



Dave Yost • Auditor of State

THE HALEY SCHOOL
CUYAHOGA COUNTY

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Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT

The Haley School
Cuyahoga County
4574 Warrensville Center Road
North Randall, Ohio 44128

To the Board of Directors:

Report on the Financial Statements

We have audited the accompanying financial statements of The Haley School, Cuyahoga County, Ohio (the School), as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the School's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for preparing and fairly presenting these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes designing, implementing, and maintaining internal control relevant to preparing and fairly presenting financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to opine on these financial statements based on our audit. We audited in accordance with auditing standards generally accepted in the United States of America and the financial audit standards in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require us to plan and perform the audit to reasonably assure the financial statements are free from material misstatement.

An audit requires obtaining evidence about financial statement amounts and disclosures. The procedures selected depend on our judgment, including assessing the risks of material financial statement misstatement, whether due to fraud or error. In assessing those risks, we consider internal control relevant to the School's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not to the extent needed to opine on the effectiveness of the School's internal control. Accordingly, we express no opinion. An audit also includes evaluating the appropriateness of management's accounting policies and the reasonableness of their significant accounting estimates, as well as our evaluation of overall financial statement presentation.

We believe the audit evidence we obtained is sufficient and appropriate to support our opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Haley School, Cuyahoga County as of June 30, 2013, and the changes in its financial position and its cash flows for the year then ended in accordance with the accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require this presentation to include *Management's discussion and analysis*, 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 applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, consisting of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries to the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not opine or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to opine or provide any other assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 19, 2014, 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. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School's internal control over financial reporting and compliance.



Dave Yost
Auditor of State
Columbus, Ohio

March 19, 2014

THE HALEY SCHOOL
CUYAHOGA COUNTY, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

The discussion and analysis of The Haley School's (the "School") financial performance provides an overall review of the School's financial activities for the fiscal year ended June 30, 2013. The intent of this discussion and analysis is to look at the School's financial performance as a whole; readers should also review the notes to the basic financial statements and financial statements to enhance their understanding of the School's financial performance.

Financial Highlights

Key financial highlights for 2013 are as follows:

- In total, net cash assets were \$28,891 at June 30, 2013.
- Receivables at June 30, 2013 totaled \$12,847.
- Prepaid expenses, consisting of employee insurance, totaled \$1,764 as of June 30, 2013.
- Aggregate accounts payable as of June 30, 2013 totaled \$100,441.
- The School had operating revenues of \$606,909 and operating expenses of \$702,711 for fiscal year 2013.
- The School also received \$74,496 in non-operating federal and private grants during fiscal year 2013.
- Total change in net position for fiscal year 2013 was (\$21,306).

Using these Basic Financial Statements

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand the School's financial activities. The statement of net position and statement of revenues, expenses and changes in net position provide information about the activities of the School.

Reporting the School's Financial Activities

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

The statement of net position and the statement of revenues, expenses and changes in net position answer this question: "How did the School do financially during 2013?" These statements include net position using principles generally accepted in the United States of America. This basis of accounting takes into account all revenues and expenses relating to the period, whether or not actually received or paid. These two statements report the School's net position and changes in net position. This change in net position 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. These statements can be found on pages 7 and 8 of this report.

THE HALEY SCHOOL
CUYAHOGA COUNTY, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

The table below provides a summary of the School's net position for fiscal year 2013. This is the School's first year of operation. Therefore, comparative information is not available.

Net Position

Assets:

Current assets:

Cash	\$	28,891
Receivables		12,847
Prepaid expenses		1,764
Total current assets		<u>43,502</u>

Non-current assets

Depreciable capital assets, net		35,633
Total non-current assets		<u>35,633</u>

Total assets.	\$	<u><u>79,135</u></u>
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Liabilities:

Current liabilities:

Accounts payable	\$	100,441
Total current liabilities		<u>100,441</u>
Total liabilities		<u>100,441</u>

Net position:

Investment in Capital Assets		35,633
Unrestricted (deficit)		(56,939)
Total net position	\$	<u><u>(21,306)</u></u>

Over time, net position can serve as a useful indicator of a government's financial position. At June 30, 2013, net position of the School totaled (\$21,306).

