



Dave Yost • Auditor of State

CLEVELAND COMMUNITY SCHOOL
CUYAHOGA COUNTY

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Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT

Cleveland Community School
Cuyahoga County
1701 East 12th Street
Cleveland, Ohio 44114

To the Board of Directors:

Report on the Financial Statements

We have audited the accompanying financial statements of the Cleveland Community School, Cuyahoga County, Ohio (the School), as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the School's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Cleveland Community School, Cuyahoga County, Ohio, as of June 30, 2014 and the changes in financial position and its cash flows for the year then ended in accordance with the accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require this presentation to include *Management's discussion and analysis* 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 applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, consisting of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, to the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not opine or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to opine or provide any other assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated April 8, 2015, on our consideration of the School's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School's internal control over financial reporting and compliance.



Dave Yost
Auditor of State
Columbus, Ohio

April 8, 2015

**CLEVELAND COMMUNITY SCHOOL
CUYAHOGA COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

Our discussion and analysis of the Cleveland Community School (CCS) financial performance provides an overall review of CCS's financial activities for the fiscal year ended June 30, 2014. The intent of this discussion and analysis is to look at CCS'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 CCS's financial performance.

The Management's Discussion and Analysis (MD&A) is an element of the new reporting model adopted by the Governmental Accounting Standards Board (GASB) in their Statement No. 34 Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Government issued June 1999. Certain comparative information between the current year and the prior year is required to be presented in the MD&A.

FINANCIAL HIGHLIGHTS

Key Financial Highlights for CCS for the 2013-2014 school year are as follows:

- Total assets decreased by \$99,297 as the current depreciation expense and reduction in intergovernmental receivables reduced assets.
- Total liabilities decreased by \$456,891 as accounts payable were much lower than fiscal year 2013 and the loan payable was forgiven.
- Total net position increased by \$357,594.
- Total operating revenues were \$1,858,012. Total operating expenses were \$2,147,163.

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 Position, a Statement of Revenues, Expenses and Changes in Net Position, and a Statement of Cash Flows.

The Statement of Net Position and Statement of Revenues, Expenses, and Changes in Net Position reflect how CCS did financially during fiscal year 2014. 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 CCS's net position and changes in that position. This change in net position is important because it tells the reader whether the financial position of CCS has improved or diminished. The causes of this change may be the result of many factors, some financial, some not. Non-financial factors include CCS's student enrollment, per-pupil funding as determined by the State of Ohio, change in technology, required educational programs and other factors.

CCS uses enterprise presentation for all of its activities.

**CLEVELAND COMMUNITY SCHOOL
CUYAHOGA COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

STATEMENT OF NET POSITION

The Statement of Net Position answers the question of how CCS did financially during 2014.

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 CCS's net position for fiscal years 2013 and 2014.

**Table 1
Statement of Net Position**

	<u>2014</u>	<u>2013</u>	<u>Change</u>
Assets			
Current Assets	\$210,640	\$252,070	(\$41,430)
Capital Assets, Net of Accumulated Depreciation	<u>177,542</u>	<u>235,409</u>	<u>(57,867)</u>
<i>Total Assets</i>	<u><u>388,182</u></u>	<u><u>487,479</u></u>	<u><u>(99,297)</u></u>
Liabilities			
Current Liabilities	161,797	452,688	(290,891)
Long Term Liabilities	<u>199,279</u>	<u>365,279</u>	<u>(166,000)</u>
<i>Total Liabilities</i>	<u><u>361,076</u></u>	<u><u>817,967</u></u>	<u><u>(456,891)</u></u>
Net Position			
Net Investment in Capital Assets	177,542	235,409	(57,867)
Restricted	1,463	0	1,463
Unrestricted	<u>(151,899)</u>	<u>(565,897)</u>	<u>413,998</u>
Total Net Position	<u><u>\$27,106</u></u>	<u><u>(\$330,488)</u></u>	<u><u>\$357,594</u></u>

Net position increased to \$27,106, a significant change which resulted in significantly fewer accounts payable than 2013 which caused the current liabilities to decrease by almost 64%. The loan payable being forgiven during fiscal year 2014 reduced total liabilities by 27%. Capital assets, net of depreciation, changed as a result of depreciation expense plus some small additions.

