MARCUS GARVEY ACADEMY
CUYAHOGA COUNTY

REGULAR AUDIT

FOR THE YEAR ENDED JUNE 30, 2003

Auditor of State
Betty Montgomery

MARCUS GARVEY ACADEMY
CUYAHOGA COUNTY

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Auditor of State
Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

Marcus Garvey Academy
Cuyahoga County
13830 Euclid Avenue
East Cleveland, Ohio 44112

To the Board of Trustees:

We have audited the accompanying financial statements of the Marcus Garvey Academy, Cuyahoga County, Ohio (the Academy) as of and for the year ended June 30, 2003, as listed in the table of contents. These financial statements are the responsibility of the Academy's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about 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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Marcus Garvey Academy, Cuyahoga County, as of June 30, 2003, and the results of its operations and the cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 20, 2005, 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. That report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. It does not opine on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and you should read it in conjunction with this report in assessing the results of our audit.

Betty Montgomery

Betty Montgomery
Auditor of State

April 20, 2005

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Marcus Garvey Academy
Cuyahoga County
Balance Sheet
as of June 30, 2003

Assets	
Current Assets	
Cash and Investments	$ 2,788
Receivable - Accounts	25,222
Prepaid lease	49,830
Total Current Assets	77,840
Non-Current Assets	
Fixed assets (Net of Accumulated Depreciation)	4,814
Total Assets	$ 82,654
Liabilities and Fund Equity	
Current Liabilities	
Accounts Payable	$ 22,334
Accrued Wages & Benefits	19,422
Due to Other Governments	10,220
Interest Payable	1,630
Line of Credit	99,487
Total Current Liabilities	153,093
Long-Term Liabilities	
Loans payable	50,500
Total Liabilities	203,593
Equity	
Accumulated Deficit	(120,939)
Total Liabilities & Fund Equity	$ 82,654

The accompanying Notes are an integral part of the Financial Statements

Marcus Garvey Academy
Cuyahoga County
Statement of Revenues, Expenses, and Changes in Accumulated Deficit for the Fiscal Year ended June 30, 2003

Operating Revenues		
Foundation Payments	$	155,130
Other Operating Revenues		2,359
Total Operating Revenues		157,489
Operating Expenses		
Salaries & Wages		177,045
Fringe Benefits		35,459
Purchased Services		147,944
Materials & Supplies		44,082
Depreciation		1,025
Building Lease		117,659
Insurance		2,895
Miscellaneous		16,768
Total Operating Expenses		542,877
Operating Income		(385,388)
Non-Operating Revenues and (Expenses)		
Interest Earnings		556
Federal subsidies and State Grants		272,541
Interest Expense		(7,800)
Total Non-Operating Revenues and (Expenses)		265,297
Accumulated Deficit		(120,091)
Accumulated Deficit at July 1, 2002		(848)
Accumulated Deficit at June 30, 2003	$	(120,939)

The accompanying Notes are an integral part of the Financial Statements

Marcus Garvey Academy
Cuyahoga County
Statement of Cash Flows
for the Fiscal Year ended June 30, 2003

Cash Flows from Operating Activities	
Cash received from Foundation Payments	$ 155,130
Cash received from Other Operating Revenues	2,359
Cash payments for personal services	(195,744)
Cash payments for contract services	(307,993)
Cash payments for supplies and materials	(32,117)
Cash payments for Miscellaneous	(16,241)
Net Cash Provided By/(Used for) Operating Activities	(394,606)
Cash Flows from Noncapital Financing Activities	
Cash from Federal & State Subsidies	259,708
Cash from credit line and Other loans	176,400
Payment to credit line and Other loans	(34,699)
Net Cash from Noncapital Financing Activites	401,409
Cash Flows from Capital and Related Financing Activities	
Payments for Capital Acquisitions	(5,839)
Payments for Interest on Capital Acquisitions	-
Net Cash Used for Capital and Related Financing Activities	(5,839)
Cash Flows from Investing Activities	
Interest on cash and cash equivalents	556
Net cash from investing activites	556
Net increase in cash and cash equivalents :	1,520
Cash and cash equivalents at beginning of year	1,268
Cash and cash equivalents at end of year	$ 2,788
Reconciliation of Operating Income to Net Cash Provided By (Used for) Operating Activities	
Operating Income	$ (385,388)
Adjustments to Reconcile Operating Income to Net Cash Provided by (Used for) Operating Activities	
Depreciation	1,025
Changes in Assets and Liabilities:	
Prepaid expenses	(49,830)
Due from Other Governments	(12,389)
Accounts Payable	22,334
Due to Other Governments	10,220
Accrued Wages and Benefits	19,422
Total Adjustments	(9,218)
Net cash provided (used) by operating activities	$ (394,606)

