



Mary Taylor, CPA
Auditor of State

NOBLE ACADEMY CLEVELAND
CUYAHOGA COUNTY

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INDEPENDENT ACCOUNTANTS' REPORT

Noble Academy
Cuyahoga County
1200 East 200th Street
Euclid, Ohio 44117

To the Board of Directors:

We have audited the accompanying basic financial statements of Noble Academy, Cuyahoga County, Ohio, (the Academy), as of June 30, 2007 and for the initial period of operations November 1, 2006 through June 30, 2007, as listed in the table of contents. These financial statements are the responsibility of the Academy's management. Our responsibility is to express opinions 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 respective financial position of Noble Academy, Cuyahoga County, Ohio, as of June 30, 2007, and the respective changes in financial position and cash flows, for the initial period of operations then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 30, 2010, on our consideration of the Academy's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information accounting principles generally accepted in the United States of America requires. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measuring and presenting the required supplementary information. However, we did not audit the information and express no opinion on it.

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

Mary Taylor, CPA
Auditor of State

April 30, 2010

**Noble Academy Cleveland
Management's Discussion and Analysis**

For the Fiscal Period Ended 2007
(Unaudited)

The discussion and analysis of Noble Academy Cleveland's (the Academy) financial performance provides an overall review of the financial activities for the fiscal period November 1, 2006 through June 30, 2007. Readers should also review the financial statements and notes to enhance their understanding of the Academy's financial performance.

Financial Highlights

Key financial highlights for fiscal period 2007 are as follows:

- Total net assets at the end of the first period of operation were \$(100,980).
- The Academy had total operating revenues of \$563,117.
- The Academy also received a private grant for \$230,000.
- The Academy had total operating expenses of \$978,885.
- The current liabilities at the end of the first period of operation were \$185,776.

Using this Financial Report

This report consists of three parts: the MD&A, the basic financial statements, and notes to those statements. The basic financial statements include a statement of net assets, a statement of revenues, expenses and change in net assets, and a statement of cash flows.

Reporting the School as a Whole

One of the most important questions asked about the Academy is, "As a whole, what is the Academy's financial condition as a result of the period's activities?" The statement of net assets and the statement of revenues, expenses and change in net assets, which appear first in the Academy's financial statements, report information on the Academy as a whole and its activities in a way that helps you answer this question. We prepare these statements to include all assets and liabilities, using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current period's revenues and expenses are taken into account regardless of when the cash is received or paid.

These two statements report the Academy's net assets – the difference between assets and liabilities, as reported in the statement of net assets – as one way to measure the Academy's financial health or financial position. Over time, increases or decreases in the Academy's net assets – as reported in the statement of revenues, expenses and change in net assets – are indicators of whether its financial health is improving or deteriorating. The relationship between revenues and expenses is the Academy's operating results. However, the Academy's goal is to provide services to our students, not to generate profits as commercial entities do. One must consider many other non-financial factors, such as the quality of the education provided and the safety of the Academy, to assess the overall health of the Academy.

The statement of net assets and the statement of revenues, expenses and change in net assets report the activities of the Academy, which encompass all the Academy's services, including instruction, supporting services, community services, and food services. Unrestricted state aid and state and federal grants finance most of these activities.

**Noble Academy Cleveland
Management's Discussion and Analysis**

For the Fiscal Period Ended 2007
(Unaudited)

Table 1 provides a summary of the Academy's net assets as of June 30, 2007. Since this is the first period of operations for the Academy, comparison with the prior period is not available. A comparative analysis will be provided in future periods when prior information is available.

Table 1

Net Assets

	2007
<u>Assets</u>	
Current and Other Assets	\$39,667
Capital Assets, Net	45,129
Total Assets	<u>84,796</u>
<u>Liabilities</u>	
Current Liabilities	185,776
Non-Current Liabilities	0
Total Liabilities	<u>185,776</u>
<u>Net Assets</u>	
Invested in Capital Assets	45,129
Unrestricted	(146,109)
Total Net Assets	<u><u>\$(100,980)</u></u>

The unrestricted net assets represent the accumulated results of the School's operations to date. These assets can be used to finance day to day operations without constraints, such as legislative or legal requirements. The results of the current period operations for the School as a whole are reported in the Statement of Revenues, Expenses and Changes in Net Assets, which shows the change in net assets.

**Noble Academy Cleveland
Management's Discussion and Analysis**

For the Fiscal Period Ended 2007
(Unaudited)

Table 2 shows the changes in net assets for the fiscal period 2007. Since this is the first period of operations for the Academy, comparison with the prior period is not available. A comparative analysis will be provided in future periods when prior information is available.

