



Dave Yost • Auditor of State

**WALTON INSTITUTE FOR SCHOLARLY EDUCATION
CUYAHOGA COUNTY**

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Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT

Walton Institute of Scholarly Education
Cuyahoga County
291 East 222nd Street
Euclid, Ohio 44117

The Educational Resource Consultants of Ohio, Sponsor
Attn: J. Leonard Harding, Executive Director
Attn: James Wilson Jr., Southwest Regional & Finance Consultant
Spectrum Office Tower, 11260 Chester Road, Suite 230
Cincinnati, Ohio 45246

To the Walton Institute of Scholarly Education and the Sponsor:

Report on the Financial Statements

We have audited the accompanying financial statements of the Walton Institute of Scholarly Education, Cuyahoga County, Ohio (the School), as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the School's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to opine on these financial statements based on our audit. We audited in accordance with auditing standards generally accepted in the United States of America and the financial audit standards in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require us to plan and perform the audit to reasonably assure the financial statements are free from material misstatement.

An audit requires obtaining evidence about financial statement amounts and disclosures. The procedures selected depend on our judgment, including assessing the risks of material financial statement misstatement, whether due to fraud or error. In assessing those risks, we consider internal control relevant to the School's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not to the extent needed to opine on the effectiveness of the School's internal control. Accordingly, we express no opinion. An audit also includes evaluating the appropriateness of management's accounting policies and the reasonableness of their significant accounting estimates, as well as our evaluation of overall financial statement presentation.

We believe the audit evidence we obtained is sufficient and appropriate to support our opinion.

Basis for Qualified Opinion

Management failed to retain a subsidiary ledger detailing the transactions in the purchased services, material and supplies and miscellaneous expense accounts during the audit period. Therefore we were unable to audit whether transactions and events totaling \$106,526 have been recorded in the proper accounts. These expenses represents 56% of total expenses on the *Statement of Revenues, Expenses and Changes in Net Position* and 58% of cash flows for operating activities on the *Statement of Cash Flows*.

Qualified Opinion

In our opinion, except for the effects of the matter described in the *Basis for Qualified Opinion* paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of the Walton Institute of Scholarly Education, Cuyahoga County, Ohio as of June 30, 2013, and the changes in financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As described in Note 1, the School was closed by the Sponsor effective January 29, 2013 due to the lack of a minimum number of students and consequently, the School ceased operations on January 29, 2013.

Other Matters

Required Supplementary Information

Management has omitted the *Management's discussion and analysis*, that accounting principles generally accepted in the United States of America requires to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated August 25, 2014, on our consideration of the School's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School's internal control over financial reporting and compliance.

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
Columbus, Ohio

August 25, 2014

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Walton Institute of Scholarly Education
Statement of Net Position
June 30, 2013

Assets

Current Assets:

Equity in Pooled Cash and Cash Equivalents	\$ 772
Intergovernmental Receivable	2,711
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Total Current Assets

3,483

Total Assets

3,483

Liabilities

Current Liabilities:

Accounts Payable	15,093
Loan Payable	21,500
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Total Current Liabilities

36,593

Total Liabilities

36,593

Net Position

Unrestricted

(33,110)

Total Net Position

\$ (33,110)

See accompanying notes to the basic financial statements

Walton Institute of Scholarly Education
Statement of Revenues, Expenses and Changes in Net Position
For the Fiscal Year Ended June 30, 2013

Operating Revenues	
Foundation Payments	\$ 145,308
Other Operating Revenues	4,369
	<hr/>
<i>Total Operating Revenues</i>	<i>149,677</i>
	<hr/>
Operating Expenses	
Salaries and Wages	61,213
Fringe Benefits	15,048
Purchased Services	102,020
Materials and Supplies	3,664
Miscellaneous	842
	<hr/>
<i>Total Operating Expenses</i>	<i>182,787</i>
	<hr/>
<i>Operating Loss</i>	<i>(33,110)</i>
	<hr/>
<i>Beginning Net Position</i>	<i>-</i>
	<hr/>
<i>Ending Net Position</i>	<i>\$ (33,110)</i>
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See accompanying notes to the basic financial statements