**CLEVELAND COMMUNITY SCHOOL
CUYAHOGA COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

Table 2 shows the changes in net position for fiscal years 2013 and 2014, as well as a listing of revenues and expenses. This change in net position is important because it tells the reader that, for the CCS as a whole, the financial position of the CCS has improved or diminished.

Table 2 – Change in Net Position

	<u>2014</u>	<u>2013</u>	<u>Change</u>
Revenues			
Operating revenues:			
Foundation payments	\$1,828,043	\$983,252	\$844,791
Other operating	29,969	16,560	13,409
Non-operating			
Federal and state	426,745	449,090	(22,345)
Loan forgiveness	<u>220,000</u>	<u>0</u>	<u>220,000</u>
Total revenues	<u>2,504,757</u>	<u>1,448,902</u>	<u>1,055,855</u>
Expenses			
Operating expenses:			
Salaries	626,471	631,627	(5,156)
Fringe benefits	189,242	133,786	55,456
Purchased services	1,185,687	716,610	469,077
Materials and supplies	88,355	54,593	33,762
Depreciation	52,467	61,747	(9,280)
Other expenses	<u>4,941</u>	<u>100,719</u>	<u>(95,778)</u>
Total Expenses	<u>2,147,163</u>	<u>1,699,082</u>	<u>(448,081)</u>
Change in Net Position	357,594	(250,180)	<u>\$607,774</u>
Beginning Net Position	<u>(330,488)</u>	<u>(80,308)</u>	
Ending Net Position	<u>\$27,106</u>	<u>(\$330,488)</u>	

**CLEVELAND COMMUNITY SCHOOL
CUYAHOGA COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

Total revenues were up as the FTE counts increased from 129 FTE in fiscal year 2013 to almost 234 FTE in fiscal year 2014. This allowed for increased foundation revenue. The additional students also required additional services which were mainly provided through purchased services.

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, unless specifically provided in the community school's contract with its sponsor.

The contract between CCS and its Sponsor does prescribe a budgetary process. CCS has developed a one year spending plan and a five-year forecast that is reviewed semi-annual by the Board of Trustees. The five-year forecast is also submitted to the Sponsor and the Ohio Department of Education, annually.

CAPITAL ASSETS

CCS has invested in capital assets, net of accumulated depreciation. CCS added \$12,600 to capital assets for technology equipment. Detailed information regarding capital asset activity is included in the Note 4 in the notes to the basic financial statements.

DEBT OBLIGATIONS

CCS has debt obligations comprised of loans totaling \$199,279 at June 30, 2014. See Note 14 to the basic financial statement for further details.

CONTACTING CCS'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizen's, taxpayers, investors and creditors with a general overview of CCS's finances and to demonstrate accountability for the money it receives. If you have questions about this report or need additional information contact Ms. Lillian S. Brown, Board President - Cleveland Community Schools (585) 734-3210.

**CLEVELAND COMMUNITY SCHOOL
CUYAHOGA COUNTY, OHIO
STATEMENT OF NET POSITION**

AS OF JUNE 30, 2014

Assets:

Current assets:

Cash and cash equivalents	\$ 54,755
Intergovernmental receivable	96,828
Due from Villaview Community	59,057
Total current assets	<u>210,640</u>

Noncurrent assets:

Capital assets, net	<u>177,542</u>
Total noncurrent assets	<u>177,542</u>

Total Assets 388,182

Liabilities:

Current liabilities

Accounts payable	53,649
Accrued wages and benefits payable	89,967
Intergovernmental payable	18,181
Total current liabilities	<u>161,797</u>

Long term debt 199,279

Total Liabilities 361,076

Net Position:

Net investment in capital assets	177,542
Restricted	1,463
Unrestricted	<u>(151,899)</u>