The accompanying Notes are an integral part of the Financial Statements

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2003

I. Description of the School and Reporting Entity

Marcus Garvey Academy (the Academy) is a non-profit corporation established July 1, 2002 pursuant to Ohio Revised Code Chapters 1702 and 3314 to address the needs of students from low income families in grades sixth through eighth. The Academy which is part of the State's Education program, is independent of any school district, and is nonsectarian in its programs, admission policies, employment practices, and all other operations. The Academy may sue and be sued, acquire facilities as needed, and contract for any services necessary for the operation of the Academy.

On November 19, 2001 the Academy submitted a proposal to the Ohio Department of Education to open a community school in the fall of 2002. The Ohio Department of Education approved the proposal and entered into a contract with the Academy, which provided for the commencement of operations at the beginning of the 2002-2003 school year.

The Academy was approved for operation under contract with the Ohio State Board of Education (the Sponsor) for a period of five years commencing July 1, 2002 and shall terminate on June 30, 2007. The Sponsor is responsible for evaluating the performance of the school and has the authority to deny renewal of the contract at its expiration or terminate the contract prior to its expiration.

The Academy operates under the direction of a 5-member Governing Board. The Board is responsible for carrying out the provision of the contract, which include, but are not limited to, state-mandated provisions regarding student population, curriculum, academic goals, performance standards, admission standards, and qualification of teachers. The Board controls the Academy's instructional facility staffed by three uncertified and four certified full time personnel who provide services to 28 students.

II. Summary of Significant Accounting Policies

The financial statements of the Academy have been prepared in conformity with generally accepted accounting principals 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 principals. The Academy also applies Financial Accounting Standards Board 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.

1. Basis of Presentation

The Academy uses enterprise accounting to track and report on its financial activities. 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, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges or where it has been decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

II. Summary of Significant Accounting Policies (Continued)

2. 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 balance sheet. Operating statements present increases (e,g. revenues) and decreases (e.g. expenses) in net total assets.

The basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made.

The accrual basis of accounting is used for reporting purposes. Revenues are recognized when they are earned, and expenses are recognized when they are incurred. Contributions and grants are recognized when the donor makes a promise to give to the Academy that is unconditional.

3. Cash

All monies received by the Academy are deposited in the name of the Marcus Garvey Academy at National City Bank.

4. Fixed Assets and Depreciation

Fixed assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market value on the date received. The Academy maintains a capitalization threshold of $500. The Academy does not possess any infrastructure.

Depreciation and amortization of computers, and equipment are computed using the straight-line method over their estimated useful lives. Improvements to fixed assets are depreciated over the remaining useful lives of the related fixed assets.

Assets	Years
Computers and Equipment	5

5. Intergovernmental Revenues

The Academy currently participates in the State Foundation Program, the State Disadvantaged Pupil Impact Aid (DPIA) Program, and the State Special Education Program. Revenues received from these programs are recognized as operating revenues in the accounting period in which they are earned and become measurable.

II. Summary of Significant Accounting Policies (Continued)

6. Compensated Absences

Vacation is taken in a manner which corresponds with the school calendar; therefore, the Academy does not accrue vacation time as a liability.