Table 2
Revenues, Expenses and Change in Net Assets

	2007
<u>Operating Revenue/Expense</u>	
Revenue	
Foundation Payments	\$541,699
Food Services	2,099
Extracurricular Activities	1,527
Other Local Revenue	17,792
Total Operating Revenues	563,117
<u>Non-Operating Revenues</u>	
Restricted Grant-In-Aid- Federal	29,325
Restricted Grant In-Aid- State	53,000
Contributions and Donations	232,463
Total Non-Operating Revenues	314,788
Total Revenue	877,905
Expense	
Salaries	400,950
Fringe Benefits	68,356
Purchased Services	371,480
Materials and Supplies	114,072
Miscellaneous Expenses	18,632
Depreciation Expense	5,395
Total Operating Expenses	978,885
<u>Net Assets</u>	
Change in Net Assets	(100,980)
Net Assets at Beginning of Period	0
Net Assets at End of Period	\$(100,980)

Foundation support is the primary support of the School, comprising 96 percent of operating revenue and 62 percent of total revenues. The School also received significant contributions and donations, which represent 26 percent of total revenue.

Salaries and benefits comprise the largest portion of operating expenses, representing 48 percent of total operating expenses. Purchased services also represent a large portion of operating expenses, or 38 percent. Net assets decreased \$100,980 resulting from expenses in excess of revenues.

**Noble Academy Cleveland
Management's Discussion and Analysis**

For the Fiscal Period Ended 2007
(Unaudited)

Capital Assets

At the end of fiscal period 2007 the Academy had \$50,524, invested in instructional and office equipment, (net of \$5,395 in accumulated depreciation). Table 3 shows fiscal period 2007:

Table 3

Capital Assets (Net of Depreciation)	
	2009
Equipment – Instructional	\$47,454
Equipment - Office	3,070
Totals	\$50,524

For more information on capital assets see Note 4 to the basic financial statements.

Contacting the School's Financial Management

This financial report is designed to provide our citizens, taxpayers, and creditors with a general overview of the Academy's finances. Questions concerning any of the information in this report or requests for additional information should be directed to Aman Gurdov, Treasurer, Noble Academy Cleveland, 1200 E. 200th Street Euclid, Ohio 44117.

Noble Academy Cleveland
Statement of Net Assets
June 30,2007

ASSETS:

Current Assets:

Cash and cash equivalents	\$30,303
Intergovernmental receivable	<u>9,364</u>
Total current assets	<u>39,667</u>

Noncurrent Assets:

Depreciable capital assets (net of accumulated depreciation)	<u>45,129</u>
Total assets	<u>84,796</u>

LIABILITIES:

Current Liabilities:

Accounts payable	154,466
Accrued wages and benefits payable	34,702
Payroll liabilities	<u>(3,392)</u>
Total current liabilities	<u>185,776</u>

NET ASSETS:

Invested in capital assets	45,129
Unrestricted (deficit)	<u>(146,109)</u>
Total net assets	<u><u>\$(100,980)</u></u>

See accompanying notes to the basic financial statements.

Noble Academy Cleveland
Statement of Revenues, Expenses and Change in Net Assets
For the Fiscal Period November 1, 2006 through June 30, 2007

OPERATING REVENUES:	
Foundation payments	\$541,699
Food services	2,099
Extracurricular activities	1,527
Other revenue	<u>17,792</u>
Total operating revenues	<u>563,117</u>
 OPERATING EXPENSES:	
Salaries	400,950
Fringe benefits	68,356
Purchased services	371,480
Materials and supplies	114,072
Depreciation	5,395
Miscellaneous	<u>18,632</u>
Total operating expenses	<u>978,885</u>
Operating loss	<u>(415,768)</u>
 NON-OPERATING REVENUES:	
Restricted grants in aid - federal	29,325
Restricted grants in aid - state	53,000
Contributions and donations	<u>232,463</u>
Total non-operating revenues (expenses)	<u>314,788</u>
Change in net assets	(100,980)
Net assets, beginning of period	<u>0</u>
Net assets, end of period	<u><u>\$(100,980)</u></u>

See accompanying notes to the basic financial statements.

