



Dave Yost • Auditor of State



UNIVERSITY OF CLEVELAND PREPARATORY SCHOOL  
CUYAHOGA COUNTY

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# Dave Yost • Auditor of State

## INDEPENDENT AUDITOR'S REPORT

University of Cleveland Preparatory School  
Cuyahoga County  
1906 East 40<sup>th</sup> Street  
Cleveland, Ohio 44103

To the Board of Directors:

### ***Report on the Financial Statements***

We have audited the accompanying financial statements of the University of Cleveland Preparatory 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 the overall financial statement presentation.

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

***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the University of Cleveland Preparatory School, Cuyahoga County, Ohio, 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.

*Supplementary and Other Information*

Our audit was conducted to opine on the School's basic financial statements taken as a whole.

The Schedule of Federal Awards Receipts and Expenditures presents additional analysis as required by the U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations and is also not a required part of the financial statements.

The Schedule is management's responsibility, and derives from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. We subjected this Schedule to the auditing procedures we applied to the basic financial statements. We also applied certain additional procedures, including comparing and reconciling the Schedule directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves in accordance with auditing standards generally accepted in the United States of America. In our opinion, this Schedule is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated May 1, 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.

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  
Columbus, Ohio

May 1, 2014

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**UNIVERSITY OF CLEVELAND PREPARATORY SCHOOL  
CUYAHOGA COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2013  
(UNAUDITED)**

The discussion and analysis of the University of Cleveland Preparatory School (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 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 2012-13 school year are as follows:

- Total assets increased \$94,744.
- Total liabilities increased \$67,785.
- Total net position increased \$26,959.
- Total operating and non-operating revenues were \$3,315,679. Total operating expenses were \$3,288,720.

**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 Position, a Statement of Revenues, Expenses and Changes in Fund Net Position, and a Statement of Cash Flows.

The Statement of Net Position and Statement of Revenues, Expenses, and Changes in Net Position reflect how the School did financially during fiscal year 2013. 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 Position and changes in those assets. This change in Net Position 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.

**UNIVERSITY OF CLEVELAND PREPARATORY SCHOOL  
CUYAHOGA COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2013  
(UNAUDITED)**

**Statement of Net Position**

The Statement of Net Position answers the question of how the School did financially during 2013. 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 Position for fiscal year 2013 compared to fiscal year 2012.

**Table 1  
Statement of Net Position**

	<b>2013</b>	<b>2012</b>
<b>Assets</b>		
Current Assets	\$ 251,259	\$ 79,695
Other Assets	10,000	10,000
Capital Assets, Net of Accumulated Depreciation	220,742	297,562
Total Assets	482,001	387,257
<b>Liabilities</b>		
Current Liabilities	438,723	370,938
Total Liabilities	438,723	370,938
<b>Net Position</b>		
Net Investment in Capital Assets	220,742	297,562
Unrestricted	(177,464)	(281,243)
Total Net Position	\$ 43,278	\$ 16,319

Over time, Net Position can serve as a useful indicator of a government's financial position. At June 30, 2013, the School's net position totaled \$43,278.

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

**UNIVERSITY OF CLEVELAND PREPARATORY SCHOOL  
CUYAHOGA COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2013  
(UNAUDITED)**

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

Table 2 shows the changes in Net Position for fiscal years 2013 and 2012, as well as a listing of revenues and expenses. 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 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 Position**

	<u>2013</u>	<u>2012</u>
<b>Operating Revenue</b>		
State Aid	\$ 2,706,559	\$ 2,111,621
Other	39,046	5,638
Total Operating Revenues	<u>2,745,605</u>	<u>2,117,259</u>
 <b>Operating Expenses</b>		
Salaries	1,001,598	860,084
Fringe Benefits	251,152	204,913
Purchased Services	1,691,789	1,303,287
Materials and Supplies	140,022	156,744
Depreciation	163,762	138,788
Other	40,397	9,102
Total Operating Expenses	<u>3,288,720</u>	<u>2,672,918</u>
 Operating (Loss)	(543,115)	(555,659)
 <b>Non-Operating Revenues</b>		
Federal & State Grants	570,074	376,002
Other Intergovernmental Revenues	-	195,976
Total Non-Operating Revenues	<u>570,074</u>	<u>571,978</u>
 <b>Increase in Net Position</b>	<u>\$ 26,959</u>	<u>\$ 16,319</u>

**UNIVERSITY OF CLEVELAND PREPARATORY SCHOOL  
CUYAHOGA COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2013  
(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 \$220,742. This balance represents current year additions of \$86,943 offset by current year depreciation of \$163,762. For more information on capital assets, see Note 5 of the Basic Financial Statements.