Total Net Position \$ 27,106

See accompanying notes to the basic financial statements

**CLEVELAND COMMUNITY SCHOOL
 CUYAHOGA COUNTY, OHIO
 STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION**

FOR THE FISCAL YEAR ENDING JUNE 30, 2014

Operating Revenues:	
Foundation payments	\$ 1,828,043
Classroom fees	93
Charges for services	1,654
Other operating revenues	<u>28,222</u>
Total operating revenues	<u>1,858,012</u>
Operating Expenses:	
Salaries	626,471
Fringe benefits	189,242
Purchased services	1,185,687
Materials and supplies	88,355
Depreciation	52,467
Other operating expenses	<u>4,941</u>
Total operating expenses	<u>2,147,163</u>
Operating Loss	<u>(289,151)</u>
Non-Operating Revenues:	
Federal grants	414,636
State grants	12,109
Net forgiveness of debt	<u>220,000</u>
Total non-operating revenues	<u>646,745</u>
Change in net position	357,594
Net position at beginning of year	<u>(330,488)</u>
Net position at end of year	<u>\$ 27,106</u>

See accompanying notes to the basic financial statements

**CLEVELAND COMMUNITY SCHOOL
 CUYAHOGA COUNTY, OHIO
 STATEMENT OF CASH FLOWS**

FOR THE FISCAL YEAR ENDING JUNE 30, 2014

Increase (Decrease) in cash and cash equivalents

Cash flows from operating activities:

Cash received from State of Ohio - Foundation	\$ 1,828,043
Cash received from classroom materials and fees	1,747
Cash received from other operating revenues	28,222
Cash payments for personal services	(806,245)
Cash payments for contract services	(1,356,530)
Cash payments for supplies and materials	(102,162)
Cash payments for other expenses	(4,539)
Net cash used by operating activities	<u>(411,464)</u>

Cash flows from noncapital financing activities:

Cash received from state and federal grants	517,598
Repayment of bank coverage of overdraft liability	(26,779)
Principal paid on debt obligations	(12,000)
Net cash provided by noncapital financing activities	<u>478,819</u>

Cash flows from capital and related financing activities:

Acquisition of Capital Assets	<u>(12,600)</u>
Net cash used by capital and related financing activities	<u>(12,600)</u>

Net change in cash and cash equivalents	54,755
Cash and Cash Equivalents at beginning of year	-
Cash and Cash Equivalents at end of year	<u><u>54,755</u></u>

Reconciliation of operating loss to net cash used by operating activities:

Operating loss	(289,151)
Adjustments to reconcile operating loss to net cash provided for operating activities:	
Depreciation	52,467
Change in assets and liabilities:	
Increase in intergovernmental receivable	(14,554)
Decrease in accounts payable	(186,200)
Increase in accrued wages and benefits	18,790
Increase in intergovernmental payable	7,184
	<u>7,184</u>

Net cash used by operating activities	<u><u>\$ (411,464)</u></u>
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See accompanying notes to the basic financial statements

NON CASH ACTIVITY

The School received \$220,000 in prior year debt forgiveness that did not impact cash

**CLEVELAND COMMUNITY SCHOOL
CUYAHOGA COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

1. DESCRIPTION OF ENTITY

Cleveland Community School (CCS) is a nonprofit corporation established pursuant to Ohio Revised Code Chapters 3314 and 1702 to address the needs of students in kindergarten through the sixth grade. CCS qualified as an exempt organization under Section 501 (c) (3) of the Internal Revenue Code effective August 18, 2005. Management is not aware of any course of action or series of events that have occurred that might adversely affect CCS's tax-exempt status.

CCS, which is part of the State's education program, is independent of any school district and is nonsectarian in its programs, admissions policies, employment practices, and all other operations. CCS may sue and be sued, acquire facilities as needed, and contract for any services necessary for the operation of CCS.

In 2007, the CCS legally changed its name from Cleveland Lighthouse Charter Community School – East to Cleveland Lighthouse Community School. In 2009, the name was changed to Cleveland Community School.

On April 27, 2005 CCS was approved for operation under a contract between the governing authority of CCS and Ashe Culture Center, Inc. (the Sponsor), as their sponsor. Under the terms of the contract, the Sponsor will provide sponsorship services for a fee. The Sponsor is responsible for evaluating the performance of CCS and has the authority to deny renewal of the contract at its expiration or terminate the contract prior to its expiration. Ashe Culture Center, the CCS sponsor, had renewed its sponsorship with CCS and the agreement would have expired on June 30, 2013; however, the Ohio Department of Education removed Ashe Culture Center's authority to sponsor charter schools in September 2011. Pursuant to Ohio Revised Code, CCS may not operate without a sponsor. The Ohio Department of Education took over sponsorship of CCS while it sought another sponsor. Effective July 1, 2013, Portage County Educational Service Center took over sponsorship for CCS.