Walton Institute of Scholarly Education
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2013

Increase in Cash and Cash Equivalents

Cash Flows from Operating Activities

Cash Received from Foundation Payments	\$ 142,597
Cash Received from Other Operating Revenues	4,369
Cash Payments to Employees for Services	(61,213)
Cash Payments for Employee Benefits	(15,048)
Cash Payments for Goods and Services	(86,927)
Cash Payments for Materials and Supplies	(3,664)
Cash Payments for Miscellaneous Expenses	(842)

Net Cash Used in Operating Activities (20,728)

Cash Flows from Noncapital Financing Activities

Cash from Loan Proceeds 21,500

Net Cash Provided by Noncapital Financing Activities 21,500

Net Increase in Cash and Cash Equivalents 772

Cash and Cash Equivalents Beginning of Year -

Cash and Cash Equivalents End of Year \$ 772

**Reconciliation of Operating Loss to Net Cash
Used in Operating Activities**

Operating Loss	\$ (33,110)
Increase in Intergovernmental Receivable	(2,711)
Increase in Accounts Payable	15,093

Net Cash Provided by (Used in) Operating Activities \$ (20,728)

See accompanying notes to the basic financial statements

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**Walton Institute for Scholarly Education
Cuyahoga County
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2013**

Note 1 DESCRIPTION OF THE SCHOOL DISTRICT AT CLOSING

The Walton Institute for Scholarly Education (the School) is a nonprofit corporation established pursuant to Ohio Revised Code Chapters 3314 and 1702. The School had not as of the time of closing, been approved as a tax exempt organization under section 501(c) (3) of the Internal Revenue Code. The School was managed by World Class Community Schools a corporation located in Mentor, Ohio, dedicated to the economic and academic welfare on Charter schools. The School's mission is for children to increase academic achievement and expose children to leadership skills that will provide them with the skills they will need to become productive members of society. The School, which is part of the State's educational program, is independent of any school district and is nonsectarian in its programs, admission policies, employment practices and all other operations.

The School was originally approved for operation under contract with the Educational Resource Consultants of Ohio (ERCO), effective for the 2013 school year. 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. Unfortunately, based on the Ohio Revised Code Chapter 3314 the School needed to enroll at a minimum, 25 students by September 30th of the current year to officially continue operations. The School failed to enroll or maintain in its enrollment the 25 student minimum requirement and as a result ERCO (Sponsor) ceased the School's operations as of January 29, 2013.

The School, while in operations, operated under the direction of a five member Board of Directors. The Board is responsible for carrying out the provisions of the contract with the Sponsor which include, but are not limited to, state mandated provisions regarding student population, curriculum, academic goals, performance standards, admission standards, and qualifications of teachers. The Board of Directors controls the School's instruction/support Facility staffed by two certified full time teaching personnel, two certified part-time administrative personnel, and one classified staff member who provided services at school closing for 22 students.

Note 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

**Walton Institute for Scholarly Education
Cuyahoga County
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2013**

Basis of Presentation

The School used enterprise accounting to maintain its financial records during the school year. Enterprise accounting focuses on the determination of operating income, changes in net position, financial position and cash flows. Enterprise accounting may be used to account for any activity for which a fee charged to external users for goods and services.

Measurement Focus and Basis of Accounting

Enterprise accounting uses a flow of economics resources for measurement focus. With this measurement focus, all assets and all liabilities are included on the Statements of Net Position. Operating statements present increases and decreases in total net position. The Statement of Cash Flows reflects how the School finances and meets its cash flow needs.

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 earned and expenses are recognized when they are incurred.

Budgetary Process

Unlike other public schools located in the State of Ohio, community schools are not required to follow the budgetary provisions set forth in the Ohio Revised Code Chapter 5705, unless specifically provided in the School's contract with the Sponsor. The contract between the School and its Sponsor does prescribe an annual budget requirement in addition to preparing a five-year forecast, which is to be presented in October of the current school year and updated in May of the same year.

