



Dave Yost • Auditor of State

**DOW LEADERSHIP INSTITUTE
CUYAHOGA COUNTY**

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Dave Yost • Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

Dow Leadership Institute
Cuyahoga County
8610 Hough Avenue
Cleveland, Ohio 44106

To the Board of Directors:

We have audited the accompanying basic financial statements of the Dow Leadership Institute, Cuyahoga County, Ohio, (the School), as of and for the initial year of operations ended June 30, 2012. These financial statements are the responsibility of the Institute's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Dow Leadership Institute, Cuyahoga County, Ohio, as of June 30, 2012, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 17, 2013, on our consideration of the School's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require this presentation to include *Management's Discussion and Analysis*, as listed in the table of contents, to supplement the basic financial statements. Although this information is not part of the basic financial statements, the Governmental Accounting Standards Board considers it essential for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any other assurance.

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

Dave Yost
Auditor of State

April 17, 2013

Dow Leadership Institute
Cuyahoga County
Management's Discussion and Analysis
For the Year Ended June 30, 2012
(Unaudited)

As management of the Dow Leadership Institute (the School), we offer readers of the School's financial statements this narrative overview and analysis of the financial activities of the School for the fiscal year ended June 30, 2012. The intent of this discussion and analysis is to look at the School's financial performance as a whole. Readers should also review the basic financial statements and the notes to the basic financial statements to enhance their understanding of the School's financial performance.

Financial Highlights

Key financial highlights for the School are as follows:

- The liabilities of the School exceeded its assets at the close of the most recent fiscal year by \$7,339 (negative net assets).
- The School's total assets increased by \$60,885 during the fiscal year, primarily as a result of state and federal grant programs.
- The School was able to open without the aid of any state or federal start-up grants.

Using this Annual Financial Report

This financial report contains the basic financial statements of the School, as well as the Management's Discussion and Analysis and notes to the basic financial statements. The basic financial statements include a statement of net assets, statement of revenues, expenses and changes in net assets, and a statement of cash flows. As the School reports its operations using enterprise fund accounting, all financial transactions and accounts are reported as one activity, therefore the entity wide and the fund presentation information is the same.

Statement of Net Assets and the Statement of Revenues, Expenses and Changes in Net Assets

The statement of net assets and the statement of revenues, expenses and changes in net assets answer the question, "How did we do financially during the fiscal year?" The statement of net assets includes all assets and liabilities, both financial and capital, and short-term and long-term, using the accrual basis of accounting and the economic resources measurement focus, which is similar to the accounting used by most private-sector companies. This basis of accounting takes into account all revenues and expenses during the year, regardless of when the cash is received or paid.

This statement reports the School's net assets; however, in evaluating the overall position and financial viability of the School, non-financial information such as the condition of the School's property and potential changes in the laws governing charter schools in the State of Ohio will also need to be evaluated.

The statement of revenues, expenses and changes in net assets reports the changes in net assets. This change in net assets is important because it tells the reader that, for the School as a whole, the financial position of the School has improved or diminished. The causes of this change may be the result of many factors, some financial, some not.

Dow Leadership Institute
Cuyahoga County
Management's Discussion and Analysis
For the Year Ended June 30, 2012
(Unaudited)

Financial Analysis

Table 1 provides a summary of the School's net assets at June 30, 2012.

Table 1
Net Assets at Year End

Assets:	
Current and Other Assets	\$ 44,012
Capital Assets, Net	16,873
Total Assets	<u>60,885</u>
Liabilities:	
Current Liabilities	63,995
Noncurrent Liabilities	4,229
Total Liabilities	<u>68,224</u>
Net Assets:	
Invested in Capital Assets	11,506
Restricted	6,615
Unrestricted	<u>(25,460)</u>
Total Net Assets	<u>\$ (7,339)</u>

As this was the initial period of operation, a comparative analysis has not been presented. In future years, when prior year information is available, a comparative analysis will be presented.

Dow Leadership Institute
 Cuyahoga County
 Management's Discussion and Analysis
 For the Year Ended June 30, 2012
 (Unaudited)

Financial Analysis

Table 2 shows the change in net assets for the fiscal year ended June 30, 2012.

