



Dave Yost • Auditor of State

Noble Academy Cleveland
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For the Fiscal Year Ended June 30, 2011

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Dave Yost • Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

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

To the Board of Directors:

We have audited the accompanying basic financial statements of the Noble Academy - Cleveland, Cuyahoga County, Ohio (the Academy), as of and for the year ended June 30, 2011, 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 opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Noble Academy - Cleveland, as of June 30, 2011, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 15, 2012, 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 "D" and "Y".

Dave Yost
Auditor of State

June 15, 2012

Noble Academy - Cleveland
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2011
(Unaudited)

The discussion and analysis of Noble Academy - Cleveland's (the Academy) financial performance provides an overall review of the financial activities for the fiscal year ended June 30, 2011. 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 2011 are as follows:

- Total assets were \$202,392.
- Total liabilities were \$181,821.
- Total net assets decreased \$130,451.

Using this Financial Report

This report consists of three parts: the MD&A, the basic financial statements, and notes to those statements. The basic financial statements include a Statement of Net Assets, a Statement of Revenues, Expenses and Change in Net Assets, and a Statement of Cash Flows.

Reporting the Academy 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, 2011
(Unaudited)

Table 1 provides a comparison of net assets as of June 30, 2011 with net assets as of June 30, 2010.

Table 1

Net Assets		
<u>Assets</u>	<u>June 30, 2011</u>	<u>June 30, 2010</u>
Current and Other Assets	\$68,964	\$91,009
Capital Assets, Net	133,428	169,329
Total Assets	202,392	260,338
<u>Liabilities</u>		
Current Liabilities	178,502	109,316
Noncurrent Liabilities	3,319	0
Total Liabilities	181,821	109,316
<u>Net Assets</u>		
Invested in Capital		
Assets	133,428	169,329
Unrestricted	(112,857)	(18,307)
Total Net Assets	\$20,571	\$151,022

Total assets decreased \$57,946. Capital assets, net of accumulated depreciation decreased by \$35,901. Intergovernmental receivables decreased by \$42,112. Total liabilities increased by \$72,505. This increase is due mainly to increases of \$28,282 in accrued wages and \$24,693 in accounts payable.

Noble Academy - Cleveland
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2011
(Unaudited)

Table 2 shows the changes in net assets for the fiscal years 2011 and 2010.

Table 2		
Revenues, Expenses and Change in Net Assets		
	2011	2010
<u>Operating Revenue/Expense</u>		
Revenue		
Foundation Payments	\$1,364,693	\$1,383,063
Food Services	1,372	3,499
Classroom Fees	6,409	9,903
Extracurricular Activities	2,381	286
Other Local Revenue	17,530	13,478
Total Operating Revenues	1,392,385	1,410,229
Expense		
Salaries	963,708	908,695
Fringe Benefits	222,668	221,141
Purchased Services	516,151	628,053
Materials and Supplies	112,181	72,610
Depreciation Expenses	41,332	40,670
Miscellaneous Expense	52,889	77,425
Total Operating Expenses	1,908,929	1,948,594
Net Operating Loss	(516,544)	(538,365)
Non-Operating Revenues/Expenses		
Restricted Grant-In-Aid- Federal	377,689	455,250
Restricted Grant In-Aid- State	7,119	7,249
Donated Management Fee	650	60,657
Other revenue	1,200	0
Repayment of Prior Year Foundation Settlement	0	(2,350)
Interest Expense	(565)	0
Total Non-Operating Revenues/Expenses	386,093	520,806
Net Assets		
Change in Net Assets	(130,451)	(17,559)
Net Assets at Beginning of Year	151,022	168,581
Net Assets at End of Year	\$ 20,571	\$ 151,022

Foundation support and federal grant revenue decreased \$18,370 and \$77,561, respectively, primarily as a result of a decrease in student enrollment. The Academy also received in-kind support (donated management fee) in the amount of \$650 in 2011. Purchased services decreased \$111,902 also as a result of decreased need for purchased services resulting from decreased student enrollment.

Noble Academy - Cleveland
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2011
(Unaudited)

Foundation support is the primary support of the Academy, comprising 98% of operating revenue and 77% of total revenues. The Academy also received a significant portion of federal grants, which represents 27% of total revenue. Salaries and benefits comprise the largest portion of operating expenses, representing 62% of total operating expenses. Purchased services also represent a large portion of operating expenses, or 27%. Net assets decreased \$130,451 resulting from expenses in excess of revenues.