**WORKING CAPITAL ADVANCES - CHARTER SCHOOL CAPITAL**

During the fiscal year, the School received working capital monies from Charter School Capital through a receivables purchase agreement. As the School receives monthly State funding, these advances are repaid, however, the School may elect to receive additional advances from Charter School Capital by entering into additional agreements.

**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. In fiscal year 2014, the State raised the base per pupil funding to \$5,745, which is up from \$5,653 in the previous two years. Additionally, community schools in Ohio will be allocated a small amount of facilities funding which is also per pupil based. This amount is projected to be approximately \$94 per pupil.

The full-time equivalent enrollment of the School for the year ended June 30, 2013 was 374.53 compared to a figure of 297.06 at the end of fiscal year 2012.

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

**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. 40<sup>th</sup> St., Cleveland, Ohio 44103 or e-mail at [dave@massasolutionsllc.com](mailto:dave@massasolutionsllc.com).

**UNIVERSITY OF CLEVELAND PREPARATORY SCHOOL  
CUYAHOGA COUNTY**

**Statement of Net Position  
At June 30, 2013**

**Assets**

*Current Assets:*

Cash and Cash Equivalents	\$ 19,117
Accounts Receivable	38,041
Grants Receivable	<u>194,101</u>

Total Current Assets 251,259

*Noncurrent Assets:*

Security Deposits	10,000
Capital Assets:	
Depreciable Capital Assets, net	<u>220,742</u>

Total Noncurrent Assets 230,742

Total Assets \$ 482,001

**Liabilities**

*Current Liabilities:*

Accounts Payable	\$ 50,776
Accrued Expenses	61,446
Advances Payable	132,400
Deferred Revenue	<u>194,101</u>

Total Liabilities \$ 438,723

**Net Position**

Net Investment in Capital Assets	220,742
Unrestricted	<u>(177,464)</u>

Total Net Position \$ 43,278

See accompanying notes to the basic financial statements

**UNIVERSITY OF CLEVELAND PREPARATORY SCHOOL  
CUYAHOGA COUNTY**

**Statement of Revenues,  
Expenses and Changes in Net Position  
For the Year Ending June 30, 2013**

<b><u>Operating Revenues</u></b>	
State Aid	\$ 2,706,559
Other	39,046
Total Operating Revenues	<u>2,745,605</u>
<b><u>Operating Expenses</u></b>	
Salaries	1,001,598
Fringe Benefits	251,152
Purchased Services	1,691,789
Materials and Supplies	140,022
Depreciation	163,762
Other	40,397
Total Operating Expenses	<u>3,288,720</u>
<b>Operating (Loss)</b>	(543,115)
<b><u>Non-Operating Revenues</u></b>	
Federal Grants	570,074
Total Non-Operating Revenues	<u>570,074</u>
<b>Change in Net Position</b>	26,959
<b>Net Position, Beginning of Year</b>	<u>16,319</u>
<b>Net Position, End of Year</b>	<u>\$ 43,278</u>

See accompanying notes to the basic financial statements

**UNIVERSITY OF CLEVELAND PREPARATORY SCHOOL  
CUYAHOGA COUNTY**

**Statement of Cash Flows  
For the Fiscal Year Ended June 30, 2013**

<b><u>Cash Flows from Operating Activities</u></b>	
Cash Received from State of Ohio	\$ 2,633,191
Cash Received from Other Operating Sources	29,656
Cash Payments to Suppliers for Goods and Services	(1,925,066)
Cash Payments to Employees for Services	(1,001,598)
Cash Payments for Employee Benefits	<u>(241,759)</u>
Net Cash (Used for) Operating Activities	(505,576)
<b><u>Cash Flows from Non-capital Financing Activities</u></b>	
Cash Received from Federal Grants	<u>563,312</u>
Net Cash Provided by Non-capital Financing Activities	563,312
<b><u>Cash Flows from Capital and Related Financing Activities</u></b>	
Cash Received from Advances	132,400
Cash Repayments on Prior Year Advances	(24,219)
Cash Repayments on Notes	(65,991)
Cash Payments for Capital Acquisitions	<u>(86,943)</u>
Net Cash (Used for) Capital Financing Activities	(44,753)
<b>Net Increase in Cash and Cash Equivalents</b>	12,983
<b>Cash and Cash Equivalents, Beginning of Year</b>	<u>6,134</u>
<b>Cash and Cash Equivalents, End of Year</b>	<u>\$ 19,117</u>