Sick leave/ Personal leave benefits are earned by full time employees at the rate of eight days per year and cannot be carried into the subsequent year. No accrual for sick time is made since unused time is not paid to employees upon employment termination.

7. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principals 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.

III. 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 Rev. Code Chapter 5705. The contract between Marcus Garvey Academy and its Sponsor requires a detailed school budget for each year of the contract.

IV. Deposits and Investments

At fiscal year end June 30, 2003, the carrying value of deposit totaled $2,768 and its bank balance was $25,813. All of which covered by federal depository insurance. As of June 30, 2003, the Academy had $20 in petty cash.

V. Fixed Assets

A summary of the Academy's fixed assets as of June 30, 2003 follows:

Computers and Equipment	$ 5,839
Less: Accumulated Depreciation	(1,025)
Net Fixed Assets	$ 4,814

VI. Purchased Services

Purchased Services include the following:

Advertising	$ 415
Administrative	46,895
Building Services	2,825
Financial Services	18,349
Instruction Services	4,654
Occupancy Costs	57,878
Pupil Support Services	1,221
Transportation Services	15,707
Total Purchased Services	$ 147,944

VII. Debt

The Academy held the following debt during the fiscal year:

1. Related Party Transactions

The Academy entered into a debt agreement with the Board Chairman, Arthur Baker Jr. in July of 2002 for $25,000. The loan is at an interest rate of 9% per annum and requires the Academy to pay a minimum of $187.50 of interest a month. As of June 30, 2003, none of the principal had been paid back but the Academy had paid $1,313 of interest. $750 of interest remained payable at fiscal year end.

The Academy entered into a debt agreement with Board member, Nettie Barksdale, in April of 2003 for $8,000. As of June 30, 2003 none of the amount had been paid back. The loan is interest free.

2. Loans from Private Sources

The Academy entered into debt agreements for $43,800 with private organizations and Academy administrators and individuals to continue operations. As of June 30, 2003, $26,300 had been repaid. These loans were interest free.

3. Line of Credit

The Academy has a line of credit that is used to borrowed funds for operations throughout the fiscal period. The following is a summary:

Line of Credit	Credit Limit	Balance June 30, 2003
6.25% National City	$100,000	$99,487

Principal payments of $2,113 were made during fiscal year 2003. Interest payments in the amount of $4,857 were made during the year. The line of credit is uncollateralized. This line of credit is presented on the financial statements as current liabilities.

VIII. Risk Management

1. Property and Liability

The Academy is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. For fiscal year 2003, Marcus Garvey Academy contracted with Pinkney-Perry Ins. Agency Inc. for all of its insurance.

General liability coverage has a $2,000,000 single occurrence limit and $4,000,000 aggregate. Hired and Non-Owned Vehicles are covered at $1,000,000 combined single limit of liability.

2. Employee Medical, and Dental Benefits

The Academy provides medical and dental insurance benefits to all full time employees. The Academy pays 50% of the monthly premium.

3. Workers' Compensation

The Academy makes premium payments to the Ohio Worker's Compensation System for employee injury coverage. As of June 30, 2003 there have been no claims filed by Marcus Garvey employees with the Ohio Worker's Compensation System.

IX. Defined Benefit Pension Plans

1. School Employees Retirement System

The Academy contributes to the School Employees Retirement System of Ohio (SERS), a cost sharing multiple employer defined pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death and survivor benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3476.

Plan members are required to contribute 9 percent of their annual covered salary and the Academy is required to contribute at an actuarially determined rate. The current School District rate is 14 percent of annual covered payroll. A portion of the Academy contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2003, 8.17 percent of annual covered salary was the portion to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The Academy's required contributions for pension obligations to SERS for the fiscal year ended June 30, 2003, was $4,416; 45.28 percent has been contributed for fiscal year 2003. $2,416 representing the unpaid contribution for fiscal year 2003 is recorded as a liability under "Due to Other Governments".

IX. Defined Benefit Pension Plans (Continued)

2. State Teachers Retirement System

The Academy participates in the State Teachers Retirement System of Ohio (STRS Ohio), 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 that may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, Ohio 43215-3371 or by calling (614) 227-4090.