Capital Assets

At the end of fiscal year 2011, the Academy had \$259,256, invested in furniture and equipment (\$133,428 net of accumulated depreciation). Table 3 shows fiscal year 2011:

Table 3

Capital Assets				
	Balance			Ending
	July 1, 2010	Additions	Deletions	June 30, 2011
Equipment – Instructional	\$211,210	\$5,431	\$0	\$216,641
Equipment – Office	21,027	0	0	21,027
Improvements	21,588	0	0	21,588
Total Fixed Assets	253,825	5,431	0	259,256
Less: Accumulated Depreciation	(84,496)	(41,332)	0	(125,828)
Net Fixed Assets	\$169,329	\$(35,901)	\$0	\$133,428

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 Ramazan Celep, Treasurer, Noble Academy - Cleveland, 1200 E. 200th Street Euclid, Ohio 44117.

Noble Academy Cleveland
Statement of Net Assets
For the Fiscal Year Ended June 30, 2011

ASSETS:

Current Assets:

Cash and Cash Equivalents	\$68,964
Total Current Assets	<u>68,964</u>

Noncurrent Assets:

Capital Assets (Net of Accumulated Depreciation)	<u>133,428</u>
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Total Assets	<u>202,392</u>
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LIABILITIES:

Current Liabilities:

Accounts Payable	46,639
Accrued Wages and Benefits Payable	108,072
Payroll Liabilities	21,535
Capital Lease Payable – Due Within One Year	<u>2,256</u>

Total Current Liabilities	<u>178,502</u>
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Noncurrent Liabilities:

Capital Lease Payable - Due in More Than One Year	<u>3,319</u>
Total Noncurrent Liabilities	<u>3,319</u>

Total Liabilities	<u>181,821</u>
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NET ASSETS:

Invested in Capital Assets	133,428
Unrestricted (Deficit)	<u>(112,857)</u>
Total Net Assets	<u><u>\$20,571</u></u>

See accompanying notes to the basic financial statements.

Noble Academy Cleveland
Statement of Revenues, Expenses and Change in Net Assets
For the Fiscal Year Ended June 30, 2011

OPERATING REVENUES:

Foundation Payments	\$1,364,693
Food Services	1,372
Classroom Fees	6,409
Extracurricular Activities	2,381
Other Revenue	<u>17,530</u>

Total Operating Revenues 1,392,385

OPERATING EXPENSES:

Salaries	963,708
Fringe Benefits	222,668
Purchased Services	516,151
Materials and Supplies	112,181
Depreciation	41,332
Miscellaneous	<u>52,889</u>

Total Operating Expenses 1,908,929

Operating Loss (516,544)

NON-OPERATING REVENUES (EXPENSES):

Interest Expense	(565)
Restricted Grants in Aid - Federal	377,689
Restricted Grants in Aid - State	7,119
Donated Management Fee	650
Other Revenue	<u>1,200</u>

Total Non-Operating Revenues (Expenses) 386,093

Change in Net Assets (130,451)

Net Assets, Beginning of Year 151,022

Net Assets, End of Year \$20,571

See accompanying notes to the basic financial statements.

Noble Academy Cleveland
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2011

CASH FLOWS FROM OPERATING ACTIVITIES:

Cash Received from State of Ohio	\$1,364,693
Cash Received from Other Operating Revenues	27,692
Cash Payments to Suppliers for Goods and Services	(602,988)
Cash Payments to Employees for Services and Benefits	(1,144,139)
Other Cash Payments	(52,889)
Net Cash Used for Operating Activities	(407,631)

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:

Federal Grants Received	419,800
State Grants Received	7,119
Contributions and Donations	1,200
Net Cash Provided by Noncapital Financing Activities	428,119

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:

Proceeds from Lease	7,650
Principal Paid on Capital Lease	(2,075)
Interest Paid on Capital Lease	(565)
Payment for Capital Acquisitions	(5,431)
Net Cash Used for Capital and Related Financing Activities	(421)