Cash

The School Treasurer, Sonya Williams, accounts for all monies received by the School. All cash received by the Treasurer is maintained in a separate account in the School's name.

Intergovernmental Revenues

The School participated in the State Foundation Program. The School received foundation revenues for the months of July, August, September, and October. Revenues received from this program are recognized as operating revenues in the accounting period in which all eligibility requirements are met.

**Walton Institute for Scholarly Education
Cuyahoga County
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2013**

Net Position

Net position represented the difference between assets and liabilities. Net position is reported as restricted when there are limitations imposed on their use through external restrictions imposed by creditors, grantors, or laws and regulations of other governments. The School applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position is available.

Operating Revenues and Expenses

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

Deposits

At fiscal year end June 30, 2013, the carrying amount of the School's deposits totaled \$772. All of the School's bank balance was covered by the Federal Deposit Insurance Corporation (FDIC).

Intergovernmental Receivables

All receivables are considered collectible in full due to the stable condition of State programs. The School had an Intergovernmental Receivable for an STRS return of excess Foundation deductions.

Note 3

RISK MANAGEMENT

- **Property and Liability**

The School is exposed to various risk 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 2013 the School contracted with The O'Neil Group for property and for general liability insurance. There is a \$250 deductible per coverage.

Professional Liability is protected by the O'Neil Group with a \$1,000,000 single occurrence limit and \$1,000,000 aggregate with a \$250 deductible. The School paid a total of \$8,286 before closing. This payment amount relates to the premium.

- **Worker's Compensation**

The School pays the State Worker's Compensation System a premium for employee injury coverage. The premium is calculated by multiplying the annual total gross payroll by a factor determined by the State, based on job description and duties. The School paid a total of \$110 for the 2013 fiscal year before closing. This payment relates to the premium.

**Walton Institute for Scholarly Education
Cuyahoga County
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2013**

Note 4 DEFINED BENEFIT PENSION PLANS

- **State Teachers Retirement System**

The School participated in the State Teachers Retirement System of Ohio (STRS Ohio), a cost sharing, multi-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 comprehensive annual financial report that may be obtained by writing to STRS Ohio, 275 East Broad Street, Columbus, Ohio 43215-3371 or by calling toll-free 1-888-227-7877, or by visiting the STRS website at www.strsoh.org.

New members have a choice of three retirement plan options. In addition, to the Defined Benefit (DB) Plan, new members are offered a Defined Contribution (DC) Plan and a Combined Plan. DC and Combined Plan members will transfer to DB plan during their fifth year of membership unless they permanently select the DC or Combined Plan.

The DB Plan benefits are established under Chapter 3307 of the Ohio Revised Code (ORC). Any member may retire who has (i) five years of service credit and attained age 60; (ii) 25 years of service credit and attained age 55 or; (iii) 30 years of service credit regardless of age. The annual retirement allowance payable for life is the greater of the "formula benefit" or the "money-purchase benefit" calculation. Under the formula benefit the retirement allowance is based on years of credited service and final average salary, which is the average members' three highest salary years. The annual allowance is calculated by using a base percentage of 2.2% multiplied by the total number of years of service credit (including Ohio-valued purchased credit) times the final average salary. The 31st year of earned Ohio service credit is calculated at 2.5% with an additional one-tenth of a percent added to the calculation for every year over 31 years until 100% of the final average salary is reached. For members with 35 or more years of Ohio contributing services, the first 30 years will be calculated at 2.5%. Under the money-purchase benefit, members' lifetime contributions plus interest at specified rates are matched by an equal amount from other STRS Ohio funds. The total is then divided by an actuarially determined annuity factor to determine the maximum annual retirement allowance. Benefits are increased annually by 3% of the original base amount.