THE HALEY SCHOOL
CUYAHOGA COUNTY, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

The table below shows the changes in net position for fiscal year 2013. This is the School's first year of operation. Therefore, comparative information is not available. The School received \$561,527 in state funding from foundation payments during fiscal year 2013. Federal grant programs included the Child Nutrition Cluster, Title VI-B and Title I.

Change in Net Position

Operating revenues:	
State foundation	\$ 561,527
Other	45,382
Total operating revenues	<u>606,909</u>
Operating expenses:	
Salaries and wages	354,479
Fringe benefits	61,203
Purchased services	198,464
Materials and supplies	73,704
Capital Outlay	1,100
Depreciation	2,831
Other	10,930
Total operating expenses	<u>702,711</u>
Operating loss	(95,802)
Non-operating revenues (expenses):	
Federal and state grants	74,496
Total non-operating revenues (expenses)	<u>74,496</u>
Change in net position	(21,306)
Net position (deficit) at beginning of year	<u>-</u>
Net position (deficit) at end of year	<u><u>\$ (21,306)</u></u>

THE HALEY SCHOOL
CUYAHOGA COUNTY, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

Capital Assets and Debt Administration

Capital Assets

The School recorded \$38,464 in capital assets consisting of equipment and leasehold improvement during fiscal year 2013. The annual depreciation calculated was \$2,831. See Note 5 to the basic financial statements for additional information on the School's capital assets.

Debt Administration

The School does not have any debt obligations outstanding as of June 30, 2013.

Current Financial Related Activities

The School is sponsored by St. Aloysius Orphanage. The School is reliant upon State Foundation monies and Federal and private grants to offer quality, educational services to students.

In order to continually provide learning opportunities to the School's students, the School will apply resources to best meet the needs of its students. It is the intent of the School to apply for other State and Federal funds that are made available to finance its operations.

Contacting the School's Financial Management

This financial report is designed to provide our clients and creditors with a general overview of the School's finances and to show the School's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Mr. Dan Lamb, Treasurer, The Haley School, 4556 Warrensville Center Road, North Randall, OH 44128.

**THE HALEY SCHOOL
CUYAHOGA COUNTY, OHIO**

STATEMENT OF NET POSITION
JUNE 30, 2013

Assets:	
Current assets:	
Cash	\$ 28,891
Receivables:	
Accounts	5,293
Intergovernmental	7,554
Prepaid expenses	<u>1,764</u>
Total current assets	43,502
Non-current assets:	
Depreciable capital assets, net	<u>35,633</u>
Total non-current assets	<u>35,633</u>
Total assets	<u><u>\$ 79,135</u></u>
 Liabilities:	
Current liabilities:	
Accounts payable	<u>\$ 100,441</u>
Total current liabilities	<u>100,441</u>
Total liabilities	<u>100,441</u>
 Net position:	
Investment in capital assets	35,633
Unrestricted (deficit)	<u>(56,939)</u>
Total net position	<u><u>\$ (21,306)</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**THE HALEY SCHOOL
CUYAHOGA COUNTY, OHIO**

STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET POSITION
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

Operating revenues:	
State foundation	\$ 561,527
Other	45,382
Total operating revenues	<u>606,909</u>
Operating expenses:	
Salaries and wages	354,479
Fringe benefits	61,203
Purchased services	198,464
Materials and supplies	73,704
Capital Outlay	1,100
Depreciation	2,831
Other	10,930
Total operating expenses	<u>702,711</u>
Operating loss	(95,802)
Non-operating revenues (expenses):	
Federal and state grants	<u>74,496</u>
Total non-operating revenues (expenses)	<u>74,496</u>
Change in net position	(21,306)
Net position at beginning of year	<u>-</u>
Net position (deficit) at end of year	<u><u>\$ (21,306)</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**THE HALEY SCHOOL
CUYAHOGA COUNTY, OHIO**

STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

Cash flows from operating activities:	
Cash received from state foundation	\$ 561,527
Cash received from other operations	45,382
Cash payments for personnel services	(376,610)
Cash payments for purchased services	(156,755)
Cash payments for other expenses	(73,131)
Net cash used in operating activities	413
Cash flows from noncapital financing activities:	
Cash received from Federal and State grants	66,942
Net cash used in noncapital financing activities	66,942
Cash flows from capital financing activities:	
Acquisition and improvement of assets	(38,464)
Net cash used in capital financing activities	(38,464)
Net increase (decrease) in cash and cash	28,891
Cash at beginning of year	-
Cash at end of year	\$ 28,891
Reconciliation of operating loss to net cash used in operating activities:	
Operating (loss)	\$ (95,802)
Depreciation expense	2,831
Changes in assets and liabilities:	
Decrease/(Increase) in accounts receivable	(5,293)
Decrease/(Increase) in prepayments	(1,764)
(Decrease)/Increase in accounts payable	100,441
Net cash used in operating activities	\$ 413

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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THE HALEY SCHOOL
CUYAHOGA COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

NOTE 1 - DESCRIPTION OF THE SCHOOL AND REPORTING ENTITY

The Haley School (the “School”) is a nonprofit corporation established pursuant to Ohio Revised Code Chapters 3314 and 1702. The School is committed to providing diverse superior educational opportunities for a community of learners built on a foundation of character education in a safe environment ensuring the success of all children in our advancing technological society.

The School was approved under contract with The St. Aloysius Orphanage (the “Sponsor”) commencing on May 15, 2012 and ending on June 30, 2015. The Sponsor is responsible for evaluating the performance of the School and has the authority to deny renewal of the contract at its expiration.

The School operates under the direction of a Governing Authority which must contain at least five Directors who are not owners or employees, or relatives of owners or employees, of any for-profit company that operates or manages the School. The Governing Authority 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 qualification of teachers. The Governing Authority controls the School’s instructional/support facility staffed by employees who provide services to 81 students.

NOTE 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 (GAAP) 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’s significant accounting policies are described below.

A. Basis of Presentation

The School’s basic financial statements consist of a statement of net position, a statement of revenues, expenses, and changes in net position, and a statement of cash flows. 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 net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

B. Measurement Focus

The accounting and financial reporting treatment is determined by its measurement focus. Enterprise accounting uses a “flow of economic resources” measurement focus. With this measurement focus, all assets and all liabilities are included on the statements of net position. Net position is segregated into investments in capital assets and unrestricted components.

THE HALEY SCHOOL
CUYAHOGA COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

C. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. The School financial statements are prepared using the accrual basis of accounting. Revenues resulting from exchange transaction, in which each party gives and receives essentially equal value, is recorded when the exchange takes place. Revenues resulting from nonexchange transactions, in which the School receives value without directly giving equal value in return, such as grants and entitlements, are recognized in the 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. Expenses are recognized at the time they are incurred.

D. Budgetary Process

The contract between the School and its Sponsor prescribes an annual budget requirement in addition to preparing a 5-year forecast, which is to be updated on an annual basis. Chapter 5705.391 of the Ohio Revised Code also requires the School to prepare a 5-year forecast, update it annually and submit it to the Superintendent of Public Instruction at the Ohio Department of Education.

E. Cash and Investments

To improve cash management, all cash received by the School is pooled in a central bank account. Monies for the School are maintained in this account or temporarily used to purchase short-term investments.

For presentation on the financial statements, investments of the cash management pool and investments with the original maturity of three months or less at the time they are purchased by the School are considered to be cash equivalents. Investments with an initial maturity of more than three months that are not purchased from the pool are reported as investments.

The School had no investments during fiscal year 2013.

F. 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 maintains a capitalization threshold of \$1,500. The School does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not. Interest incurred during the construction of capital assets is also capitalized.