CCS operates under the direction of a four-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 populations, curriculum, academic goals, performance standards, admissions standards, and qualifications of teachers.

The board members of the CCS are also board members of Villaview Community School, formerly named Cleveland Lighthouse Charter Community School – West.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial Statements of the CCS have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental nonprofit organizations. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. CCS's significant accounting policies are described below.

**CLEVELAND COMMUNITY SCHOOL
CUYAHOGA COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

A. BASIS OF PRESENTATION

CCS's basic financial statements consist of a Statement of Net Position, a Statement of Revenues, Expenses and Changes in Fund Net Position, and a Statement of Cash Flows. Enterprise fund reporting focuses on the determination of the changes net position, financial position and cash flows.

Auditor of State of Ohio Bulletin No. 2000-005 requires 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.

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 statement of net position. The statement of revenues, expenses and changes in net position presents increases (e.g., revenues) and decreases (e.g., expenses) in net position.

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting is used for reporting purposes. Revenues are recognized when they are earned, and expenses are recognized when they are incurred.

C. BUDGETARY PROCESS

Unlike other public schools located in the State of Ohio, community schools are not required to follow budgetary provisions set forth in Ohio Revised Code Chapter 5705, unless specifically provided for in the school's sponsorship agreement. The contract between CCS and its Sponsor requires a budget to be adopted annually, and be reviewed on a monthly basis. The Board also develops a five year forecast which is reviewed semi-annually.

D. CASH AND CASH EQUIVALENTS

All monies received by CCS are maintained in a demand deposit account. For internal accounting purposes, CCS segregates its cash. CCS has no investments at June 30, 2014.

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.

**CLEVELAND COMMUNITY SCHOOL
CUYAHOGA COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

F. CAPITAL ASSETS

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 accounts and any gain or loss is included in additions to or deductions from net position. Depreciation of capital assets is calculated utilizing the straight-line method over the estimated useful lives of the assets. The useful lives follow:

<u>Asset</u>	<u>Useful Life</u>
Furniture, Equipment and Materials	10 years
Computers and Office Equipment	3 years
Leasehold Improvements	10 years

CCS has an asset capitalization threshold policy of \$5,000. (See Note 4)

G. INTERGOVERNMENTAL REVENUES

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

CCS also participates in various federal and state programs through the Ohio Department of Education.

Under the above programs, CCS received \$2,254,788 this fiscal year.

H. COMPENSATED ABSENCES

Vacation is taken in a manner in which corresponds with CCS calendar; therefore, CCS does not accrue vacation time as a liability. Sick days are earned at a rate of four hours per month and can be accrued up to the amount of paid personal days included in the contract year. CCS does not accept a transfer of sick days. No financial accrual for sick leave is made since unused sick leave is not paid to employees upon separation.

**CLEVELAND COMMUNITY SCHOOL
CUYAHOGA COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

I. ACCRUED LIABILITIES

Obligations incurred but unpaid at June 30 are reported as accrued liabilities in the accompanying financial statements. These liabilities consisted of accounts payable, accrued wages and benefits, and long term liabilities.

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

K. NET POSITION

Net position represents the difference between assets and liabilities. Net investment in capital assets consist of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets. Net position is reported as restricted when there are limitations imposed on their use through external restriction imposed by creditors, grantors, or law and regulations of other governments. CCS applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position is available.

L. OPERATING REVENUES AND EXPENSES

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

M. INTERGOVERNMENTAL RECEIVABLES

All receivables are considered collectible in full due to the stable condition of State programs, and the fiscal year guarantee of federal funds. Intergovernmental receivables of the CCS at June 30, 2014, of which all grant requirements had been satisfied, consisted of title 1 funding grants which totaled \$96,828.

N. DUE FROM VILLAVIEW COMMUNITY

The School loaned money to Villaview in the prior year to help cover payroll and other related expenses. The amount recorded on the statement of net position is expected to be repaid within the next fiscal year.

**CLEVELAND COMMUNITY SCHOOL
CUYAHOGA COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

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".

CCS maintains its cash balance at one financial institution located in Ohio. The entire bank balance is insured by the Federal Deposit Insurance Corporation (FDIC). At June 30, 2014, the book amount of CCS's deposits was \$54,755 and the bank balance was \$110,289.