Table 2
Changes in Net Assets

Operating Revenues:	
Foundation Revenues	\$ 426,511
Total Operating Revenues	<u>426,511</u>
Operating Expenses:	
Salaries	174,776
Fringe Benefits	54,582
Purchased Services	215,364
Materials and Supplies	62,437
Depreciation	821
Other	6,163
Total Operating Expenses	<u>514,143</u>
Operating Loss	<u>(87,632)</u>
Non-Operating Revenues (Expenses)	
Federal Grants	33,703
Contributions	47,283
Interest Expense	(693)
Total Non-Operating Revenues (Expenses)	<u>80,293</u>
Change in Net Assets	(7,339)
Net Assets, Beginning of Year	-
Net Assets, End of the Year	<u><u>\$ (7,339)</u></u>

As this was the initial period of operation, a comparative analysis has not been presented. In future years, when prior year information is available, a comparative analysis will be presented.

Dow Leadership Institute
Cuyahoga County
Management's Discussion and Analysis
For the Year Ended June 30, 2012
(Unaudited)

Capital Assets

At fiscal year-end, the School's net capital asset balance was \$16,873. This balance represents current year additions of \$17,694 offset by current year depreciation of \$821. For more information on capital assets, see Note 5 to the basic financial statements.

Debt

At fiscal year-end, the School's long-term capital lease obligation balance was \$5,367. This balance represents current year additions of \$6,094 offset by current year principle payments of \$727. For more information on capital leases, see Note 13 to the basic financial statements.

Current Financial Issues

The School is dependent upon legislative and governmental support to fund ongoing operations. The School is expected to grow in both the number of students and support staff as it enters the second year of operation, which will impact the School's funding since the School receives a majority of its financial support from per student state foundation payments.

Contacting the School

This financial report is designed to provide a general overview of the finances of the Dow Leadership Institute and to show the School's accountability for the monies it receives to all vested and interested parties, as well as meeting the annual reporting requirements of the State of Ohio. Any questions about the information contained within this report or requests for additional financial information should be directed to the Treasurer of Dow Leadership Institute, 8610 Hough Ave, Cleveland, OH 44106.

**DOW LEADERSHIP INSTITUTE
CUYAHOGA COUNTY**

STATEMENT OF NET ASSETS
AS OF JUNE 30, 2012

Assets:

Current Assets	
Cash and Cash Equivalents	\$ 27,475
Intergovernmental Receivables	16,537
Total Current Assets	<u>44,012</u>

Noncurrent Assets	
Nondepreciable Capital Assets	1,000
Depreciable Capital Assets, Net	15,873
Total Noncurrent Assets	<u>16,873</u>

Total Assets	<u><u>\$ 60,885</u></u>
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Liabilities:

Current Liabilities	
Accounts Payable	\$ 57,900
Accrued Wages Payable	3,352
Intergovernmental Payable	1,605
Capital Lease Payable	1,138
Total Current Liabilities	<u>63,995</u>

Noncurrent Liabilities:	
Capital Lease Payable	4,229
Total Noncurrent Liabilities	<u>4,229</u>

Total Liabilities	<u><u>68,224</u></u>
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Net Assets:

Invested in Capital Assets	11,506
Restricted	6,615
Unrestricted	(25,460)
Total Net Assets	<u>(7,339)</u>

Total Liabilities and Net Assets	<u><u>\$ 60,885</u></u>
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See accompanying notes to the basic financial statements.

**DOW LEADERSHIP INSTITUTE
CUYAHOGA COUNTY**

STATEMENT OF REVENUES, EXPENSES AND CHANGES
IN NET ASSETS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

Operating Revenues:	
Foundation Revenue	\$ 426,511
Total Operating Revenues	<u>426,511</u>
Operating Expenses:	
Salaries	174,776
Fringe Benefits	54,582
Purchased Services	215,364
Materials and Supplies	62,437
Depreciation	821
Other	6,163
Total Operating Expenses	<u>514,143</u>
Operating Loss	<u>(87,632)</u>
Non-Operating Revenues (Expenses):	
Federal Grant Revenue	33,703
Contributions	47,283
Interest Expense	(693)
Total Non-Operating Revenues (Expenses)	<u>80,293</u>
Change in Net Assets	(7,339)
Net Assets Beginning of Year	-
Net Assets End of Year	<u>\$ (7,339)</u>

See accompanying notes to the basic financial statements.