THE HALEY SCHOOL
CUYAHOGA COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

F. Capital Assets - (Continued)

All reported capital assets except for land are depreciated. Depreciation is computed using the straight line method over the following useful lives:

<u>Description</u>	<u>Estimated Lives</u>
Buildings and improvements	40 years
Furniture, fixtures and equipment	3 - 5 years
Leasehold improvements	15 years

G. Net Position

Net position represents the difference between assets and liabilities. Investment in capital assets consists of capital assets, net of accumulated depreciation. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation or through external restrictions imposed by creditors, grantors or laws, or regulations of other governments. The School applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net position are available.

H. Intergovernmental Revenue

The School currently participates in the State Foundation Program, Federal Food Reimbursement grants, Title VI-B, and Title I programs. Revenues received from the State Foundation Program are recognized as operating revenues in the accompanying financial statements. Revenues received from the remaining programs are recognized as non-operating revenues in the accompanying financial statements. Federal, State and local grant revenue for fiscal year 2013 totaled \$636,023.

I. Accrued Liabilities

The School has recognized certain expenses due, but unpaid as of June 30, 2013. These expenses are reported as accrued liabilities in the accompanying financial statements.

J. Prepayments

Certain payments to vendors reflect the costs applicable to future accounting periods and are recorded as prepaid items in the statement of net position. These items are reported as assets on the statement of net position using the consumption method. A current asset for the prepaid amounts is recorded at the time of the purchase and the expense is reported in the year in which services are consumed.

THE HALEY SCHOOL
CUYAHOGA COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

K. Estimates

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

L. Economic Dependency

The School receives approximately 92.5% 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.

M. Fair Value of Financial Instruments

Generally accepted accounting principles require disclosure of an estimate of fair value of certain financial instruments. The School's significant financial instruments are cash, accounts receivable, accounts payable and debt. For these financial instruments, carrying values approximate fair value due to their short-term nature. The debt approximates the fair value due to the School's ability to obtain similar financing with similar terms.

NOTE 3 – DEPOSITS

At June 30, 2013, the carrying amount of all School deposits was \$28,891. Based on the criteria described in GASB Statement No. 40, as of June 30, 2013, the entire bank balance was covered by the Federal Deposit Insurance Corporation (the "FDIC"). Custodial credit risk is the risk that, in the event of bank failure, the School's deposits may not be returned. The School has no deposit policy for custodial credit risk beyond the requirements of State statute, however all statutory requirements for the deposit of money had been followed.

NOTE 4 – RECEIVABLES AND PREPAID EXPENSES

Receivables at June 30, 2013, consisted of receivables arising from overpayments to SERS and STRS in the amounts of \$2,483 and \$2,810, respectively as well as grants receivable of \$7,554; these are included in the accompanying financial statements. All receivables are considered collectible in full. Also, at June 30, 2013 the company has prepaid insurance, described in Note 8, in the amount of \$1,764.

THE HALEY SCHOOL
CUYAHOGA COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

NOTE 5 - CAPITAL ASSETS

Capital asset activity for fiscal year 2013 was as follows:

	Balance July 1, 2012	Additions	Deletions	Balance June 30, 2013
Depreciable Capital Assets:				
Equipment	\$0	\$2,000	\$0	\$2,000
Leasehold Improvements	0	36,464	0	36,464
Total Depreciable Capital Assets	0	38,464	0	38,464
Less: Accumulated Depreciation				
Equipment	0	(400)	0	(400)
Leasehold Improvements	0	(2,431)	0	(2,431)
Total Accumulated Depreciation	0	(2,831)	0	(2,831)
Capital Assets, Net	\$0	\$35,633	\$0	\$35,633

NOTE 6 - PENSION PLANS

A. School Employees Retirement System

Plan Description - The School contributes to the School Employees Retirement System (SERS), a cost-sharing, multiple-employer defined benefit pension plan. SERS provides retirement, disability, 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 writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746. It is also posted on the SERS' Ohio website, www.ohsers.org, under "Employers/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, currently 14 percent of annual covered payroll. For fiscal year 2013, 13.05 percent and 0.05 percent of annual covered salary was the portion used to fund pension obligations and death benefits, respectively with the remainder being used to fund healthcare benefits. 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.. The School's required contributions for pension obligations and death benefits to SERS for the fiscal year ended June 30, 2013 totaled \$15,351 and 100 percent has been contributed for fiscal year 2013.

