



Dave Yost • Auditor of State

**NORTHEAST OHIO COLLEGE PREPARATORY SCHOOL
CUYAHOGA COUNTY**

TABLE OF CONTENTS

TITLE	PAGE
Independent Accountants' Report	1
Management's Discussion and Analysis	3
Basic Financial Statements:	
Statement of Net Assets	7
Statement of Revenues, Expenses and Changes in Net Assets	8
Statement of Cash Flows	9
Notes to the Basic Financial Statements	11
Independent Accountants' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by <i>Government Auditing Standards</i>	23

This page intentionally left blank.



Dave Yost • Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

Northeast Ohio College Preparatory School
Cuyahoga County
2280 Professor Avenue
Cleveland, Ohio 44113

To the Board of Directors:

We have audited the accompanying financial statements of the Northeast Ohio College Preparatory School, Cuyahoga County, Ohio, (the School), as of and for the year ended June 30, 2012, as listed in the table of contents. These financial statements are the responsibility of the School'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 Northeast Ohio College Preparatory School, 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 15, 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 15, 2013

**NORTHEAST OHIO COLLEGE PREPARATORY SCHOOL
CUYAHOGA COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2012
(UNAUDITED)**

The discussion and analysis of the Northeast Ohio College Preparatory School (the School) financial performance provides an overall review of the School's financial activities 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 notes to the basic financial statements to enhance their understanding of the School's financial performance.

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

FINANCIAL HIGHLIGHTS

Key Financial Highlights for the School for the 2011-12 school year are as follows:

- Total assets increased \$139,335.
- Total liabilities increased \$51,036.
- Total net assets increased were \$88,299.
- Total operating and non-operating revenues were \$2,802,056. Total operating expenses were \$2,713,757.

USING THIS ANNUAL REPORT

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

The Statement of Net Assets and Statement of Revenues, Expenses, and Changes in Net Assets reflect how the School did financially during fiscal year 2012. These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting includes all of the current year revenues and expenses regardless of when cash is received or paid.

These statements report the School's net assets and changes in those assets. This change in net assets is important because it tells the reader whether 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. Non-financial factors include the School's student enrollment, per-pupil funding as determined by the State of Ohio, change in technology, required educational programs and other factors.

The School uses enterprise presentation for all of its activities.

**NORTHEAST OHIO COLLEGE PREPARATORY SCHOOL
CUYAHOGA COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2012
(UNAUDITED)**

Statement of Net Assets

The Statement of Net Assets answers the question of how the School did financially during 2012. This statement includes all assets and liabilities, both financial and capital, and short-term and long-term using the accrual basis of accounting and economic resource focus, which is similar to the accounting used by most private-sector companies. This basis of accounting takes into account all revenues and expenses during the year, regardless of when the cash is received or paid.

Table 1 provides a summary of the School's net assets for fiscal year 2012 compared to fiscal year 2011.

**Table 1
Statement of Net Assets**

	2012	2011
Assets		
Current Assets	\$ 149,038	\$ 123,950
Capital Assets, Net of Accumulated Depreciation	265,064	150,817
Total Assets	414,102	274,767
Liabilities		
Current Liabilities	203,760	152,724
Total Liabilities	203,760	152,724
Net Assets		
Invested in Capital Assets	265,064	150,817
Unrestricted	(54,722)	(28,774)
Total Net Assets	\$ 210,342	\$ 122,043

Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2012, the School's net assets totaled \$210,342.

Current assets represent cash and cash equivalents, accounts receivable and grants receivable. Current liabilities represent accounts payable, state funding payable, accrued expenses and deferred revenue at fiscal year-end.

**NORTHEAST OHIO COLLEGE PREPARATORY SCHOOL
CUYAHOGA COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2012
(UNAUDITED)**

Statement of Revenues, Expenses and Changes in Net Assets

Table 2 shows the changes in net assets for fiscal years 2012 and 2011, as well as a listing of revenues and expenses. 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 cause of this may be the result of many factors, some financial, some not. Non-financial factors include the current laws in Ohio restricting revenue growth, facility conditions, required educational programs and other factors.

