



Dave Yost • Auditor of State

**THE ARTS ACADEMY WEST
CUYAHOGA COUNTY
TABLE OF CONTENTS**

Independent Accountants' Report	1
Management's Discussion and Analysis	3
Statement of Net Assets as of June 30, 2009	7
Statement of Revenues, Expenses and Changes in Net Assets for the Fiscal Year Ended June 30, 2009	8
Statement of Cash Flows for the Fiscal Year Ended June 30, 2009.....	9
Notes to the Basic Financial Statements	11
Independent Accountants' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by <i>Government Auditing Standards</i>	23
Schedule of Findings	25
Schedule of Prior Audit Findings	33
Independent Accountants' Report on Applying Agreed-Upon Procedures	35

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Dave Yost • Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

The Arts Academy West
Cuyahoga County
1881 East 71st Street
Cleveland, Ohio 44103

To the Board of Directors:

We have audited the accompanying basic financial statements of the business type activities of The Arts Academy West, Cuyahoga County (the Academy), as of and for the year ended June 30, 2009, as listed in the table of contents. These financial statements are the responsibility of the Academy's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Arts Academy West, as of June 30, 2009, and the respective changes in financial position and 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 May 5, 2011, on our consideration of the Academy's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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 Academy has a net deficit of \$99,287. In addition, as noted in Note 15, the Academy had its funding frozen in April, 2011 by the Ohio Department of Education due to their inability to provide financial records. In addition, Ashe Culture Center, the Academy's sponsor, has not renewed its sponsorship of the Academy and the current agreement will expire on June 30, 2011. Under the Ohio Revised Code, a community school may not operate without a sponsor. 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.

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

Dave Yost
Auditor of State

May 5, 2011

**THE ARTS ACADEMY WEST
CUYAHOGA COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009
(UNAUDITED)**

Our discussion and analysis of the Arts Academy West's (the Academy's) financial performance provides an overall review of the Academy's financial activities for the fiscal year ended June 30, 2009. 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 fiscal year 2009 are as follows:

- Total assets increased by \$2,333, or 9.28% from 2008.
- Total liabilities increased by \$68,332, or 122% from 2008.
- Total net assets decreased by \$65,999, or 198% from 2008.
- Total operating revenues were \$480,194. Total operating expenses were \$561,540.

USING THIS ANNUAL REPORT

This report consists of three parts: the MD&A, the basic financial statements, and notes to those statements. The basic financial statements include a Statement of Net 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 2009. 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.

**THE ARTS ACADEMY WEST
CUYAHOGA COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009
(UNAUDITED)**

The Statement of Net Assets answers the question of how the Academy did financially during 2009. 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 comparison of net assets as of June 30, 2009 with net assets as of June 30, 2008.

Table 1

	Net Assets	
	June 30, 2009	June 30, 2008
<u>Assets</u>		
Current Assets	\$25,134	\$22,801
Total Assets	25,134	22,801
<u>Liabilities</u>		
Current Liabilities	63,171	56,089
Long-Term Liabilities	61,250	0
Total Liabilities	124,421	56,089
<u>Net Assets</u>		
Restricted	13,028	0
Unrestricted	(112,315)	(33,288)
Total Net Assets	(\$99,287)	(\$33,288)

Total assets increased \$2,333, or 9.28%, from 2008. The Academy does not possess any of the capital assets it uses. As discussed in Note 3, the Cash balance at June 30, 2008 was restated. Liabilities increased \$68,332, or 122%, from 2008. This increase was mainly due to the increase in accounts payable.

**THE ARTS ACADEMY WEST
CUYAHOGA COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009
(UNAUDITED)**

Table 2 shows the changes in net assets for fiscal years 2009 and 2008, 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		
	2009	2008
<u>Operating Revenue/Expense</u>		
Revenue		
Foundation Payments	\$480,194	\$530,534
Total Operating Revenues	480,194	530,534
Expense		
Salaries	222,422	198,989
Fringe Benefits	95,016	56,197
Purchased Services	209,804	261,931
Materials and Supplies	16,442	16,584
Miscellaneous Expense	17,856	72,072
Total Operating Expenses	561,540	605,773
Net Operating Loss	(81,346)	(75,239)
<u>Non-Operating Revenue/Expense</u>		
Student Activities	6,855	8,570
Federal Grants	8,492	2,744
Other Revenue	0	14,638
Total Non-Operating Revenue/Expense	15,347	25,952
<u>Net Assets</u>		
Change in Net Assets	(65,999)	(49,287)
Net Assets at Beginning of Year	(33,288)	15,999
Net Assets at End of Year	(\$99,287)	(\$33,288)

Operating revenues decreased \$50,340, which represents a 9.5% change from 2008, due to the decline in state foundation receipts, directly dependent upon student enrollment. Operating expenses decreased by \$44,233, or 7.3% from 2008. The decline mainly occurred in Purchased Services. As described in Note 3, the 2008 fund balances were restated.