**DOW LEADERSHIP INSTITUTE
CUYAHOGA COUNTY**

STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

Cash Flows from Operating Activities:	
Cash Received from State of Ohio	\$ 426,511
Cash Payments to Employees for Services and Benefits	(240,924)
Cash Payments to Suppliers for Goods and Services	(227,064)
Net Cash Used for Operating Activities	<u>(41,477)</u>
Cash Flows from Noncapital Financing Activities:	
Cash Received from Grants	33,689
Cash Received from Contributions	47,283
Cash Received from Loans	33,500
Cash Payments for Loan Principal	(33,500)
Cash Payments for Loan Interest	(500)
Net Cash from Noncapital Financing Activities	<u>80,472</u>
Cash Flows from Capital and Related Financing Activities:	
Cash Payments for Capital Acquisitions	(10,600)
Cash Payments for Capital Lease Principal	(727)
Cash Payments for Capital Lease Interest	(193)
Net Cash Used for Capital and Related Financing Activities	<u>(11,520)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	27,475
Cash and Cash Equivalents at Beginning of Year	-
Cash and Cash Equivalents at End of Year	<u>\$ 27,475</u>
Reconciliation of Operating to Net Cash Used for Operating Activities:	
Operating Loss	\$ (87,632)
Adjustments to Reconcile Operating Loss to Net Cash Used for Operating Activities:	
Depreciation	821
Changes in Assets and Liabilities:	
Intergovernmental Receivable	(16,523)
Accounts Payable	56,900
Accrued Wages	3,352
Intergovernmental Payable	1,605
Net Cash Used for Operating Activities	<u>\$ (41,477)</u>

Schedule of Noncash Transactions:

During fiscal year 2012, the School entered into a capital lease agreement for a copier totaling \$6,094.

See accompanying notes to the basic financial statements.

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DOW LEADERSHIP INSTITUTE
Cuyahoga County
Notes to the Basic Financial Statements
For The Fiscal Year Ended June 30, 2012

1. Description of the School and Reporting Entity:

Dow Leadership Institute (the School), is a nonprofit corporation established pursuant to Ohio Revised Code Chapters 3314 and 1702 to address the needs of students in kindergarten through twelfth grade through customizing learning for each child. The School, which is part of the State's education program, is independent of any school district and is non sectarian in its programs, admission policies, employment practices, and all other operations. The School may sue and be sued, acquire facilities as needed, and contract for any services necessary for the operation of the School.

The School had one fiscal service provider during the 2012 fiscal year, Mangen & Associates School Resource Center. The Richland Academy was the School's sponsor in fiscal year 2012. The Sponsor is responsible for evaluating the performance of the School and has the authority to deny renewal of the contract at its expiration or terminate the contract prior to its expiration.

The School operates under the direction of a five-member Board of Trustees (the Board). The Board is responsible for carrying out the provisions of the contract, which include, but are not limited to, state-mandated provisions regarding student population, curriculum, academic goals, performance standards, admission standards, and qualifications of teachers. The Board controls the School's instructional/support facility staffed by 1 non-certified and 4 certificated full time teaching personnel who provide services to 59 students.

The School entered into a service agreement with Mangen & Associates to provide certain financial and accounting services, including performing all duties required of the Treasurer of the School. See Note 10.

2. Summary of Significant Accounting Policies:

The financial statements of the School have been prepared in conformity with accounting principles generally accepted in the United States of America, 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 School also applies Financial Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989, provided they do not conflict with or contradict GASB pronouncements. The School has elected not to apply FASB statements and interpretations issued after November 30, 1989. The more significant of the School's accounting policies are described below.

A. Basis of Presentation

Enterprise accounting is used to account for operations that are financed and operated in a manner similar to private business enterprises where the intent is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges or where it has been decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

DOW LEADERSHIP INSTITUTE
Cuyahoga County
Notes to the Basic Financial Statements
For The Fiscal Year Ended June 30, 2012

2. Summary of Significant Accounting Policies (Continued):

B. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment applied to a fund 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 are included on the statement of net assets. The difference between total assets and liabilities are defined as net assets. The statement of revenues, expenses and changes in fund net assets present increases (i.e., revenues) and decreases (i.e., expenses) in net total assets.

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made.

The accrual basis of accounting is utilized for reporting purposes. Revenues are recognized when they are earned, and expenses are recognized when they are incurred.

C. Budgetary Process

Unlike other public schools located in the state of Ohio, community schools are not required to follow budgetary provisions set forth in Ohio Rev. Code Section 5705, unless specifically provided in the Schools contract with its Sponsor. The contract between the School and its Sponsor does prescribe an annual budget requirement in addition to preparing a five-year forecast which is to be updated on an annual basis.