THE HALEY SCHOOL
CUYAHOGA COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

NOTE 6 - PENSION PLANS - (Continued)

B. State Teachers Retirement System of 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 website at www.strsoh.org, under "Publications".

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 2013, plan members were required to contribute 10 percent of their annual covered salaries. The School 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, 2013 totaled \$24,908 and 100 percent has been contributed for fiscal year 2013.

NOTE 7 - POSTEMPLOYMENT BENEFITS

A. School Employees Retirement System

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

THE HALEY SCHOOL
CUYAHOGA COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

NOTE 7 - POSTEMPLOYMENT BENEFITS – (Continued)

Medicare Part B Plan

The Medicare Part 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 2013 was \$104.90 for most participants, but could be as high as \$335.70 per month depending on their income. SERS' reimbursement to retirees was \$45.50.

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 2013, the actuarially required allocation is .74%. The School's required contribution for the year ended June 30, 2013 of \$867 has been 100 percent contributed and paid.

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, 2013, the health care allocation is .16%. 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. Statutes provide 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 2013, the minimum compensation level was established at \$20,525. 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 for health care for the fiscal years ended June 30, 2013 of \$187 have been 100 percent contributed for fiscal year 2013.

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 on SERS' website at www.ohsers.org under *Employers/Audit Resources*.

**THE HALEY SCHOOL
CUYAHOGA COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

NOTE 7 - POSTEMPLOYMENT BENEFITS – (Continued)

B. State Teachers Retirement System of 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, under “Publications” 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 2013, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. The School’s contributions for health care for the fiscal year ended June 30, 2013 of \$1,916 have been 100 percent contributed for fiscal year 2013.

NOTE 8 - RISK MANAGEMENT

A. Insurance Coverage

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. There have been no insurance settlements that exceeded insurance coverage in the last three years. In addition, there have been no significant reductions in insurance coverage for from the prior year. For the fiscal year ended 2013, the School contracted with Philadelphia Insurance Company and had the following insurance coverage:

Coverages	Limits of Coverage
General liability:	
Each occurrence	1,000,000
General aggregate	2,000,000
Medical expenses	5,000
Personal & advertising injury	1,000,000
Damages to rented premises, per occurrence	100,000
Products - aggregate	2,000,000
Automobile liability:	
Combined single limit - each accident	1,000,000
Excess/umbrella liability:	
Each occurrence	3,000,000
Workers compensation and employers liability:	
Each accident	1,000,000
Disease - each employee	1,000,000
Disease - policy limit	1,000,000

THE HALEY SCHOOL
CUYAHOGA COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

NOTE 8 - RISK MANAGEMENT – (Continued)

B. Workers' Compensation

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

NOTE 9 - FISCAL SERVICES CONTRACT

A. Sponsor Contract

The School entered into a sponsorship contract commencing on May 15, 2012 and ending on June 30, 2015 with St. Aloysius Orphanage (the "Sponsor") for its establishment. The Sponsor shall carry out the responsibilities established by law, including:

- Monitor the School's compliance with the laws applicable to the School and with the terms of this contract;
- Monitor and evaluate the academic and fiscal performance and the organization of the School on at least an annual basis;
- Provide reasonable technical assistance to the School in complying with this contract and with applicable laws (provided, however, the Sponsor shall not be obligated to give legal advice to the School);
- Take steps to intervene in the School's operation to correct problems in the School's overall performance, declare the School to be on probationary status under Ohio Revised Code Section 3314.073, suspend operation of the School pursuant to Ohio Revised Code Section 3314.072, or terminate or non-renew this contract pursuant to Ohio Revised Code Section 3314.07, as determined necessary by the Sponsor;
- Establish and/or require a plan of action to be undertaken if the School experiences financial difficulties or losses before the end of the school year; and
- Abide by the requirements of its contract with the Ohio Department of Education, even should those requirements affect the School.

