



Dave Yost • Auditor of State

**THURGOOD MARSHALL HIGH SCHOOL
CUYAHOGA COUNTY**

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Dave Yost • Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

Thurgood Marshall High School
(DBA Central Cleveland Drop Back In)
Cuyahoga County
13540 Lorain Avenue
Cleveland, Ohio 44111

To the Board of Directors:

We have audited the accompanying financial statements of the Thurgood Marshall High School, Cuyahoga County, Ohio, (the School), as of and for the year ended June 30, 2012, as listed in the table of contents. These financial statements are the responsibility of the School'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 Thurgood Marshall High School, Cuyahoga County, Ohio, as of June 30, 2012, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 13 to the financial statements, the School has incurred a net deficit of \$942,559, as of and for the year ended June 30, 2012. Management's strategy in regard to these matters is described in Note 14 to the financial statements.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 22, 2013, 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. 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.

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

June 22, 2013

**THURGOOD MARSHALL HIGH SCHOOL
CUYAHOGA COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2012
(UNAUDITED)**

The discussion and analysis of Thurgood Marshall High School, DBA, Central Cleveland Drop Back In (the School), financial performance provides an overall review of the School's financial activities for the fiscal year ended June 30, 2012. The intent of this discussion and analysis is to look at the School'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 School's financial performance.

The Management's Discussion and Analysis (the 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 Governments. Certain comparative information between the current fiscal year and the prior fiscal year is required to be presented in the MD&A. However, because this is the first fiscal year of financial reporting for the School comparative prior fiscal year information does not exist. Subsequent reports will include the comparative information.

FINANCIAL HIGHLIGHTS

Key Financial Highlights for the School for the 2011-12 school year are as follows:

- Total assets were \$62,827
- Total liabilities were \$1,005,386
- Total net assets were \$(942,559).
- Total operating and non-operating revenues were \$419,395. Total operating expenses were \$959,638.

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 Fund 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 School did financially during fiscal year 2012. 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 School'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 School 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 School's student enrollment, per-pupil funding as determined by the State of Ohio, change in technology, required educational programs and other factors.

The School uses enterprise presentation for all of its activities.

**THURGOOD MARSHALL HIGH SCHOOL
CUYAHOGA COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2012
(UNAUDITED)**

Statement of Net Assets

The Statement of Net Assets answers the question of how the School did financially during 2012. This statement includes all assets and liabilities, both financial and capital, and short-term and long-term using the accrual basis of accounting and economic resource focus, which is similar to the accounting used by most private-sector companies. This basis of accounting takes into account all revenues and expenses during the year, regardless of when the cash is received or paid.

Table 1 provides a summary of the School's net assets for fiscal years 2012 and 2011.

**Table 1
Statement of Net Assets**

	2012	2011
Assets		
Current Assets	\$ 20,053	\$ 39,792
Noncurrent Assets	42,774	0
Total Assets	62,827	39,792
 Liabilities		
Current Liabilities	1,005,386	442,108
Total Liabilities	1,005,386	442,108
 Net Assets		
Invested in Capital Assets	42,774	0
Unrestricted	(985,333)	(402,316)
Total Net Assets	\$ (942,559)	\$ 402,316)

Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2012, the School's net assets totaled \$(942,599).

Current assets represent cash and cash equivalents and intergovernmental receivable. Noncurrent assets represent capital assets. Noncurrent assets increased as a result of capital asset additions in the current year. Current liabilities represent accounts payable, intergovernmental payable and amounts owed to the management company and notes payable at fiscal year-end. Current liabilities increased by \$563,278 as the amounts owed to the management company increased as a result of continued operating losses.