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 DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan. Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one-time irrevocable decision to transfer their account balances from the existing DB Plan into the DC or the Combined Plan. This option expired on December 31, 2001. Benefits are established by Chapter 3307 of the Ohio Revised Code.

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

For the fiscal year ended June 30, 2003, plan members were required to contribute 9.3 percent of their annual covered salary. 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 recommendation 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 School's required contribution for pension obligations for the fiscal year ended June 30, 2003 was $13,465; 100 percent has been contributed. $10,916 representing the overpaid contribution for fiscal year 2003 is recorded as a receivable under "Due from Other Governments".

X. Post-Employment Benefits

Marcus Garvey 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 on a pay-as-you-go basis.

For STRS Ohio, all benefit recipients are required to pay a portion of health care cost in the form of a monthly premium. By Ohio Law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14 percent of covered payroll. As of June 30, 2003, the Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Reserve Fund, from which payments for health care benefits are paid. For the Academy, this amount equaled $1,036 during fiscal 2003, of which $840 was receivable at June 30, 2003.

STRS Ohio pays health care benefits from the Health Care Reserve Fund. At June 30, 2003 (the latest information available) the balance in the Fund was $2.8 billion. For the fiscal year ended June 30, 2003, net health care costs paid by STRS were $352,301,000 and STRS had 108,294 eligible benefits recipients.

For SERS, coverage is made available to service retirees with ten or more fiscal years of qualifying service credit, and to disability and survivor benefit recipients. Members retiring on or after August 1, 1989, with less than twenty-five years of service credit must pay a portion of their premium for health care. The portion is based on years of service up to a maximum of 75 percent of the premium. After the allocation for the basic benefits, the remainder of the employer’s 14 percent contribution is allocated to providing health care benefits. For this fiscal year, employer contributions used to fund health care benefits were 5.83 percent of covered payroll. 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 2003, the minimum pay has been established at $14,500. For fiscal year 2003, the amount to fund health care benefits, including surcharge, equaled $4,264 of which $2,837 was payable at June 30, 2003.

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 annual health care expenses. Expenses for health care for the fiscal year ended June 30, 2003 (the latest information available), were $204,930,737 and the target level was $274.4 million. At June 30, 2003, SERS had net assets available for health care benefits of $303.6 million. SERS has approximately 50,000 participants currently receiving health care benefits.

XI. State School Funding Decision

On December 11, 2002, the Ohio Supreme Court issued its latest opinion regarding the State's school funding plan. The decision reaffirmed earlier decisions that Ohio's current school-funding plan is unconstitutional.

XI. State School Funding Decision (Continued)

The Supreme Court relinquished jurisdiction over the case and directed "…the Ohio General Assembly to enact a school-funding scheme that is thorough and efficient…". The Academy is currently unable to determine what effect, if any, this decision will have on its future State funding and its financial operations.

XII. Contingencies

1. Grants

The Academy received financial assistance from Federal and State agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of Marcus Garvey Academy. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the Marcus Garvey Academy at June 30, 2003.

2. Federal Tax Exemption Status

The Academy has applied for status as an exempt organization under Internal Revenue Code Section 501 (c)(3). The Internal Revenue Service (IRS) issued a proposed conclusion that the Academy does not qualify for federal tax exemption under Section 501 (c)(3) of the Internal Service Code and must file federal income tax returns. 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 assessed.

3. Building Lease

The Board of Trustees, through negotiations with the City of East Cleveland, purchased a parcel of land for $10,000 to be the site of the Academy. In August 2002, a payment of $5,000 was made to the City as partial payment for the land.

On July 11, 2002, the Academy entered into a lease agreement with William Scotsman, Inc. for the lease of a modular building to be used as the school facility. The lease was for a period of twenty-four months with total lease payments being $242,880 and other fees and taxes totaling $10,350. The lease required an initial payment of $144,955,

Subsequent to purchasing the parcel of land and signing the lease agreement, it was discovered that the site was not suitable for the building.