**UNIVERSITY OF CLEVELAND PREPARATORY SCHOOL  
CUYAHOGA COUNTY**

**Statement of Cash Flows  
For the Fiscal Year Ended June 30, 2013  
(Continued)**

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

<b>Operating Loss</b>	\$ (543,115)
Depreciation	163,762
Changes in Assets and Liabilities:	
(Increase)/ Decrease in Accounts Receivable	(5,167)
Increase/ (Decrease) in Accounts Payable	8,374
Increase/ (Decrease) in Accrued Expenses	(56,062)
Increase/ (Decrease) in State Funding Payable	<u>(73,368)</u>
Net Cash (Used for) Operating Activities	<u>(505,576)</u>

See accompanying notes to the basic financial statements



**UNIVERSITY OF CLEVELAND PREPARATORY SCHOOL  
CUYAHOGA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2013**

**1. DESCRIPTION OF THE ENTITY**

The University of Cleveland 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 Ohio Council of Community Schools ("OCCS") (the Sponsor) for a five 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 Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. 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 Position, a Statement of Revenue, Expenses and Changes in Net Position, and a Statement of Cash Flows. Enterprise fund reporting focuses on the determination of the changes Net Position, financial position and cash flows.

**UNIVERSITY OF CLEVELAND PREPARATORY SCHOOL  
CUYAHOGA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2013**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**A. Basis of Presentation (Continued)**

The Government Accounting Standards Board requires 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 position.

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 Position. The School did not have any investments during the period ended June 30, 2013.

**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.

**UNIVERSITY OF CLEVELAND PREPARATORY SCHOOL  
CUYAHOGA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2013**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**F. Capital Assets and Depreciation**

Capital assets are capitalized at cost. 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 Position. Capital assets were \$220,742, as of June 30, 2013, net of accumulated depreciation. Depreciation of capital assets is calculated utilizing the straight-line method over the estimated useful lives of the assets 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 accompanying Statement of Net Position.

**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 \$2,706,559 this fiscal year from the Foundation Program and \$570,074 from Federal Grants.

**UNIVERSITY OF CLEVELAND PREPARATORY SCHOOL  
CUYAHOGA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2013**

**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 ten 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, accrued expenses, advances payable, and deferred revenue totaling \$438,723 at June 30, 2013.

**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 Position**

Net Position represent the difference between assets and liabilities. Net Position is 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 Position are available. Net Position 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, 2013.

**UNIVERSITY OF CLEVELAND PREPARATORY SCHOOL  
CUYAHOGA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2013**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**M. Change in Accounting Principles**

In fiscal year 2013, the School implemented GASB Statement No. 63, "*Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*". GASB Statement No. 63 provides financial and reporting guidance for *deferred outflows of resources and deferred inflows of resources* which are financial statement elements that are distinct from assets and liabilities. GASB Statement No. 63 standardizes the presentation of deferred outflows or resources and deferred inflows of resources and their effects on a school's net position. The implementation of GASB Statement No. 63 has changed the presentation of the School's financial statements to incorporate the concepts of net position.

**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) up to \$250,000, per qualifying account. At June 30, 2013, the book amount of the School's deposits was \$19,117 and the bank balance was \$33,859.

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, 2013, none of the bank balance was exposed to custodial credit risk.

**4. RECEIVABLES**

**A. Accounts Receivable**

The School had accounts receivables totaling \$38,041 at June 30, 2013. These receivables represented monies earned, but not received as of June 30, 2013.

**B. Grants Receivable and Deferred Revenue**

The School had grant receivable balances of federal Title I and IDEA grant monies totaling \$194,101 at June 30, 2013.

