



**NOBLE ACADEMY - CLEVELAND  
CUYAHOGA COUNTY**

**REGULAR AUDIT**

**FOR THE YEAR ENDED JUNE 30, 2010**



**Dave Yost • Auditor of State**



**Noble Academy – Cleveland**  
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*For the Fiscal Year Ended June 30, 2010*

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# Dave Yost • Auditor of State

## INDEPENDENT ACCOUNTANTS' REPORT

Noble Academy - Cleveland  
Cuyahoga County  
1200 East 200<sup>th</sup> Street  
Euclid, Ohio 44117

To the Board of Directors:

We have audited the accompanying basic financial statements of Noble Academy – Cleveland, Cuyahoga County, Ohio (the Academy), as of and for the year ended June 30, 2010, as listed in the table of contents. These financial statements are the responsibility of the Academy's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Noble Academy – Cleveland, Cuyahoga County, Ohio, as of June 30, 2010, and the respective changes in financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 4, 2011, on our consideration of the Academy's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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 initial "D".

**Dave Yost**  
Auditor of State

March 4, 2011

**Noble Academy - Cleveland**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2010*  
*(Unaudited)*

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The discussion and analysis of Noble Academy - Cleveland's (the Academy) financial performance provides an overall review of the financial activities for the fiscal year ended June 30, 2010. Readers should also review the financial statements and notes to enhance their understanding of the Academy's financial performance.

### **Financial Highlights**

Key financial highlights for fiscal year 2010 are as follows:

- Total assets were \$260,339.
- Total liabilities were \$109,316.
- Total net assets decreased \$17,559.

### **Using this Financial Report**

This report consists of three parts: Management's Discussion and Analysis, the basic financial statements, and notes to those statements. The basic financial statements include a statement of net assets, a statement of revenues, expenses and change in net assets, and a statement of cash flows.

### **Reporting the School as a Whole**

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

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

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

**Noble Academy - Cleveland**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2010*  
*(Unaudited)*

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Table 1 provides a comparison of net assets as of June 30, 2010 with net assets as of June 30, 2009.

Table 1

	Net Assets	
	June 30, 2010	June 30, 2009
<u>Assets</u>		
Current Assets	\$91,009	\$26,204
Capital Assets, Net	169,329	206,949
Total Assets	260,338	233,153
<u>Liabilities</u>		
Current Liabilities	109,316	64,572
Total Liabilities	109,316	64,572
<u>Net Assets</u>		
Invested in Capital Assets	169,329	206,949
Unrestricted	(18,307)	(38,368)
Total Net Assets	\$151,022	\$168,581

Total assets increased \$27,185. Capital assets decreased by \$37,620, net of accumulated depreciation. Intergovernmental receivables increased by \$42,112 due to project cash requests for Federal funds made at the end of the fiscal year. Total liabilities increased by \$44,744. This change is due mainly to an increase of \$22,798 in accrued wages and payroll liabilities and \$21,946 in accounts payable.



**Noble Academy - Cleveland**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2010*  
*(Unaudited)*

Table 2 shows the changes in net assets for the fiscal years 2010 and 2009.

Table 2

<u>Revenues, Expenses, and Changes in Net Assets</u>		
	<u>2010</u>	<u>2009</u>
<u>Operating Revenue/Expense</u>		
Revenue		
Foundation Payments	\$1,383,063	\$1,491,256
Food Services	3,499	9,344
Classroom Fees	9,903	28,585
Extracurricular Activities	286	945
Other Local Revenue	13,478	18,388
Total Operating Revenues	<u>1,410,229</u>	<u>1,548,518</u>
Expense		
Salaries	908,695	819,823
Fringe Benefits	221,141	184,843
Purchased Services	628,053	636,308
Materials and Supplies	72,610	176,058
Depreciation Expense	40,670	25,903
Miscellaneous Expense	77,425	54,572
Total Operating Expenses	<u>1,948,594</u>	<u>1,897,507</u>
Net Operating Loss	(538,365)	(348,989)
<u>Non-Operating Revenue/Expense</u>		
Restricted Grants-in-Aid - Federal	455,250	538,320
Restricted Grants-in-Aid - State	7,249	6,418
Donated Management Fee	60,657	4,020
Interest Expense	0	(210)
Repayment of Prior Year		
Foundation Settlements	(2,350)	0
Total Non-Operating Revenue/Expense	<u>520,806</u>	<u>548,548</u>
<u>Net Assets</u>		
Change in Net Assets	(17,559)	199,559
Net Assets at Beginning of Year	168,581	(30,978)
Net Assets at End of Year	<u>\$151,022</u>	<u>\$168,581</u>