**THE ARTS ACADEMY WEST
CUYAHOGA COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009
(UNAUDITED)**

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 Section 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 must prepare and submit a detailed budget for every fiscal year to the Board of Directors and its Sponsor. A five-year forecast is also submitted to the Ohio Department of Education, annually.

Capital Assets

The Academy does not possess any capital assets. The furniture, fixtures and computers used by the Academy are the property of The Arts Academy, Lorain, Ohio. Consequently, these assets are listed and reflected in the financial statements of the Arts Academy, Lorain, Ohio.

Debt Obligations

The Academy has \$61,250 in outstanding long-term debt incurred through the lease of an educational facility. See Note 11 to the basic financial statement for further details.

Contacting the Academy's Financial Management

This financial report is designed to provide our citizens, 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 Alexis Rainbow, Head of Schools, 4125 Leavitt Road, Lorain, Ohio 44053.

The Arts Academy West
Statement of Net Assets
June 30, 2009

ASSETS:

Current Assets:

Cash and Cash Equivalents	\$12,106
Prepaid Expenses	13,028
	<hr/>
Total Current Assets	25,134
	<hr/>
Total Assets	25,134
	<hr/>

LIABILITIES:

Current Liabilities:

Accounts Payable	18,375
Accrued Wages and Benefits	25,113
Loans Payable	19,683
	<hr/>
Total Current Liabilities	63,171
	<hr/>

Long-Term Liabilities:

Due in More Than One Year	61,250
	<hr/>
Total Long-Term Liabilities	61,250
	<hr/>
Total Liabilities	124,421
	<hr/>

NET ASSETS:

Restricted	13,028
Unrestricted (Deficit)	(112,315)
	<hr/>
Total Net Assets	(\$99,287)
	<hr/> <hr/>

See accompanying notes to the basic financial statements

The Arts Academy West
Statement of Revenues, Expenses and Change in Net Assets
For the Fiscal Year Ended June 30, 2009

OPERATING REVENUES:

State Foundation	\$480,194
	<hr/>
Total Operating Revenues	480,194
	<hr/>

OPERATING EXPENSES:

Salaries	222,422
Fringe Benefits	95,016
Purchased Services	209,804
Materials and Supplies	16,442
Miscellaneous	17,856
	<hr/>
Total Operating Expenses	561,540
	<hr/>

Operating Income/(Loss) (81,346)

NON-OPERATING REVENUES (EXPENSES)

Student Activities	6,855
Federal Grants	8,492
	<hr/>
Total Non-Operating Cash Receipts	15,347
	<hr/>

Change in Net Assets (65,999)

Net Assets, Beginning of Year - Restated (See Note 3) (33,288)

Net Assets, End of Year **(\$99,287)**

See accompanying notes to the basic financial statements

The Arts Academy West
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2009

CASH FLOWS FROM OPERATING ACTIVITIES:

Cash Received from State of Ohio	\$480,194
Cash Payments to Suppliers for Goods and Services	(196,055)
Cash Payments to Employees for Services and Benefits	(292,325)
Other Cash Payments	(17,856)

Net Cash Used for Operating Activities (26,042)

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:

Federal Grants Received	8,492
Student Activities	6,855

Net Cash Provided by Noncapital Financing Activities 15,347

Net Increase in Cash and Cash Equivalents (10,695)

Cash and Cash Equivalents at Beginning of Year - Restated (See Note 3) 22,801

Cash and Cash Equivalents at End of Year \$12,106

**RECONCILIATION OF OPERATING LOSS TO NET CASH
USED FOR OPERATING ACTIVITIES**

Operating Loss (\$81,346)

Change in Assets and Liabilities:

Decrease in Accounts Payable	(22,975)
Increase in Accrued Wages and Benefits	25,113
Increase in Loans Payable	4,944
Increase in Due in More Than One Year	61,250
Increase in Prepaid Expenses	(13,028)

Total Adjustments 55,304

Net Cash Used for Operating Activities (\$26,042)

See accompanying notes to the basic financial statements

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**THE ARTS ACADEMY WEST
CUYAHOGA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

1. DESCRIPTION OF THE SCHOOL AND REPORTING ENTITY

The Arts Academy West (the Academy) is a non-profit corporation established pursuant to Ohio Revised Code Chapters 1702 and 3314. The Academy is an approved tax-exempt organization under Section 501 (c) (3) of the Internal Revenue Code. Management is not aware of any course of action or series of events that have occurred that might adversely affect the Academy's tax-exempt status. The Academy's objective is to use the Cleveland community to form partnerships for student learning. Individualized programs are used to meet students' needs. Parents and students are included in all decision-making. The Academy, which is a 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 acquire facilities as needed and contract for any services necessary for the operation of the school.