The DC Plan allows members to allocate all their member contributions and employer contributions equal to 10.5% of earned compensation among various investment choices. Benefits are established under Sections 3307.80 to 3307.89 of the ORC. A member is eligible to receive a retirement benefit at age 50 and/or termination or employment. The member may elect to receive a lifetime monthly annuity or a lump sum withdrawal. Employer contributions into members' accounts are vested after the first anniversary of the first day of paid service. Members in DC Plan who become disabled are entitled only to their account balance. If a member dies before retirement benefits begin, the members' designated beneficiary is entitled to receive the members' account balance.

**Walton Institute for Scholarly Education
Cuyahoga County
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2013**

Combined Plan offers features of the DC and the DB Plan. Member contributions are allocated to investments selected by the member, and employer contributions are used to fund a defined benefit payment at a reduced level from the regular DB Plan. Plan members' defined benefit is determined by multiplying 1% of the members' final average salary by the members' years of service credit. The defined benefit portion of the Combined Plan is payable to members on or after age 60. The defined contribution portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50.

A retiree of STRS Ohio or another public retirement system is eligible for reemployment following the elapse of two months from the date of retirement. Contributions are made by the reemployed member and employer during reemployment. Upon termination of employment or age 65, whichever comes later, the retiree is eligible for an annuity benefit equivalent lump-sum payment in addition to the original retirement allowance. A reemployed retiree may alternatively receive a refund of only member contributions with interest before age 65, once employment is terminated.

Benefits are increased annually by 3% of the original base amount for DB Plan participants. The DB and Combined Plans offer access to health care coverage to eligible retirees who participated in the plans and their eligible dependents. Coverage under the current program includes hospitalizations, physicians' fees, prescription drugs and partial reimbursement of monthly Medicare Part B premiums. By Ohio law, health care benefits are not guaranteed.

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 members who die before retirement may qualify for survivor benefits. A death benefit of \$1,000 is payable to the beneficiary of each deceased retired member who participated in the DB Plan. Death benefit coverage up to \$2,000 can be purchased by participants in the DB, DC or Combined Plans. Various other benefits are available to members' beneficiaries.

For fiscal year 2013 members were required to contribute 10% of their annual covered salary and the School was required to contribute 14%. Member and employer contributions were established by the State Teachers Retirement Board, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers provided by Chapter 3307 of the ORC. Of the 14% contributed by the School, 13% was the portion used to fund pension obligations. The School's required contributions to STRS Ohio for fiscal year 2013 was \$8,915.

**Walton Institute for Scholarly Education
Cuyahoga County
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2013**

- **School Employees Retirement System**

The School contributes to the School Employees Retirement System of Ohio (SERS), a cost-multiple employer defined pension plan. SERS provides retirement disability, survivor benefits, annual cost-of-living adjustments, 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 (ORC). 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 East Board Street, Suite 100, Columbus, Ohio 43215-3746 or calling toll free 1-800-878-5853. It is also posted on SERS' website at www.ohsers.org under Employers/Audit Resources.

Plan members are required to contribute 10% of their annual covered salary and the School is required to contribute at an actuarially determined rate. The current rate is 14% of annual covered payroll. The Retirement Board acting with the advice of the actuary, allocates the employer contribution rate among four of the funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund) of the System. For fiscal year ending June 30, 2013, the allocation to pension and death benefits is 13.10%. The remaining 0.90% of the 14% employer contribution rate is allocated to the Health Care and Medicare B Funds. The School's required contributions to SERS for the year ended June 30, 2013 was \$525, of which \$0 was contributed.

Note 5 POSTEMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS

- **State Teachers Retirement System of Ohio**

Ohio law authorizes STRS to offer a cost-sharing, multiple employer health care plan to eligible retirees who participated in the defined benefit or combined plans. Coverage under the current plan includes hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare B premiums.

Pursuant to 3307 of the Ohio Revised Code, the Retirement Board has discretionary authority over how much, if any, of the associated health care cost will be absorbed by STRS. All benefit recipients for the year pay a portion of the health care cost in the form of a monthly premium.