Foundation support revenue decreased \$108,193, primarily as a result of a decrease in students. Federal grant revenue decreased \$83,070 due mainly to a decrease in Charter School Startup funding. The Academy also received in-kind support (donated management fee) in the amount of \$60,657 in 2010. Total operating expenses increased \$51,087 also as a result of increased in salaries and benefits.

Foundation support is the primary support of the Academy, comprising 98 percent of operating revenue and 72 percent of total revenues. The Academy also received a significant portion of federal grants and in-kind contributions, which together represent 24 percent total revenue. Salaries and benefits comprise the largest portion of operating expenses, representing 58 percent of total operating expenses.

**Noble Academy - Cleveland**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2010*  
*(Unaudited)*

Purchased services also represent a large portion of operating expenses, or 32 percent. Net assets decreased \$17,559 resulting from expenses in excess of revenues.

**Capital Assets**

At the end of fiscal year 2010 the Academy had \$253,825, invested in furniture and equipment, and leasehold improvements (\$169,329 net of accumulated depreciation). Table 3 shows fiscal year 2010:

Table 3

	Capital Assets			
	Beginning Balance	Additions	Deletions	Ending Balance
	July 1, 2009			June 30, 2010
Equipment - Instructional	\$208,160	\$3,050	\$0	\$211,210
Equipment - Office	21,027	0	0	21,027
Improvements	21,588	0	0	21,588
Total Capital Assets	250,775	3,050	0	253,825
Less: Accumulated Depreciation	(43,826)	(40,670)	0	(84,496)
Net Capital Assets	<u>\$206,949</u>	<u>(\$37,620)</u>	<u>\$0</u>	<u>\$169,329</u>

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

**Contacting the Academy's Financial Management**

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

**Noble Academy - Cleveland**

*Statement of Net Assets*

*June 30, 2010*

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**ASSETS:**

**Current Assets:**

Cash and Cash Equivalents	\$48,897
Intergovernmental Receivable	42,112
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Total Current Assets	91,009

**Noncurrent Assets:**

Capital Assets (Net of Accumulated Depreciation)	169,329
	<hr/>
Total Assets	260,338

**LIABILITIES:**

**Current Liabilities:**

Accounts Payable	21,946
Accrued Wages and Benefits Payable	79,790
Payroll Liabilities	7,580
	<hr/>
Total Current Liabilities	109,316

Total Liabilities	109,316
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**NET ASSETS:**

Invested in Capital Assets	169,329
Unrestricted (Deficit)	(18,307)
	<hr/>
Total Net Assets	\$151,022

See accompanying notes to the basic financial statements

**Noble Academy - Cleveland**  
*Statement of Revenues, Expenses and Change in Net Assets*  
*For the Fiscal Year Ended June 30, 2010*

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<b>OPERATING REVENUES:</b>	
Foundation Payments	\$1,383,063
Food Services	3,499
Classroom Fees	9,903
Extracurricular Activities	286
Other Revenue	13,478
	13,478
Total Operating Revenues	1,410,229
<b>OPERATING EXPENSES:</b>	
Salaries	908,695
Fringe Benefits	221,141
Purchased Services	628,053
Materials and Supplies	72,610
Depreciation	40,670
Miscellaneous	77,425
	77,425
Total Operating Expenses	1,948,594
Operating Income/(Loss)	(538,365)
<b>NON-OPERATING REVENUES (EXPENSES)</b>	
Donated Management Fee	60,657
Restricted Grants in Aid - Federal	455,250
Restricted Grants in Aid - State	7,249
Repayment of Prior Year Foundation Settlements	(2,350)
	(2,350)
Total Non-Operating Cash Receipts	520,806
Change in Net Assets	(17,559)
Net Assets, beginning of the year	168,581
	\$151,022

See accompanying notes to the basic financial statements

**Noble Academy - Cleveland**  
*Statement of Cash Flows*  
For the Fiscal Year Ended June 30, 2010

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**INCREASE IN CASH AND CASH EQUIVALENTS**