CCS 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 CCS 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, 2014, none of the bank balance was exposed to custodial credit risk.

4. CAPITAL ASSETS AND DEPRECIATION

For the period ending June 30, 2014, CCS's capital assets consisted of the following:

	Balance 06/30/2013	Additions	Deletions	Balance 06/30/2014
Capital Assets Being Depreciated:				
Leasehold Improvements	\$399,958	\$0	\$0	\$399,958
Equipment	254,575	12,600	(18,000)*	249,175
Total Capital Assets Being Depreciated:	654,533	12,600	(18,000)	649,133
Less: Accumulated Depreciation				
Leasehold Improvements	(280,000)	(40,000)	0	(320,000)
Equipment	(139,124)	(12,467)	0	(151,591)
Total Accumulated Depreciation	(419,124)	(52,467)	0	(471,591)
Net Capital Assets	\$235,409	(\$39,867)	(\$18,000)	\$177,542

*In the prior year, capital assets were recorded based on an account payable. The full amount of that invoice did not qualify for recognition as capital assets.

**CLEVELAND COMMUNITY SCHOOL
CUYAHOGA COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

5. EDUCATIONAL FACILITY LEASE

CCS leases its facility at Reserve Square, 1701 East 12th Street, Cleveland from Reserve Apartment, Ltd. CCS renewed a one year lease from July 2013 to June 2014 and entered into a new one year lease from July 2014 to June 2015. Monthly payments under the terms of the lease increase each year according to an agreed upon schedule. In fiscal year 2014, CCS paid \$223,401 in rental payments. This amount is recorded and reflected in the Statement of Revenues, Expenses and Changes in Net Position within purchased services.

6. RISK MANAGEMENT

A. PROPERTY & LIABILITY

CCS is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. For the fiscal year 2014, CCS contracted with Philadelphia Indemnity Insurance Company for all of its insurance.

B. WORKERS' COMPENSATION

CCS pays the State Worker's Compensation System a premium for employee injury coverage. The premium is calculated by multiplying the monthly total gross payroll by a factor that is calculated by the State.

C. EMPLOYEE BENEFITS

CCS provides medical, dental, vision, and life insurance benefits to most employees. Depending upon the plan chosen, the employees share the cost of the monthly premium with the Board. The premium varies with employees depending on the terms of the agreement with the employee.

7. DEFINED BENEFIT PENSIONS PLANS

A. SCHOOL EMPLOYEES RETIREMENT SYSTEM OF OHIO (SERS OHIO)

Plan Description – CCS contributes to the School Employees Retirement System (SERS), a cost-sharing multiple employer pension plans. 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 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.

**CLEVELAND COMMUNITY SCHOOL
CUYAHOGA COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

7. DEFINED BENEFIT PENSIONS PLANS (CONTINUED)

**A. SCHOOL EMPLOYEES RETIREMENT SYSTEM OF OHIO (SERS OHIO)
(CONTINUED)**

Funding Policy - Plan members are required to contribute 10 percent of their annual covered salary and CCS is required to contribute 14 percent of annual covered payroll. 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 by the SERS' Retirement Board. The Retirement Board acting with the advice of the actuary, allocates the employer contribution rate among four of the funds (Pension Trust Fund, Death Benefit Fund, Medicare B and Health Care Fund.) of the System. For the fiscal year ending June 30, 2014, the allocation to pension and death benefits is 13.10 percent. The remaining 0.90 percent of the 14 percent employer contribution rate is allocated to the Health Care and Medicare B Funds. CCS contributions to SERS for the years ended June 30, 2014, 2013, and 2012 were \$39,794, \$40,457, and \$30,147, respectively, which equaled the required contributions each year.

B. STATE TEACHERS RETIREMENT SYSTEM (STRS OHIO)

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

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan, and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member's lifetime contributions and earned interest matched by STRS Ohio funds divided by an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment.

The member may elect to receive a lifetime monthly annuity or a lump sum withdrawal. The Combined Plan offers features of both the DB Plan and the DC Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. The DB portion of the Combined Plan payment is payable to a member on or after age 60; the DC portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50. Benefits are established by Chapter 3307 of the Ohio Revised Code.