The Academy operates under the direction of a four member Governing Board. The Board is responsible for carrying out the provisions regarding student population, curriculum, academic goals, performance standards, admission standards, and qualification of teachers. The Board controls the Academy's instruction/support and staff.

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 on November 21, 2001 and commenced operation at the beginning of the 2002-03 school year.

The Academy was approved for operation under the contract with Ashe Culture Center, Inc. (the Sponsor) for a period of five years commencing July 1, 2005. The contract was renewed through June 30, 2010. 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Basis of Presentation

The Academy's basic financial statements consist of a statement of net assets; a statement of revenues, expenses, and change in net assets; and a statement of cash flows.

The Academy uses enterprise accounting to report its financial activities. Enterprise accounting focuses on the determination of operating income, changes in net assets, financial position, and cash flows.

**THE ARTS ACADEMY WEST
CUYAHOGA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 Academy's sponsorship agreement. The contract between the Academy and its Sponsor requires a detailed budget for each year of the contract.

D. Cash

All monies received by the Academy are maintained in a demand deposit account. For internal accounting purposes, the Academy segregates its cash. The Academy has no investment.

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.

F. Capital Assets

Capital assets are capitalized at cost and updated for additions and retirements during the year. Donated capital assets are recorded at their fair values as of the dates received. The Academy maintains a capitalization threshold of \$5,000. The Academy does not possess any infrastructure. Improvements are capitalized, the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized.

The Academy did not possess any capital assets at June 30, 2009.

**THE ARTS ACADEMY WEST
CUYAHOGA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 \$488,686 this fiscal year.

H. Compensated Absences

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

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

I. Accrued Liabilities

Obligations incurred but unpaid at June 30 are reported as accrued liabilities in the accompanying financial statements. These liabilities consisted of accounts payable, accrued wages and benefits, loans payable and liabilities due within more than one year totaling \$124,421 at June 30, 2009.

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.

**THE ARTS ACADEMY WEST
CUYAHOGA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

3. RESTATEMENT OF PRIOR YEAR BALANCE

During fiscal year 2009, it was determined that cash and accounts payable were overstated at June 30, 2008. The resulting changes to net deficit at June 30, 2008 are as follows:

	Business Type Activities
Fund Balance, June 30, 2008	(\$48,690)
Overstatement of Cash	(598)
Overstatement of Accounts Payable	16,000
Adjusted Fund Balance, June 30, 2008	(\$33,288)

4. CASH AND CASH EQUIVALENTS

As of June 30, 2009, the Academy's bank balances totaled \$23,937, which was covered by FDIC.

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, 2009, none of the bank balance was exposed to custodial credit risk.

**THE ARTS ACADEMY WEST
CUYAHOGA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009
(Continued)**

5. RISK MANAGEMENT

A. Property and Liability

The Academy is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. For fiscal year 2009, The Arts Academy contracted with Peerless Insurance and Indiana Insurance Companies to have the following insurance coverage:

Commercial General Liability aggregate	\$	2,000,000
Umbrella Liability per occurrence		1,000,000
Umbrella Liability aggregate		1,000,000
Workers' Compensation and Employers' Liability		
Each Accident		1,000,000
Each Employee		1,000,000
Policy Limit		2,000,000
Other – CEO		
Each act		1,000,000
Aggregate		1,000,000
Defense Expense		100,000
Commercial Property Liability – Personal		
Property		2,000,000
Commercial General Liability per occurrence		1,000,000

B. Worker's 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 Medical and Dental Benefits

The Academy provides medical, insurance benefits through Kaiser-Permanente and dental benefits through Humana, Inc. to all full time employees. The Academy pays 50% of the monthly premium for medical insurance and no payment for dental coverage.

**THE ARTS ACADEMY WEST
CUYAHOGA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009
(Continued)**

6. DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

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

Funding Policy - Plan members are required to contribute 10 percent of their annual covered salary and the School is required to contribute at an actuarially determined rate. The current school rate is 14 percent of annual covered payroll. A portion of the School's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2009, 9.09 percent of annual covered salary is the portion used to fund pension obligations. The remaining 4.91 percent of the 14 percent employer rate 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 School's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2009 and 2008 were \$7,609 and \$2,572 respectively, of which 96.46 percent has been contributed for fiscal year 2009 and 100 percent has been contributed for fiscal year 2008.

