



Dave Yost • Auditor of State

THURGOOD MARSHALL HIGH SCHOOL
CUYAHOGA COUNTY

TABLE OF CONTENTS

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

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Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT

Thurgood Marshall High School
(DBA Central Cleveland Drop Back In)
Cuyahoga County
13540 Lorain Avenue
Cleveland, Ohio 44111

To the Board of Directors:

Report on the Financial Statements

We have audited the accompanying financial statements of the Thurgood Marshall High School, Cuyahoga County, Ohio, (the School), as of and for the year ended June 30, 2014, 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 Thurgood Marshall High School, Cuyahoga County, Ohio, as of June 30, 2014, 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 April 27, 2015, 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

April 27, 2015

**THURGOOD MARSHALL HIGH SCHOOL
CUYAHOGA COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2014
(UNAUDITED)**

The discussion and analysis of Thurgood Marshall High School, DBA, Central Cleveland Drop Back In (the School), financial performance provides an overall review of the School's financial activities for the fiscal year ended June 30, 2014. 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 2013-14 school year are as follows:

- Total assets increased by \$20,700.
- Total liabilities increased by \$20,700.
- Total net position remained unchanged at \$0.
- Total operating and non-operating revenues were \$898,889. Total operating expenses were \$898,889.

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 Change in Net Position, and a Statement of Cash Flows.

The Statement of Net Position and Statement of Revenues, Expenses, and Change in Net Position reflect how the School did financially during fiscal year 2014. These statements include all assets and deferred outflows and liabilities and deferred inflows 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 change 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.

**THURGOOD MARSHALL HIGH SCHOOL
CUYAHOGA COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2014
(UNAUDITED)**

Statement of Net Position

The Statement of Net Position answers the question of how the School did financially during 2014. This statement includes all assets and deferred outflows and liabilities and deferred inflows, 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 years 2014 and 2013.

**Table 1
Statement of Net Position**

| | 2014 | 2013 |
|-------------------------|-------------|-------------|
| Assets | | |
| Current Assets | \$ 36,080 | \$ 15,380 |
| Total Assets | 36,080 | 15,380 |
| Liabilities | | |
| Current Liabilities | 36,080 | 15,380 |
| Total Liabilities | 36,080 | 15,380 |
| Net Position | | |
| Unrestricted | 0 | 0 |
| Total Net Position | \$ 0 | \$ 0 |

Over time, Net Position can serve as a useful indicator of a government's financial position. At June 30, 2014, the School's Net Position totaled \$0.

Current assets represent cash and cash equivalents, intergovernmental receivable and accounts receivable. Current liabilities represent accounts payable, intergovernmental payable, accrued expense and amounts owed to the management company (Edison Payable) at fiscal year-end.

Total assets increased \$20,700, which is primarily due to an increase in intergovernmental receivables. Current liabilities increased by \$20,700 primarily due to intergovernmental payables and accrued expenses.

**THURGOOD MARSHALL HIGH SCHOOL
CUYAHOGA COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2014
(UNAUDITED)**

Statement of Revenues, Expenses and Change in Net Position

Table 2 shows the change in Net Position for fiscal years 2014 and 2013, 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>2014</u> | <u>2013</u> |
|-------------------------------------|----------------|-------------------|
| Operating Revenue | | |
| State Aid | \$ 756,601 | \$ 667,384 |
| Other Revenue | 6,139 | 33,014 |
| | <u>762,740</u> | <u>700,398</u> |
| Total Operating Revenues | | |
| | | |
| Operating Expenses | | |
| Purchased Services: Edison Learning | 754,377 | 664,769 |
| State Retirement | 47,850 | 34,901 |
| Sponsor Fees | 22,304 | 20,022 |
| Legal Fees | 26,030 | 13,396 |
| Accounting | 30,795 | 31,938 |
| Other | 17,533 | 17,286 |
| | <u>898,889</u> | <u>782,312</u> |
| Total Operating Expenses | | |
| | | |
| Operating (Loss) | (136,149) | (814,914) |
| | | |
| Non-Operating Revenues | | |
| Federal Grants | 136,149 | 81,914 |
| Debt Forgiveness | 0 | 942,559 |
| | <u>136,149</u> | <u>1,024,473</u> |
| Total Non-Operating Revenues | | |
| | | |
| Change in Net Position | <u>\$ 0</u> | <u>\$ 942,559</u> |

State aid increased 13% from the prior year, due to the increase in Community School funding such as facilities funding and economic disadvantage funding. Operating expenses increased 15% from the prior year, due to the increases in purchased services – salaries and wages and benefits and property services.