D. Cash and Cash Equivalents

All monies received by the School are maintained in a demand deposit account. For internal accounting purposes, the School segregates its cash into separate funds.

E. Capital Assets

Capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the fiscal year. Donated capital assets are recorded at their fair market values as of the date received. The School does not possess any infrastructure. The School maintains a capitalization threshold of \$500. Improvements are capitalized. The cost 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.

All reported capital assets, except land, are depreciated. Improvements to capital assets are depreciated over the remaining useful life of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

<u>Description</u>	<u>Estimate Life</u>
Building Improvements	25 years
Furniture, Fixtures, and Equipment	5 years

DOW LEADERSHIP INSTITUTE
Cuyahoga County
Notes to the Basic Financial Statements
For The Fiscal Year Ended June 30, 2012

2. Summary of Significant Accounting Policies (Continued):

F. Estimates

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

G. Intergovernmental Revenues

The School is a participant in the State Foundation Program. The foundation funding is recognized as operating revenues in the accounting period in which they are earned, essentially the same as the fiscal year received. Federal and state grants and entitlements are recognized as non-operating revenues in the accounting period in which all eligibility requirements of the grants have been met.

H. Operating and Non-Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly by the School's primary mission. For the School, operating revenues include revenues paid through the State Foundation Program. Operating expenses are necessary costs incurred to support the School's primary mission, including salaries, benefits, purchased services, materials and supplies and depreciation.

Non-operating revenues and expenses are those that are not generated directly by the School's primary mission. Various federal and state grants, interest earnings, if any, contributions, and interest charges comprise the non-operating revenues and expenses of the School.

I. Accrued Liabilities Payable

The School has recognized certain liabilities on its statement of net assets relating to expenses, which are due but unpaid as of fiscal year-end, including:

Wages payable – salary payments made after year-end to instructional and support staff for services rendered prior to the end of June, but whose payroll continues into the summer months based on the fiscal year 2012 contract.

Accounts payable – payments due for services or goods that were rendered or received during fiscal year 2012. Accounts payable as of June 30, 2012 is \$57,900, of which \$22,675 and \$1,000 represents related party transactions as the amount the School owes Mangen & Associates for services rendered and TJ Dow for land bank purchases, respectively. The portion of the accounts payable balance (\$1,000) related to land bank purchases was accrued for non-operating activities. Therefore, the Cash Flow statement only presents 56,900 as the change in accounts payable.

Intergovernmental payable - payments made after year-end for the Schools' share of retirement contributions, Medicare and Workers' Compensation associated with services rendered during the fiscal year.

DOW LEADERSHIP INSTITUTE
Cuyahoga County
Notes to the Basic Financial Statements
For The Fiscal Year Ended June 30, 2012

2. Summary of Significant Accounting Policies (Continued):

J. Unearned Revenue

If the School receives restricted funds that were not spent by the end of the fiscal year, the amount received is classified as unearned revenue and is carried over to the next fiscal year and repaid if not spent.

K. Federal Tax Exemption Status

The School is a non-profit organization that has been determined by the Internal Revenue Service to be exempt from federal income taxes as a tax-exempt organization under Section 501 (c)(3) of the Internal Revenue Code.

L. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets consists of capital assets, net of accumulated depreciation, less outstanding debt related to capital assets. Net assets are reported as restricted when there are limitations imposed on their use through external restrictions imposed by creditors, grantors or laws or regulations of other governments. The School applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

M. Economic Dependency

The School receives nearly 100% of its operating revenue from the Ohio Department of Education. Due to the significance of this revenue source, the School is considered to be economically dependent on the State of Ohio Department of Education.

3. Deposits and Investments:

At June 30, 2012, the carrying amount of the School's deposits was \$27,475 and the bank balance was \$32,444. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2012, the School's bank balance was not exposed to risk as it was covered by the Federal Deposit Insurance Corporation.

4. Intergovernmental Receivables:

All intergovernmental receivables are considered collectible in full due to the stable condition of State programs. Intergovernmental receivables at fiscal year-end represent federal grants of \$14, and pension overpayments of \$16,523, totaling \$16,537.

