 30, 2011, the Academy had a deficit of \$174,058. The Treasurer and the Board plan to 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. Ashe Culture Center, the Academy's sponsor, had renewed its sponsorship of the Academy and the current agreement would have expired on June 30, 2012, however the Ohio Department of Education removed Ashe Culture Center's authority to sponsor charter schools in September of 2011. Pursuant to the Ohio Revised Code, the Academy may not operate without a sponsor. The Ohio Department of Education took over sponsorship of the Academy while it seeks another sponsor.



# Dave Yost • Auditor of State

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

Phoenix Village Academy Primary 2  
Cuyahoga County  
12406 Shaker Boulevard  
Cleveland, Ohio 44120

To the Board of Trustees:

We were engaged to audit the financial statements of Phoenix Village Academy Primary 2, Cuyahoga County, (the Academy) as of and for the year ended June 30, 2011, and have issued our report thereon dated October 5, 2012, wherein we noted the Academy failed to provide written representations and there was insufficient evidence to support the Academy's balance of Net Assets Beginning of Year, Advances Payable, Salaries and Fringe Benefits expenditures, Capital Assets, unasserted claims and related note disclosures. We reported that the Academy has a net deficit of \$174,058 and the Ohio Department of Education removed Ashe Culture Center's authority to sponsor charter schools in September of 2011. Therefore, our report expressed substantial doubt about the Academy's ability to continue as a going concern.

### Internal Control Over Financial Reporting

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

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and timely corrected. We consider findings 2011-001 and 2011-002 described in the accompanying schedule of findings to be material weaknesses.

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 finding 2011-003 described in the accompanying schedule of findings to be a significant deficiency.

### **Compliance and Other Matters**

As part of reasonably assuring whether the Academy's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our engagement 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 2011-001 through 2011-004.

We also noted certain matters not requiring inclusion in this report that we reported to the Academy's management in a separate letter dated October 5, 2012.

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

A handwritten signature in black ink that reads "Dave Yost". The signature is written in a cursive, flowing style.

**Dave Yost**  
Auditor of State

October 5, 2012

**PHOENIX VILLAGE ACADEMY PRIMARY 2  
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS  
JUNE 30, 2011**

<b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS</b>
----------------------------------------------------------------------------------------------------------

**FINDING NUMBER 2011-001**

**Condition of Accounting Records – Material Noncompliance and Material Weakness**

Ohio Administrative 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.

Ohio Admin. Code Section 117-2-02 (D)(4)(c) states that all local public offices should maintain or provide capital asset records including 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.

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

- The Academy does not have a capital asset policy which specifies the threshold for capital assets, depreciation, useful lives or tagging procedures;
- The Academy did not maintain capital asset records during the year and an independent appraisal company was contracted to perform an inventory of capital assets;
- The Academy does not perform a monthly bank-to-book reconciliation. Reconciliations are generated from the Academy's accounting software on a monthly basis, and are not accurate, nor are they 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. Payroll general journal entries were included with outstanding checks and were not traceable to bank statements;
- The Academy did not provide support for the beginning balance of Advances Payable;
- Checks were not issued in sequential order;
- The Academy did not accurately present Accounts Payable, requiring an adjustment of \$42,791, to be made to the financial statements;
- The Academy did not present an accurate schedule of Accrued Payroll, requiring an adjustment of \$12,074 to be made to the financial statements and where applicable the accounting records;
- The Academy was unable to provide a complete listing of 1099 forms for the period under audit;
- The Academy's beginning fund balance could not be supported;
- The Academy did not provide any loan collection and repayment agreements which were approved by the Board;
- The Academy provided a consolidated trial balance but adjustments made to various asset and liability accounts were unsupported; and
- The Academy did not provide support for SERS and STRS amounts in its pension note disclosure for 2009 and all pension note disclosure amounts in 2010 were incorrect.