Under Ohio law funding for post-employment health care may be deducted from employer contributions. Of the 14% employer contribution rate, 1% of covered payroll was allocated to post-employment healthcare. For fiscal year 2013 the School's required contribution to fund post-employment healthcare was \$686.

**Walton Institute for Scholarly Education
Cuyahoga County
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2013**

- **School Employees Retirement System of Ohio**

SERS administers two post-employment benefit plans, Medicare Part B and the Health care Plan as permitted by Ohio Revised Code Sections 3309.69 and 3309.375. The Medicare Part B reimburses for Medicare Part B premiums paid by eligible retirees. The Health Care Plan provides healthcare and prescription drug plans administered by two third-party administrators. The Retirement Board establishes rules for premiums paid by retirees for healthcare coverage and varies depending on the plan selected, qualified years of service, Medicare eligibility and retirement status. The Medicare Part B premium for calendar year 2013 was \$104.90 for most participants, but could be as high as \$335.70 depending on their income; SERS' reimbursement to 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 year 2013, the actuarial required allocation was 0.74%. The School's required contribution for the year ended June 30, 2013 was \$198, of which \$0 was contributed.

The Health Care Fund was established under, and is administered in accordance with, Internal Revenue Code 105(e). Each year after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer 14% contribution to the Health Care Fund. At June 30, 2013, the health care allocation was 0.16%. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. Statutes provide that no employer shall pay a health care surcharge greater than 2% of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5% of the total statewide SERS-covered payroll for the health care surcharge. For fiscal year 2013, the minimum compensation level was established at \$20,525. The surcharge, added to the unallocated portion of the 14% employer contribution rate is the total amount assigned to the Health Care Fund. The Academy's contributions assigned to health care for the years ended June 30, 2013 was \$5.

Note 6 OTHER EMPLOYEE BENEFITS

The School has contracted with a private carrier to provide employee dental, vision and the choice of two medical (high or low) plans of insurance to its employees. The School pays 65% of the monthly premium for the selected high plan and 70% of the monthly premium for the selected low plan.

Note 7 OPERATING LEASE

On September 27, 2012 the School entered into an operating lease for the fiscal year 2013, with Immaculate Conception Parish for the use of the church's facility. Payment to Immaculate Conception Parish totaled \$13,000.

**Walton Institute for Scholarly Education
Cuyahoga County
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2013**

Note 8 FISCAL AGENT

The sponsorship contract states that the School shall have a designated fiscal officer who shall meet all the requirements as set forth by law including:

- Maintain the financial records of the School in the same manner as are financial records of school districts, pursuant to rules of the Auditor of State
- Comply with policies and procedures regarding internal financial control records of the school
- Comply with the requirements and procedures for financial audits by the Auditor of State

The School's Treasurer was Sonya Williams who was also an employee of the School. The School also entered into a contract with All About Learning, Inc. to assist with fiscal services which included, but not limited to, general financial, payroll and asset management services.

Note 9 CONTINGENCIES

The distribution of funds from federal and state agencies generally require compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowance of claims resulting from such audits could become a liability of the general fund or other applicable funds. However, the School did not receive any grants for the fiscal year 2013.

Note 10 STATE FUNDING

The Ohio Department of Education conducts reviews of enrollment dates and FTE calculations made by schools. These reviews are conducted to ensure the schools are reporting accurate student enrollment data to the State, upon which state funding is calculated. The conclusion of this review is not expected to have a material effect on the financial statements.

Note 11 PURCHASED SERVICES

For fiscal year 2013, purchased service expenses where payments for services rendered by various vendors as follows:

• Professional Technical Services	\$45,268
• Property Services	\$37,704
• Miscellaneous	<u>\$19,048</u>
 Total Purchased Serviced	 <u>\$102,020</u>

**Walton Institute for Scholarly Education
Cuyahoga County
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2013**

Note 12 CLOSEOUT OF SCHOOL FUNDS

	Enterprise Fund
Cash Balance at July 1, 2013	\$772
Total Revenues	2,711
Total Expenses	2,223
Cash Balance at August 25, 2013	\$1,260

Note 13 LOAN PAYABLE

The School received loans for World Class Community Schools in the amount totaling \$21,000, there were no payments made against the loan.