DOW LEADERSHIP INSTITUTE
Cuyahoga County
Notes to the Basic Financial Statements
For The Fiscal Year Ended June 30, 2012

5. Capital Assets:

Capital asset activity for the fiscal year ended June 30, 2012 was as follows:

	Beginning Balance	Additions	Deletions	Ending Balance
Nondepreciable Capital Assets				
Land	\$ -	\$ 1,000	\$ -	\$ 1,000
Depreciable Capital Assets				
Building Improvements	-	10,600	-	10,600
Furniture and Equipment	-	6,094	-	6,094
Total Depreciable Capital Assets	-	16,694	-	16,694
Accumulated Depreciation:				
Building Improvements	-	(212)	-	(212)
Furniture and Equipment	-	(609)	-	(609)
Total Accumulated Depreciation	-	(821)	-	(821)
Depreciable Capital Assets, Net	\$ -	\$ 15,873	\$ -	\$ 15,873

6. Risk Management:

A. Property and Liability - The School is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees, and natural disasters. For the year ended June 30, 2012, the School contracted with Ralph P. Sills Insurance Agency for its insurance coverage as follows:

General Liability (aggregate)	\$2,000,000
Each Occurrence Limit	\$1,000,000
Personal/Advertising Limit	\$1,000,000
Damage to Rented Premises	\$100,000
Medical Expense Limit	\$5,000

There was no significant reduction in coverage during the fiscal year. Settlement amounts did not exceed coverage amounts during the fiscal year.

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

C. Employee insurance Benefits - The School utilizes Superior Dental and Anthem to provide dental, health, life, accidental death and dismemberment insurance benefits to School employees.

DOW LEADERSHIP INSTITUTE
Cuyahoga County
Notes to the Basic Financial Statements
For The Fiscal Year Ended June 30, 2012

7. Defined Benefit Pension Plans:

A. School Employees Retirement System

Plan Description - The School contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing multiple employer defined benefit pension plan. SERS provides retirement and 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. The School Employees Retirement System 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 Employer/Audit Resources.

Funding Policy - Plan members are required to contribute 10% of their annual covered salary and the School 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, 2012, the allocation to pension and death benefits is 12.70%. The remaining 1.30% of the 14% employer contribution rate is allocated to the Health Care and Medicare B Funds. The School's required contributions for pension obligations to SERS for the fiscal year ended June 30, 2012 was \$3,740. The entire amount has been contributed for fiscal year 2012.

B. State Teachers Retirement System

Plan Description - The School contributes to the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement system. STRS Ohio is a statewide retirement plan for licensed teachers and other faculty members employed in the public schools of Ohio or any school, college, university, institution or other agency controlled, managed and supported, in whole or in part, by the state or any political subdivision thereof. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3771, by calling toll-free 1-888-227-7877 or by visiting the STRS Ohio Web site at www.strsoh.org.

Plan Options – New members have a choice of three retirement plan options. In addition to the Defined Benefit (DB) Plan, new members are offered a Defined Contribution (DC) Plan and a Combined Plan. The DC plan allows members to allocate all their member contributions and employer contributions equal to 10.5% of earned compensation among various investment choices. The Combined Plan offers features of the DC Plan and the DB Plan. In the Combined Plan, member contributions are allocated to investment choices by the member, and employer contributions are used to fund a defined benefit payment at a reduced level from the regular DB Plan. Contributions into the DC Plan and the Combined Plan are credited to member accounts as employers submit their payroll information to STRS Ohio, generally on a biweekly basis. DC and Combined Plan members will transfer to the DB Plan during their fifth year of membership unless they permanently select the DC or Combined Plan.

DOW LEADERSHIP INSTITUTE
Cuyahoga County
Notes to the Basic Financial Statements
For The Fiscal Year Ended June 30, 2012

7. Defined Benefit Pension Plans (continued):

DB Plan Benefits – Plan benefits are established under Chapter 3307 of the Revised Code. Any member may retire who has (i) five years of service credit and attained age 60; (ii) 25 years of service credit and attained age 55; or (iii) 30 years of service credit regardless of age. The annual retirement allowance, payable for life, is the greater of the “formula benefit” or the “money-purchase benefit” calculation. Under the “formula benefit”, the retirement allowance is based on years of credited service and final average salary, which is the average of the member’s three highest salary years. The annual allowance is calculated by using a base percentage of 2.2% multiplied by the total number of years of service credit (including Ohio-valued purchased credit) times the final average salary. The 31st year of earned Ohio service credit is calculated at 2.5%. An additional one-tenth of a percent is added to the calculation for every year of earned Ohio service over 31 years (2.6% for 32 years, 2.7% for 33 years and so on) until 100% of final average salary is reached. For members with 35 or more years of Ohio contributing service, the first 30 years will be calculated at 2.5% instead of 2.2%. Under the “money-purchase benefit” calculation, a member’s lifetime contributions plus interest at specified rates are matched by an equal amount from other STRS Ohio funds. This total is then divided by an actuarially determined annuity factor to determine the maximum annual retirement allowance.