**Table 2
Change in Net Assets**

	<u>2012</u>	<u>2011</u>
Operating Revenue		
State Aid	\$ 2,164,015	\$ 1,449,605
Walton Family Foundation	-	250,000
Other	6,761	3,942
	<u>2,170,776</u>	<u>1,703,547</u>
Total Operating Revenues		
 Operating Expenses		
Salaries	856,150	819,878
Fringe Benefits	231,369	181,615
Purchased Services	1,318,212	762,758
Materials and Supplies	152,756	116,958
Depreciation	145,518	60,557
Other	9,752	23,797
	<u>2,713,757</u>	<u>1,965,563</u>
Total Operating Expenses		
 Operating (Loss)	(542,981)	(262,016)
 Non-Operating Revenues		
Federal & State Grants	458,242	384,059
Other Intergovernmental Revenues	173,038	-
	<u>631,280</u>	<u>384,059</u>
Total Non-Operating Revenues		
 Increase in Net Assets	 <u><u>\$ 88,299</u></u>	 <u><u>\$ 122,043</u></u>

**NORTHEAST OHIO COLLEGE PREPARATORY SCHOOL
CUYAHOGA COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2012
(UNAUDITED)**

BUDGETING HIGHLIGHTS

Unlike other public schools located in the State of Ohio, community schools are not required to follow budgetary provisions set forth in Ohio Rev. Code Chapter 5705 (with the exception section 5705.391 – Five Year Forecasts), unless specifically provided in the community school's contract with its Sponsor.

The contract between the School and its Sponsor does prescribe a budgetary process. The School must prepare and submit a detail budget for every fiscal year to the Board of Directors and its Sponsor. The five-year forecast is also submitted to the Ohio Department of Education, annually.

CAPITAL ASSETS

At fiscal year end, the School's net capital asset balance was \$265,064. This balance represents current year additions of \$259,765 offset by current year depreciation of \$145,518. For more information on capital assets, see Note 5 of the Basic Financial Statements.

CURRENT FINANCIAL ISSUES

The School is a community school and is funded through the State of Ohio Foundation Program. The School relies on this, as well as, State and Federal funds as its primary source of revenue.

During the fiscal year 2012, per pupil revenue decreased slightly over the prior year and stimulus monies through the State Fiscal Stabilization Fund (SFSF) were no longer available. As a result, the School was dependent on higher enrollments and active budget monitoring to close this gap. With no projected increase in per pupil funding for fiscal year 2013, the School will need to continue to closely manage expenses and evaluate the impact this will have on current and future year operations.

Overall, the School will continue to provide learning opportunities and apply resources to best meet the needs of students.

CONTACTING THE SCHOOL'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizen's, taxpayers, investors and creditors with a general overview of the School's finances and to demonstrate accountability for the money it receives. If you have questions about this report or need additional information contact C. David Massa, CPA, of Massa Financial Solutions, LLC, 1906 E. 40th St., Cleveland, Ohio 44103 or e-mail at dave@massasolutionsllc.com.

**NORTHEAST OHIO COLLEGE PREPARATORY SCHOOL
CUYAHOGA COUNTY**

**Statement of Net Assets
At June 30, 2012**

Assets

Current Assets:

Cash and Cash Equivalents	\$ 9,375
Accounts Receivable	126,909
Grants Receivable	12,754
	<hr/>

Total Current Assets

149,038

Noncurrent Assets:

Capital Assets:

Depreciable Capital Assets, net	<hr/> <u>265,064</u>
---------------------------------	----------------------

Total Noncurrent Assets

265,064

Total Assets

\$ 414,102

Liabilities

Current Liabilities:

Accounts Payable	\$ 30,142
State Funding Payable	76,152
Accrued Expenses	84,712
Deferred Revenue	12,754
	<hr/>

Total Liabilities

\$ 203,760

Net Assets

Invested in Capital Assets	265,064
Unrestricted	<hr/> <u>(54,722)</u>

Total Net Assets

\$ 210,342

See accompanying notes to the basic financial statements

**NORTHEAST OHIO COLLEGE PREPARATORY SCHOOL
CUYAHOGA COUNTY**

**Statement of Revenues,
Expenses and Changes in Net Assets
For the Year Ending June 30, 2012**

<u>Operating Revenues</u>	
State Aid	\$ 2,164,015
Other	6,761
Total Operating Revenues	<u>2,170,776</u>
<u>Operating Expenses</u>	
Salaries	856,150
Fringe Benefits	231,369
Purchased Services	1,318,212
Materials and Supplies	152,756
Depreciation	145,518
Other	9,752
Total Operating Expenses	<u>2,713,757</u>
Operating (Loss)	(542,981)
<u>Non-Operating Revenues</u>	
Federal Grants	458,242
Other Intergovernmental Revenues	173,038
Total Non-Operating Revenues	<u>631,280</u>
Change in Net Assets	88,299
Net Assets, Beginning of Year	<u>122,043</u>
Net Assets, End of Year	<u><u>\$ 210,342</u></u>