**CASH FLOWS FROM OPERATING ACTIVITIES:**

Cash Received from State of Ohio	\$1,380,713
Cash Received from Other Operating Revenues	27,166
Cash Payments to Suppliers for Goods and Services	(618,060)
Cash Payments to Employees for Services and Benefits	(1,107,038)
Other Cash Payments	(77,425)
	(394,644)

Net Cash Used for Operating Activities	(394,644)
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**CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:**

Federal Grants Received	413,138
State Grants Received	7,249
	420,387

Net Cash Provided by Noncapital Financing Activities	420,387
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**CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:**

Payment for Capital Acquisitions	(3,050)
	(3,050)

Net Cash Used for Capital and Related Financing Activities	(3,050)
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Net Increase in Cash and Cash Equivalents	22,693
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Cash and Cash Equivalents at Beginning of Year	26,204
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Cash and Cash Equivalents at End of Year	\$48,897
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**RECONCILIATION OF OPERATING LOSS TO NET CASH USED FOR OPERATING ACTIVITIES**

Operating Loss	(\$538,365)
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**ADJUSTMENTS TO RECONCILE OPERATING LOSS TO NET CASH USED FOR OPERATING ACTIVITIES**

Depreciation	40,670
Donated Management Fee	60,657
Repayment of Prior Year Foundation Payments	(2,350)

**Change in Assets and Liabilities:**

Increase in Accounts Payable	21,946
Increase in Accrued Wages and Benefits Payable	6,469
Increase in Payroll Liabilities	16,329
	143,721

Total Adjustments	143,721
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Net Cash Used for Operating Activities	(\$394,644)
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See accompanying notes to the basic financial statements

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**1. DESCRIPTION OF THE ACADEMY AND REPORTING ENTITY**

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

The Academy may sue and be sued, acquire facilities as needed, and contract for any services necessary for the operation of the Academy. The Academy qualifies as an exempt organization under Section 501(c) (3) of the Internal Revenue Code. Management is not aware of any course of action or series of events that have occurred that might adversely affect the Academy's tax-exempt status.

The Academy was approved for operation under contract with the Buckeye Hope Foundation (the Sponsor) for a period of five years commencing March 15, 2006.

The Academy operates under the direction of a self-appointed five-member Board of Trustees. The Board is responsible for carrying out the provisions of the contract, which include, but are not limited to, state mandated provisions regarding student population, curriculum, academic goals, performance standards, admission standards, and qualifications of teachers. The Board of Trustees controls the Academy's facility, which is currently staffed by 28 full and part time personnel who provide services to up to 230 students during the year.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

**A. Basis of Presentation**

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

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

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**B. Measurement Focus and Basis of Accounting**

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

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

**C. Budgetary Process**

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

**D. Cash**

To improve cash management, all cash received by the Academy is pooled in a central bank account. The Academy did not have any investments during fiscal year 2010.

**E. Capital Assets and Depreciation**

Capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. The Academy maintains a capitalization threshold of one thousand dollars. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized. Improvements are capitalized. The Academy does not capitalize interest.

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



**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**E. Capital Assets and Depreciation (Continued)**

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

**F. Intergovernmental Revenues**

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

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

**G. Operating Revenues and Expenses**

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

**H. Compensated Absences**

Academy policy indicates that all full-time employees are entitled up to eight days of sick or personal leave per year. Full-time employees who do not use all of their sick or personal days within the year will receive \$125 for each unused day. All leave earned by employees must be used in the current period and balances are not carried forward and therefore, are not recorded as a liability.

**I. Net Assets**

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets consist of capital assets, net of accumulated depreciation. Net assets are reported as restricted when there are limitations imposed on their use, either through enabling legislation adopted by the Academy or through external restrictions imposed by creditors, grantors, or contracts. The Academy applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net assets are available. At fiscal year end June 30, 2010, the Academy had no restricted net assets.

**J. Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

**Noble Academy - Cleveland**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2010*

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**3. DEPOSITS**

As of June 30, 2010, the Academy's bank balance of \$67,470 was covered by FDIC.