**UNIVERSITY OF CLEVELAND PREPARATORY SCHOOL  
CUYAHOGA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2013**

**5. CAPITAL ASSETS**

For the period ending June 30, 2013, the School's capital assets consisted of the following:

	<u>Balance 06/30/12</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 06/30/13</u>
<b>Capital Assets:</b>				
Computers & Technology Assets	\$ 275,202	\$ 56,887	\$ -	\$ 332,089
Furniture, Fixtures, & Equipment	49,962	30,056	-	80,018
Textbooks	111,186	-	-	111,186
<b>Total Capital Assets</b>	436,350	86,943	-	523,293
<b>Less Accumulated Depreciation:</b>				
Computers & Technology Assets	(91,734)	(110,696)	-	(202,430)
Furniture, Fixtures, & Equipment	(9,993)	(16,004)	-	(25,997)
Textbooks	(37,062)	(37,062)	-	(74,124)
<b>Total Accumulated Depreciation</b>	(138,789)	(163,762)	-	(302,551)
<b>Capital Assets, Net</b>	<u>\$ 297,561</u>	<u>\$ (76,819)</u>	<u>\$ -</u>	<u>\$ 220,742</u>

**6. ADVANCES and OTHER SHORT TERM DEBT OBLIGATIONS**

During the fiscal year ending 2012, the School received a short-term note from Cleveland College Preparatory School, another community school managed by the same management company. The note activity for the year is reflected as follows:

<b>Promissory Note Amount</b>	<b>Balance July 1, 2012</b>	<b>Increase</b>	<b>Decrease</b>	<b>Balance June 30, 2013</b>
<u>\$ 150,000</u>	<u>\$ 65,991</u>	<u>\$ 0</u>	<u>\$ (65,991)</u>	<u>\$ 0</u>

Additionally in May 2013, the School received working capital advances from Charter School Capital through a receivables purchase agreement. As the School receives its monthly State funding, these advances are repaid, however, the School may elect to receive additional advances from Charter School Capital by entering into additional agreements. The amount of advances outstanding at June 30, 2013 was \$132,400.

**UNIVERSITY OF CLEVELAND PREPARATORY SCHOOL  
CUYAHOGA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2013**

**7. 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, 2013, the School contracted with Cincinnati Insurance Company for general liability insurance with a \$1,000,000 each occurrence/ \$2,000,000 annual aggregate, as well as, an umbrella policy with a \$5,000,000 aggregate limit. The School also had a \$1,000,000 School Leaders policy in place through National Union Fire Insurance.

**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.

**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 90% of the monthly premiums for all employees.

**8. DEFINED BENEFIT PENSIONS PLANS**

**A. School Employees Retirement System (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](http://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 2013, 13.05 percent and 0.05 percent of annual covered salary was the portion used to fund pension

**UNIVERSITY OF CLEVELAND PREPARATORY SCHOOL  
CUYAHOGA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2013**

**8. DEFINED BENEFIT PENSIONS PLANS (Continued)**

**A. School Employees Retirement System (SERS Ohio) (Continued)**

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, 2013 and 2012 were \$3,989 and \$3,795 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](http://www.strsoh.org).

**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.



**UNIVERSITY OF CLEVELAND PREPARATORY SCHOOL  
CUYAHOGA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2013**

**8. DEFINED BENEFIT PENSIONS PLANS (Continued)**

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

**Funding Policy** - For fiscal year 2013, 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, 2013 and 2012 were \$142,457 and \$107,437 respectively, which equaled the required contribution for each year or 100%. There were no contributions to the DC and Combined Plans for fiscal year 2013.

**9. POST EMPLOYMENT BENEFITS**

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

**Plan Description** - The School participates in two cost-sharing, multiple employer postemployment benefit plans administered by the School Employees Retirement System (SERS) for non-certificated retirees and their beneficiaries, a Health Care Plan and a Medicare Part B Plan. The Health Care Plan includes hospitalization and physicians' fees through several types of plans including HMO's, PPO's, Medicare Advantage, and traditional indemnity plans. A prescription drug program is also available to those who elect health coverage. SERS employs two third-party administrators and a pharmacy benefit manager to manage the self-insurance and prescription drug plans, respectively. 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 2013 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](http://www.ohsers.org), under Employers/Audit Resources.