Loan #1

Date of Loan: 11/13/2012
Amount Borrowed: \$4,500
Interest Rate: Zero
Maturity Date: 11/13/2014

Loan #2

Date of Loan: 11/29/2012
Amount Borrowed: \$7,000
Interest Rate: Zero
Maturity Date: 11/29/2014

Loan #3

Date of Loan: 12/13/2012
Amount Borrowed: \$5,000
Interest Rate: Zero
Maturity Date: 12/13/2014

Loan #4

Date of Loan: 12/28/2012
Amount Borrowed: \$5,000
Interest Rate: Zero
Maturity Date: 12/28/2014

The School agreed to pay the principal sum with zero interest (0%) rate until the maturity date, which is equal to twenty-four months after the date of the loan, at which time the interest rate would change to six percent (6%) and be payable monthly on the fifteenth day of each month.

**Walton Institute for Scholarly Education
Cuyahoga County
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2013**

Note 14 MANAGEMENT COMPANY

The School entered into an agreement with World Class Community Schools for a primary term of five (5) academic years commencing on June 1, 2012 and expiring on June 30, 2018 for the provision of management services. Those services included management, operation, administration and education. The amount to be paid was 12% of the monthly gross receipts received by the State Foundation.



Dave Yost • Auditor of State

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

Walton Institute of Scholarly Education
Cuyahoga County
291 East 222nd Street
Euclid, Ohio 44117

The Educational Resource Consultants of Ohio, Sponsor
Attn: J. Leonard Harding, Executive Director
Attn: James Wilson Jr., Southwest Regional & Finance Consultant
Spectrum Office Tower, 11260 Chester Road, Suite 230
Cincinnati, Ohio 45246

To the Walton Institute of Scholarly Education and the Sponsor:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the Walton Institute of Scholarly Education, Cuyahoga County, Ohio (the School) as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the School's basic financial statements and have issued our report thereon dated August 25, 2014, wherein, we noted a subsidiary ledger detailing the transactions in the purchased services, material and supplies and miscellaneous expense accounts were not retained. Also, the School ceased operations effective January 29, 2013.

Internal Control Over Financial Reporting

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

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or a combination of internal control deficiencies resulting in a reasonable possibility that internal control will not prevent or detect and timely correct a material misstatement of the School's financial statements. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider finding 2013-002 described in the accompanying schedule of findings to be a material weakness.

Compliance and Other Matters

As part of reasonably assuring whether the School's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, opining on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed instances of noncompliance or other matters we must report under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 2013-001 through 2013-004.

Purpose of this Report

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



Dave Yost
Auditor of State
Columbus, Ohio

August 25, 2014

**WALTON INSTITUTE OF SCHOLARLY EDUCATION
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS
JUNE 30, 2013**

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

FINDING NUMBER 2013-001

Annual Financial Reporting – Material Noncompliance

Ohio Admin. Code §117-2-03(B) requires community schools to report annually on a GAAP basis. Further, Ohio Rev. Code §117.38, GAAP-basis entities must file annual reports with the Auditor of State. To be complete, GAAP entities must submit the basic financial statements, including the government-wide financial statements, fund financial statements, notes to the basic financial statements, Management's Discussion & Analysis, and any other required supplementary information to be considered a complete filing.

The School prepared its fiscal year financial statements on the GAAP basis; however, the report was not filed with the Auditor of State. In addition, the School's prepared report did not include Management's Discussion & Analysis, as required by GAAP.

By not preparing and filing a complete annual report with the Auditor of State, the School risks penalties, as allowed by Ohio Rev. Code §117.38.

The School should have prepared and filed its report in accordance with Ohio Admin. Code and Ohio Rev. Code requirements.

Officials' Response:

The School did not respond to this finding.