**THURGOOD MARSHALL HIGH SCHOOL
CUYAHOGA COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2014
(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.

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. The School continually evaluates the extent of the impact that changes in State funding will have on current year operations.

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

CONTACTING THE SCHOOL'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizen's, taxpayers, investors and creditors with a general overview of the School's finances and to demonstrate accountability for the money it receives. If you have questions about this report or need additional information contact C. David Massa, CPA, of Massa Financial Solutions, LLC, 13540 Lorain Rd. Cleveland, Ohio 44111 or e-mail at dave@massasolutionsllc.com.

**THURGOOD MARSHALL HIGH SCHOOL
CUYAHOGA COUNTY**

**Statement of Net Position
At June 30, 2014**

Assets

Current Assets:

| | |
|------------------------------|--------------|
| Cash and Cash Equivalents | \$ 15,280 |
| Intergovernmental Receivable | 17,636 |
| Accounts Receivable | <u>3,164</u> |

Total Current Assets 36,080

Total Assets \$ 36,080

Liabilities

Current Liabilities:

| | |
|---------------------------|--------------|
| Accounts Payable | \$ 21 |
| Intergovernmental Payable | 22,025 |
| Accrued Expense | 6,074 |
| Edison Payable | <u>7,960</u> |

Total Current Liabilities \$ 36,080

Total Liabilities \$ 36,080

Net Position

Unrestricted 0

Total Net Position \$ 0

See accompanying notes to the basic financial statements

**THURGOOD MARSHALL HIGH SCHOOL
CUYAHOGA COUNTY**

**Statement of Revenues,
Expenses and Change in Net Position
For the Year Ending June 30, 2014**

Operating Revenues

| | |
|--------------------------|----------------|
| State Aid | \$ 756,601 |
| Other Revenue | 6,139 |
| Total Operating Revenues | <u>762,740</u> |

Operating Expenses

| | |
|-------------------------------------|----------------|
| Purchased Services: Edison Learning | 754,377 |
| State Retirement | 47,850 |
| Sponsor Fees | 22,304 |
| Legal Fees | 26,030 |
| Accounting | 30,795 |
| Other | 17,533 |
| Total Operating Expenses | <u>898,889</u> |

Operating (Loss) (136,149)

Non-Operating Revenues

| | |
|------------------------------|----------------|
| Federal Grants | 136,149 |
| Total Non-Operating Revenues | <u>136,149</u> |

Change in Net Position 0

Net Position, Beginning of Year 0

Net Position, End of Year \$ 0

See accompanying notes to the basic financial statements

**THURGOOD MARSHALL HIGH SCHOOL
CUYAHOGA COUNTY**

**Statement of Cash Flows
For the Fiscal Year Ended June 30, 2014**

Cash Flows from Operating Activities

| | |
|---|------------------|
| Cash Received from State of Ohio | \$ 775,917 |
| Cash Received from Outside Sources | 8,123 |
| Cash Payments to State Retirement Systems | (47,850) |
| Cash Payments to Suppliers for Goods and Services | <u>(848,026)</u> |
| Net Cash (Used for) Operating Activities | (111,836) |

Cash Flows from Non-capital Financing Activities

| | |
|---|----------------|
| Cash Received from Federal Grants | <u>119,503</u> |
| Net Cash Provided by Non-capital Financing Activities | 119,503 |

Net Increase in Cash and Cash Equivalents 7,667

Cash and Cash Equivalents, Beginning of Year 7,613

Cash and Cash Equivalents, End of Year \$ 15,280

(Continued)

**THURGOOD MARSHALL HIGH SCHOOL
CUYAHOGA COUNTY**

**Statement of Cash Flows
For the Fiscal Year Ended June 30, 2014
(Continued)**

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

| | | |
|--|----|------------------|
| Operating Loss | \$ | (136,149) |
| Changes in Assets and Liabilities: | | |
| (Increase)/ Decrease Accounts Receivable | | 3,613 |
| Increase/ (Decrease) Accounts Payable | | (1,454) |
| Increase/ (Decrease) Accounts Accrued Expense | | 6,074 |
| Increase/ (Decrease) Edison Payable | | (5,945) |
| Increase/ (Decrease) Intergovernmental Payable | | <u>22,025</u> |
| Net Cash (Used for) Operating Activities | | <u>(111,836)</u> |

See accompanying notes to the basic financial statements

**THURGOOD MARSHALL HIGH SCHOOL
CUYAHOGA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2014**

1. DESCRIPTION OF THE ENTITY

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

The School was approved for operation under a contract with Educational Resource Consultants of Ohio, Inc. ("ERCO") (the Sponsor) for a two year period commencing on July 1, 2013. 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 Change 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.