**UNIVERSITY OF CLEVELAND PREPARATORY SCHOOL  
CUYAHOGA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2013**

**9. POST EMPLOYMENT BENEFITS (Continued)**

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

**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 2013, 0.16 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 2013, 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, 2013 and 2012, was \$490 and \$945 respectively; 100 percent has been contributed for fiscal years 2013 and 2012.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For fiscal year 2013, this actuarially required allocation was 0.74 percent of covered payroll. The School's contribution for Medicare Part B for the fiscal years ended June 30, 2013 and 2012 was \$225 and \$244 respectively; 100 percent has been contributed for fiscal years 2013 and 2012.

**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](http://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 2013, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. The School's contribution for health care for the fiscal year ended June 30, 2013 and June 30, 2012 was \$10,958 and \$8,264 respectively; 100% has been contributed for fiscal years 2013 and 2012.

**UNIVERSITY OF CLEVELAND PREPARATORY SCHOOL  
CUYAHOGA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2013**

**10. CONTINGENCIES**

**A. Grants**

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

**B. Litigation**

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

**C. Full-Time Equivalency**

The Ohio Department of Education (ODE) conducts reviews of enrollment data and full-time equivalency (FTE) calculations made by the School. These reviews are conducted to ensure the School is reporting accurate student enrollment data to the State, upon which state foundation funding is calculated. As a result of the annual FTE reconciliation performed by the ODE, the School had no liability recorded at June 30, 2013.

**11. SPONSOR AND MANAGEMENT CONTRACTS**

**A. Sponsor**

The School contracted with Ohio Council of Community Schools (OCCS) 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, 2013, the total sponsorship fees paid totaled \$81,197.

**B. 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 2013. 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 due from the School for the fiscal year ending June 30, 2013 was \$592,591 and is included under "Purchased Services" on the Statement of Revenues, Expenses and Changes in Net Position.

**UNIVERSITY OF CLEVELAND PREPARATORY SCHOOL  
CUYAHOGA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2013**

**12. RELATED PARTY TRANSACTIONS**

During the year, the School contacted 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 \$12,000.

**13. PURCHASED SERVICES**

For the period of July 1, 2012 through June 30, 2013, the School made the following purchased services commitments.

Professional and Technical Services	\$ 812,684
Property Services	298,690
Travel and Meetings	8,928
Utilities	70,931
Communications	40,798
Contractual Trade Services	267,558
Pupil Transportation	<u>192,200</u>
	<u>\$ 1,691,789</u>

**14. LEASE OBLIGATIONS**

On August 1, 2011, the School entered into a lease with the Cleveland Cuyahoga County Port Authority for 41,230 square feet of space located at 1906 East 40<sup>th</sup> Street in Cleveland, Ohio. The term of the lease is for a period of five years. Base rent expense for the fiscal year ended 2013 was \$191,000. Future lease obligations are as follows:

FY2014	\$192,000
FY2015	\$208,000
FY2016	<u>\$210,000</u>
Total	<u>\$610,000</u>

UNIVERSITY OF CLEVELAND PREPARATORY SCHOOL  
 CUYAHOGA COUNTY  
 SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES  
 FOR THE YEAR ENDED JUNE 30, 2013

FEDERAL GRANTOR <i>Pass Through Grantor</i> Program Title	Federal CFDA Number	Receipts	Disbursements
<b>U.S. DEPARTMENT OF AGRICULTURE</b>			
<i>Passed Through Ohio Department of Education</i>			
Child Nutrition Cluster:			
School Breakfast Program (SLP) - 2013	10.553	\$ 67,039	\$ 67,738
National School Lunch Program (NSLP) - 2013	10.555	160,952	159,646
Total Child Nutrition Cluster		<u>227,991</u>	<u>227,384</u>
<b>Total U.S. Department of Agriculture</b>		<u>227,991</u>	<u>227,384</u>
<b>U.S. DEPARTMENT OF EDUCATION</b>			
<i>Passed Through Ohio Department of Education</i>			
Title I Grants to Local Educational Agencies (Title I, Part A of the ESEA) - 2012	84.010	4,035	-
Title I Grants to Local Educational Agencies (Title I, Part A of the ESEA) - 2013	84.010	205,701	211,493
Total Title I Grants to Local Educational Agencies (Title I, Part A of the ESEA)		<u>209,736</u>	<u>211,493</u>
Special Education - Grants to States (IDEA, Part B) - 2012	84.027	2,998	-
Special Education - Grants to States (IDEA, Part B) - 2013	84.027	103,650	108,287
Total Special Education - Grants to States (IDEA, Part B)		<u>106,648</u>	<u>108,287</u>
Ohio Resident Educator Program - 2013	84.395	2,800	2,800
<b>Total U.S. Department of Education</b>		<u>319,184</u>	<u>322,580</u>
<b>Total Federal Financial Assistance</b>		<u><u>\$ 547,175</u></u>	<u><u>\$ 549,964</u></u>