B. State Teachers Retirement System

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

**THE ARTS ACADEMY WEST
CUYAHOGA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009
(Continued)**

6. DEFINED BENEFIT PENSION PLANS (Continued)

B. State Teachers Retirement System (Continued)

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan, and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member's lifetime contributions and earned interest matched by STRS Ohio funds divided by an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump sum withdrawal. The Combined Plan offers features of both the DB plan and the DC Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. The DB portion of the Combined Plan payment is payable to a member on or after age 60; the DC portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50. Benefits are established by Chapter 3307 of the Ohio Revised Code.

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

Funding Policy – For the fiscal year ended June 30, 2009, plan members were required to contribute 10 percent of their annual covered salaries. The Sponsor was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations with the remainder being used to fund health care benefits. 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 School's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2009 and 2008 were \$17,321 and \$46,239, respectively; 60.58 percent has been contributed for fiscal year 2009 and 100 percent has been contributed for 2008.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System have an option to choose Social Security or the School Employees Retirement System/State Teachers Retirement System. The Board's liability is 6.2 percent of wages. As of June 30, 2009, no employees or Board members of the School contributed to Social Security.

**THE ARTS ACADEMY WEST
CUYAHOGA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009
(Continued)**

7. POSTEMPLOYMENT BENEFITS

A. School Employees Retirement System

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

Medicare Part B

The Medicare Part B plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries as set forth in Ohio Revised Code (ORC) 3309.69. Qualified benefits recipients who pay Medicare Part B premiums may apply for and receive a monthly reimbursement from SERS. The reimbursement amount is limited by statute to the lesser of the January 1, 1999 Medicare Part premium or the current premium. The Medicare Part B premium for calendar year 2009 was \$96.40; SERS' reimbursement for retirees was \$45.50.

The Retirement Board, acting with the advice of the actuary, allocates a portion of the current employer contribution rate to the Medicare B Fund, For fiscal 2009, the actuarial required allocation is .75 percent. The Schools contributions for the years ended June 30, 2009 and 2008 were \$628 and \$138 respectively. 96.46 percent has been contributed for fiscal year 2009 and 100 percent has been contributed for fiscal year 2008.

Health Care Plan

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

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

The Health Care Fund was established under, and is administered in accordance with the Internal Revenue Code 105(e). Each year after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer 14 percent contribution to the Health Care Fund. For the year ended June 30, 2009, the health care allocation is 4.16 percent. An additional health care surcharge on employers is collected for employees earning less than the actuarially determined minimum compensation amount, pro-rated according to service credit earned. Statutes provides that no employer shall pay a health care surcharge greater than 2 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the total statewide SERS-covered payroll for the health care surcharge. For the fiscal year ending June 30, 2009, the minimum compensation level was established at \$35,800. The surcharge added to the unallocated portion of the 14 percent employer contribution rate is the total amount assigned to the Health Care Fund. The School's contributions assigned to health care for the years ended June 30, 2009 and 2008 were \$3,482 and \$764, respectively, of which 96.46 percent has been contributed for fiscal year 2009 and 100 percent has been contributed for fiscal year 2008.

**THE ARTS ACADEMY WEST
CUYAHOGA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009
(Continued)**

7. POSTEMPLOYMENT BENEFITS (Continued)

Health Care Plan (Continued)

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

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

B. School Teachers Retirement System

Plan Description – The School contributes to the cost-sharing, multiple-employer defined benefit Health Plan administered by STRS Ohio for eligible, certificated retirees and their beneficiaries who participated in the defined benefit or combined pension plans offered by STRS Ohio. Benefits include hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare Part B premiums. Benefit provisions and the obligations to contribute are established by STRS Ohio based on authority granted by State statute. The Plan is included in the financial report of STRS Ohio. Interested parties can view the most recent Comprehensive Annual Financial Report by visiting www.strsoh.org or by requesting a copy by calling (888) 227-7877.

Funding Policy – Ohio law authorizes STRS Ohio to offer the Health Plan and gives the STRS 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 Health Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for postemployment health care may be deducted from employer contributions. For fiscal year 2009, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. The School's contributions for health care for the fiscal years ended June 30, 2009 and 2008 were \$1,332 and \$3,303, respectively. 60.58 percent has been contributed for fiscal year 2009 and 100 percent has been contributed for fiscal year 2008.

8. CONTINGENCIES

A. Grants

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

**THE ARTS ACADEMY WEST
CUYAHOGA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009
(Continued)**

8. CONTINGENCIES (Continued)

B. State Funding

The Ohio Department of Education conducts reviews of enrollment and Full-Time Equivalency 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 funding is calculated. The conclusions of this review could result in the State funding being adjusted. The Academy does not anticipate any material adjustment for fiscal year 2009, as a result of such review.