Net Increase in Cash and Cash Equivalents	20,067
Cash and Cash Equivalents at Beginning of Year	48,897
Cash and Cash Equivalents at End of Year	\$68,964

RECONCILIATION OF OPERATING LOSS TO NET CASH USED FOR OPERATING ACTIVITIES

Operating Loss	(\$516,544)
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ADJUSTMENTS TO RECONCILE OPERATING LOSS TO NET CASH USED FOR OPERATING ACTIVITIES:

Depreciation	41,332
Donated Management Fee	650

Changes in Assets and Liabilities:

Increase in Accounts Payable	24,694
Increase in Accrued Wages and Benefits Payable	28,282
Increase in Payroll Liabilities	13,955
Total Adjustments	108,913

Net Cash Used for Operating Activities	(\$407,631)
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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. During fiscal year 2011, this contract was extended through June 30, 2015.

The Academy operates under the direction of a self-appointed five-member Board of Directors. 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 Directors controls the Academy's facility, which is currently staffed by 37 full and part time personnel who provide services to up to 225 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 2011.

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, 2011, 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, 2011

3. DEPOSITS

As of June 30, 2011, the Academy's bank balance of \$70,499 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, 2011, was as follows:

Capital Assets				
	Balance			Ending
	July 1, 2010	Additions	Deletions	June 30, 2011
Equipment – Instructional	\$211,210	\$5,431	\$0	\$216,641
Equipment – Office	21,027	0	0	21,027
Improvements	21,588	0	0	21,588
Total Fixed Assets	253,825	5,431	0	259,256
Less: Accumulated Depreciation	(84,496)	(41,332)	0	(125,828)
Net Fixed Assets	\$169,329	\$(35,901)	\$0	\$133,428

5. DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

The Academy contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing multiple-employer defined benefit pension plan. SERS provides retirement, 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. That report can be obtained on SERS' website at www.ohsers.org under Employers/Audit Resources.

Plan members are required to contribute 10% of their annual covered salary and the Noble Academy - Cleveland 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, 2011, the allocation to pension and death benefits is 11.81%. The remaining 2.19% of the 14% employer contribution rate is allocated to the Health Care and Medicare B Funds. The Academy's contributions to SERS for the years ended June 30, 2011, 2010, and 2009 were \$8,568, \$19,663 and \$11,454 respectively; and 100 percent has been contributed for fiscal years 2011, 2010 and 2009.

5. DEFINED BENEFIT PENSION PLANS

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 public employee retirement system. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 East Broad Street, Columbus, Ohio 43215-3371, by calling (888) 227-7877, or by visiting the STRS Ohio Web site 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 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.

Funding Policy – For fiscal year ended June 30, 2011, plan members were required to contribute 10 percent of their annual covered salaries. The Academy was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. 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, 2011, 2010 and 2009 were \$119,520, \$90,009 and \$101,376 respectively; 100 percent has been contributed for fiscal years 2011, 2010 and 2009.

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, 2011, three members of the Board of Directors 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 Systems 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 and traditional indemnity plans as well as a prescription drug program. The Medicare Part 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 the System based on authority granted by State statute. The financial reports of both Plans are included in the SERS Comprehensive Annual Financial Report which is available by contacting SERS at 300 East Broad St., Suite 100, Columbus, Ohio 43215-3746.

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. The Health Care Fund was established and is administered in accordance with the Internal Revenue Code Section 401h. For 2011, 4.16 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 2011, this amount was \$35,800.

Active employee members do not contribute to the Health Care Plan. 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.

The Academy's contributions for health care for the fiscal years ended June 30, 2011, 2010 and 2009 were \$2,546, \$8,999 and \$3,403 respectively; 100 percent has been contributed for fiscal years 2011, 2010 and 2009.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For 2011, this actuarially required allocation was 0.75 percent of covered payroll. The Academy's contributions for Medicare Part B for the fiscal years ended June 30, 2011, 2010, and 2009 were \$459, \$1,622, and \$614 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 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.

6. POSTEMPLOYMENT BENEFITS (Continued)

B. School Teachers Retirement System (Continued)

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 postemployment health care may be deducted from employer contributions. For 2011, STRS Ohio allocated employer contributions equal to one percent of covered payroll to the Health Care Stabilization Fund. The Academy's contributions for health care for the fiscal years ended June 30, 2011, 2010, and 2009 were \$9,194, \$6,924 and \$7,241, respectively; and 100 percent has been contributed for fiscal years 2011, 2010 and 2009.