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.

**THURGOOD MARSHALL HIGH SCHOOL
CUYAHOGA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2014**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 deferred outflows and all liabilities and deferred inflows 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, 2014.

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.

**THURGOOD MARSHALL HIGH SCHOOL
CUYAHOGA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2014**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. 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 \$756,601 this fiscal year from the State Foundation Program and \$136,149 from Federal Grants.

G. Compensated Absences

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

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

H. 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 of \$21, intergovernmental payable of \$22,025, accrued expense of \$6,074 and Edison payable of \$7,960 at June 30, 2014.

I. 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.

**THURGOOD MARSHALL HIGH SCHOOL
CUYAHOGA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2014**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

J. Deferred Inflows and Deferred Outflows of Resources

A deferred inflow of resources is an acquisition of net position by the School that is applicable to a future reporting period. A deferred outflow of resources is a consumption of net position by the School that is applicable to a future reporting period. Other revenues received in advance of the fiscal year for which they were intended to finance, are recorded as deferred inflows. Grants not received within the available period, grants and entitlements received before the eligibility requirements are met due at June 30, 2014 are recorded as deferred inflows. Receivables that will not be collected within the available period have been reported as deferred inflows of resources. The School has no deferred inflows and has no deferred outflows of resources at June 30, 2014.

K. Net Position

Net position represents the difference between assets and deferred outflows and liabilities and deferred inflows. 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 is available. The School did not have any restricted Net Position in fiscal year 2014.

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 are 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, 2014.

M. Change in Accounting Principles

In fiscal year 2014, the School implemented GASB Statement No. 65, "Items Previously Reported as Assets and Liabilities". GASB Statement No. 65 establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. GASB Statement No. 65 also provides other financial reporting guidance related to the impact of the financial statement elements deferred outflows of resources and deferred inflows of resources, such as changes in the determination of the major fund calculations and limiting the use of the term deferred in financial statement presentations. The implementation of GASB Statement No. 65 had no effect on beginning net position.

**THURGOOD MARSHALL HIGH SCHOOL
CUYAHOGA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2014**

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, Chase 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, 2014, the book amount of the School's deposits was \$15,280 and the bank balance was \$17,280.

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, 2014, none of the bank balance was exposed to custodial credit risk.

4. RECEIVABLES

A. Accounts Receivable

The School has accounts receivable totaling \$3,164 at June 30, 2014. These receivables represent monies earned, but not received as of June 30, 2014.

B. Intergovernmental Receivable

The School has intergovernmental accounts receivable totaling \$17,363 at June 30, 2014. These receivables represent monies due to the School from governmental sources, but not received as of June 30, 2014.

5. RISK MANAGEMENT

Property & Liability

The School is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the fiscal year ending June 30, 2014, the School contracted with Willis of New York, Inc. for nonprofits and maintained general liability insurance with a \$1,250,000 single occurrence limit and \$20,000,000 annual aggregate. Other insurance coverage included automobile liability insurance with a \$1,000,000 combined single limit liability, an umbrella liability insurance with a \$10,000,000 single occurrence limit and a \$10,000,000 aggregate and crime insurance with a \$5,000,000 limit.

There were no settlements in excess of insurance coverage over the past three years.

**THURGOOD MARSHALL HIGH SCHOOL
CUYAHOGA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2014**

6. DEFINED BENEFIT PENSIONS PLANS

A. School Employees Retirement System (SERS Ohio)

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

Funding Policy - Plan members are required to contribute 10 percent of their annual covered salary and the School is required to contribute at an actuarially determined rate. The current School rate is 14 percent of annual covered payroll. A portion of the School's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal year 2014, 13.05 percent and 0.05 percent of annual covered salary was the portion used to fund pension obligations and death benefits, respectively. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to a statutory maximum amount of 10 percent for plan members and 14 percent for employers. Chapter 3309 of the Ohio Revised Code provides statutory authority for member and employer contributions. The School's required contributions for pension obligations and death benefits to SERS for the fiscal year ended June 30, 2014, 2013 and 2012 were \$18,933, \$8,775 and \$7,447, respectively, which equaled the required contributions 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.