See accompanying notes to the basic financial statements

**NORTHEAST OHIO COLLEGE PREPARATORY SCHOOL
CUYAHOGA COUNTY**

**Statement of Cash Flows
For the Fiscal Year Ended June 30, 2012**

<u>Cash Flows from Operating Activities</u>	
Cash Received from State of Ohio	\$2,240,167
Cash Received from Other Operating Sources	6,761
Cash Payments to Suppliers for Goods and Services	(1,474,525)
Cash Payments to Employees for Services	(955,370)
Cash Payments for Employee Benefits	<u>(249,915)</u>
Net Cash (Used for) Operating Activities	(432,881)
<u>Cash Flows from Non-capital Financing Activities</u>	
Cash Received from Management Company Advances	20,000
Cash Received from Federal Grants	<u>441,814</u>
Net Cash Provided by Non-capital Financing Activities	461,814
<u>Cash Flows from Capital and Related Financing Activities</u>	
Cash Payments for Capital Acquisitions	<u>(86,727)</u>
Net Cash (Used for) Capital Financing Activities	(86,727)
Net (Decrease) in Cash and Cash Equivalents	(57,794)
Cash and Cash Equivalents, Beginning of Year	<u>67,169</u>
Cash and Cash Equivalents, End of Year	<u>\$ 9,375</u>

(continued)

**NORTHEAST OHIO COLLEGE PREPARATORY SCHOOL
CUYAHOGA COUNTY**

**Statement of Cash Flows
For the Fiscal Year Ended June 30, 2012
(Continued)**

**RECONCILIATION OF OPERATING LOSS TO NET
CASH (USED FOR) OPERATING ACTIVITIES**

Operating Loss	\$ (542,981)
Depreciation	145,518
Changes in Assets and Liabilities:	
(Increase)/ Decrease in Accounts Receivable	(103,407)
Increase/ (Decrease) in State Funding Payable	76,152
Increase/ (Decrease) in Accounts Payable	2,295
Increase/ (Decrease) Accrued Expenses	<u>(10,458)</u>
Net Cash (Used for) Operating Activities	<u>(432,881)</u>

Summary of Noncash Transactions

Non Cash Payments for Capital Acquisitions	\$ (173,038)
Non Cash Receipts from Intergovernmental Sources	\$ 173,038

See accompanying notes to the basic financial statements

**NORTHEAST OHIO COLLEGE PREPARATORY SCHOOL
CUYAHOGA COUNTY**

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

1. DESCRIPTION OF THE ENTITY

The Northeast Ohio College Preparatory School, (the School) is a nonprofit corporation established pursuant to Ohio Revised Code Chapters 3314 and 1702. The School's mission is to provide an orderly and supportive environment whereby students experience preparations for college, career and life. The School operates on a foundation, which fosters character building for all students, parents and staff members. The School, which is part of the State's education program, is independent of any school district and is nonsectarian in its programs, admission policies, employment practices, and all other operations. The School may acquire facilities as needed and contract for any services necessary for the operation of the School.

The School was approved for operation under a contract with Educational Resource Consultants of Ohio, Inc. ("ERCO") (the Sponsor) for a one year period commencing on July 1, 2011. 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 Board of Directors (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 populations, curriculum, academic goals, performance standards, admissions standards, and qualifications of teachers. The Board controls the School's instructional and administrative staff.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the School have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental nonprofit organizations. 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 more significant of the School's accounting policies are described below.

A. Basis of Presentation

The School's basic financial statements consist of a Statement of Net Assets, a Statement of Revenue, Expenses and Changes in Fund Net Assets, and a Statement of Cash Flows. Enterprise fund reporting focuses on the determination of the changes net assets, financial position and cash flows.