William Scotsman, Inc. has used the initial payment for lease payments and other fees and taxes. Based on the lease agreement, the Academy had a prepaid lease of $49,830 as of June 30, 2003. For the years ended June 30, 2004 and June 30, 2005, the Academy owes payments of $81,060 and $27,215 respectively.

Subsequent to year end the City has agreed to refund the original payment of $5,000 to the Academy.

XII. Contingencies (Continued)

4. Pending Litigation

A suit was filed in Franklin County common Pleas Court on May 14, 2001 alleging Ohio's Community (i.e., Charter) Schools program violates the state Constitution and state laws. On April 21, 2003 the court dismissed the counts containing constitutional claims and stayed the other counts pending appeal of the constitutional issues. The plaintiffs appealed to the Court of Appeals, the issues have been briefed, and oral arguments were heard on November 18, 2003.

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Auditor of State
Betty Montgomery

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

Marcus Garvey Academy
Cuyahoga County
13830 Euclid Avenue
East Cleveland, Ohio 44112

To the Board of Trustees:

We have audited the financial statements of the Marcus Garvey Academy (the Academy) as of and for the year ended June 30, 2003, and have issued our report thereon dated April 20, 2005. 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 to determine our auditing procedures in order to express our opinion on the financial statements and not to opine on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Academy's ability to record, process, summarize, and report financial data consistent with management's assertions in the financial statements. Reportable conditions are described in the accompanying schedule of findings as items 2003-010 through 2003-014.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered material weaknesses. We consider reportable conditions 2003-010 through 2003-013 listed above to be material weaknesses. In a separate letter to the Academy's management dated April 20, 2005, we reported other matters involving internal control over financial reporting which we did not deem reportable conditions.

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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 2003-001 through 2003-009.

This report is intended for the information and use of management and the Board of Trustees, and is not intended to be and should not be used by anyone other than these specified parties.

Betty Montgomery

Betty Montgomery
Auditor of State

April 20, 2005

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED ACCORDING TO GAGAS

FINDING NUMBER	2003-001

Financial Report Filing

Ohio Revised Code Section 117.38 provides that each public office shall file a financial report for each fiscal year. The Auditor of State may prescribe forms by rule or may issue guidelines, or both, for such reports. If the Auditor of State has not prescribed a rule regarding the form for the report, the public office shall submit its report on the form utilized by the public office. In part, this report shall contain the following:

- Amount of collections and receipts, and accounts due from each source, and
- Amount of expenditures for each purpose.

Ohio Administrative Code Section 117-2-03 (B) further clarifies the filing requirements of Ohio Rev. Code Section 117.38. This section requires that all school districts, including educational service centers and community schools, shall file their annual financial reports pursuant to generally accepted accounting principles. Generally accepted accounting principles (GAAP), requires the following:

- Balance sheet as prescribed by GAAP standards;
- Income and expense statement as prescribed by GAAP;
- Cash flow statement as prescribed by GAAP; and,
- Notes to the financial statements as prescribed by GAAP.

Pursuant to Ohio Revised Code Section 117.38, the Academy may be fined and subject to various other administrative remedies for its failure to file the required financial report. The Academy filed its financial statements for the year ended June 30, 2003 on March 4, 2004. The financial statements as filed were incomplete and inaccurate. Numerous adjustments were necessary due to incomplete financial records being maintained by the Academy. Amounts reported as fixed assets were incorrectly reported, accounts payable were understated, salaries were understated and benefits were overstated.

We recommend that the Academy organize its financial recordkeeping, develop tickler files as a reminder of filing dates, and take all other steps necessary to file its financial statements within the prescribed time period. If these financial statements are not filed within the prescribed timetable, the Academy may be assessed a late filing penalty.