Noble Academy Cleveland
Statement of Cash Flows
For the Fiscal Period November 1, 2006 through June 30, 2007

DECREASE IN CASH AND CASH EQUIVALENTS

CASH FLOWS FROM OPERATING ACTIVITIES:

Cash received from State of Ohio	\$532,335
Cash received from other operating revenues	21,418
Cash payments to suppliers for goods and services	(331,086)
Cash payments to employees for services and benefits	(437,996)
Other cash payments	<u>(18,632)</u>
 Net cash used for operating activities	 <u>(233,961)</u>

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:

Federal grants received	29,325
State grants received	53,000
Contributions and donations	<u>232,463</u>
Net cash provided by noncapital financing activities	<u>314,788</u>

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:

Payment for capital acquisitions	<u>(50,524)</u>
 Net cash used for capital and related financing activities	 <u>(50,524)</u>
 Net decrease in cash and cash equivalents	 30,303
 Cash and cash equivalents at beginning of period	 <u>0</u>
 Cash and cash equivalents at end of period	 <u><u>\$30,303</u></u>

RECONCILIATION OF OPERATING LOSS TO NET CASH USED FOR OPERATING ACTIVITIES

Operating loss	(\$415,768)
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ADJUSTMENTS TO RECONCILE OPERATING LOSS TO NET CASH USED FOR OPERATING ACTIVITIES:

Depreciation	5,395
Changes in Assets and Liabilities:	
Increase in accounts payable	154,466
Increase in accrued wages and benefits payable	34,702
Increase in accounts receivable	(9,364)
Decrease in payroll liabilities	<u>(3,392)</u>
 Total adjustments	 <u>181,807</u>

Net cash used for operating activities	<u><u>(\$233,961)</u></u>
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See accompanying notes to the basic financial statements.

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Noble Academy Cleveland
Notes to the Basic Financial Statements
For the Fiscal Period November 1, 2006 through June 30, 2007

1. DESCRIPTION OF THE ACADEMY AND REPORTING ENTITY

Noble Academy Cleveland (the Academy), is a nonprofit corporation established pursuant to Ohio Revised Code Chapters 3314 and 1702 to address the needs of students in grades K through 12 in Euclid. The Academy, which is part of the State's education program, is independent of any Academy and is nonsectarian in its programs, admission policies, employment practices, and all other operations.

The Academy may sue and be sued, acquire facilities as needed, and contract for any services necessary for the operation of the Academy. The Academy qualifies as an 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 was approved for operation under contract with the Buckeye Hope Foundation (the Sponsor) for a period of five years commencing March 15, 2006.

The Academy operates under the direction of a self-appointed five-member Board of Trustees. The Board is responsible for carrying out the provisions of the contract, which include, but are not limited to, state mandated provisions regarding student population, curriculum, academic goals, performance standards, admission standards, and qualifications of teachers. The Board of Trustees controls the Academy's facility, which is currently staffed by 19 full and part time personnel who provide services to up to 90 students during the year.

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.

B. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment is determined by its measurement focus. Enterprise accounting uses a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of the Academy are included on the Statement of Net Assets. The Statement of Revenues, Expenses, and Change in Net Assets present increases (e.g., revenues) and decreases (e.g., expenses) in total net assets. The Statement of Cash Flows provides information about how the Academy finances and meets the cash flow needs of its enterprise activities.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Measurement Focus and Basis of Accounting (Continued)

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. The full accrual basis of accounting is used for reporting purposes. 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. Revenues resulting from non-exchange transactions, in which the Academy receives value without directly giving equal value in return, such as grants, entitlements and donations are recognized in the period in which all eligibility requirements have been satisfied. Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Grants and entitlements received before eligibility requirements are met are recorded as deferred revenue. Expenses are recognized at the time they are incurred.

C. Budgetary Process

The contract between the Academy and its Sponsor prescribes an annual budget requirement in addition to preparing a five-year forecast, which is to be updated on an annual basis. Chapter 5705.391(A) of the Ohio Revised Code also requires the School to prepare a five-year forecast, update it annually, and submit it to the Superintendent of Public Instruction at the Ohio Department of Education.

D. Cash

To improve cash management, all cash received by the Academy is pooled in a central bank account. The Academy did not have any investments during the fiscal period ended June 30, 2007.

E. Capital Assets and Depreciation

Capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the period. Donated capital assets are recorded at their fair market values as of the date received. The Academy maintains a capitalization threshold of one thousand dollars. The costs 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. Improvements are capitalized. The Academy does not capitalize interest.

Furniture and equipment are depreciated using the straight-line method over the following estimated useful lives. Improvements to capital assets are depreciated over the remaining useful lives of the related capital assets. Leasehold improvements are depreciated using the straight-line method over the life of the lease.