**NORTHEAST OHIO COLLEGE PREPARATORY SCHOOL
CUYAHOGA COUNTY**

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

A. Basis of Presentation (Continued)

Auditor of State of Ohio Bulletin No. 2000-005 identifies the presentation of all financial activity to be reported within one enterprise fund for year-ending reporting purposes. Enterprise accounting is used to account for operations that are financed and operated in a manner similar to private business enterprise where the intent is that the cost (expense) of providing goods and services to the general public on a continuing basis be financed or recovered primarily through user charges.

B. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment is determined by measurement focus. Under this measurement focus, all assets and all liabilities are included on the balance sheet. The operating statement presents increases (e.g., revenues) and decreases (e.g., 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 is used for reporting purposes. Revenues are recognized when they are earned, and expenses are recognized when they are incurred.

C. Budgetary Process

Unlike other public schools located in the state of Ohio, community schools are not required to follow budgetary provisions set forth in Ohio Revised Code Chapter 5705 (with the exception section 5705.391 – Five Year Forecasts), unless specifically provided for in the School's sponsorship agreement. The contract between the School and its Sponsor requires a detailed budget for each year of the contract.

D. Cash and Cash Equivalents

Cash received by the School is reflected as "Cash and Cash Equivalents" on the Statement of Net Assets. The School did not have any investments during the period ended June 30, 2012.

E. Estimates

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

**NORTHEAST OHIO COLLEGE PREPARATORY SCHOOL
CUYAHOGA COUNTY**

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. Capital Assets and Depreciation

Capital assets are capitalized at cost. Donated capital assets are recorded at their fair market values as of the date received. The costs of additions are capitalized and expenditures for repairs and maintenance are expensed when incurred. When property is sold or retired, the related costs and accumulated depreciation are removed from the financial records and any gain or loss is included in additions to or deductions from net assets. Capital assets were \$265,064, as of June 30, 2012, net of accumulated depreciation. Depreciation of capital assets is calculated utilizing the straight-line method over the estimated useful lives of the asset which are as follows:

<u>Asset Class</u>	<u>Useful Life</u>
Computers & Technology Assets	3 years
Furniture, Fixtures, & Equipment	5 years
Textbooks	3 years

The School's policy for asset capitalization threshold is \$5,000. Assets or certain asset groups not meeting the capitalization threshold are not capitalized and are not included in the assets represented in the accompany statement of net assets.

G. Intergovernmental Revenues

The School currently participates in the State Foundation Program. Revenues received from this program are recognized as operating revenues in the accounting period in which all eligibility requirements have been met.

Grants and entitlements are recognized as non-operating revenues in the accounting period in which eligibility requirements have been met.

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

The School also participates in various federal programs passed through the Ohio Department of Education.

Under the above programs the School recorded \$2,164,015 this fiscal year from the Foundation Program and \$631,280 from Federal grants and other intergovernmental sources.

**NORTHEAST OHIO COLLEGE PREPARATORY SCHOOL
CUYAHOGA COUNTY**

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

H. Compensated Absences

Vacation is taken in a manner which corresponds with the school calendar; therefore the School does not accrue vacation time as a liability.

Sick/personal leave benefits are earned by full-time employees at the rate of eight days per year and cannot be carried into the subsequent years. No accrual for sick time is made since unused time is not paid to employees upon employment termination.

I. Accrued Liabilities

Obligations incurred but unpaid at June 30 are reported as accrued liabilities in the accompanying financial statements. These liabilities consisted of accounts payable, state funding payable, accrued expenses, and deferred revenue and totaled \$203,760 at June 30, 2012.

J. Exchange and Non-Exchange Transactions

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. Non exchange transactions, in which the School receives value without directly giving equal value in return, include grants, entitlements and donations. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the School must provide local resources to be used for a specified purpose, and expenditures requirements, in which the resources are provided to the School on a reimbursement basis.

K. Net Assets

Net assets represent the difference between assets and liabilities. Net assets are reported as restricted when there are limitations imposed on their use through external restriction imposed by creditors, grantors, or laws and 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. Net assets invested in capital assets consist of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets.

L. Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activities of the School. For the School, these revenues are primarily the State Foundation program. Operating expenses are necessary costs incurred to provide the good or service that is the primary activity of the School. All revenues and expenses not meeting this definition are reported as non-operating. There were no non-operating expenses reported at June 30, 2012.

**NORTHEAST OHIO COLLEGE PREPARATORY SCHOOL
CUYAHOGA COUNTY**

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

3. CASH AND CASH EQUIVALENTS

The following information classifies deposits by category of risk as defined in GASB Statement No.3 "Deposits with Financial Institutions, Investments (including Repurchase Agreements) and Reverse Repurchase Agreements," as amended by GASB Statement No.40, "Deposit, and Investment Risk Disclosures".

The School maintains its cash balances at one financial institution, PNC Bank, located in Ohio. The balances are insured by the Federal Deposit Insurance Corporation (FDIC) in an unlimited amount, since the School only has non-interest bearing accounts. At June 30, 2012, the book amount of the School's deposits was \$9,375 and the bank balance was \$14,592.

The School had no deposit policy for custodial risk beyond the requirement of state statute. Ohio law requires that deposits either be insured or be protected by eligible securities pledged to and deposited either with the School or a qualified trustee by the financial institution as security for repayment or by a collateral pool of eligible securities deposited with a qualified trustee to secure repayment of all public monies deposited in the financial institution whose market value shall be at least 105% of deposits being secured. At June 30, 2012, none of the bank balance was exposed to custodial credit risk.

4. RECEIVABLES

A. Accounts Receivable

The School has accounts receivables totaling \$126,909 at June 30, 2012. These receivables represented monies earned, but not received as of June 30, 2012.

B. Grants Receivable and Deferred Revenue

The School had allocated balances of federal Title I and IDEA grant monies at June 30, 2012 that were not fully expended and will be carried into the following fiscal year in the amount of \$12,754. This "Grants Receivable" is recorded on the Statement of Net Assets and offset by a corresponding entry in the same amount to "Deferred Revenue".

**NORTHEAST OHIO COLLEGE PREPARATORY SCHOOL
CUYAHOGA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED 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:				
Computers & Technology Assets*	\$ 84,481	\$ 241,627	\$ -	\$ 326,108
Furniture, Fixtures, & Equipment	74,252	12,203	-	86,455
Textbooks	52,641	5,935	-	58,576
Total Capital Assets	211,374	259,765	-	471,139
Less Accumulated Depreciation:				
Computers & Technology Assets	(28,160)	(108,702)	-	(136,862)
Furniture, Fixtures, & Equipment	(14,850)	(17,291)	-	(32,141)
Textbooks	(17,547)	(19,525)	-	(37,072)
Total Accumulated Depreciation	(60,557)	(145,518)	-	(206,075)
Capital Assets, Net	<u>\$ 150,817</u>	<u>\$ 114,247</u>	<u>\$ -</u>	<u>\$ 265,064</u>

* During the year, the School acquired technology assets through the Federal e-Rate program. The Universal Service Administrative Company (USAC) made payments of \$173,038 on the School's behalf. This amount was also recognized as "Other Intergovernmental Revenue" on the School's financial statements.

6. RISK MANAGEMENT

A. 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 First Insurance Company for nonprofits and maintained general liability insurance with a \$1,000,000 single occurrence limit and \$3,000,000 annual aggregate and a combined policy aggregate coverage for various liability coverage in the amount of \$3,000,000.

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 calculated by the State.

**NORTHEAST OHIO COLLEGE PREPARATORY SCHOOL
CUYAHOGA COUNTY**

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

6. RISK MANAGEMENT (Continued)

C. Employee Medical and Dental Benefits

The School provides medical, vision, and dental insurance benefits through Anthem to all full-time employees. During the School year, the School paid 100% of the monthly premiums for all employees.

7. DEFINED BENEFIT PENSIONS PLANS

A. School Employees Retirement System of Ohio (SERS Ohio)

Plan Description – 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 \$28,509 and \$15,633 respectively, which equaled the required contribution for each 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.

**NORTHEAST OHIO COLLEGE PREPARATORY SCHOOL
CUYAHOGA COUNTY**

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

7. 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 District's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2012 and 2011 was \$171,826 and \$84,323, which is equal to the required contributions for those years or 100 percent. There were no contributions to the DC and Combined Plans for fiscal year 2012.