The School paid St. Aloysius Orphanage \$13,959 during the fiscal year ended June 30, 2013.

B. Service Contract

The School entered into a service contract with Charter School Specialists, LLC (CSS), for a period of twelve months, commencing on July 1, 2012, and ending on June 30, 2013, to provide fiscal, payroll and Comprehensive Continuous Planning consulting services. The School paid CSS \$26,056 in service fees for fiscal year 2013.

THE HALEY SCHOOL
CUYAHOGA COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

NOTE 10 – 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 are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability. However, the effect of any such disallowed claims on the overall financial position of the School at June 30, 2013, if applicable, cannot be determined at this time.

B. Ohio Department of Education Enrollment Review

The Ohio Department of Education (ODE) conducts reviews of enrollment data and full-time equivalency (FTE) calculations made by the schools. These reviews are conducted to ensure the schools are reporting accurate student enrollment data to the State, upon which State foundation funding is calculated. The fiscal year 2013 review has not been completed as of the date of this report; however, the School does not anticipate a material impact on the financial statements as a result of the review.

C. Litigation

The School is not involved in any litigation that, in the opinion of management, would have a material effect on the financial statements.

NOTE 11 - OPERATING LEASES

The School entered into an operating lease agreement with the Rand Plaza Management, LLC to lease the property located at 4556 Warrensville Center Road. This agreement was transferred over to 4550 Real Estate, LLC on February 25, 2013. The initial lease term commenced May 1, 2012 and ends on June 30, 2015. The lease agreement grants the School a renewal option term of one year under the same terms and conditions as the initial lease term. The School can then exercise the option to renew for years 2016-2021 on newly negotiated terms. This agreement is, in substance, a rental agreement (operating lease) and the lease payments are classified as purchased services in the financial statements. The School made \$44,342 in payments to Rand Plaza Management and 4550 Real Estate during fiscal year 2013.

A schedule of the future lease payments required under the operating lease at June 30, 2013 follows:

Fiscal Year Ending June 30,	Amount
2014	\$ 76,500
2015	<u>78,000</u>
Total payments	<u>\$ 154,500</u>

THE HALEY SCHOOL
CUYAHOGA COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

NOTE 12 - PURCHASED SERVICES

For fiscal year 2013, purchased services expenses (reported below on a cash-basis) were as follows:

Purchased services expenses:	
Fiscal Services	\$ 26,056
Sponsorship Fees	13,959
Food Services	3,870
Facilities and Maintenance Fees	99,219
Legal Services	1,000
Professional Services	15,810
Instructional Services	1,458
Health Services	355
Other Administrative Services	<u>29,543</u>
Total	<u>\$ 191,270</u>

NOTE 13 - TAX EXEMPT STATUS

The School is in the process of applying for tax exempt status under § 501(c)(3) of the Internal Revenue Code. Management is not aware of any course of action or series of events that might adversely affect the School's ability to obtain this status.

NOTE 14 - MANAGEMENT PLAN

The Academy had an operating loss of \$95,802 and deficit net position of \$21,306 at June 30, 2013. The deficit net position is primarily a result of accounts payable reported at June 30, 2013. This liability will be paid through the School's State foundation revenue and additional Federal funding received during fiscal year 2014.

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Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS REQUIRED BY GOVERNMENT AUDITING STANDARDS

The Haley School
Cuyahoga County
4574 Warrensville Center Road
North Randall, Ohio 44128

To the Board of Directors:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of The Haley School, Cuyahoga County, (the School) as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the School's basic financial statements and have issued our report thereon dated March 19, 2014.