9. SPONSORSHIP AGREEMENT

The Academy contracted with Ashe Culture Center Inc. as its sponsor and oversight services as required by law. Sponsorship fees are calculated as three percent of state funds received by Academy from the State of Ohio. For the fiscal year ended June 30, 2009 the total sponsorship fees totaled \$13,728, and \$3,906 for other services permitted under the contract.

10. ACCOUNTING SERVICES

The Academy entered into a contract with L.E.D. Consulting, Inc. effective February 15, 2008 to provide treasurer services, as defined by the contract. The Academy paid a monthly fee for the duration of the agreement effective until terminated by mutual agreement of the parties. The Academy paid \$50,000 for these services for the fiscal year ending June 30, 2009, \$14,250 under a separate agreement to reconstruct financial records for fiscal year 2007, and \$3,610 for other services. These services included reimbursements for postage and Federal Express services. The Academy also prepaid L.E.D Consulting \$4,000 at June 30, 2009 for July treasury services.

11. OPERATING LEASES

On October 12, 2005, the Academy entered into a lease for the period of January 1, 2005 to October 31, 2007 with St. Wendelin Church for the use of the church facility. Payment terms are \$8,000 per month due on the first day of each month. The Academy incurred rent in arrears totaling \$61,250. This amount is reported in the statement of net assets as a liability due in more than one year at June 30, 2009. The Academy paid the \$13,750 in lease payments for the fiscal year ended associated with this lease.

On July 15, 2008, the Academy entered into a lease for the period August 1, 2008 to July 31, 2009 with the Charter Schools Development Corporation for the use of a building on 19114 Bella Drive, Cleveland, Ohio. Payments for this lease during the fiscal year totaled \$78,242.

**THE ARTS ACADEMY WEST
CUYAHOGA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009
(Continued)**

12. LOANS PAYABLE

Often the Academy receives or distributes monies from or to its sister school to assist in maintaining cash flow to operate the respective academy. At June 30, 2009, the Academy owed its sister school, the Arts Academy Lorain, \$17,158 for loans it received. There is no formal repayment schedule. The monies are returned when resources are available.

L.E.D. Consulting, Inc. also lent the Academy monies to ensure continued operation when cash flow was low or negative. At June 30, 2009, the Academy owed L.E.D. Consulting, Inc. \$2,525. There is no payment schedule. L.E.D Consulting, Inc. has lent the Academy monies throughout the year for which repayment has been received.

The total amount of \$19,683 is reported in the statement of net assets as Loans Payable.

13. PURCHASED SERVICES

Purchased service expenses during fiscal year 2009 were as follows:

Type	Amount
Professional and Technical Services	\$111,097
Property Services	86,309
Utilities	7,306
Communications	3,870
Contractual Trade Services	1,222
Total	<u>\$209,804</u>

14. RELATED PARTY

Titus Group, Inc. is owned by Alexis Rainbow, the founder and Head of Schools of The Arts Academy and The Arts Academy West. The Academy paid Titus Group, Inc. for marketing and advertising services totaling \$3,000.

15. SUBSEQUENT EVENTS

In April 2011, the Academy had its funding frozen by the Ohio Department of Education due to their inability to provide financial records. In addition, Ashe Culture Center, the Academy's sponsor, has not renewed its sponsorship of the Academy and the current agreement will expire on June 30, 2011. Pursuant to the Ohio Revised Code, the Academy may not operate without a sponsor.

16. POSSIBLE FINANCIAL DISTRESS

As of June 30, 2009, the Academy had a net deficit fund balance of \$99,287. In addition, as noted in Note 15, the Academy had its funding frozen in April 2011, by the Ohio Department of Education due to their inability to provide financial records. In addition, Ashe Culture Center, the Academy's sponsor, has not renewed its sponsorship of the Academy and the current agreement will expire on June 30, 2011. The Academy is aware of these situations and is currently in the process of obtaining financial records from its sponsor and Treasurer and is in pursuit of a new sponsor.

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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

The Arts Academy West
Cuyahoga County
1881 East 71st Street
Cleveland, Ohio 44103

To the Board of Directors:

We have audited the financial statements of the business-type activities of The Arts Academy West, Cuyahoga County (the Academy) as of and for the year ended June 30, 2009, and have issued our report thereon dated May 5, 2011, wherein we noted the Ohio Department of Education terminated the Academy's funding in April, 2011, and the Academy's sponsor will not extend its sponsorship agreement after June 30, 2011. Ohio law prohibits community schools from operating without a sponsor. Therefore, our report expressed substantial doubt about the Academy's ability to continue as a going concern. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

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

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

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 2009-001 through 2009-003 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 findings 2009-004 and 2009-005 described in the accompanying schedule of findings to be significant deficiencies.

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www.auditor.state.oh.us

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 we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as items 2009-001, 2009-004, 2009-005, 2009-006 and 2009-007.