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

**4. CAPITAL ASSETS**

Capital asset activity for the fiscal year ended June 30, 2010, was as follows:

	<b>Capital Assets</b>			
	<b>Beginning Balance July 1, 2009</b>	<b>Additions</b>	<b>Deletions</b>	<b>Ending Balance June 30, 2010</b>
Equipment - Instructional	\$208,160	\$3,050	\$0	\$211,210
Equipment - Office	21,027	0	0	21,027
Improvements	21,588	0	0	21,588
Total Capital Assets	250,775	3,050	0	253,825
Less: Accumulated Depreciation	(43,826)	(40,670)	0	(84,496)
Net Capital Assets	<u>\$206,949</u>	<u>(\$37,620)</u>	<u>\$0</u>	<u>\$169,329</u>

**5. DEFINED BENEFIT PENSION PLANS**

**A. School Employees Retirement System**

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

**5. DEFINED BENEFIT PENSION PLANS (Continued)**

**A. School Employees Retirement System (Continued)**

Funding Policy - Plan members are required to contribute 10% of their annual covered salary and the Academy is required to contribute 14% of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, 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 Fund and Health Care Fund) of the System. For fiscal year ending June 30, 2010, the allocation to pension and death benefits is 12.78%. The remaining 1.22% of the 14% employer contribution rate is allocated to the Health Care and Medicare B Funds. The Academy's contributions to SERS for the fiscal years ended June 30, 2010, 2009 and 2008 were \$19,663, \$11,454 and \$13,243, respectively; 100% has been contributed for fiscal years 2010, 2009 and 2008.

**B. State Teachers Retirement System**

Plan Description – The Academy participates in the State Teachers Retirement System of Ohio ("STRS Ohio"), a cost-sharing, multiple-employer defined benefit pension plan. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. Authority to establish and amend benefits is provided by Chapter 3307 of the Ohio Revised Code. STRS Ohio issues a publicly-available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to STRS Ohio, 275 East Broad Street, Columbus, Ohio 43215-3771, by calling toll free (888) 227-7877, or by visiting the STRS Ohio website at [www.strsoh.org](http://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 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.

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.

**5. DEFINED BENEFIT PENSION PLANS (Continued)**

**B. State Teachers Retirement System (Continued)**

Funding Policy – For the fiscal year ended June 30, 2010, plan members were required to contribute 10 percent of their annual covered salaries. The Sponsor was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations with the remainder being used to fund health care benefits. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The Academy's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2010, 2009, and 2008 were \$90,009, \$101,376, and \$76,039 respectively; 100 percent has been contributed for fiscal years 2010, 2009 and 2008.

**C. Social Security System**

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System have an option to choose Social Security or the School Employees Retirement System/State Teachers Retirement System. As of June 30, 2010, three members of the Board of Education have elected Social Security. The Board's liability is 6.2 percent of wages.

**6. POSTEMPLOYMENT BENEFITS**

**A. School Employee Retirement System**

Plan Description – The Academy participates in two cost-sharing, multiple-employer defined benefit OPEB plans administered by the School Employees Retirement System 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 as well as a prescription drug program. The Medicare B plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries up to a statutory limit. Benefit provisions and the obligations to contribute are established by SERS based on authority granted by State statute. The financial reports of both plans are included in the SERS Comprehensive Annual Financial Report. That report may be obtained by writing to SERS, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746 or by calling toll free (800) 878-5853. It is also posted on SERS' website, [www.ohsers.org](http://www.ohsers.org), under Employers/Audit Resources.

Funding Policy – State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation of statutorily required benefits, the SERS 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 under, and is administered in accordance with, Internal Revenue Code Section 105(e). For fiscal year 2010, 0.46 percent of covered payroll was allocated to health care. In addition, employers pay a surcharge for employees earning less than an actuarially determined amount; for fiscal year 2010, this amount was \$35,800.

Active employee members do not contribute to the Health Care Fund. Retirees and their beneficiaries are required to pay a health care premium that varies depending on the plan selected, the number of qualified years of service, Medicare eligibility and retirement status.

**6. POSTEMPLOYMENT BENEFITS (Continued)**

**A. School Employee Retirement System (Continued)**

The Academy's contributions for health care for the fiscal years ended June 30, 2010, 2009 and 2008 were \$8,999, \$3,403, and \$6,043, respectively; 100 percent has been contributed for fiscal years 2010, 2009 and 2008.