FINDING NUMBER	2003-002

Uniform School Accounting System (USAS)

Ohio Revised Code Section 3314.03(A)(8) provides that each contract entered into under section 3314.03 of the Revised Code between a sponsor and the governing authority of a community school shall be filed with the superintendent of public instruction and shall specify the financial records of the school be maintained in the same manner as are the financial records of a school district. Each community school is required to follow the Uniform School Accounting System (USAS) as prescribed in Sections 117-2-02 to 117-2-21 of the Ohio Administrative Code.

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED ACCORDING TO GAGAS

FINDING NUMBER	**2003-002**

Uniform School Accounting System (USAS) (Continued)

The Academy failed to maintain financial records in the prescribed format.

We recommend the Academy review the agreed upon requirements of the Community School Contract. The above noted sections of the Ohio Revised Code and the Ohio Administrative Code which are part of the contract are very specific as to this requirement. The Academy is statutorily and contractually obligated to implement and use this system.

FINDING NUMBER	**2003-003**

Fiscal Officer Designation Bonding Requirement

Ohio Revised Code (ORC) Section 3314.011 provides that every community school established under this Chapter shall designate an individual as the fiscal officer. The Ohio Administrative Code (OAC) Section 117-6-07(B) requires the fiscal officer execute a bond prior to entering upon the duties of the fiscal officer. ORC Section 3314.011(B)(1) provides that the bond amount and surety is to be established by resolution of the governing authority. ORC Section 3314.011(B)(3) provides that bonding is conditioned on the faithful performance of the employee's official duties.

In addition, ORC Section 3314.011 provides, prior to assuming the duties of fiscal officer, the fiscal officer designee shall be licensed as prescribed by Section 3301.074 of the Revised Code or shall complete not less than sixteen hours of continuing education classes in the area of school accounting as approved by the sponsor of the community school. Any fiscal officer who is not licensed under this section shall complete an additional twenty-four hours of continuing education within one year after assuming the duties of fiscal officer of the school.

Although the Board designated an individual as a fiscal officer, the Board did not execute a bond for the position of fiscal officer (treasurer), nor did the Board set the amount of the surety. Also, the individual designated as fiscal officer failed to obtain the necessary license or training prior to assuming the position of fiscal officer.

We recommend the Academy review the provisions of ORC Sections 3314.011 and 3301.074 and OAC Section 117-6-07 and take the necessary steps to ensure that the fiscal officer is designated by the Board, and that the individual is adequately bonded and licensed or has completed the required continuing education training.

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED ACCORDING TO GAGAS

FINDING NUMBER	**2003-004**

Books, Records of Accounts, and Minutes

Ohio Revised Code Section 1702.15 states in part that each corporation shall keep correct and complete books and records of account, together with minutes of the proceedings of its incorporators, directors, and committees of its directors or members.

The Academy failed to maintain correct and complete books and records of account, maintain files of supporting documentation for payments made, maintain a complete file of canceled checks, and keep complete and accurate records of the meetings of the Board of Trustees.

We recommend the Academy maintain financial records which are correct, complete, and accurate. If necessary the Academy should review all of the available training and obtain the training necessary to maintain complete and accurate records of account. Also, all of the meetings and decisions of the Board of Trustees should be recorded as required.

FINDING NUMBER	**2003-005**

Board Meetings

Ohio Revised Code Section 121.22 requires schools to take all official actions and to conduct all deliberations upon official business in open meetings, unless the subject matter is specifically exempted by law. This section further outlines that Schools must establish a reasonable method by which any person can determine the time and place of all regular meetings and that the minutes of the meetings or special meetings be promptly prepared, filed, maintained, and open to public inspection.

No evidence could be located that the Board held regularly scheduled meetings during the audit period. The Academy had not published the Board meeting dates nor was there a set schedule of meeting dates or times for the Board.

We recommend that the Board establish a regular meeting schedule and that this schedule be made available to the public. We further recommend that once the regular meeting schedule is established, the Board should ensure that minutes of each meeting are promptly prepared, filed, maintained, and open to public inspection.