We also noted certain matters not requiring inclusion in this report that we reported to the Academy's management in a separate letter dated May 5, 2011.

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

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



Dave Yost
Auditor of State

May 5, 2011

**THE ARTS ACADEMY WEST
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS
JUNE 30, 2009**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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FINDING NUMBER 2009-001

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.

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 was only able to provide minutes for two Board meetings during the audit period;
- The Sponsor contract, which was renewed for fiscal year 2010, was not retained or provided;
- 1099's issued to independent contractors for services were not provided;
- Liability Insurance documentation for fiscal year 2009 was not retained or provided and we could not verify coverage amounts disclosed;
- There was no documentation for four invoices, totaling \$7,725, recorded as accounts payable; and
- During our testing of nonpayroll expenditures, we noted two out of 60 disbursements tested, or \$4,500, lacked supporting documentation.

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

- The Academy had one employee paid at an hourly rate. The Academy did not maintain time sheets for this employee;
- During December 2008, the Academy issued their own payroll checks rather than using their service organization. However, the Academy did not maintain documentation for employees' gross pay or withholding amounts during this period;
- The Academy could not produce 941 Forms for the third and fourth quarters of 2008; and
- The Academy did not maintain State Tax Withholding documentation for one employee in the employee master file.

Management failed to provide supporting documentation, consequently we were unable to analyze, review, inspect for completeness, verify the accuracy of, or determine the existence of the Academy's financial records.

Failure to implement and maintain a system of controls over the Academy's financial records increases the chances of theft and other fraudulent activities.

**THE ARTS ACADEMY WEST
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS
JUNE 30, 2009**

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

(Continued)

**FINDING NUMBER 2009-001
(Continued)**

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

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.

Official's Response:

The Academy acknowledges the condition of the records, and the former treasurer. Additionally, the Sponsor's Board of Directors was serving as the Academy's board of directors during the audit period and has been replaced. The Academy transitioned to a new Treasurer for fiscal year 2011. The new Treasurer has provided better interface with the management and administration of the Academy by providing access to the accounting system and accounting records sufficient to enable the board and management to identify, assemble, analyze, classify, record and report its transactions as required by Ohio Administrative Code Section 117-2-02(A).

FINDING NUMBER 2009-002

SAS 115 Financial Reporting – Material Weakness

Paragraph 15 of the Statement on Auditing Standards 115, documents that the identification by the auditor of a material misstatement in the financial statements for the period under audit that was not initially identified by the entity's internal control is a strong indicator of a material weakness even if management subsequently corrects the misstatement.

Sound financial reporting is the responsibility of the Treasurer and Board of Directors and is essential to ensure the information provided to the readers of the financial statements is complete and accurate.

The following weaknesses were noted and subsequent adjustments made to the financial statements and, where applicable, to the Academy's accounting records:

- The beginning cash fund balance included an account that should not have been recorded in the Academy's accounting records and was restated. The bank balance for one of the Academy's accounts was not included in the Academy's accounting records. In addition, the Academy included an account in their year-end financial statements that belonged to its sister school, The Arts Academy. These net misstatements resulted in an overstatement of the Academy's cash balance of \$402.
- The accounts payable balance as of June 30, 2008 included a \$16,000 payable to the Arts Academy Lorain that didn't exist. This resulted in the liability being overstated at the end of the previous fiscal year which required a restated beginning balance.
- The accounts payable balance was reduced by a payment of \$4,000 to the Treasurer for July 2009 services. The amount should have been recorded as a prepaid asset and not a reduction of a payable. Also, three invoices were inaccurately recorded as accounts payable. The net effect of the inaccuracy was an understatement of assets at the end of the year.

**THE ARTS ACADEMY WEST
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS
JUNE 30, 2009**

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

**FINDING NUMBER 2009-002
(Continued)**

SAS 115 Financial Reporting – Material Weakness (Continued)

- The Academy paid a security deposit in the amount of \$9,028 to Charter School Development Corporation for rent of the school space. This amount was incorrectly expensed and not included as a prepaid asset. This resulted in an understatement of assets at the end of the year.
- The Academy did not record their pension obligations paid by monthly State Foundation payments through the Ohio Department of Education in the amount of \$36,119.
- The Academy understated Fringe Benefits Expense totaling \$7,765.
- The Statement of Cash Flows and the Notes to The Basic Financial Statements were not presented consistently nor agreed to the underlying financial statement data. This resulted in numerous adjustments to amounts reported.

The lack of controls over the posting of financial transactions and financial reporting can result in errors and irregularities that may go undetected and decreases the reliability of financial data throughout the year.

We recommend the Academy adopt policies and procedures for controls over recording of financial transactions and over financial reporting to help ensure the information accurately reflects the activity of the Academy and thereby increasing the reliability of the financial data throughout the year.