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 2011, the Academy contracted with Selective 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 2011 were as follows:

<u>Type</u>	<u>Amount</u>
Professional Services	\$257,219
Rent and Property Services	218,032
Admin Travel	3,298
Advertising and Communications	22,892
Pupil Transportation	14,710
Total	<u>\$516,151</u>

10. OPERATING LEASES

The Academy entered into a sublease agreement with Breeze Inc. on August 15, 2006 for the facilities located at 1200 200th St. Cleveland, OH 44117. The monthly lease was \$12,500. On August 15, 2007, 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 \$12,736 for fiscal year 2011.

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 2011, the Academy received grants from State and Federal agencies totaling \$384,808.

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, Buckeye 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 2011 the Academy's compensation to the Sponsor was \$37,515.

13. MANAGEMENT COMPANY AGREEMENT

In March 2006, the Academy contracted with Concepts 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 2011, the Academy paid fees in the amount of \$79,000 to Concept Schools for management services. Fees amounting to \$650 were forgiven by Concept Schools, and are reflected in the statement of revenues, expenses and change in net assets as donated management fees.

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.

Noble Academy - Cleveland
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011

15. CAPITAL LEASES

The Academy entered into a capital lease agreement for a copier/printer during the fiscal year ended June 30, 2009. The lease meets the criteria of a capital lease as defined by Statement of Financial Accounting Standards No. 13, "Accounting for Lease," which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee. Principal payments for fiscal year 2011 totaled \$2,075. The following is a schedule of the future minimum lease payments required for the capital lease:

<u>Fiscal Year</u>	<u>Interest</u>	<u>Principal</u>	<u>Total</u>
2012	\$384	\$2,256	\$2,640
2013	186	2,454	2,640
2014	15	865	880
Total	<u>\$585</u>	<u>\$5,575</u>	<u>\$6,160</u>

16. SUBSEQUENT EVENTS

The Academy received a \$100,000 promissory note from Horizon Science Academy Cleveland Elementary School on August 29, 2011. This note was issued to help the Academy cover various operating costs.

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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 200th Street
Cleveland, Ohio 44117

To the Board of Directors:

We have audited the financial statements of the Noble Academy - Cleveland, Cuyahoga County, Ohio (the Academy) as of and for the year ended June 30, 2011, and have issued our report thereon dated June 15, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the 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 no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

We did note certain matters not requiring inclusion in this report that we reported to the Academy's management in a separate letter dated June 15, 2012.

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

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

Dave Yost
Auditor of State

June 15, 2012

NOBLE ACADEMY CLEVELAND
CUYAHOGA COUNTY

SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2011

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2010-001	The Academy did not file its annual report by the required deadline.	Yes	Corrected

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INDEPENDENT ACCOUNTANTS' REPORT ON APPLYING AGREED-UPON PROCEDURE

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

To the Board of Directors:

Ohio Rev. Code Section 117.53 states "the auditor of state shall identify whether the school district or community school has adopted an anti-harassment policy in accordance with Section 3313.666 of the Revised Code. This determination shall be recorded in the audit report. The auditor of state shall not prescribe the content or operation of any anti-harassment policy adopted by a school district or community school."

Accordingly, we have performed the procedure enumerated below, which was agreed to by the Board, solely to assist the Board in evaluating whether the Noble Academy - Cleveland (the Academy) has updated its anti-harassment policy in accordance with Ohio Rev. Code Section 3313.666. Management is responsible for complying with this requirement. This agreed-upon procedure engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of this procedure is solely the responsibility of the Board. Consequently, we make no representation regarding the sufficiency of the procedure described below either for the purpose for which this report has been requested or for any other purpose.

1. We noted the Academy amended its anti-harassment policy at its meeting on May 21, 2012 to include violence within a dating relationship within its definition of harassment, intimidation or bullying.

We were not engaged to and did not conduct an examination, the objective of which would be the expression of an opinion on compliance with the anti-harassment policy. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the Board and Academy's sponsor, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Dave Yost".

Dave Yost
Auditor of State

June 15, 2012

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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
JULY 5, 2012**