**THURGOOD MARSHALL HIGH SCHOOL
CUYAHOGA COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2012
(UNAUDITED)**

Statement of Revenues, Expenses and Changes in Net Assets

Table 2 shows the changes in net assets for fiscal year 2012 and 2011, as well as a listing of revenues and expenses. This change in net assets is important because it tells the reader that, for the School as a whole, the financial position of the School 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 – Changes in Net Assets

	<u>2012</u>	<u>2011</u>
Operating Revenue		
State Aid	\$ 394,612	\$ 341,616
Other Revenue	15,366	0
Total Operating Revenues	<u>409,978</u>	<u>341,616</u>
 Operating Expenses		
Purchased Services: Edison Learning	887,124	716,781
State Retirement	46,909	53,546
Sponsor Fees	7,837	11,941
Accounting Fees	4,000	0
Legal Fees	3,328	0
Directors Fees	3,375	0
Depreciation	5,184	0
Other	1,881	267
Total Operating Expenses	<u>959,638</u>	<u>782,535</u>
Operating (Loss)	(549,660)	(440,919)
 Non-Operating Revenues		
Federal Grants	9,417	38,603
Total Non-Operating Revenues	<u>9,417</u>	<u>38,603</u>
 Increase (Decrease) in Net Assets	 <u>\$ (540,243)</u>	 <u>\$ (402,316)</u>

State aid increased due to the increase in student full-time equivalents (FTEs) from 52 in 2011 to 59 FTEs in 2012. Operating expenses also increased proportionately with the increase in FTEs.

**THURGOOD MARSHALL HIGH SCHOOL
CUYAHOGA COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2012
(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 Chapter 5705 (with the exception section 5705.391 – Five Year Forecasts), unless specifically provided in the community school's contract with its Sponsor.

The contract between the School and its Sponsor does prescribe a budgetary process. The School must prepare and submit a detail budget for every fiscal year to the Board of Directors and its Sponsor. The five-year forecast is also submitted to the Ohio Department of Education, annually.

CAPITAL ASSETS

At fiscal year end, the School's net capital asset balance was \$42,774. This balance represents current year additions of \$47,958 offset by current year depreciation of \$5,184. For more information on capital assets, see Note 5 of the Basic Financial statements.

DEBT

During the fiscal year, the School received additional monies from a note from Edison Learning, Inc. in the amount of \$200,000. At fiscal year end, principal balance due to Edison Learning, Inc. was \$313,663. For more information over the School's debt, see Note 7 of the Basic Financial Statements.

CURRENT FINANCIAL ISSUES

The School is a community school and is funded through the State of Ohio Foundation Program. The School relies on this, as well as, State and Federal funds as its primary source of revenue.

Additionally, all community schools in the State have experienced a slight reduction in the amount of per pupil revenue (State Aid) for fiscal year 2012. The School will need to evaluate the extent of the impact this will have on current year operations.

Overall, the School will continue to provide learning opportunities and apply resources to best meet the needs of students.

CONTACTING THE SCHOOL'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizen's, taxpayers, investors and creditors with a general overview of the School's finances and to demonstrate accountability for the money it receives. If you have questions about this report or need additional information contact C. David Massa, CPA, of Massa Financial Solutions, LLC, 13540 Lorain Rd. Cleveland, Ohio 44111 or e-mail at dave@massasolutionsllc.com.

**THURGOOD MARSHALL HIGH SCHOOL
CUYAHOGA COUNTY**

**Statement of Net Assets
At June 30, 2012**

Assets

Current Assets:

Cash and Cash Equivalents	\$ 3,869
Intergovernmental Receivable	<u>16,184</u>

Total Current Assets 20,053

Noncurrent Assets:

Capital Assets, net	<u>42,774</u>
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Total Noncurrent Assets 42,774

Total Assets \$ 62,827

Liabilities

Current Liabilities:

Accounts Payable	\$ 4,000
Intergovernmental Payable	2,543
Notes Payable	313,663
Edison Payable	<u>685,180</u>

Total Liabilities \$ 1,005,386

Net Assets

Invested in Capital Assets	42,774
Unrestricted	<u>(985,333)</u>

Total Net Assets \$ (942,559)

See accompanying notes to the basic financial statements

**THURGOOD MARSHALL HIGH SCHOOL
CUYAHOGA COUNTY**

**Statement of Revenues,
Expenses and Changes in Net Assets
For the Year Ending June 30, 2012**

Operating Revenues

State Aid	\$ 394,612
Other Revenue	15,366
Total Operating Revenues	<u>409,978</u>

Operating Expenses

Purchased Services: Edison Learning	887,124
State Retirement	46,909
Sponsor Fees	7,837
Accounting Fees	4,000
Legal Fees	3,328
Directors Fees	3,375
Depreciation	5,184
Other	1,881
Total Operating Expenses	<u>959,638</u>

Operating (Loss) (549,660)