DC Plan Benefits – Benefits are established under Sections 3307.80 to 3307.89 of the Revised Code. For members who select the DC Plan, all member contributions and employer contributions at a rate of 10.5% are placed in an investment account. The member determines how to allocate the member and employer money among various investment choices. 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. Employer contributions into members’ accounts are vested after the first anniversary of the first day of paid service. Members in the DC Plan who become disabled are entitled only to their account balance. If a member dies before retirement benefits begin, the member’s designated beneficiary is entitled to receive the member’s account balance.

Combined Plan Benefits – Member contributions are allocated by the member, and employer contributions are used to fund a defined benefit payment. A member’s defined benefit is determined by multiplying 1% of the member’s final average salary by the member’s years of service credit. The defined benefit portion of the Combined Plan payment is payable to a member on or after age 60. The defined contribution portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50.

A retiree of STRS Ohio or another Ohio public retirement system is eligible for reemployment as a teacher following the elapse of two months from the date of retirement. Contributions are made by the reemployed member and employer during the reemployment. Upon termination of reemployment or age 65, whichever comes later, the retiree is eligible for an annuity benefit or equivalent lump-sum payment in addition to the original retirement allowance. A reemployed retiree may alternatively receive a refund of only member contributions with interest before age 65, once employment is terminated.

Benefits are increased annually by 3% of the original base amount for DB Plan participants.

DOW LEADERSHIP INSTITUTE
Cuyahoga County
Notes to the Basic Financial Statements
For The Fiscal Year Ended June 30, 2012

7. Defined Benefit Pension Plans (continued):

The DB and Combined Plans offer access to health care coverage to eligible retirees who participated in the plans and their eligible dependents. Coverage under the current program includes hospitalization, physicians' fees, prescription drugs and partial reimbursement of monthly Medicare Part B premiums. By Ohio law, health care benefits are not guaranteed.

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 members who die before retirement may qualify for survivor benefits. A death benefit of \$1,000 is payable to the beneficiary of each deceased retired member who participated in the DB Plan. Death benefit coverage up to \$2,000 can be purchased by participants in the DB, DC or Combined Plans. Various other benefits are available to members' beneficiaries.

Chapter 3307 of the Revised Code provides statutory authority for member and employer contributions. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers. Contribution requirements and the contributions actually made for the fiscal year ended June 30, 2012, were 10% of covered payroll for members and 14% for employers.

The School's required contribution for pension obligations for the fiscal year ended June 30, 2012 was \$18,893. The entire amount has been contributed for fiscal year 2012.

C. Social Security

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. At fiscal year-end, all members of the Board of Education have elected Social Security. The Board's liability is 6.2% of wages paid.

8. Post-employment Benefits:

A. School Employees Retirement System

Postemployment Benefits – In addition to a cost-sharing multiple-employer defined benefit pension plan the School Employees Retirement System of Ohio (SERS) administers two cost-sharing, multiple employer postemployment benefit plans.

Medicare Part B Plan – The Medicare B plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries as set forth in Ohio Revised Code (ORC) 3309.69. Qualified benefit recipients who pay Medicare Part B premiums may apply for and receive a monthly reimbursement from SERS. The reimbursement amount is limited by statute to the lesser of the January 1, 1999 Medicare Part B premium or the current premium. The Medicare Part B monthly premium for calendar year 2012 was \$99.90 for most participants, but could be as high as \$319.70 per month depending on their income. SERS' reimbursement to retirees was \$45.50.

DOW LEADERSHIP INSTITUTE
Cuyahoga County
Notes to the Basic Financial Statements
For The Fiscal Year Ended June 30, 2012

8. Post-employment Benefits (continued):

The Retirement Board, acting with the advice of the actuary, allocates a portion of the current employer contribution rate to the Medicare B Fund. For fiscal year 2012, the actuarially required allocation is .75%. The School's required contributions for the year ended June 30, 2012 was \$221. The entire amount has been contributed for fiscal year 2012.

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

The ORC provides the statutory authority to fund SERS' postemployment benefits through employer contributions. Active members do not make contributions to the postemployment benefit plans.