FINDING NUMBER 2013-002

Condition of Accounting Records – Material Weakness and Material Noncompliance

Ohio Admin. Code § 117-2-02(A) states that all local public offices shall maintain an accounting system and accounting records sufficient to enable the public office to identify, assemble, analyze, classify, record and report its transactions, maintain accountability for the related assets (and liabilities, if generally accepted accounting principles apply), document compliance with finance related legal and contractual requirements and prepare financial statements required by rule 117-2-03 of the Administrative Code.

Ohio Admin. Code §117-2-02(D) also states that all local public offices may maintain accounting records in a manual or computerized format. The records used should be based on the nature of operations and services the public office provides, and should consider the degree of automation and other factors. Such records should include the following:

- (1) Cash journal, which typically contains the following information: The amount, date, receipt number, check number, account code, purchase order number, and any other information necessary to properly classify the transaction.
- (2) Receipts ledger, which typically assembles and classifies receipts into separate accounts for each type of receipt of each fund the public office uses. The amount, date, name of the payor, purpose, receipt number, and other information required for the transactions can be recorded on this ledger.

**WALTON INSTITUTE OF SCHOLARLY EDUCATION
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS
JUNE 30, 2013
(Continued)**

FINDING NUMBER 2013-002 (Continued)

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

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

- Detailed cash expense and revenue ledgers agreeing to the School's trial balance and financial statements were not available;
- Trial balance and financial statements only included transactions occurring through February 28, 2013, even though its year fiscal year ended June 30, 2013. This resulted in unrecorded receipts disbursements totaling \$4,028 and \$6,172 respectively;
- An intergovernmental receivable was not recorded for a STRS refund totaling \$2,711 received by the School on October 7, 2013 for activity that occurred during the audit period;
- Loan proceeds totaling \$21,500 were incorrectly recorded as miscellaneous revenue and as miscellaneous expenses on the *Statement of Revenues, Expenses and Changes in Net Position*. Accounts Payable was overstated and Loans Payable was understated by \$21,500.
- Loan proceeds totaling \$21,500 were not recorded as *Non-Capital Financing Activities* and were incorrectly recorded as a miscellaneous expense under *Cash Flows Used by Operating Activities*.
- The *Statement of Cash Flow* did not recalculate properly and omitted an existing cash balance totaling \$772. Further the *Reconciliation of Operating Loss to Net Cash Used in Operating Activities* of the *Statement of Cash Flows* overstated Increases in Accounts Payable by \$21,500.
- The School's bank reconciliation included uncleared transactions totaling \$232, for which no support was provided.

Except for the \$232 uncleared items, the School adjusted the financial statements for the abovementioned misstatements. Additionally, the School's notes to the financial statements required significant revision.

Failure to implement and maintain a system of controls over the School's financial records increases the likelihood that error or irregularities may occur and not be detected by management or Sponsor.

The School should have implemented and maintained adequate controls over its accounting records and financial statement preparation.

Officials' Response:

The School did not respond to this finding.

**WALTON INSTITUTE OF SCHOLARLY EDUCATION
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS
JUNE 30, 2013
(Continued)**

FINDING NUMBER 2013-003

Public Records Policy and Records Retention Schedule – Material Noncompliance

Ohio Rev. Code §149.43(A)(1) defines “public record” as any record that is kept by any public office, including, but not limited to, state, county, city, village, township, and school district units (including community schools). All public records shall be promptly prepared and made available to any member of the general public at all reasonable times during regular business hours for inspection. Upon request, a person responsible for public records shall *make copies available at cost, within a reasonable period of time. In order to facilitate broader access to public records, public offices shall maintain public records in such a manner that they can be made available for inspection.

Every public office must have a policy in place for compliance with Public Records Laws. There are three specific items that public offices cannot have in their public records policies. The policy cannot: (1) limit the number of public records it will make available to a single person; (2) limit the number of public records it will make available during a fixed period of time; or (3) establish a fixed period of time before it will respond to a request for inspection/copying of public records unless that period is less than eight hours.