*The accompanying notes are an integral part of this Schedule.*

**UNIVERSITY OF CLEVELAND PREPARATORY SCHOOL  
CUYAHOGA COUNTY**

**NOTES TO THE SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES  
FISCAL YEAR ENDED JUNE 30, 2013**

**NOTE A - SIGNIFICANT ACCOUNTING POLICIES**

The accompanying Schedule of Federal Awards Receipts and Expenditures (the Schedule) reports the University of Cleveland's Preparatory School's (the School) federal award programs' receipts and disbursements. The Schedule has been prepared on the cash basis of accounting.

**NOTE B - CHILD NUTRITION CLUSTER**

The School commingles cash receipts from the U.S. Department of Agriculture with similar State grants. When reporting expenditures on this Schedule, the School assumes it expends federal monies first.



# 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

University of Cleveland Preparatory School  
Cuyahoga County  
1906 East 40<sup>th</sup> Street  
Cleveland, Ohio 44103

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 University of Cleveland Preparatory 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 and have issued our report thereon dated May 1, 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.

***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 an instance of noncompliance or other matters we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2013-001.

***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, 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

May 1, 2014





# Dave Yost • Auditor of State

## INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

University of Cleveland Preparatory School  
Cuyahoga County  
1906 East 40<sup>th</sup> Street  
Cleveland, Ohio 44103

To the Board of Directors:

### ***Report on Compliance for Each Major Federal Program***

We have audited the University of Cleveland Preparatory School's (the School) compliance with the applicable requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133, Compliance Supplement* that could directly and materially affect each of the School's major federal programs for the year ended June 30, 2013. The *Summary of Audit Results* in the accompanying schedule of findings identifies the School's major federal programs.

### ***Management's Responsibility***

The School's Management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

### ***Auditor's Responsibility***

Our responsibility is to opine on the School's compliance for each of the School's major federal programs based on our audit of the applicable compliance requirements referred to above. Our compliance audit followed auditing standards generally accepted in the United States of America; the standards for financial audits included in the Comptroller General of the United States' *Government Auditing Standards*; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. These standards and OMB Circular A-133 require us to plan and perform the audit to reasonably assure whether noncompliance with the applicable compliance requirements referred to above that could directly and materially affect a major federal program occurred. An audit includes examining, on a test basis, evidence about the School's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe our audit provides a reasonable basis for our compliance opinion on the School's major programs. However, our audit does not provide a legal determination of the School's compliance.

### ***Basis for Qualified Opinion on Child Nutrition Cluster***

As described in finding 2013-002 in the accompanying schedule of findings, the School did not comply with requirements regarding Procurement and Suspension and Debarment applicable to its Child Nutrition Cluster major federal program. Compliance with this requirement is necessary, in our opinion, for the School to comply with requirements applicable to this program.

### ***Qualified Opinion on Child Nutrition Cluster***

In our opinion, except for the noncompliance described in the *Basis for Qualified Opinion on Child Nutrition Cluster* paragraph, the University of Cleveland Preparatory School complied, in all material respects, with the requirements referred to above that could directly and materially affect its Child Nutrition Cluster for the year ended June 30, 2013.

### ***Unmodified Opinion on Each of the Other Major Federal Programs***

In our opinion, the University of Cleveland Preparatory School complied in all material respects with the requirements referred to above that could directly and materially affect its other major federal program identified in the summary of auditor's results section of the accompanying schedule of findings for the fiscal year ended June 30, 2013.

