

**GEORGE V. VOINOVICH RECLAMATION ACADEMY
CUYAHOGA COUNTY**

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

4. RECEIVABLES

The School has intergovernmental receivables totaling \$7,205 at June 30, 2012. These receivables represented cash revenue earned, but not received as of June 30, 2012.

5. CAPITAL ASSETS

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

	<u>Balance 06/30/11</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 06/30/12</u>
Capital Assets:				
Leasehold Improvements	\$ -	\$ 80,901	\$ -	\$ 80,901
Computers and Software	-	16,036	-	16,036
Furniture, Fixtures, & Equipment	-	44,490	-	44,490
Total Capital Assets	-	141,427	-	141,427
Less Accumulated Depreciation:				
Leasehold Improvements	-	(13,483)	-	(13,483)
Computers and Software	-	(2,673)	-	(2,673)
Furniture, Fixtures, & Equipment	-	(4,449)	-	(4,449)
Total Accumulated Depreciation	-	(20,605)	-	(20,605)
Capital Assets, Net	\$ -	\$ 120,822	\$ -	\$ 120,822

6. RISK MANAGEMENT

Property & Liability

The School is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the fiscal year ending June 30, 2012, the School contracted with Willis of New York, Inc. for nonprofits and maintained general liability insurance with a \$1,250,000 single occurrence limit and \$20,000,000 annual aggregate and a combined policy aggregate coverage for various liability coverage in the amount of \$25,000,000.

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CUYAHOGA COUNTY**

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

7. NOTES PAYABLE

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

Promissory Notes	Balance			Balance
<u>Amount</u>	<u>July 1, 2011</u>	<u>Increase</u>	<u>Decrease</u>	<u>June 30, 2012</u>
\$316,665	<u>\$ 85,250</u>	<u>\$200,000</u>	<u>\$ 0</u>	<u>\$ 285,250</u>

8. DEFINED BENEFIT PENSIONS PLANS

A. School Employees Retirement System (SERS Ohio)

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

Funding Policy - Plan members are required to contribute 10 percent of their annual covered salary and the School is required to contribute at an actuarially determined rate. The current School rate is 14 percent of annual covered payroll. A portion of the School's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal year 2012, 12.65 percent and 0.05 percent of annual covered salary was the portion used to fund pension obligations and death benefits, respectively. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to a statutory maximum amount of 10 percent for plan members and 14 percent for employers. Chapter 3309 of the Ohio Revised Code provides statutory authority for member and employer contributions. The School's required contributions for pension obligations and death benefits to SERS for the fiscal years ended June 30, 2012 and 2011 were \$10,521 and \$9,374, respectively, which equaled the required contribution of the year or 100%.

B. State Teachers Retirement System (STRS Ohio)

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

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

8. DEFINED BENEFIT PENSIONS PLANS (Continued)

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

Plan Options - New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on a member's lifetime contributions and earned interest matched by STRS Ohio funds divided by an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump sum withdrawal. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. The DB portion of the Combined Plan payment is payable to a member on or after age 60; the DC portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50. Benefits are established by Chapter 3307 of the Ohio Revised Code.

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

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

The School's required contributions for pension obligations to STRS Ohio for the fiscal year ended June 30, 2012 and 2011 were \$36,340 and \$22,702, respectively, which is equal to 100 percent that has been contributed for fiscal year 2012. There were no contributions to the DC and Combined Plans for fiscal year 2012.

9. POST EMPLOYMENT BENEFITS

A. School Employee Retirement System (SERS Ohio)

Plan Description - The School participates in two cost-sharing, multiple employer postemployment benefit plans administered by the School Employees Retirement System (SERS) for non-certificated retirees and their beneficiaries, a Health Care Plan and a Medicare Part B Plan. The Health Care Plan includes hospitalization and physicians' fees through several types of plans including HMO's, PPO's, Medicare Advantage, and traditional indemnity plans. A prescription drug program is also available to those who elect health coverage. SERS employs two third-party administrators and a pharmacy benefit manager to manage the self-insurance and prescription drug plans, respectively.

**GEORGE V. VOINOVICH RECLAMATION ACADEMY
CUYAHOGA COUNTY**

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

9. POST EMPLOYMENT BENEFITS (Continued)

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

The Medicare Part B Plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries as set forth in Chapter 3309.69 of the Ohio Revised Code. Qualified benefit recipients who pay Medicare Part B premiums may apply for and receive a monthly reimbursement from SERS. The reimbursement amount is limited by statute to the lesser of the January 1, 1999 Medicare Part B premium or the current premium. The Medicare Part B premium for calendar year 2012 was \$99.90 and SERS' reimbursement to retirees was \$45.50. Benefit provisions and the obligations to contribute are established by the System based on authority granted by State statute. The financial reports of both Plans are included in the SERS Comprehensive Annual Financial Report which is available by contacting SERS at 300 East Broad St., Suite 100, Columbus, Ohio 43215-3746. It is also posted on the SERS' Ohio website, www.ohsers.org, under Employers/Audit Resources.