The Health Care Fund was established under, and is administered in accordance with Internal Revenue Code 105(e). Each year after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer 14% contribution to the Health Care Fund. For the year ended June 30, 2012, the health care allocation is .55%. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. State law provides that no employer shall pay a health care surcharge greater than 2% of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5% of the total statewide SERS-covered payroll for the health care surcharge. For fiscal year 2012, the minimum compensation level was established at \$35,800. The surcharge, added to the unallocated portion of the 14% employer contribution rate is the total amount assigned to the Health Care Fund. The School's contributions assigned to health care, including the surcharge, for the fiscal year ended June 30, 2012 was \$718. The entire amount has been contributed for fiscal year 2012.

The SERS Retirement Board establishes the rules for the premiums paid by the retirees for health care coverage for themselves and their dependents or for their surviving beneficiaries. Premiums vary depending on the plan selected, qualified years of service, Medicare eligibility, and retirement status. The financial reports of SERS' Health Care and Medicare B plans are included in its *Comprehensive Annual Financial Report*. The report can be obtained by contacting SERS, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746 or by calling toll free (800) 878-5853. It is also posted on SERS' website at www.ohsers.org under Employers/Audit Resources.

DOW LEADERSHIP INSTITUTE
Cuyahoga County
Notes to the Basic Financial Statements
For The Fiscal Year Ended June 30, 2012

8. Post-employment Benefits (continued):

B. State Teachers Retirement System

Plan Description - The School contributes to the cost-sharing, multiple employer postemployment benefit Health Plan (the "Plan") administered by the State Teachers Retirement System of Ohio (STRS Ohio) for eligible retirees who participated in the defined benefit or combined pension plans offered by STRS Ohio. Benefits include hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare Part B premiums. The Plan is included in the report of STRS Ohio which may be obtained by writing 275 E. Broad St., Columbus, OH 43215-3371, by calling 1-888-227-7877, or by visiting the STRS Ohio web site at www.strsoh.org.

Funding Policy - Ohio law authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For 2012, STRS Ohio allocated employer contributions equal to 1% of covered payroll to post-employment health care. The School's required contributions for health care for the fiscal year ended June 30, 2012 was \$1,453. The entire amount has been contributed for fiscal year 2012.

9. Contingencies:

A. Grants

The School received financial assistance from federal and state agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, the effect of any such disallowed claims on the overall financial position of the School at June 30, 2012, if applicable, cannot be determined at this time. However, in the opinion of the School, any such disallowed claims will not have a material adverse effect on the financial position of the School at fiscal year-end.

B. Full-Time Equivalency Reviews

The Ohio Department of Education reviews enrollment and full-time equivalency (FTE) calculations made by the School. These reviews are conducted to ensure the School is reporting accurate student enrollment data to the State, upon which state foundation funding is calculated. There has been a review for the 2011-2012 school year; however, the conclusion of this review did not have a material effect on the financial statements.

DOW LEADERSHIP INSTITUTE
Cuyahoga County
Notes to the Basic Financial Statements
For The Fiscal Year Ended June 30, 2012

10. Contracted Fiscal Services:

The School is a party to a fiscal services agreement with Mangen & Associates (M&A) School Resource Center, which is an education finance consulting company. The Agreement may be terminated by either party, with or without cause, by giving the other party ninety days written notice to terminate. The Agreement provides that M&A will perform the following services:

1. Financial Management Services
2. Treasurer Services
3. Payroll / Payables Services
4. CCIP Budget / Federal Programs Monitoring
5. EMIS / DASL / SOES Services

The total amount paid for these services during fiscal year 2012 was \$57,500.

11. Purchased Services:

During the fiscal year, purchased service expenses for services rendered by various vendors were as follows:

Professional and Technical Services	\$ 174,924
Garbage Removal	1,327
Rentals	18,772
Security Services	5,431
Utilities	9,900
Contracted Food Services	5,010
Total	<u>\$ 215,364</u>

12. Operating Lease:

On September 15, 2011, the School entered into a lease agreement with Phoenix Village Academy for a classroom spaces, multi-purpose room, offices, and other common areas. The lease term was for a period of four months beginning September 15, 2011 and ending December 31, 2011. Monthly rent was \$4,000. Lease payments made to Phoenix Village Academy totaled \$4,000 during the fiscal year. The remaining balance of \$12,000 has been reported as a liability.