	<u>Useful Life</u>
Leasehold Improvements	3 to 10 years
Heavy Duty Office or Classroom Furniture	5 to 10 years
Computers and Other Electronic Equipment	3 to 5 years

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. Intergovernmental Revenues

The Academy currently participates in the State Foundation Program, Special Education Program, and Federal CCIP Program. Revenues received from the State Foundation Program, Special Education Program and other State programs are recognized as operating revenues whereas revenues from the Federal CCIP Program and other State Grants are recognized as non-operating revenues in the accounting period in which all eligibility requirements have been met.

Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the Academy must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the Academy on a reimbursement basis.

G. Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the Academy. Operating expenses are necessary costs incurred to provide the service that is the primary activity of the Academy. All revenues and expenses not meeting these definitions are reported as non-operating.

H. Compensated Absences

Academy policy indicates that all full-time employees are entitled up to eight days of sick or personal leave per year. Full-time employees who do not use all of their sick or personal days within the year will receive \$100 for each unused day. All leave earned by employees must be used in the current period and balances are not carried forward, and therefore, are not recorded as a liability.

I. 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. Net assets are reported as restricted when there are limitations imposed on their use, either through enabling legislation adopted by the Academy or through external restrictions imposed by creditors, grantors, or contracts. The Academy applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net assets are available. At fiscal period end June 30, 2007, the Academy had no restricted net assets.

J. 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 those estimates.

3. DEPOSITS

As of June 30, 2007, the Academy's bank balance of \$40,650 was covered by FDIC.

Noble Academy Cleveland
Notes to the Basic Financial Statements
For the Fiscal Period November 1, 2006 through June 30, 2007

3. DEPOSITS (Continued)

Custodial credit risk is the risk that in the event of a bank failure, the Academy's deposits may not be returned to it. According to state law, public depositories must give security for all public funds on deposit in excess of those funds that are insured by the Federal Deposit Insurance Corporation (FDIC) or by any other agency or instrumentality of the federal government. These institutions may either specifically collateralize individual accounts in lieu of amounts insured by the FDIC, or may pledge a pool of government securities valued at least 105% of the total value of public monies on deposit at the institution. The School has no policy regarding custodial credit risk.

4. CAPITAL ASSETS

Capital asset activity for the fiscal period ended June 30, 2007 was as follows:

Capital Assets				
	Balance November 1, 2006	Additions	Deletions	Ending June 30, 2007
Equipment - Instructional	\$0	\$47,454	\$0	\$47,454
Equipment – Office	0	3,070	0	3,070
Total Fixed Assets	0	50,524	0	50,524
Less: Accumulated Depreciation	0	(5,395)	0	(5,395)
Net Fixed Assets	\$0	\$45,129	\$0	\$45,129

5. DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

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

Plan members are required to contribute 10 percent of their annual covered salary and the Academy is required to contribute at an actuarially determined rate. The current Academy rate is 14 percent of annual covered payroll. A portion of the Academy's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2007, 10.68 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The Academy's required contributions for pension obligations to SERS for the fiscal period ended June 30, 2007 was \$3,338; 100 percent has been contributed for fiscal period 2007.

5. DEFINED BENEFIT PENSION PLANS (Continued)

Plan members are required to contribute 10 percent of their annual covered salary and the Academy is required to contribute at an actuarially determined rate. The current Academy rate is 14 percent of annual covered payroll. A portion of the Academy's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2007, 10.68 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The Academy's required contributions for pension obligations to SERS for the fiscal period ended June 30, 2007 was \$3,338; 100 percent has been contributed for fiscal year 2007.

B. State Teachers Retirement System

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

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

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

For the fiscal year ended June 30, 2007, plan members were required to contribute 10 percent of their annual covered salaries. The Academy was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal year 2006, the portion used to fund pension obligations was also 13 percent. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The Academy's required contributions for pension obligations to STRS Ohio for the fiscal period ended June 30, 2007, was \$45,314; 100 percent has been contributed for fiscal period 2007.

5. DEFINED BENEFIT PENSION PLANS (Continued)

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 of Ohio have an option to choose Social Security or the School Employees Retirement System/State Teachers Retirement System. As of June 30, 2009, three members of the Board of Education have elected Social Security. The Board's liability is 6.2 percent of wages.

6. POSTEMPLOYMENT BENEFITS

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

All STRS Ohio retirees who participated in the DB or Combined Plans and their dependents are eligible for health care coverage. The STRS Ohio Board has statutory authority over how much, if any, of the health care cost will be absorbed by STRS Ohio. All benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS Ohio funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2007, the STRS Board allocated employer contributions equal to one percent of covered payroll to the Health Care Stabilization Fund. For the Academy, this amount equaled \$3,486 for fiscal period 2007.