Official's Response:

Effective July 1, 2010, Edward Dudley and L.E.D. Consulting were relieved of their duties as Treasurer, in part due to concerns stated in this item. The Board installed a new Treasurer to address these items to ensure proper recording of financial data.

FINDING NUMBER 2009-003

Finding for Recovery Repaid Under Audit – Material Weakness

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

On October 20, 2008, check number 4356, in the amount of \$484, was issued and authorized by Edward Dudley, Treasurer, and made payable to Marvin Osborn. The Academy was unable to provide supporting documentation for this transaction.

Without proper supporting documentation, it is not possible to determine if the expenditures included items that would be considered a proper public purpose. The failure to maintain adequate support for these expenditures resulted in a loss of accountability over the Academy's finances.

**THE ARTS ACADEMY WEST
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS
JUNE 30, 2009**

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

(Continued)

**FINDING NUMBER 2009-003
(Continued)**

Finding for Recovery Repaid Under Audit – Material Weakness (Continued)

Under Ohio law, any public official who either authorizes an illegal expenditure of public funds or supervises the accounts of a public office from which such illegal expenditure is made is strictly liable for the amount of such expenditure. *Steward v. National Surety Co.* (1929), 120 Ohio St. 47; 1980 Op. Att’y Gen. No. 80-074; Ohio Rev. Code Section 9.39; State, ex. rel. Village of Linndale v. Masten (1985), 18 Ohio St.3d 228. Public officials controlling public funds or property are secondarily liable for the loss incurred such funds or property be fraudulently obtained by another, converted, misappropriated, lost or stolen. Public officials will be liable if and to the extent that recovery or restitution is not obtained from the persons who unlawfully obtained such funds or property. 1980 Op. Att’y Gen. No. 80-074.

In accordance with the foregoing facts and pursuant to Ohio Revise Code Section 117.28, a Finding for Recovery for public monies improperly expended is hereby issued against Edward Dudley, Treasurer, Alexis Rainbow, Head of School, and Marvin Osborn, Dean of Academics, jointly and severally, in the amount of \$484 in favor of the Arts Academy West.

This finding for recovery was repaid under audit by cashier’s check number 304055 on May 4, 2011.

FINDING NUMBER 2009-004

Notice of Public Meetings – Material Noncompliance and Significant Deficiency

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 ARTS ACADEMY WEST
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS
JUNE 30, 2009**

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

**FINDING NUMBER 2009-004
(Continued)**

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

The following deficiencies in the Board meeting minutes were noted:

- The Academy did not provide an open meeting and meeting notification policy;
- 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.;
- There was no evidence of a public notice for any Board meeting;
- The Board did not have a designee for recording and maintaining Board meeting minutes; and
- The Academy only provided evidence of two board meetings during the fiscal year and a complete schedule of meetings held could not be provided.

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 minutes represent the official record of the Academy events and resolutions passed by the Board of Directors. Without complete minute recordings of the Board meeting proceedings, it cannot be reasonably assured that the Board is meeting its obligation to oversee the Academy.

We 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. We also recommend the Board meet on a regular basis in order to approve proceedings and to stay apprised of financial matters of the Academy.

Official's Response:

The Board of Directors from fiscal year 2009 has been replaced. Notices of Public Meetings are now made in accordance with legal requirements and Board minutes are recorded in a timely manner. The current Governing Authority conducts board meetings as required by law.

FINDING NUMBER 2009-005

Developing and Implementing an Effective Monitoring Control System – Material Noncompliance and Significant Deficiency

Ohio Admin. Code Section 117-2-01 (A) states that all public officials are responsible for the design and operation of a system of internal control that is adequate to provide reasonable assurance regarding the achievement of objectives for their respective public offices in certain categories. Subsection (C) (5) provides that internal control consists of the following component, among others: monitoring, which is a process that assesses the quality of internal control performance over time.

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

THE ARTS ACADEMY WEST
CUYAHOGA COUNTY

SCHEDULE OF FINDINGS
JUNE 30, 2009

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

(Continued)

FINDING NUMBER 2009-005
(Continued)

Developing and Implementing an Effective Monitoring Control System – Material Noncompliance and Significant Deficiency (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 fluctuations;
- Identification of unusual fluctuations;
- Comparison of financial statement position with financial projections and other internally prepared projections of financial position and operating results;
- Comparison of predefined key performance indicators based on the financial statements;
- Review of items which have been outstanding for extended periods of time (outstanding check listing for payroll and non payroll transactions);
- Monitoring compliance with grant agreements;
- Ensuring that an adequate segregation of duties exists; and
- Review of monthly bank reconciliations by someone independent of their preparation.