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED ACCORDING TO GAGAS

FINDING NUMBER	**2002-006**

Annual Report of Activities

Ohio Rev. Code Section 3314.03(A)(11)(g) provides that the community school governing authority is required to submit an annual report of its activities and progress in meeting the goals and standards of Ohio Revised Code Section 3314.03(A)(3)-(4) (academic goals to be achieved and of measurement method to determine progress, and performance standards to evaluate a school's success) and its financial status to the sponsor, the parents of all students enrolled in the school, and the legislative office of education oversight. The report must be submitted within four months after the end of each school year. The school must collect and provide any data that the legislative office of education oversight requests in furtherance of any study or research that the general assembly requires the office to conduct.

No evidence was provided by the Academy to verify that the required annual report of its activities and progress in meeting the goals and standards Ohio Rev. Code Section 3314.03(A)(3)-(4) as well as its financial status, was published and distributed to the sponsor, the parents of all students enrolled in the Academy, and the legislative office of education oversight.

We recommend that the Academy prepare and submit the required annual report within the prescribed time frame.

FINDING NUMBER	**2003-007**

Community School Contract – Financial Plan

Exhibit II to the Ohio Community School Contract entered into between the School's Governing Authority and the Ohio Department of Education provides in part that, "The Academy's director will compare budgeted expenses and income from reports prepared by the Academy's treasurer on a monthly basis".

No evidence could be located to indicate that the director had compared budgeted to actual amounts as required by this section of the contract.

We recommend that the Academy director obtain monthly reports from the treasurer and compare these amounts to the budgeted amounts as approved by the Board. The director should report monthly to the Board concerning the budgetary comparisons.

FINDING NUMBER	**2003-008**

Community School Contract - Non-Profit Corporation

Article III of the contract entered into between the Governing Authority of the Marcus Garvey Academy and the Ohio Department of Education provides the Academy be established as a non-profit corporation under the provisions of Section 1702 of the Ohio Revised Code.

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED ACCORDING TO GAGAS

FINDING NUMBER	**2003-008**

Community School Contract - Non-Profit Corporation (Continued)

Although the Academy was established as a non-profit corporation, in the state of Ohio, no evidence could be located to indicate that the Academy had been granted tax exempt status under Section 26 USC 501(c)(3) of the Internal Revenue Code. Without this tax exemption, the Academy could be exposed to a tax liability. Additionally, no evidence could be located that the Academy had filed the required tax returns as mandated by the various tax codes.

We recommend the Academy consult with a qualified tax counsel to determine if a tax liability exists and submit an application to the Internal Revenue Service for tax exempt status under Section 26 USC 501(c)(3) of the Internal Revenue Code.

FINDING NUMBER	**2003-009**

Community School Contract – Board Hiring Approval

Exhibit III to the contract between the Ohio Department of Education and the Academy provides by a majority vote, the Board shall approve the employment and initial salary of instructional and non-instructional employees of the Academy.

During the review of the available minute records of the Board of Trustees, no evidence could be located that the Board had approved the employment contracts or the initial salaries of the Academy's employees.

We recommend that the Board approve all employee employment contracts in accordance with the provisions of the Community Academy contract. In addition, as employees are hired during the school year the Board should approve their employment contracts and salaries and should also approve any increases and/or decreases in salary amount during the school year.

FINDING NUMBER	**2003-010**

Developing and Implementing an Effective Monitoring Control System

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

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED ACCORDING TO GAGAS

FINDING NUMBER	**2003-010**

Developing and Implementing an Effective Monitoring Control System (Continued)

Some effective monitoring controls include:

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

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

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

FINDING NUMBER	**2003-011**

Development and Implementation of Purchasing Cycle Controls

The Academy does not require written authorization prior to a purchase being initiated. In addition, verbal authorizations obtained from management are not regularly documented (e.g. as part of the minutes). The Academy does require the use of payment record forms for payment for goods and services. We noted that 19 out of 60 applicable transactions did not have the required payment record forms filed. Formal purchase requisitions, purchase orders, or tally sheets were not utilized and there was no process in place to match invoices, purchase orders, tally sheets and checks prior to making payment. Monthly financial statements were not prepared during the year.