DOW LEADERSHIP INSTITUTE
 Cuyahoga County
 Notes to the Basic Financial Statements
 For The Fiscal Year Ended June 30, 2012

13. Capital Lease:

On September 12, 2011, the School entered into a capital lease agreement for a copier and related equipment. The agreement requires 60 monthly lease payments of \$115, which covers the cost of the equipment and installation. At fiscal year-end, the carrying amount of the copier was \$5,485 and the outstanding capital lease obligation was \$5,367. Changes in the School's capital lease obligation during the fiscal year were as follows:

Beginning Balance	Additions	Principal Payments	Ending Balance
\$ -	\$ 6,094	\$ (727)	\$ 5,367

Future principle and interest requirements are as follows:

Year	Principle	Interest	Total
2013	\$ 1,138	\$ 242	\$ 1,380
2014	1,196	184	1,380
2015	1,257	123	1,380
2016	1,321	59	1,380
2017	455	5	460
	\$ 5,367	\$ 613	\$ 5,980

14. Short-Term Debt/Related Party Transactions:

On August 29, 2011, the School entered into a short-term loan with the Shelvie Fund, totaling \$5,000, for building renovations. The School paid off the loan, including interest of \$500, on June 10, 2012.

On September 14, 2011, January 12, 2012, and January 30, 2012, the School entered into short-term loans for operations with Mangen & Associates, the School's Treasurer, for \$15,000, \$10,000, and \$3,500, respectively. The loans had interest rates of 0%. The School paid off the loans on November 3, 2011, January 16, 2012, and March 7, 2012, respectively.



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*

Dow Leadership Institute
Cuyahoga County
8610 Hough Avenue
Cleveland, Ohio 44106

To the Board of Directors:

We have audited the basic financial statements of the Dow Leadership Institute, Cuyahoga County, Ohio, (the School) as of and for the initial year of operations ended June 30, 2012, and have issued our report thereon dated April 17, 2013. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or combination of internal control deficiencies resulting in more than a reasonable possibility that a material misstatement of the School's financial statements will not be prevented, or detected and timely corrected.

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

Compliance and Other Matters

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

Dow Leadership Institute
Cuyahoga County
Independent Accountants' Report on Internal Control Over
Financial Reporting and on Compliance and Other Matters
Required by *Government Auditing Standards*
Page 2

We did note certain matters not requiring inclusion in this report that we reported to the School's management in a separate letter dated April 17, 2013.

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

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

Dave Yost
Auditor of State

April 17, 2013



Dave Yost • Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT ON APPLYING AGREED-UPON PROCEDURES

Dow Leadership Institute
Cuyahoga County
8610 Hough Avenue
Cleveland, Ohio 44106

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 Dow Leadership Institute (the School) 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 Board adopted an anti-harassment policy at its meeting on January 17, 2012.
2. We read the policy, noting it included the following requirements from Ohio Rev. Code Section 3313.666(B):
 - (1) A statement prohibiting harassment, intimidation, or bullying of any student on school property or at school-sponsored events;
 - (2) A definition of harassment, intimidation, or bullying that includes the definition in division (A) of Ohio Rev. Code Section 3313.666;
 - (3) A procedure for reporting prohibited incidents;
 - (4) A requirement that school personnel report prohibited incidents of which they are aware to the school principal or other administrator designated by the principal;
 - (5) A requirement that parents or guardians of any student involved in a prohibited incident be notified and, to the extent permitted by section 3319.321 of the Revised Code and the "Family Educational Rights and Privacy Act of 1974," 88 Stat. 571, 20 U.S.C. 1232q, as amended, have access to any written reports pertaining to the prohibited incident;

- (7) A procedure for documenting any prohibited incident that is reported;
- (8) A procedure for responding to and investigating any reported incident;
- (9) A strategy for protecting a victim from additional harassment, intimidation, or bullying, and from retaliation following a report;
- (10) A disciplinary procedure for any student guilty of harassment, intimidation, or bullying, which shall not infringe on any student's rights under the first amendment to the Constitution of the United States;
- (11) A requirement that the district administration semiannually provide the president of the district board a written summary of all reported incidents and post the summary on its web site, if the district has a web site, to the extent permitted by section 3319.321 of the Revised Code and the "Family Educational Rights and Privacy Act of 1974," 88 Stat. 571, 20 U.S.C. 1232q, as amended.
- (12) A statement that includes 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 of Directors and the School's Sponsor and is not intended to be and should not be used by anyone other than these specified parties.



Dave Yost
Auditor of State

April 17, 2013



Dave Yost • Auditor of State

DOW LEADERSHIP INSTITUTE

CUYAHOGA COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
MAY 9, 2013**