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

**CLEVELAND COMMUNITY SCHOOL
CUYAHOGA COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

7. DEFINED BENEFIT PENSIONS PLANS (CONTINUED)

B. STATE TEACHERS RETIREMENT SYSTEM (STRS OHIO) (CONTINUED)

Funding Policy - For the fiscal year ended June 30, 2014, plan members were required to contribute 10 percent of their annual covered salaries. CCS was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal year 2013, 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.

CCS's required contribution for pension obligations to STRS for the fiscal years ended June 30, 2014, 2013 and, 2012 were \$45,184, \$42,956, and \$43,044, respectively, of which 100% has been contributed. The contributions to the combined plan were \$286 by plan members and \$364 by CCS. There were no contributions to the DC Plan.

The above is the latest information available.

8. POST EMPLOYMENT BENEFITS

A. SCHOOL EMPLOYEE RETIREMENT SYSTEMS (SERS)

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

Medicare Part B

Medicare B plan reimburse Medicare B premiums paid by eligible retirees and beneficiaries as set forth in Ohio Revised Code (ORC) 3309.69. Qualified benefits recipients who pay Medicare Part B premiums may apply for and receive a monthly reimbursement from SERS. The reimbursement amount is limited by statute to the lesser of the January 1, 1999 Medicare Part premium or the current premium. The Medicare Part B premium for calendar year 2014 was \$104.90 for most participants, but could be as high as \$335.70 per month depending on their income. SERS' reimbursement for retirees was \$45.50 if they participated in one of the SERS' health care plans.

The Retirement Board, acting with the advice of the actuary, allocates a portion of the current employer contribution rate to the Medicare B Fund, For fiscal 2014, the actuarial required allocation is 0.76 percent CCS's contributions for the years ended June 30, 2014, 2013, and 2012 were \$2,309, \$2,290, and \$1,780, respectively, of which 100% has been contributed.

**CLEVELAND COMMUNITY SCHOOL
CUYAHOGA COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

8. POST EMPLOYMENT BENEFITS (CONTINUED)

A. SCHOOL EMPLOYEE RETIREMENT SYSTEMS (SERS) (CONTINUED)

Health Care Plan

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

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

The Health Care Fund was established under, and is administered in accordance with the Internal Revenue Code 105(e). Each year after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer 14 percent contribution to the Health Care Fund. For the year ended June 30, 2014, the health care allocation is 0.14. An additional health care surcharge on employers is collected for employees earning less than the actuarially determined minimum compensation amount, pro-rated according to service credit earned.

Statutes provides that no employer shall pay a health care surcharge greater than 2 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the total statewide SERS-covered payroll for the health care surcharge.

For the fiscal year June 30, 2014, the minimum compensation level was established at \$20,250. The surcharge added to the unallocated portion of the 14 percent employer contribution rate is the total amount assigned to the Health Care Fund. CCS's contributions assigned to health care for the years ended June 30, 2014, 2013 and 2012 was \$425, \$495 and \$1,306, respectively, which equaled the required contributions each year.

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

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

**CLEVELAND COMMUNITY SCHOOL
CUYAHOGA COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

8. POST EMPLOYMENT BENEFITS (CONTINUED)

B. STATE TEACHERS RETIREMENT SYSTEM (STRS)

Plan Description – CCS contributes to the cost sharing multiple employer defined benefit Health 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 2014, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. The School's contributions for health care for the fiscal years ended June 30, 2014, 2013, and 2012 were \$3,476, \$3,304, and \$3,311, respectively all of which has been contributed for all fiscal years.

The above is the latest information available.

9. CONTINGENCIES

A. GRANTS

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

B. LITIGATION

In August 2010, CCS and Villaview Community School were sued by Lighthouse Academies, Inc. for the past due management fees, a revolving loan and an operating loan. The suit has been settled for a fixed amount of \$300,000 payable at \$2,500 per month with no interest. The note will be satisfied in ten years and is completely the responsible of CCS with Villaview Community School retaining no obligation for repayment. There were no payments on this obligation during fiscal year 2014.