**PHOENIX VILLAGE ACADEMY PRIMARY 2  
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS  
JUNE 30, 2011**

<b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS</b>
----------------------------------------------------------------------------------------------------------

(Continued)

**FINDING NUMBER 2011-001**

(Continued)

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

During testing of non-payroll expenditures, we noted the following errors:

- No formal agreement was established for the rental payments between schools;
- Vendor names recorded on the general ledger did not always match the actual vendor the check was paid to; and
- Supporting documentation was not always attached to the voucher packet for disbursements sampled.

During our testing of payroll expenditures, we noted the following:

- The provided Board minutes did not confirm contracts and annual or hourly rates. No records existed of Board approval for employee wage rates and employee contracts for all employees;
- For three employees, a "new hire notification" with a rate of pay was provided but this was not a legislatively approved contract;
- STRS and SERS withholding payments differed from Paycor reports. One variance in STRS payments and three variances in SERS payments could not be explained;
- One payment to Paycor of withholdings for income taxed could not be traced to the general ledger;
- The Academy did not maintain sufficient documentation to support adjustments made to Salaries and Fringe Benefits expenditures, therefore payroll recorded on the General Ledger could not be traced to Paycor.

The Academy'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. The condition of accounting records led to inaccurate and incomplete financial statements and also prohibited us from obtaining sufficient evidential matter in our procedures to express any opinion on the financial statements.

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

**PHOENIX VILLAGE ACADEMY PRIMARY 2  
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS  
JUNE 30, 2011**

<b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS</b>
----------------------------------------------------------------------------------------------------------

**(Continued)**

**FINDING NUMBER 2011-002**

**(Continued)**

**Developing and Implementing an Effective Monitoring Control System – Material Noncompliance and Material Weakness (Continued)**

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. This process involves assessing the design and operation of controls on a timely basis and taking necessary corrective actions.

Monitoring should assist management in identifying unexpected results and/or possible misstatements.

Some effective monitoring practices 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.

Although the Treasurer prepared monthly financial reports for the Board at each meeting, the Academy failed to perform adequate monitoring over financial activities. The lack of effective monitoring could lead to the misallocation or misstatement of Academy 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 could go undetected. This deficiency also resulted in inaccurate or incomplete financial statements and also prohibited us from obtaining sufficient evidential matter in our procedures to express any opinion on the financial statements.

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

**PHOENIX VILLAGE ACADEMY PRIMARY 2  
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS  
JUNE 30, 2011**

<b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS</b>
----------------------------------------------------------------------------------------------------------

(Continued)

**FINDING NUMBER 2011-003**

**Notice of Public Meetings and Record of Minutes – Material Noncompliance and Significant Deficiency**

Ohio Rev. Code Section 3314.01 (B) provides a community school created under this chapter is a public school, independent of any school district, and is part of the state's program of education. The governing authority of a community school may carry out any act and ensure the performance of any function that is in compliance with the Ohio Constitution, this chapter, other statutes applicable to community schools, and the contract entered into under this chapter establishing the school. Ohio Rev. Code Section 3314.02 (E) provides in part for a Governing Board of at least five members.

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

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

The following deficiencies in the Board meeting minutes were noted:

- The Academy did not provide an open meeting and meeting notification policy;
- There was no evidence of a public notice for any Board meeting;
- Evidence of the approval of Board Resolutions or motions made by the Board during those meetings was not provided. This includes, but is not limited to, approval of loans and contracts made between the Academy and third parties, approval of salary resolutions and new employee contracts, approval of financial reports, budgets and forecasts or expenditures, etc.; and
- Meetings were not held regularly to inform the Board of financial issues in a timely manner.

It is the Board's responsibility to oversee the Academy's operation and make decisions to ensure the Academy's goals and objectives are accomplished. The Board is responsible for determining the direction in which the Academy is heading. This occurs only after a great deal of consultation with parents, staff and students of the school to ensure that the school is providing the highest quality of education possible and a safe place in which students can learn. The Board minutes represent the official record of Academy events and resolutions passed by the Board of Directors. Without following Board meeting requirements for proceedings, it cannot be reasonably assured that the Board is meeting its obligation to oversee the Academy. That lack of oversight could result in errors and irregularities that may go undetected and incomplete and inaccurate financial statements and records.