Also, pursuant to Ohio Rev. Code 149.43(B)(2), the entity shall have available a copy of its current records retention schedule at a location readily available to the public.

The School did not adopt a public records policy or records retention schedule. By not having a public records policy or records retention schedule, there is a risk that the School could manage their public records contrary to the Ohio Rev. Code. There is also a risk that records could be disposed before a sufficient amount of time.

The School should have adopted a public records policy and records retention schedule in accordance with Ohio Rev. Code requirements.

Officials’ Response:

The School did not respond to this finding.

FINDING NUMBER 2013-004

Student Withdrawals – Material Noncompliance

Ohio Rev. Code §3314.08 requires the board of education of each school district to annually report the number of students entitled to attend school in the district that are actually enrolled in community schools. Based on these reported numbers, the state Department of Education shall calculate and subtract the appropriate amount of state aid from each school district to provide each community school.

It is the responsibility of the School's management to adequately track, record and maintain a record of the number of students enrolled. This includes procedures to remove students that have withdrawn from the School.

Two students withdrew prior to the School closing. However, withdrawal documentation was not maintained or retained by the School or Sponsor. Thus, there was no evidence these students were promptly removed from the School's official enrollment list.

**WALTON INSTITUTE OF SCHOLARLY EDUCATION
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS
JUNE 30, 2013
(Continued)**

FINDING NUMBER 2013-004 (Continued)

Student Withdrawals – Material Noncompliance (Continued)

Failure to adequately track student withdrawals could result in the School receiving funding based on students that were not actually enrolled in the School.

The School should have retained withdrawal documentation to support that students were removed from enrollment date report to the Ohio Department of Education in a timely and accurate manner.

Officials' Response:

The School did not respond to this finding.



Dave Yost • Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT ON APPLYING AGREED-UPON PROCEDURES

Walton Institute of Scholarly Education
Cuyahoga County
291 East 222nd Street
Euclid, Ohio 44117

The Educational Resource Consultants of Ohio, Sponsor
Attn: J. Leonard Harding, Executive Director
Attn: James Wilson Jr., Southwest Regional & Finance Consultant
Spectrum Office Tower, 11260 Chester Road, Suite 230
Cincinnati, Ohio 45246

To the Walton Institute of Scholarly Education and the Sponsor:

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 Walton Institute of Scholarly Education (the School) has adopted an anti-harassment policy in accordance with Ohio Rev. Code Section 3313.666. Management is responsible for complying with this requirement. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of the Board. Consequently; we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

1. We noted the Board adopted an anti-harassment policy on May 31, 2012. However, the policy lacks the following required by Ohio Rev. Code Section 3313.666.
 - (1) A statement prohibiting harassment, intimidation, or bullying of any student on school property, on a school bus, or at school-sponsored events and expressly providing for the possibility of suspension of a student found responsible for harassment, intimidation, or bullying by an electronic act;
 - (2) A requirement that parents or guardians of any student involved in a prohibited incident be notified and, to the extent permitted by section 3319.321 of the Revised Code and the "Family Educational Rights and Privacy Act of 1974," 88 Stat. 571, 20 U.S.C. 1232q, as amended, have access to any written reports pertaining to the prohibited incident;

- (3) A strategy for protecting a victim from additional harassment, intimidation, or bullying, and from retaliation following a report;
- (4) A requirement that the district administration semiannually provide the president of the district board a written summary of all reported incidents and post the summary on its web site, if the district has a web site, to the extent permitted by section 3319.321 of the Revised Code and the "Family Educational Rights and Privacy Act of 1974," 88 Stat. 571, 20 U.S.C. 1232q, as amended.

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 Governing Board and School's sponsor, and is not intended to be and should not be used by anyone other than these specified parties.



Dave Yost
Auditor of State
Columbus, Ohio

August 25, 2014



Dave Yost • Auditor of State

WALTON INSTITUTE OF SCHOLARLY EDUCATION

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
SEPTEMBER 4, 2014**