Non-Operating Revenues

Federal Grants	9,417
Total Non-Operating Revenues	<u>9,417</u>

Change in Net Assets (540,243)

Net Assets, Beginning of Year (402,316)

Net Assets, End of Year \$ (942,559)

See accompanying notes to the basic financial statements

**THURGOOD MARSHALL HIGH SCHOOL
CUYAHOGA COUNTY**

**Statement of Cash Flows
For the Fiscal Year Ended June 30, 2012**

<u>Cash Flows from Operating Activities</u>	
Cash Received from State of Ohio	\$ 408,080
Cash Received from Other Sources	15,366
Cash Payments to State Retirement Systems	(48,624)
Cash Payments to Suppliers for Goods and Services	<u>(888,578)</u>
Net Cash (Used for) Operating Activities	(513,756)
<u>Cash Flows from Non-capital Financing Activities</u>	
Cash Received from Federal Grants	<u>5,873</u>
Net Cash Provided by Non-capital Financing Activities	5,873
<u>Cash Flows from Capital and Related Financing Activities</u>	
Cash Payments for Capital Acquisitions	(47,958)
Cash Advances from Edison Learning	723,985
Cash Repayments of Edison Learning Advances	(367,250)
Cash Proceeds from Edison Learning Note	<u>200,000</u>
Net Cash Provided by Capital Financing Activities	508,777
Net Increase in Cash and Cash Equivalents	894
Cash and Cash Equivalents, Beginning of Year	<u>2,975</u>
Cash and Cash Equivalents, End of Year	<u>\$ 3,869</u>

(Continued)

**THURGOOD MARSHALL HIGH SCHOOL
CUYAHOGA COUNTY**

**Statement of Cash Flows
For the Fiscal Year Ended June 30, 2012
(Continued)**

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

Operating Loss	\$ (549,660)
Depreciation	5,184
Changes in Assets and Liabilities:	
(Increase)/ Decrease Intergovernmental Receivable	24,177
Increase/ (Decrease) Accounts Payable	4,000
Increase/ (Decrease) Intergovernmental Payable	<u>2,543</u>
Net Cash (Used for) Operating Activities	<u>(513,756)</u>

See accompanying notes to the basic financial statements

**THURGOOD MARSHALL HIGH SCHOOL
CUYAHOGA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012**

1. DESCRIPTION OF THE ENTITY

Thurgood Marshall High School, DBA, Central Cleveland Drop Back In (the School), is a nonprofit corporation established pursuant to Ohio Revised Code Chapters 3314 and 1702. The School's mission is to provide an orderly and supportive environment whereby students experience preparations for college, career and life. The School operates on a foundation, which fosters character building for all students, parents and staff members. The School, which is part of the State's education program, is independent of any school district and is nonsectarian in its programs, admission policies, employment practices, and all other operations. The School may acquire facilities as needed and contract for any services necessary for the operation of the School.

The School was approved for operation under a contract with Educational Resource Consultants of Ohio, Inc. ("ERCO") (the Sponsor) for a one year period commencing on July 1, 2011, with automatic renewal unless written. The Sponsor is responsible for evaluating the performance of the School and has the authority to deny renewal of the contract at its expiration or terminate the contract prior to its expiration.

The School operates under the direction of a Board of Directors (the Board). The Board is responsible for carrying out the provisions of the contract which include, but are not limited to, state mandated provisions regarding student populations, curriculum, academic goals, performance standards, admissions standards, and qualifications of teachers. The Board controls the School's instructional and administrative staff.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the School have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental nonprofit organizations. The School 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 more significant of the School's accounting policies are described below.

A. Basis of Presentation

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

Auditor of State of Ohio Bulletin No. 2000-005 identifies the presentation of all financial activity to be reported within one enterprise fund for year-ending reporting purposes. Enterprise accounting is used to account for operations that are financed and operated in a manner similar to private business enterprise where the intent is that the cost (expense) of providing goods and services to the general public on a continuing basis be financed or recovered primarily through user charges.

**THURGOOD MARSHALL HIGH SCHOOL
CUYAHOGA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012**

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 (with the exception section 5705.391 – Five Year Forecasts), unless specifically provided for in the School's sponsorship agreement. The contract between the School and its Sponsor requires a detailed budget for each year of the contract.