The SERS Retirement Board, acting with the advice of the actuary, allocates a portion of the current employer contribution rate to the Medicare B Fund. For fiscal year 2010, the actuarially required allocation was 0.76 percent of covered payroll. The Academy's contributions for Medicare Part B for the fiscal years ended June 30, 2010, 2009, and 2008 were \$1,622, \$614, and \$954 respectively, which equaled the required contribution for those fiscal years.

**B. School Teachers Retirement System**

**Plan Description** – The Academy contributes to the cost-sharing, multiple-employer defined benefit Health Plan administered by STRS Ohio for eligible, certificated retirees and their beneficiaries who participated in the defined benefit or combined pension plans offered by STRS Ohio. Benefits include hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare Part B premiums. Benefit provisions and the obligations to contribute are established by STRS Ohio based on authority granted by State statute. The Plan is included in the financial report of STRS Ohio. Interested parties can view the most recent Comprehensive Annual Financial Report by visiting [www.strsoh.org](http://www.strsoh.org) or by requesting a copy by calling toll-free 1-888-227-7877.

**Funding Policy** – Ohio law authorizes STRS Ohio to offer the Health Plan and gives the STRS Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Health Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for postemployment health care may be deducted from employer contributions. For fiscal year 2010, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. The Academy's contributions for health care for the fiscal years ended June 30, 2010, 2009, and 2008 were \$6,924, \$7,241, and \$5,849, respectively; and 100 percent has been contributed for fiscal years 2010, 2009 and 2008.

**7. RISK MANAGEMENT**

**A. Property and Liability**

The Academy is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2010, the Academy contracted with Great American Insurance Company for property and general liability insurance with a \$1,000,000 single occurrence limit and \$3,000,000 annual aggregate and no deductible. There has been no reduction in coverage from the prior year. There have been no settlements exceeding coverage in any of the last three fiscal years.

**B. Workers Compensation**

The Academy pays the State Workers Compensation System a premium for employee injury coverage. The premium is calculated by multiplying the monthly total gross payroll by a factor that is calculated by the State.

**8. EMPLOYEE MEDICAL AND DENTAL BENEFITS**

The Academy has contracted with a private carrier to provide employee medical/surgical benefits. The Academy pays 60 percent of the monthly premium and the employee is responsible for the remaining 40 percent. The Academy has also contracted with private carriers to provide dental coverage. The Academy pays 60 percent of the monthly premium and the employee is responsible for the remaining 40 percent.

**9. PURCHASED SERVICES**

Purchased service expenses during fiscal year 2010 were as follows:

<u>Type</u>	<u>Amount</u>
Professional Services	\$364,744
Rent and Property Services	214,493
Administrative Travel	2,291
Advertising and Communications	28,142
Pupil Transportation	18,383
Total	<u>\$628,053</u>

**10. OPERATING LEASES**

The Academy entered into a sublease agreement with Breeze Inc. on August 15, 2006 for the facilities located at 1200 East 200th St. Euclid, OH 44117. The monthly lease was \$12,500. Later on August 15, 2007 the Breeze Inc. opted out from the lease and the Academy signed a lease directly with the landlord of the premises, St. Paul Church. According to the new lease agreement which is renewable in one year terms, the monthly rent was \$12,425 for fiscal year 2010.

**11. CONTINGENCIES**

**A. Grants**

The Academy received financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the Academy. However, in the opinion of management, any such disallowed claims will not have a material effect on the financial position of the Academy. In fiscal year 2010, the Academy received grants from State and Federal agencies totaling \$462,499.

**B. Ohio Department of Education Enrollment Review**

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

**12. SPONSORSHIP AGREEMENT**

On March 15, 2006, the Buckeye Community Hope Foundation assumed responsibility for sponsorship of the Academy. The Sponsor is responsible for evaluating the performance of the Academy and has the authority to deny renewal of the contract at its expiration or terminate the contract prior to its expiration. In 2010, the original contract was extended until June 30, 2015. According to the contract, the Academy pays three percent of its foundation revenues to the Sponsor. In fiscal year 2010 the Academy's compensation to the Sponsor was \$30,853.

**13. MANAGEMENT COMPANY AGREEMENT**

In March 2006, the Academy contracted with Concept Schools, Inc. to serve as the Academy's management company. The contract is renewed automatically every year in one year terms unless the Academy or the management company decides otherwise. According to the contract, the Academy transfers 12 percent of the funds received from the State. In fiscal year 2010, the Academy paid fees in the amount of \$116,600 to Concept Schools for management services. A portion of these fees, amounting to \$60,657, were forgiven by Concept Schools, and are reflected in the statement of revenues, expenses and change in net assets as donated management fee.