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

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

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2007, employer contributions to fund health care benefits were 3.32 percent of covered payroll, compared to 3.42 percent of covered payroll for fiscal year 2006. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2007, the minimum pay was established at \$35,800. However, the surcharge is capped at two percent of each employer's SERS salaries. For the Academy, the amount contributed to fund health care benefits, including the surcharge, during the 2007 fiscal period equaled \$1,037.

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

7. 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. During fiscal period 2007, the Academy contracted with Great American Insurance Company for property and general liability insurance with a \$1,000,000 single occurrence limit and \$2,000,000 annual aggregate and no deductible.

B. Workers Compensation

The Academy pays the State Workers 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.

8. EMPLOYEE MEDICAL AND DENTAL BENEFITS

The Academy has contracted with a private carrier to provide employee medical/surgical benefits. The Academy pays 50% of the monthly premium and the employee is responsible for the remaining 50%. The Academy has also contracted with private carriers to provide dental coverage. The School pays 50% of the monthly premium and the employee is responsible for the remaining 50%.

9. PURCHASED SERVICES

Purchased service expenses during fiscal period 2007 were as follows:

Type	Amount
Professional Services	\$33,693
Rent and Property Services	201,566
Staff and Administrative Travel	1,393
Advertising and Communications	59,327
Food Services	18,039
Management Fees	53,234
Pupil Transportation	4,228
Total	\$371,480

10. OPERATING LEASES

The school entered into a sublease agreement with Breeze Inc. on August 15, 2006 for the facilities located at 1200 200th St. Cleveland, OH 44117. The monthly lease was \$12,500. Later on August 15, 2007 the Breeze Inc. opted out from the lease and the School signed a lease directly with the landlord of the premises, St. Paul Church. According to the new lease agreement which is renewable in one year terms, the monthly rent was \$11,826 for fiscal year 2007.

11. CONTINGENCIES

A. Grants

The Academy received a private grant from the Walton Family Foundation in the amount of \$232,000 to be used for start-up expenses and direct costs towards student' academic developments. The Academy also received financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the Academy. However, in the opinion of management, any such disallowed claims will not have a material effect on the financial position of the School. In fiscal period 2007, the Academy received grants from State and Federal agencies total of \$82,325.

B. Ohio Department of Education Enrollment Review

The Ohio Department of Education (ODE) conducts reviews of enrollment data and full time equivalency (FTE) calculations made by the Academy. These reviews are conducted to ensure the Community School is reporting accurate student enrollment data to the State, upon which state foundation funding is calculated.

12. SPONSORSHIP AGREEMENT

On March 15, 2006, the School signed a sponsorship agreement with Buckeye Hope Foundation. 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. According to the contract agreed by both parties, the School pays 2% of its foundation revenues to the Sponsor. In fiscal period 2007, the schools compensation to the Sponsor occurred as \$10,647.

13. MANAGEMENT COMPANY AGREEMENT

School contracted with Concepts Schools, Inc. on March 15, 2006 to serve as the School's Management Company. The contract is renewed automatically every year in one year terms unless the school or the management company decides otherwise. According to the contract the school transfers 10% of the funds received from State. In fiscal period 2007, accrued fees of \$53,234 were recorded under accounts payable.

14. RELATED PARTIES

The Board members for the Academy are also Board members for other Horizon Science Academy Schools that are managed by the same management company, Concept Schools.



Mary Taylor, CPA

Auditor of State

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

Noble Academy
Cuyahoga County
1200 East 200th Street
Euclid, Ohio 44117

To the Board of Trustees:

We have audited the financial statements of Noble Academy, Cuyahoga County, Ohio, (the Academy) as of and for the initial year of operations ended June 30, 2007, and have issued our report thereon dated April 30, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

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

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

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all internal control deficiencies that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider material weaknesses, as defined above.

We noted certain matters that we reported to the Academy's management in a separate letter dated April 30, 2010.

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 no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

We did note certain noncompliance or other matters that we reported to the Academy's management in a separate letter dated April 30, 2010.

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

A handwritten signature in cursive script that reads "Mary Taylor".

Mary Taylor, CPA
Auditor of State

April 30, 2010



Mary Taylor, CPA
Auditor of State

NOBLE ACADEMY

CUYAHOGA COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
JUNE 22, 2010**