D. Cash and Cash Equivalents

Cash received by the School is reflected as "Cash and Cash Equivalents" on the Statement of Net Assets. The School did not have any investments during the period ended June 30, 2012.

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 and Depreciation

Capital assets are capitalized at cost. The costs of additions are capitalized and expenditures for repairs and maintenance are expensed when incurred. When property is sold or retired, the related costs and accumulated depreciation are removed from the financial records and any gain or loss is included in additions to or deductions from net assets. Capital assets were \$42,774, as of June 30, 2012, net of accumulated depreciation. Depreciation of capital assets is calculated utilizing the straight-line method over the estimated useful lives of the asset which are as follows:

<u>Asset Class</u>	<u>Useful Life</u>
Leasehold Improvements	3 years
Computers and Software	3 years
Furniture, Fixtures, & Equipment	5 years

The School's policy for asset capitalization threshold is \$5,000. Assets or certain asset groups not meeting the capitalization threshold are not capitalized and are not included in the assets represented in the accompany statement of net assets. Donated capital assets are recorded at the fair market values as of the date received.

**THURGOOD MARSHALL HIGH SCHOOL
CUYAHOGA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

G. Intergovernmental Revenues

The School 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 School must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the School on a reimbursement basis.

The School also participates in various federal programs passed through the Ohio Department of Education.

Under the above programs the School recorded \$394,612 this fiscal year from the Foundation Program and \$9,417 from Federal grants.

H. Compensated Absences

Vacation is taken in a manner which corresponds with the school calendar; therefore the School 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, intergovernmental payable, notes payable and Edison payable totaling \$1,005,386 at June 30, 2012.

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

**THURGOOD MARSHALL HIGH SCHOOL
CUYAHOGA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

K. Net Assets

Net assets represent the difference between assets and liabilities. Net assets are reported as restricted when there are limitations imposed on their use through external restriction 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 assets are available. 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.

L. 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 costs incurred to provide the good or service that is the primary activity of the School. All revenues and expenses not meeting this definition are reported as non-operating. There were no non-operating expenses reported at June 30, 2012.

3. CASH AND CASH EQUIVALENTS

The following information classifies deposits by category of risk as defined in GASB Statement No.3 "Deposits with Financial Institutions, Investments (including Repurchase Agreements) and Reverse Repurchase Agreements," as amended by GASB Statement No.40, "Deposit, and Investment Risk Disclosures".

The School maintains its cash balances at one financial institution, Chase Bank, located in Ohio. The balances are insured by the Federal Deposit Insurance Corporation (FDIC) in an unlimited amount, since the School only has non-interest bearing accounts. At June 30, 2012, the book amount of the School's deposits was \$3,869 and the bank balance was \$3,869.

The School 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 School 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, 2012, none of the bank balance was exposed to custodial credit risk.

4. RECEIVABLES

The School has intergovernmental receivables totaling \$16,184 at June 30, 2012. These receivables represented cash revenue earned, but not received as of June 30, 2012.

**THURGOOD MARSHALL HIGH SCHOOL
CUYAHOGA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012**

5. CAPITAL ASSETS

For the period ending June 30, 2012, the School's capital assets consisted of the following:

	<u>Balance 06/30/11</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 06/30/12</u>
Capital Assets:				
Computers and Software	\$ -	\$ 5,833	\$ -	\$ 5,833
Furniture, Fixtures, & Equipment	-	42,125	-	42,125
Total Capital Assets	-	47,958	-	47,958
Less Accumulated Depreciation:				
Computers and Software	-	(972)	-	(972)
Furniture, Fixtures, & Equipment	-	(4,212)	-	(4,212)
Total Accumulated Depreciation	-	(5,184)	-	(5,184)
Capital Assets, Net	<u>\$ -</u>	<u>\$ 42,774</u>	<u>\$ -</u>	<u>\$ 42,774</u>

6. RISK MANAGEMENT

Property & Liability

The School 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 the fiscal year ending June 30, 2012, the School contracted with Willis of New York, Inc. for nonprofits and maintained general liability insurance with a \$1,250,000 single occurrence limit and \$20,000,000 annual aggregate and a combined policy aggregate coverage for various liability coverage in the amount of \$25,000,000.