**14. RELATED PARTIES**

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

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# Dave Yost • Auditor of State

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

Noble Academy - Cleveland  
Cuyahoga County  
1200 East 200<sup>th</sup> Street  
Euclid, Ohio 44117

To the Board of Directors:

We have audited the financial statements of Noble Academy - Cleveland, Cuyahoga County, (the Academy) as of and for the year ended June 30, 2010, and have issued our report thereon dated March 4, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

### **Internal Control Over Financial Reporting**

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

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 Academy'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 Academy's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed an instance of noncompliance or other matter we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2010-001.

We also noted certain matters not requiring inclusion in this report that we reported to the Academy's management in a separate letter dated March 4, 2011.

The Academy's response to the finding identified in our audit is described in the accompanying schedule of findings. We did not audit the Academy's response and, accordingly, we express no opinion on it.

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



**Dave Yost**  
Auditor of State

March 4, 2011

**NOBLE ACADEMY – CLEVELAND  
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS  
JUNE 30, 2010**

<b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS</b>
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**FINDING NUMBER 2010-001**

**Noncompliance Citation**

**Annual Financial Reporting**

Ohio Revised Code Section 117.38 provides that each public office shall file a financial report for each fiscal year. The report shall be certified by the proper officer or Board and filed with the Auditor of State within one hundred fifty days of the end of the fiscal year if GAAP statements are filed. The Auditor of State may prescribe forms by rule or may issue guidelines, or both, for such reports. If the Auditor of State has not prescribed a rule regarding the form for the report, the public office shall submit its report on the form utilized by the public office. In part this report shall contain the following:

- Amount of collections and receipts, and accounts due from each source; and
- Amount of expenditures for each purpose.

Ohio Administrative Code Section 117-2-03(B) further clarifies the filing requirements of Ohio Revised Code Section 117.38. This section requires that all counties, cities, and school districts, including educational service centers and community schools, file annual financial reports which are prepared using generally accepted accounting principles. Generally accepted accounting principles (GAAP) require the following:

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

Per our review of the Local Government Services Financial Filing website, the Academy did not file its financial statements for the year ended June 30, 2010.

In addition, Ohio Revised Code Section 117.38 provides, in part, that "at the time the report is filed with the auditor of state, the chief fiscal officer, except as otherwise provided in Section 319.11 of the Ohio Revised Code, shall publish notice in a newspaper published in the political subdivision or taxing district, and if there is no such newspaper, then in a newspaper of general circulation in the political subdivision or taxing district. The notice shall state that the financial report has been completed by the public office and is available for public inspection at the office of the chief fiscal officer."

No evidence was provided, by the Academy, that this required notice was published. This may prevent the public from being aware of the transparency available in the Academy.

By not filing their financial reports and annual notice, the Academy is not fulfilling their duties of accountability and transparency to the public.

We recommend the Academy organize its financial recordkeeping, develop tickler files as a reminder of filing dates and take all other steps necessary to file its financial statements within the prescribed time period and publish the notice of availability as required. If these financial statements are not filed within the prescribed timetable the Academy may be assessed a late filing penalty.

**NOBLE ACADEMY – CLEVELAND  
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS  
JUNE 30, 2010  
(Continued)**

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

**FINDING NUMBER 2010-001  
(Continued)**

**Noncompliance Citation (Continued)**

**Annual Financial Reporting (Continued)**

We also recommend at the time the report is filed with the auditor of state, the Academy, except as otherwise provided in section 319.11 of the Revised Code, shall publish notice in a newspaper published in the political subdivision or taxing district, and if there is no such newspaper, then in a newspaper of general circulation in the political subdivision or taxing district. The notice shall state that the financial report has been completed by the public office and is available for public inspection at the Academy's central office.

**MANAGEMENT'S RESPONSE:**

The Academy appreciates the assistance of the Auditor's office in informing the School of any missed deadlines. While the School did not file financial reports for fiscal year 2010 with the appropriate state agency, it appears they were completed in the correct format. The Academy will correct this problem for fiscal year 2011.



# Dave Yost • Auditor of State

**NOBLE ACADEMY- CLEVELAND**

**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  
MARCH 22, 2011**