10. SPONSORSHIP- PORTAGE COUNTY EDUCATIONAL SERVICE CENTER (ESC)

CCS was under the Portage County ESC as its sponsor and oversight services as required by law. CCS pays the Sponsor three percent of State Aid. Sponsorship fees are calculated as three percent of state funds received by CCS from the State of Ohio. For the fiscal year ended June 30, 2014, sponsorship fees totaled \$88,770. The Portage County ESC sponsorship of CCS expires on June 30, 2015. CCS and the Ohio Department of Education are working to secure a new sponsor for CCS effective July 1, 2015.

**CLEVELAND COMMUNITY SCHOOL
 CUYAHOGA COUNTY
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

11. MANGEN AND ASSOCIATES – TREASURY SERVICES

CCS entered into a contract with Mangen and Associates to provide treasury services, as defined by the contract. CCS paid \$124,784 for these services for the fiscal year ending June 30, 2014.

12. PURCHASED SERVICES

For the period of July 1, 2013 through June 30, 2014, CCS made the following purchase services commitments. These commitments include sponsor, management and CCIP fees, where applicable.

Professional and Technical Services	\$755,632
Communications	7,311
Property Services	185,078
Food Service	127,163
Other	<u>110,503</u>
Total Purchased	<u><u>\$1,185,687</u></u>

13. RELATED PARTIES

The members of CCS Board of Trustees are also members of the Villaview Community School.

14. DEBT OBLIGATIONS

The following table summarizes the debt obligation activity for fiscal year ended June 30, 2014.

	Principal at 06/30/2013	Additions	Deletions	Principal at 06/30/2014
City First Bank	\$211,279	\$0	\$12,000	\$199,279
Loan Payable – LHA	<u>220,000</u>	<u>0</u>	<u>220,000</u>	<u>0</u>
Total Debt Obligations	<u><u>\$431,279</u></u>	<u><u>\$0</u></u>	<u><u>\$232,000</u></u>	<u><u>\$199,279</u></u>

The original loan payable for \$283,279 is from Charter School Development Corporation (City First Bank) to the School for leasehold improvements made to property leased by CCS. The original amortization schedule required CCS to make principal and interest payments through 2009. At June 30, 2010, the amount was still due with no repayment schedule specified. This obligation was re-negotiated and extended during November 2010 allowing a repayment of \$3,000 at a 0% interest rate. There were four payments made on the loan during fiscal year 2014.

**CLEVELAND COMMUNITY SCHOOL
CUYAHOGA COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

14. DEBT OBLIGATIONS (CONTINUED)

The original loan payable for \$275,000 is a liability to LHA for unpaid management fees. At June 30, 2011, there was no repayment schedule specified. This obligation was included as part of an agreement reached in October 2011 for a fixed amount of \$275,000 payable at \$2,500 per month with no interest. LHA was no longer registered with the State of Ohio as an active entity. The contract is deemed void and the amount due forgiven.

15. SUBSEQUENT EVENT

The Ohio Department of Education (ODE) has identified several community schools and/or STEM schools that made critical data errors between the June payment and the Final #1 payment. As a result, ODE will be running a Final #2 foundation report for community schools and STEM schools for fiscal year 2014. As of the date of this report, a final list of schools impacted and amounts are not yet available, but ODE believes this will result in receivables to the schools affected.

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Dave Yost • Auditor of State

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

Cleveland Community School
Cuyahoga County
1701 East 12th Street
Cleveland, Ohio 44114

To the Board of Directors:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of Cleveland Community School, Cuyahoga County, Ohio, (the School) as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the School's basic financial statements and have issued our report thereon dated April 8, 2015.

Internal Control Over Financial Reporting

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

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 a reasonable possibility that internal control will not prevent or detect and timely correct a material misstatement of the School's financial statements. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all internal control deficiencies that might be material weaknesses or significant deficiencies. Given these limitations, we did not identify any deficiencies in internal control that we consider material weaknesses. However, unidentified material weaknesses may exist.

Compliance and Other Matters

As part of reasonably assuring whether the School's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, opining on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

Purpose of this Report

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

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

Dave Yost
Auditor of State
Columbus, Ohio

April 8, 2015

**CLEVELAND COMMUNITY SCHOOL
CUYAHOGA COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2014**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2013-001	Condition of Accounting Records	Yes	
2013-002	Developing and Implementing an Effective Internal Control System.	Yes	

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CLEVELAND COMMUNITY 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
MAY 7, 2015**