7. NOTES PAYABLE

During the fiscal year ending 2012 and 2011, the School entered into note agreements with Edison Learning totaling \$316,665. The note activity during the year is reflected as follows:

Promissory Notes	Balance			Balance
<u>Amount</u>	<u>July 1, 2011</u>	<u>Increase</u>	<u>Decrease</u>	<u>June 30, 2012</u>
\$316,665	<u>\$ 113,663</u>	<u>\$200,000</u>	<u>\$ 0</u>	<u>\$ 313,663</u>

**THURGOOD MARSHALL HIGH SCHOOL
CUYAHOGA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012**

8. DEFINED BENEFIT PENSIONS PLANS

A. School Employees Retirement System (SERS Ohio)

Plan Description – Edison Learning on behalf of the School contributes to the School Employees Retirement System (SERS), a cost-sharing multiple employer 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 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 contacting School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746, or by calling toll free 1-800-878-5853. It is also posted at the SERS' website at www.ohsers.org under Employer/ 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 2012, 12.65 percent and 0.05 percent of annual covered salary was the portion used to fund pension obligations and death benefits, respectively. 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 and death benefits to SERS for the fiscal years ended June 30, 2012 and 2011 were \$7,447 and \$25,160, respectively, which equaled the required contribution of the year or 100%.

B. State Teachers Retirement System (STRS Ohio)

Plan Description - The School participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement plan. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3771, by calling (888) 227-7877, or by visiting the STRS Ohio Web site at www.strsoh.org.

Plan Options - New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on a member's lifetime contributions and earned interest matched by STRS Ohio funds divided by an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5 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 DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. 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.

**THURGOOD MARSHALL HIGH SCHOOL
CUYAHOGA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012**

8. DEFINED BENEFIT PENSIONS PLANS (Continued)

B. State Teachers Retirement System (STRS Ohio) (Continued)

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 of the DC Plan dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

Funding Policy - For fiscal year 2012, plan members were required to contribute 10 percent of their annual covered salaries. The Schools was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The School's required contributions for pension obligations to STRS Ohio for the fiscal year ended June 30, 2012 and 2011 were \$34,329 and \$25,035, respectively, which is equal to 100 percent that has been contributed for fiscal year 2012. There were no contributions to the DC and Combined Plans for fiscal year 2012.

9. POST EMPLOYMENT BENEFITS

A. School Employee Retirement System (SERS Ohio)

Plan Description - The School participates in two cost-sharing, multiple employer postemployment benefit plans administered by the School Employees Retirement System (SERS) for non-certificated retirees and their beneficiaries, a Health Care Plan and a Medicare Part B Plan. The Health Care Plan includes hospitalization and physicians' fees through several types of plans 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 Medicare Part B Plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries as set forth in Chapter 3309.69 of the Ohio Revised Code. Qualified benefit 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 B premium or the current premium. The Medicare Part B premium for calendar year 2012 was \$99.90 and SERS' reimbursement to retirees was \$45.50. Benefit provisions and the obligations to contribute are established by the System based on authority granted by State statute. The financial reports of both Plans are included in the SERS Comprehensive Annual Financial Report which is available by contacting SERS at 300 East Broad St., Suite 100, Columbus, Ohio 43215-3746. It is also posted on the SERS' Ohio website, www.ohsers.org, under Employers/Audit Resources.

**THURGOOD MARSHALL HIGH SCHOOL
CUYAHOGA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012**

9. POST EMPLOYMENT BENEFITS (Continued)

A. School Employee Retirement System (SERS Ohio) (Continued)

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 105(e). For 2012, 0.55 percent of covered payroll was allocated to health care. 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. Statute provides that no employer shall pay a health care surcharge greater than 2.0 percent of the employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the statewide SERS-covered payroll for the health care surcharge. For fiscal year 2012, the actuarially determined amount was \$35,800.

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

The School's contribution for health care (including surcharge) for the fiscal year ended June 30, 2012 and 2011 were \$1,210 and \$4,692, respectively; 100 percent has been contributed for fiscal year 2012 and 2011.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For fiscal year 2012, this actuarially required allocation was 0.75 percent of covered payroll. The School's contribution for Medicare Part B for the fiscal year ended June 30, 2012 and 2011 were \$440 and \$1,213, respectively; 100 percent has been contributed for fiscal year 2012 and 2011.