**PHOENIX VILLAGE ACADEMY PRIMARY 2  
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS  
JUNE 30, 2011**

<b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS</b>
----------------------------------------------------------------------------------------------------------

**(Continued)**

**FINDING NUMBER 2011-003**

**(Continued)**

**Notice of Public Meetings and Record of Minutes – Material Noncompliance and Significant Deficiency (Continued)**

We recommend the Academy take the necessary steps to approve all formal employment actions during Board meetings and to meet on a regular basis to inform the Board of important issues in a timely manner. We also recommend the Academy establish an open meeting and meeting notification policy, a method to notify the public of the meetings and establish a timely method of recording the Board minutes and making them available to the public for inspection.

**FINDING NUMBER 2011-004**

**Annual Financial Reporting – Material Noncompliance**

Ohio Rev. Code Section 117.38 states that a community school must file a complete and accurate GAAP report on an annual basis. This section also provides, in part, that "at the time the annual financial report is filed with the auditor of state, the chief fiscal officer, except as otherwise provided in Section 319.11 of the Ohio Rev. Code, shall publish notice in a newspaper published in the political subdivision or taxing district, and if there is no such newspaper, then in a newspaper of general circulation in the political subdivision or taxing district. The notice shall state that the financial report has been completed by the public office and is available for public inspection at the office of the chief fiscal officer."

During our review of the Academy's annual financial report filed with Local Government Services for fiscal year 2011, we noted the report balances and totals were significantly misstated and misleading, and did not agree to the Academy's accounting system. In addition, no evidence was provided, by the Academy, that a public notice was published.

By not filing accurate financial reports and an annual notice, the Academy is not fulfilling their duties of accountability and transparency to the public.

We recommend the Academy compile and present their financial statements in a complete and accurate manner in accordance with its accounting records and the above Ohio Revised Code Section. We also recommend at the time the report is filed with the Auditor of State, the Academy, except as otherwise provided in section 319.11 of the Ohio Rev. Code, shall publish notice in a newspaper published in the political subdivision or taxing district, and if there is no such newspaper, then in a newspaper of general circulation in the political subdivision or taxing district. The notice shall state that the financial report has been completed by the public office and is available for public inspection at the Academy's central office.

**Official's Response:** The Academy declined to respond to the above findings.

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**PHOENIX VILLAGE ACADEMY PRIMARY 2  
CUYAHOGA COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS  
JUNE 30, 2011**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <b><i>Explain</i></b>
2010-001	Finding For Recovery Repaid Under Audit	Yes	Previously Repaid Under Audit
2010-002	Condition of Accounting Records	No	Re-Issued as Finding 2011-001
2010-003	Developing and Implementing an Effective Monitoring System	No	Re-Issued as Finding 2011-002
2010-004	Monitoring of Financial Activity	Yes	Finding No Longer Valid
2010-005	Governing Board Membership/Notice of Public Meetings/Record of Minutes	No	Partially Corrected; Re-Issued as Finding 2011-003
2010-006	Annual Financial Reporting	No	Re-Issued as Finding 2011-004
2010-007	Interest in a Public Contract	Yes	Finding No Longer Valid

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# Dave Yost • Auditor of State

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

Phoenix Village Academy Primary 2  
Cuyahoga County  
12406 Shaker Boulevard  
Cleveland, Ohio 44120

To the Board of Trustees:

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 procedures enumerated below, which were agreed to by the Board, solely to assist the Board in evaluating whether Phoenix Village Academy Primary 2 (the Academy) 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 procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of the Board. Consequently; we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

1. In our report dated June 25, 2012, we noted the Board had not adopted an anti-harassment policy.
2. We inquired with the Board's management regarding the aforementioned policy. They stated they have not yet adopted an anti-harassment policy. The Board should adopt a policy as required by 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 Academy'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

October 5, 2012

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# Dave Yost • Auditor of State

PHOENIX VILLAGE ACADEMY SECONDARY 2

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  
NOVEMBER 8, 2012