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED ACCORDING TO GAGAS

FINDING NUMBER	**2003-011**

Development and Implementation of Purchasing Cycle Controls (Continued)

We recommend the Academy utilize purchase requisitions and/or purchase orders along with the payment record and obtain proper authorization before committing Academy funds. Academy personnel should provide written acknowledgment when goods and services are received. Management should compare invoices, purchase orders, and receiving acknowledgments prior to authorizing payment. Board approval of monthly financial statements and the implementation of an accounting package would provide the necessary financial information to allow the Academy to make informed financial decisions.

FINDING NUMBER	**2003-012**

Development and Implementation of Payroll Processing Procedures

We noted the Board did not approve salaries within its minute records and there was no record of the Boards approval of salaries or wage rates in the payroll files of the employees. It is possible that employees could be paid incorrect amounts. Also, we noted that the School did not have the required BCI background checks on file.

Procedures for payroll disbursements should include, but are not limited to:

- Approval by the Board of Trustees of all pay rates;
- Comparison of all employees' gross wages paid with the approved pay rates as documented in employee contracts; and,
- Approval and tracking of sick time usage and balances for each employee.

The Board should formally approve employment contracts or pay scales for all employees. Without this approval, it is possible that employees could be paid amounts which were not in accordance with the direction of the Board. Also, we recommend the Board monitor the amounts paid to employees.

FINDING NUMBER	**2003-013**

Fixed Assets

We noted the following control weaknesses over fixed assets:

- A fixed asset accounting system, which maintains a complete fixed asset listing by location, with tag or other identification numbers and other pertinent information had not been developed;
- The Academy had not developed and implemented procedures to record assets as additions when purchased and deletions when disposed of through the year;
- A listing of fixed assets purchased with federal funds to ensure that items purchased with federal funds are used for that specific purpose; and,
- The listing of fixed assets included items which did not meet the capitalization threshold.

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED ACCORDING TO GAGAS

FINDING NUMBER	2003-013

Fixed Assets (Continued)

Failure to prepare timely reports or employ adequate controls over the acquisition and disposal of fixed assets could result in misappropriation of assets and/or misstatement of recorded amounts on the financial statements.

To maintain adequate safeguards over fixed assets and to reduce the risk that the Academy's assets may be misstated, we recommend management develop and implement procedures to be performed throughout the year for the recording and updating of fixed assets, including the individual listing of items purchased with federal funds. These procedures should include tagging all fixed assets meeting the capitalization threshold. Further, addition and disposal forms should be completed and approved by management when assets are acquired or retired. This information should then be entered into the fixed asset accounting system and include such information as the tag number, location of the asset, description of the item, cost, acquisition date, and any other pertinent information. Periodic physical inventories should be performed, and the fixed assets listed on the accounting system should be compared to the items on hand and any discrepancies should be investigated.

FINDING NUMBER	2003-014

Policy Regarding Potential Conflicts of Interest

The Academy did not have a conflict of interest policy. Without an effective process for identifying and monitoring potential conflicts, the possibility of misuse or improper influence over purchasing or receipting is increased.

We recommend that the Academy develop and implement a policy that includes, but is not limited to the following provisions:

(a) Public officials or employees are prohibited from using or authorizing the use of the authority or influence of office or employment to secure anything of value or promise or to offer anything of value that is of such character as to manifest a substantial and improper influence upon the public official or employee with respect to that persons duties.

(b) Public officials or employees are prohibited from soliciting or accepting anything of value that is of such character as to manifest a substantial and improper influence upon the public official or employee with respect to that person's duties.

(c) Present and former public officials or employees are prohibited during their public employment or for twelve months thereafter from acting in a representation capacity or for any person on any matter in which the public official or employee personally participated as a public official or employee.

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MARCUS GARVEY ACADEMY

CUYAHOGA COUNTY

CLERK'S CERTIFICATION

This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
JUNE 23, 2005