The lack of effective monitoring controls could lead to the misallocation or misstatement of Academy funds, expenditure of funds contrary to the directives of the Board of Directors, 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.

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.

Official's Response:

The current Board of Directors is reviewing all policies and procedures and plans to expand and implement appropriate policies to address these items. Current Management and Treasurer's offices offer initial levels of control, through segregation of duties.

**THE ARTS ACADEMY WEST
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS
JUNE 30, 2009**

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

FINDING NUMBER 2009-006

Filing of Annual Financial Report – Material Noncompliance

Ohio Rev. Code Section 117.38 provides that each public office shall file a financial report for each fiscal year. The report shall be certified by the proper officer or Board and filed with the Auditor of State within one hundred fifty days of the end of the fiscal year if GAAP statements are filed. 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 Revised Code Section 117.38. This section requires that community schools file annual financial reports which are prepared using generally accepted accounting principles. Generally accepted accounting principles (GAAP) require the following:

- Management's Discussion and Analysis;
- Balance sheet as prescribed by GAAP standards;
- Income and expense statement as prescribed by GAAP standards;
- Cash flow statement as prescribed by GAAP standards; and
- Notes to the financial statements as prescribed by GAAP standards.

The Academy did not file the June 30, 2009 financial report, which was required to be filed no later than November 30, 2009. This resulted in the maximum fine of \$750 being billed to the Academy for noncompliance with the requirement.

In addition, Ohio Rev. Code Section 117.38 provides, in part, that "at the time the 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." No evidence was provided, by the Academy, that this required notice was published. This may prevent the public from being aware of the transparency available in the Academy. By not filing their financial reports and annual notice, the Academy is not fulfilling their duties of accountability and transparency to the public.

We recommend 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 will be assessed a late filing penalty which is an inappropriate use of school funds.

THE ARTS ACADEMY WEST
CUYAHOGA COUNTY

SCHEDULE OF FINDINGS
JUNE 30, 2009

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

(Continued)

**FINDING NUMBER 2009-006
(Continued)**

Filing of Annual Financial Report – Material Noncompliance (Continued)

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 former treasurer has been replaced. The new Treasurer shall submit the GAAP statements and Management's Discussion and Analysis to the Auditor's office on time and in the required format.

FINDING NUMBER 2009-007

Related Party Transactions – Material Noncompliance

Ohio Revised Code Section 2921.42(A)(1) prohibits a public official from authorizing or using the authority or influence of the public official's office to secure a public contract in which the public official, a member of the public official's family, or any of the public official's business associates have an interest. Additionally, Ohio Revised Code Section 2921.42(A)(4) states that no public official shall knowingly have an interest in the profits or benefits of a public contract entered into by or for the use of the political subdivision or governmental agency or instrumentality with which the public official is connected.

The following issue was noted during our audit:

- The Titus Group, Inc. is owned by Alexis Rainbow, Head of School, and was paid \$3,000 during fiscal year 2009.

As referenced above, public officials are prohibited from having an interest in a public contract.

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

Official's Response:

This contract was approved by the School's prior Board which was controlled by the Sponsor, Ashe Cultural Center. The School believes Alexis Rainbow was not a public official at the time the Ashe Board approved the contract with the Titus Group, Inc. Additionally, even if Ms. Rainbow was a public official, the School believes this contract would be exempt pursuant to Ohio Rev. Code Section 2921.42(C).

**THE ARTS ACADEMY WEST
CUYAHOGA COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2009**

<u>Finding Number</u>	<u>Finding Summary</u>	<u>Fully Corrected?</u>	<u>Not Corrected, Partially Corrected; Significantly Different Corrective Action Plan Taken; or Finding No Longer Valid; Explain:</u>
2008-001	Finding for Recovery	No	Reissued as 2009-003
2008-002	Notice of Public Meetings	No	Reissued as 2009-004
2008-003	Developing and Implementing an Effective Monitoring Control System	No	Reissued as 2009-005
2008-004	Condition of Accounting Records	No	Reissued as 2009-001
2008-005	Financial Reporting	No	Partially corrected; Reissued as 2009-006

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INDEPENDENT ACCOUNTANTS' REPORT ON APPLYING AGREED-UPON PROCEDURES

The Arts Academy West
Cuyahoga County
1881 East 71st Street
Cleveland, Ohio 44103

To the Board of Directors:

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

Accordingly, we have performed the procedures enumerated below, which were agreed to by the Board, solely to assist the Board in evaluating whether the Arts Academy West (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.

We noted the Board has not adopted an anti-harassment policy in accordance with Ohio Rev. Code Section 3313.666(B).

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

May 5, 2011

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THE ARTS ACADEMY WEST

CUYAHOGA COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
MAY 19, 2011**