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

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

The School's contribution for health care (including surcharge) for the fiscal year ended June 30, 2012 and 2011 were \$1,709 and \$1,742, respectively; 100 percent has been contributed for fiscal year 2012 and 2011.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For fiscal year 2012, this actuarially required allocation was 0.75 percent of covered payroll. The School's contribution for Medicare Part B for the fiscal year ended June 30, 2012 and 2011 were \$621 and \$452, respectively; 100 percent has been contributed for fiscal year 2012 and 2011.

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CUYAHOGA COUNTY**

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

9. POST EMPLOYMENT BENEFITS (Continued)

B. State Teachers Retirement System (STRS Ohio)

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

Funding Policy -Ohio law authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For 2012, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. The School's contribution for health care for the fiscal year ended June 30, 2012 and 2011 were \$2,795 and \$1,746, respectively; 100 percent has been contributed for fiscal year 2012 and 2011.

10. CONTINGENCIES

A. Grants

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

B. Litigation

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

C. Full-Time Equivalency

The Ohio Department of Education (ODE) conducts reviews of enrollment data and full-time equivalency (FTE) calculations made by the School. These reviews are conducted to ensure the School is reporting accurate student enrollment data to the State, upon which state foundation funding is calculated. This review resulted in an adjustment of \$1,178 that the School was overpaid during fiscal year 2012.

11. SPONSOR CONTRACT

The School contracted with Educational Resource Consultants of Ohio, Inc. (ERCO) as its sponsor and oversight services as required by law. Sponsorship fees are calculated as a three percent of state funds received by the School from the State of Ohio. For the fiscal year ended June 30, 2012, the total sponsorship fees paid totaled \$17,370.

**GEORGE V. VOINOVICH RECLAMATION ACADEMY
CUYAHOGA COUNTY**

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

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

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

A. Financial Provisions

1. Management Consulting and Operation Fee

The School is required to remit monthly to Edison Learning, Inc. all qualified gross revenue defined in the contract as "all external source revenue which the School receives and for which the School or its students are eligible from federal or State sources." The following is a summary of current payment activity to Edison Learning, Inc., which included the Notes Payable amount of \$285,250:

Amount due current fiscal year	\$ 1,584,381
Amount remitted current fiscal year	<u>(542,000)</u>
Amount Due to Edison	<u>\$ 1,042,381</u>

2. The School's Financial Responsibility

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

3. Edison Financial Responsibilities

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

4. Budget

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

**GEORGE V. VOINOVICH RECLAMATION ACADEMY
CUYAHOGA COUNTY**

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

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

B. Educational Services

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

C. Personnel

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

D. Agreement Termination

1. Termination by the School

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

2. Termination by Edison Learning, Inc.

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

E. Edison Learning, Inc. - Purchased Services

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

Direct Site Expenses:

Salaries and Wages and Benefits	\$499,041
Professional and Technical Services	288,228
Curriculum and Materials	151,240
Property Services	63,754
Other Direct Costs	<u>24,133</u>
Total Expenses	<u>\$1,026,396</u>

13. FISCAL DISTRESS

Several factors have caused the School to experience fiscal distress. The School's cash balance at June 30, 2012 was \$4,485. Additionally, the School has significant liabilities at June 30, 2012 which has resulted in deficit net assets of (\$913,047). Overcoming this deficit may be difficult without significant increases to revenues in order to pay off outstanding liabilities and cover ongoing operating costs.

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CUYAHOGA COUNTY**

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

14. MANAGEMENT PLAN

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

15. LEASE OBLIGATIONS

The school entered into a lease agreement with the Buckeye Area Development Corporation for the current school premises. The lease term is from July 1, 2011 through June 30, 2015. The base rent through July 31, 2012 is \$3,500 per month. On August 1st of each year of the lease agreement base rent increases \$500 per month.

Future lease obligations are as follows:

FY 2013	\$ 47,500
FY 2014	53,500
FY 2015	<u>59,500</u>
TOTAL	<u>\$ 160,500</u>

16. SUBSEQUENT EVENT

On March 8, 2013, the School entered into an Amendment to the Amended and Restated Service Agreement and an Asset Purchase Agreement with Edison Learning, Inc., in which Edison Learning agreed to purchase certain assets of the School in exchange for the forgiveness of the Edison Note and other debts as of June 30, 2012. As of June 30, 2012 the assets to be exchanged had a cost of \$141,427 and an accumulated depreciation of \$20,605 and the debt to be forgiven was \$1,042,381.



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

George V. Voinovich Reclamation Academy
(DBA Southern Cleveland Drop Back In)
Cuyahoga County
11801 Buckeye Road
Cleveland, Ohio 44120

To the Board of Directors:

We have audited the financial statements of the George V. Voinovich Reclamation Academy, Cuyahoga County, Ohio, (the School) as of and for the year ended June 30, 2012, and have issued our report thereon dated July 22, 2013, wherein we noted the School has incurred a net deficit of \$913,047, as of and for the year ended June 30, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

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

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

Dave Yost
Auditor of State

July 22, 2013

**GEORGE V. VOINOVICH RECLAMATION ACADEMY
CUYAHOGA COUNTY**

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

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