### ***Other Matters***

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

### ***Report on Internal Control Over Compliance***

The School's management is responsible for establishing and maintaining effective internal control over compliance with the applicable compliance requirements referred to above. In planning and performing our compliance audit, we considered the School's internal control over compliance with the applicable requirements that could directly and materially affect a major federal program, to determine our auditing procedures appropriate for opining on each major federal program's compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not to the extent needed to opine on the effectiveness of internal control over compliance. Accordingly, we have not opined on the effectiveness of the School's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. Therefore, we cannot assure we have identified all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. However, as discussed below, we identified a certain deficiency in internal control over compliance that we consider to be a material weakness.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, when performing their assigned functions, to prevent, or to timely detect and correct, noncompliance with a federal program's applicable compliance requirement. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a federal program's compliance requirement will not be prevented, or timely detected and corrected. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings costs as item 2013-002 to be a material weakness.

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

This report only describes the scope of our tests of internal control over compliance and the results of this testing based on OMB Circular A-133 requirements. Accordingly, this report is not suitable for any other purpose.

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  
Columbus, Ohio

May 1, 2014

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UNIVERSITY OF CLEVELAND PREPARATORY SCHOOL  
CUYAHOGA COUNTY

SCHEDULE OF FINDINGS  
OMB CIRCULAR A -133 § .505  
JUNE 30, 2013

**1. SUMMARY OF AUDITOR'S RESULTS**

<b>(d)(1)(i)</b>	<b>Type of Financial Statement Opinion</b>	Unmodified
<b>(d)(1)(ii)</b>	<b>Were there any material control weaknesses reported at the financial statement level (GAGAS)?</b>	No
<b>(d)(1)(ii)</b>	<b>Were there any significant deficiencies in internal control reported at the financial statement level (GAGAS)?</b>	No
<b>(d)(1)(iii)</b>	<b>Was there any reported material noncompliance at the financial statement level (GAGAS)?</b>	Yes
<b>(d)(1)(iv)</b>	<b>Were there any material internal control weaknesses reported for major federal programs?</b>	Yes
<b>(d)(1)(iv)</b>	<b>Were there any significant deficiencies in internal control reported for major federal programs?</b>	No
<b>(d)(1)(v)</b>	<b>Type of Major Programs' Compliance Opinion</b>	Unmodified for all major programs except for the Child Nutrition Cluster which was Qualified
<b>(d)(1)(vi)</b>	<b>Are there any reportable findings under § .510(a)?</b>	Yes
<b>(d)(1)(vii)</b>	<b>Major Programs (list):</b>	Child Nutrition Cluster – School Breakfast, Program (SBP), CFDA #10.553, National School Lunch Program (NSLP), CFDA #10.555  Title I – Grants to Local Agencies (Title I, Part A of the ESEA, CFDA #84.010
<b>(d)(1)(viii)</b>	<b>Dollar Threshold: Type A/B Programs</b>	Type A: > \$ 300,000 Type B: all others
<b>(d)(1)(ix)</b>	<b>Low Risk Auditee?</b>	No

**UNIVERSITY OF CLEVELAND PREPARATORY SCHOOL  
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS  
OMB CIRCULAR A -133 § .505  
JUNE 30, 2013  
(Continued)**

<b>2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS</b>
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**FINDING NUMBER 2013-001**

**Finding For Recovery Repaid Under Audit – Material Noncompliance - Credit Card Purchases**

AOS Bulletin 2003-005 Expenditure of Public Funds/Proper "Public Purpose" states the requirements necessary to ensure that an entity's expenditure of public funds is for a proper public purpose. Ohio Attorney General Opinion 82-006, citing State ex rel. McClure v. Hagerman, 155 Ohio St. 320 (1951), provides guidance as to whether an expenditure is for a public purpose. First, the expenditure is required for the general good of all inhabitants. Second, the primary objective of the expenditure is to further a public purpose, even if incidental private end is advanced. The determination of what constitutes a public purpose is primarily a legislative function. As such, the decision to expend public funds "....must be made in accordance with the procedural formalities governing the exercise of legislative power. Specifically, the decision must be memorialized by a duly enacted ordinance or resolution and may have prospective effect only."