B. State Teachers Retirement System (STRS Ohio)

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

Funding Policy -Ohio law authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For 2012, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. The School's contribution for health care for the fiscal year ended June 30, 2012 and 2011 were \$2,641 and \$1,926, respectively; 100 percent has been contributed for fiscal year 2012 and 2011.

**THURGOOD MARSHALL HIGH SCHOOL
CUYAHOGA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012**

10. CONTINGENCIES

A. Grants

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

B. Litigation

There are currently no matters in litigation with the School as defendant.

C. Full-Time Equivalency

The Ohio Department of Education (ODE) conducts reviews of enrollment data and full-time equivalency (FTE) calculations made by the School. These reviews are conducted to ensure the School is reporting accurate student enrollment data to the State, upon which state foundation funding is calculated. This review resulted in an adjustment of \$2,543 that the School was overpaid during fiscal year 2012.

11. SPONSOR CONTRACT

The School contracted with Educational Resource Consultants of Ohio, Inc. (ERCO) as its sponsor and oversight services as required by law. Sponsorship fees are calculated as a three percent of state funds received by the School from the State of Ohio. For the fiscal year ended June 30, 2012, the total sponsorship fees paid totaled \$12,256.

12. AGREEMENT WITH EDISON LEARNING, INC./ PURCHASED SERVICES EXPENSE

On April 20, 2010, the School contracted with Edison Learning, Inc. to provide educational programs that offer educational excellence and educational innovation based on Edison Learning, Inc.'s unique school design, comprehensive educational programs, and management principles. The contract may be renewed for an additional five-year term. Under the contract, Edison Learning, Inc. is responsible and accountable to the School's Board of Directors for the administration, operation, and performance of the School in accordance with the School's contract with ERCO to operate the School. Significant provisions of the contract are as follows:

**THURGOOD MARSHALL HIGH SCHOOL
CUYAHOGA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012**

12. AGREEMENT WITH EDISON LEARNING, INC./ PURCHASED SERVICES EXPENSE (Continued)

A. Financial Provisions

1. Management Consulting and Operation Fee

The School is required to remit monthly to Edison Learning, Inc. all qualified gross revenue defined in the contract as "all external source revenue which the School receives and for which the School or its students are eligible from federal or State sources." The following is a summary of current payment activity to Edison Learning, Inc., which included the Notes Payable amount of \$313,663:

Amount due current fiscal year	\$ 1,366,093
Amount remitted current fiscal year	<u>(367,250)</u>
Amount Due to Edison	<u>\$ 998,843</u>

2. The School's Financial Responsibility

The School is responsible for initial startup costs and rent. The School is also responsible to pay for legal fees directly related to activities of the Board.

3. Edison Financial Responsibilities

Edison Learning, Inc. is responsible for costs associated with operating the School. Such costs shall include, but shall not be limited to, salaries and benefits, including payroll taxes; pension and retirement; the purchase of curriculum materials, textbooks, computers and other equipment, software, and supplies; insurance premiums, utilities, janitorial services, audit, legal and financial management services related to the operation of the School and repairs and maintenance of the School's facilities, except for capital repair. Edison Learning, Inc. shall equip the School's facilities with desks and other furniture and furnishings and these items are considered property of Edison Learning, Inc. Edison Learning, Inc. must secure and maintain commercial general liability coverage for bodily injury and property damage; educator liability coverage; automobile liability insurance, for, personal injury and property damage; property insurance for facilities; and workers' compensation insurance for employees.

4. Budget

Edison Learning, Inc. shall provide the School with an annual budget, in reasonable detail, by June 30 of each fiscal year for the following fiscal year.

B. Educational Services

Edison Learning, Inc. provides educational services to dropout prevention and recovery schools, in addition to executing the financial responsibilities noted above.

C. Personnel

All personnel working at the School are employees of the School.

**THURGOOD MARSHALL HIGH SCHOOL
CUYAHOGA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012**

12. AGREEMENT WITH EDISON LEARNING, INC./PURCHASED SERVICES EXPENSE (Continued)

D. Agreement Termination

1. Termination by the School

The School may terminate the contract in the event Edison Learning, Inc. materially breaches the contract and Edison Learning, Inc. fails to remedy such breach within 90 days of its receipt of written notice of such breach from the School.