8. 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

**NORTHEAST OHIO COLLEGE PREPARATORY SCHOOL
CUYAHOGA COUNTY**

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

8. POST EMPLOYMENT BENEFITS (Continued)

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

pharmacy benefit manager to manage the self-insurance and prescription drug plans, respectively. 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 2011 was \$96.40 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, .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 years ended June 30, 2012 and 2011, was \$4,629 and \$3,284 respectively which equaled the required contributions for those years or 100 percent.

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 years ended June 30, 2012 and 2011 was \$1,684 and \$849 which equaled the required contributions for those years, or 100 percent.

**NORTHEAST OHIO COLLEGE PREPARATORY SCHOOL
CUYAHOGA COUNTY**

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

8. 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 years ended June 30, 2012 and 2011 was \$13,217 and \$6,023 which equaled the required contributions for those years or 100 percent.

9. 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. As a result of the annual FTE reconciliation performed by the ODE, the school had a liability in the amount of \$76,152 recorded at June 30, 2012. This amount is due to the State of Ohio and is deducted from future State payments in the subsequent fiscal year.

**NORTHEAST OHIO COLLEGE PREPARATORY SCHOOL
CUYAHOGA COUNTY**

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

10. SPONSOR AND MANAGEMENT CONTRACTS

Sponsor

The School contracted with Educational Resource Consultants of Ohio, Inc. 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 \$67,143.

Management Company

The School entered into an agreement with I CAN Schools, a local nonprofit management company, to provide legal, financial, and other management support services for fiscal year 2012. The agreement was for a period of five years beginning July 1, 2011. Management fees are calculated as 18% of the total revenues received from the State of Ohio. The total amount paid by the School for the fiscal year ending June 30, 2012 was \$472,006 and is included under "Purchased Services" on the Statement of Revenues, Expenses and Changes in Net Assets.

11. PURCHASED SERVICES

For the period of July 1, 2011 through June 30, 2012, the School made the following purchased services commitments.

Professional and Technical Services	\$ 660,126
Property Services	225,380
Utilities	69,397
Travel and Meetings	250
Communications	11,723
Contractual Trade Services	243,809
Pupil Transportation	<u>107,528</u>
	<u><u>\$ 1,318,212</u></u>

**NORTHEAST OHIO COLLEGE PREPARATORY SCHOOL
CUYAHOGA COUNTY**

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

12. RELATED PARTY TRANSACTIONS

During the year, the School contracted with 100% of My Kids, LLC for teacher training and other academic services. 100% of My Kids, LLC is owned by two members of the management company and works with many other community schools in Ohio. This contract was approved by the School's Board of Directors. The total amount of payments made to the company by the School was \$10,800.

13. LEASE OBLIGATIONS

On May 27, 2010, the School entered into an operating lease with the Roman Catholic Diocese of Cleveland for space located at St. John Cantius Parish. The term of the lease is for a period of five years. Base rent expense for the fiscal year ended 2012 was \$49,440 and each year on the anniversary of the lease the rent shall automatically increase 3% of the current rental amount.

On August 27, 2010, the School entered into an additional lease with the Roman Catholic Diocese of Cleveland for more space located on the same St. John Cantius Parish campus. The term of the lease was for a period of one year, but can be automatically renewed for up to four one-year periods. Base rent expense for the fiscal year ended 2012 was \$132,000.

Future lease obligations are as follows:

	<u>Building 1</u>	<u>Building 2</u>
FY2013	\$50,923	\$132,000
FY2014	52,451	132,000
FY2015	54,024	132,000
Total	<u>\$206,838</u>	<u>\$528,000</u>



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

Northeast Ohio College Preparatory School
Cuyahoga County
2280 Professor Avenue
Cleveland, Ohio 44113

To the Board of Directors:

We have audited the financial statements of the Northeast Ohio College Preparatory School, Cuyahoga County, Ohio, (the School) as of and for the year ended June 30, 2012, and have issued our report thereon dated April 15, 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 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*.

Northeast Ohio College Preparatory School
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 15, 2013.

We intend this report solely for the information and use of the 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.

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

April 15, 2013



Dave Yost • Auditor of State

NORTHEAST OHIO COLLEGE PREPARATORY SCHOOL

CUYAHOGA COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
MAY 9, 2013**