We noted credit card transactions that involved Carnival Cruise tickets (\$698), American Airline tickets (\$909), and Sheraton Atlanta Hotel charges (\$296). All charges were between February 20, 2013 and February 22, 2013. The Fiscal Officer indicated these credit card transactions related to a door prize provided at the School's Christmas Party. The Fiscal Officer further explained the management company, I CAN Schools, was originally expected to make the purchase, however, the transactions instead were charged to the School's credit card. The Fiscal Officer provided supporting documentation for these expenditures.

In accordance with the foregoing facts and pursuant to Ohio Revised Code Section 117.28, a Finding for Recovery for public monies improperly expended is hereby issued against Dave Massa, Fiscal Officer, and Ohio Farmers Insurance Co., his bonding company, jointly and severally, in the amount of \$1,903 and in favor of University of Cleveland Preparatory School.

On March 5, 2014, I CAN Schools, the management company reimbursed the School \$1,903.

**Official's Response:**

We agree with the finding as presented. In addition to reimbursing the School for this expenditure, the School has also deactivated this credit card account from further use.

**UNIVERSITY OF CLEVELAND PREPARATORY SCHOOL  
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS  
OMB CIRCULAR A -133 § .505  
JUNE 30, 2013  
(Continued)**

<b>3. FINDINGS FOR FEDERAL AWARDS</b>
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<b>Finding Number</b>	2013-002
<b>CFDA Title and Number</b>	Child Nutrition Cluster, CFDA #10.553 and #10.555
<b>Federal Award Number / Year</b>	2013
<b>Federal Agency</b>	U.S. Department of Agriculture
<b>Pass-Through Agency</b>	Ohio Department of Education

**Material Weakness, Material Noncompliance Finding – Procurement and Suspension and Debarment**

7 CFR Section 3016.35 states that grantees and subgrantees must not make any award or permit any award (subgrant or contract) at any tier to any party which is debarred or suspended or is otherwise excluded from or ineligible for participation in Federal assistance programs under Executive Order 12549, “Debarment and Suspension”. 2 CFR Part 180 provides Office of Management and Budget (OMB) guidelines to agencies on government wide debarment and suspension. “Covered transactions” include those procurement contracts for goods and services awarded under a nonprocurement transaction (e.g., grant or cooperative agreement) that are expected to equal or exceed \$25,000 or meet certain other criteria as specified in 2 CFR section 180.220. All nonprocurement transactions entered into by a recipient (i.e., subawards to subrecipients), irrespective of award amount, are considered covered transactions, unless they are exempt as provided in 2 CFR section 180.215.

The School made payments with Child Nutrition Cluster federal funds to a vendor which exceeded \$25,000. No documentation was provided to indicate the School verified the vendor was not suspended or debarred.

The failure to perform the required verification places federal resources at risk from contractors engaged in dishonest or illegal conduct or are otherwise unable to satisfactorily perform their responsibilities.

We recommend the School implement procedures to ensure compliance with suspension and debarment requirements prior to entering into a covered transaction.

**Official’s Response:**

In the future, any contracts with a vendor that are valid over \$25,000 will be verified by the School to ensure the vendor is not suspended or debarred.

**UNIVERSITY OF CLEVELAND PREPARATORY SCHOOL  
CUYAHOGA COUNTY**

**CORRECTIVE ACTION PLAN  
OMB CIRCULAR A -133 § .315 (c)  
JUNE 30, 2013**

Finding Number	Planned Corrective Action	Anticipated Completion Date	Responsible Contact Person
2013-002	In the future, any contracts with a vendor that are valued over \$25,000 will be verified by the School to ensure the vendor is not suspended or debarred.	June 30, 2014	Dave Massa, CFO





# Dave Yost • Auditor of State

## INDEPENDENT ACCOUNTANTS' REPORT ON APPLYING AGREED-UPON PROCEDURES

University of Cleveland Preparatory School  
Cuyahoga County  
1906 East 40<sup>th</sup> Street  
Cleveland, Ohio 44103

To the Board of Directors:

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

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

1. We noted the Board amended its anti-harassment policy at its meeting on February 15, 2012 to include prohibiting harassment, intimidation, or bullying of any student "on a school bus" or by an "electronic act".

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 is not intended to be and should not be used by anyone other than these specified parties.

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

**Dave Yost**  
Auditor of State

May 1, 2014

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# Dave Yost • Auditor of State

UNIVERSITY OF CLEVELAND 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 27, 2014