2. Termination by Edison Learning, Inc.

Edison Learning, Inc. may terminate the contract in the event the School materially breaches the contract and the School fails to remedy such breach within 90 days of its receipt of written notice of such breach from Edison Learning, Inc.

E. Edison Learning, Inc. - Purchased Services

For the fiscal year ended June 30, 2012, Edison Learning, Inc. incurred the following expenses on behalf of the School:

Direct Site Expenses:

Salaries and Wages and Benefits	\$462,682
Professional and Technical Services	226,444
Curriculum and Materials	125,894
Property Services	50,379
Other Direct Costs	<u>21,725</u>
Total Expenses	<u>\$887,124</u>

13. FISCAL DISTRESS

Several factors have caused the School to experience fiscal distress. The School's cash balance at June 30, 2012 was \$3,869. Additionally, the School has significant liabilities at June 30, 2012 which has resulted in deficit net assets of (\$942,559). Overcoming this deficit may be difficult without significant increases to revenues in order to pay off outstanding liabilities and cover ongoing operating costs.

14. MANAGEMENT PLAN

The entire amount owed at June 30, 2012 is for unpaid operating expenses and outstanding notes payable to Edison Learning, Inc. Edison Learning, Inc. remains committed to the success of the School both academically and financially. Currently, the Board of Directors and Edison Learning, Inc. have engaged in discussions about the current debt of the School. Further, during the current year, stronger efforts in student recruitment and the use of Federal funds are improving the financial performance of the School.

**THURGOOD MARSHALL HIGH SCHOOL
CUYAHOGA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012**

15. LEASE OBLIGATIONS

The School entered into a lease agreement with an owner of commercial property for the current school premises. The lease term is from September 1, 2011 through August 31, 2013. On September 1, 2012, monthly rent of \$2,000 will increase to \$2,100. Lease terms also include a renewal option for an additional two year term.

Future lease obligations are as follows:

FY 2013	\$25,000
FY 2014	<u>4,200</u>
TOTAL	<u>\$29,200</u>

16. SUBSEQUENT EVENT

On March 14, 2013, the School entered into an Amendment to the Amended and Restated Service Agreement and an Asset Purchase Agreement with Edison Learning, Inc., in which Edison Learning agreed to purchase certain assets of the School in exchange for the forgiveness of the Edison Note and other debts as of June 30, 2012. As of June 30, 2012 the assets to be exchanged had a cost of \$47,958 and an accumulated depreciation of \$5,184 and the debt to be forgiven was \$998,843.



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

Thurgood Marshall High School
(DBA Central Cleveland Drop Back In)
Cuyahoga County
13540 Lorain Avenue
Cleveland, Ohio 44111

To the Board of Directors:

We have audited the financial statements of the Thurgood Marshall High School, Cuyahoga County, Ohio, (the School) as of and for the year ended June 30, 2012, and have issued our report thereon dated June 22, 2013, wherein we noted the School has incurred a net deficit of \$942,559, as of and for the year ended June 30, 2012. 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 School'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 School's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the School's internal control over financial reporting.

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 combination of internal control deficiencies resulting in more than a reasonable possibility that a material misstatement of the School's financial statements will not be prevented, or detected and timely corrected.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, 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.

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, 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 matters not requiring inclusion in this report that we reported to the School's management in a separate letter dated June 22, 2013.

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

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

Dave Yost
Auditor of State

June 22, 2013

**THURGOOD MARSHALL HIGH SCHOOL
CUYAHOGA COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2012**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2011-01	Effect on Financial Statements – Material Weakness - The School did not reduce State Aid Revenues for amounts owed back to ODE; therefore, adjustments were reflected in financial statements.	Yes	
2011-02	School Attendance Records – Material Weakness / Material Noncompliance - The School did not properly document student enrollment and withdrawal information.	Yes	
2011-03	Finding for Recovery – Sponsor Fees – Repaid Under Audit – The School’s Sponsor, Education Research Consultants of Ohio, Inc. (ERCO) repaid the finding for recovery under audit on January 29, 2012.	Yes	Finding Repaid.

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THURGOOD MARSHALL HIGH SCHOOL

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
AUGUST 15, 2013**