Internal Control Over Financial Reporting

As part of our financial statement audit, we considered the School's internal control over financial reporting (internal control) to determine the audit procedures appropriate in the circumstances to the extent necessary to support our opinion on the financial statements, but not to the extent necessary to opine on the effectiveness of the School's internal control. Accordingly, we have not opined on it.

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 a reasonable possibility that internal control will not prevent or detect and timely correct a material misstatement of the School's financial statements. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all internal control deficiencies that might be material weaknesses or significant deficiencies. Given these limitations, we did not identify any deficiencies in internal control that we consider material weaknesses. However, unidentified material weaknesses may exist. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings that we consider a significant deficiency in internal control. We consider finding 2013-001 to be a significant deficiency.

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, opining 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*.

Entity's Response to Findings

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

Purpose of this Report

This report only describes the scope of our internal control and compliance testing and our testing results, and does not opine on the effectiveness of the School's internal control or on compliance. This report is an integral part of an audit performed under *Government Auditing Standards* in considering the School's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Dave Yost
Auditor of State
Columbus, Ohio

March 19, 2014

THE HALEY SCHOOL
CUYAHOGA COUNTY

SCHEDULE OF FINDINGS
JUNE 30, 2013

FINDINGS RELATED TO THE FINANCIAL STATEMENTS
REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS

FINDING NUMBER 2013-001

Financial Reporting – Significant Deficiency

Sound financial reporting is the responsibility of the School's management and is essential to ensure the information provided to the readers of the financial statements is complete and accurate.

Although properly posted to the School's accounting system, the following deficiencies were noted and subsequent adjustments made to the School's financial statements for fiscal year 2013:

- The School misposted \$48,304 in Federal and State Grant Non-operating revenue as Other Operating revenue;
- The School misposted various Operating Expenses resulting in understatements of Fringe Benefits, Materials and Supplies and Capital Outlay of \$59,285, \$34,018 and \$1,100, respectively, and overstatements of Salaries and Wages and Purchased Services of \$18,920 and \$75,483, respectively;
- The School did not post \$5,741 in Accounts Payable and overstated Salaries and Wages Operating Expenses by \$178, resulting in understatements in Purchased Services Operating Expenses and Materials and Supplies Operating Expenses by \$3,276 and \$2,643, respectively;
- The School did not report \$35,633 as Investment in Capital Assets. The School also misreported (\$39,433) as Restricted Net Position. This resulted in an overstatement of Unrestricted (Deficit) Net Position of \$75,066; and
- The School misposted Operating Loss, and also included Non-operating revenues and Capital Financing purchases as Cash Flows from Operating Activities on its Statement of Cash Flows.

The lack of controls over the posting of financial transactions and financial reporting resulted in several errors and mispostings that required adjustments, and numerous modifications to the original financial reports.

We recommend the School take appropriate measures to ensure that all financial reports are in agreement with its accounting system and that all balances reflect the actual financial activity of the School.

Officials' Response: Reclassification entries made to move items from one line to another on financial statements are common in many types of audits. The itemized adjustments reflected herein have been made, and financial presentations will be appropriately adjusted in the future.

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Dave Yost • Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT ON APPLYING AGREED-UPON PROCEDURE

The Haley School
Cuyahoga County
4574 Warrensville Center Road
North Randall, Ohio 44128

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

We noted the Board adopted an anti-harassment policy on November 20, 2012. However, this policy did not include all matters required by Ohio Rev. Code 3313.666.

- (1) A procedure for reporting prohibited incidents;
- (2) A requirement that school personnel report prohibited incidents of which they are aware to the school principal or other administrator designated by the principal;
- (3) 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;
- (4) A procedure for documenting any prohibited incident that is reported;
- (5) A procedure for responding to and investigating any reported incident;
- (6) A strategy for protecting a victim from additional harassment, intimidation, or bullying, and from retaliation following a report;

- (7) 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; and
- (8) 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.

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

This report is intended solely for the information and use of the Board and 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
Columbus, Ohio

March 19, 2014



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THE HALEY 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
APRIL 1, 2014