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 9.5 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.

**THURGOOD MARSHALL HIGH SCHOOL
CUYAHOGA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2014**

6. DEFINED BENEFIT PENSIONS PLANS (Continued)

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

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 2014, plan members were required to contribute 11 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 11 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 years ended June 30, 2014, 2013 and 2012 were \$20,730, \$28,267 and \$34,329 respectively, which is equal to 100 percent that has been contributed. There were no contributions to the DC and Combined Plans for fiscal year 2014.

7. 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 2014 was \$104.90 and SERS' reimbursement to retirees was \$45.50. Benefit provisions and the obligations to contribute are established by the System based on authority granted by State statute. The financial reports of both Plans are included in the SERS Comprehensive Annual Financial Report which is available by contacting SERS at 300 East Broad St., Suite 100, Columbus, Ohio 43215-3746. It is also posted on the SERS' Ohio website, www.ohsers.org, under Employers/Audit Resources.

**THURGOOD MARSHALL HIGH SCHOOL
CUYAHOGA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2014**

7. 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 2014, 0.14 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 2014, the actuarially determined amount was \$20,250.

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, 2014, 2013 and 2012 were \$1,278, \$1,183 and \$1,210 respectively, 100 percent has been contributed for each fiscal year.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For fiscal year 2014, this actuarially required allocation was 0.76 percent of covered payroll. The School's contribution for Medicare Part B for the fiscal years ended June 30, 2014, 2013 and 2012 were \$1,098, \$496 and \$440, respectively, 100 percent has been contributed for each fiscal year.

B. State Teachers Retirement System (STRS Ohio)

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

Funding Policy -Ohio law authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For 2014, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. The School's contribution for health care for the fiscal years ended June 30, 2014, 2013 and 2012 were \$1,595, \$2,174 and \$2,641 respectively; 100 percent has been contributed for each fiscal year.

**THURGOOD MARSHALL HIGH SCHOOL
CUYAHOGA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2014**

8. 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.

D. State Funding Adjustment

The Ohio Department of Education (ODE) has identified several community schools and or STEM schools that made critical data errors between the June payment and the Final #1 payment. As a result, the ODE will be running a Final #2 foundation report for community schools and STEM schools for fiscal year 2014. As of the date of this report, a final list of schools impacted and amounts are not yet available, but ODE believes this will result in receivables to the schools affected.

9. SPONSOR CONTRACT

The School contracted with Educational Resource Consultants of Ohio, Inc. (ERCO) as its sponsor and oversight services as required by law. Sponsorship fees are calculated as a three percent of state funds received by the School from the State of Ohio. For the fiscal year ended June 30, 2014, the total sponsorship fees paid totaled \$22,304.

**THURGOOD MARSHALL HIGH SCHOOL
CUYAHOGA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2014**

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

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

On March 14, 2013, the School entered into an Amendment to the Amended and Restated Service Agreement and an Asset Purchase Agreement with Edison Learning, Inc., in which Edison Learning purchased certain assets of the School in exchange for the forgiveness of the Edison note and other debts.

Significant provisions of the contract are as follows:

A. Financial Provisions

1. Management Consulting and Operation Fee

The School is required to remit monthly to Edison Learning, Inc., any excess of revenues of expenditures, if so exist, as compensation for the variety of educational and management services it provides under the Agreement with the total management fee not to exceed twenty percent. During fiscal year 2014, revenues exceeded expenses and Edison Learning received \$9,540, which is recorded in purchased services.

2. The School's Financial Responsibility

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

3. Edison Financial Responsibilities

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

**THURGOOD MARSHALL HIGH SCHOOL
CUYAHOGA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2014**

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

A. Financial Provisions (Continued)

4. Budget

Edison Learning, Inc. shall provide the School with an annual budget, in reasonable detail, by April 15 of each fiscal year for the following fiscal year.

B. Educational Services

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

C. Personnel

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

D. Agreement Termination

1. Termination by the School

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

2. Termination by Edison Learning, Inc.

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

E. Edison Learning, Inc. - Purchased Services

For the fiscal year ended June 30, 2014, Edison Learning, Inc. incurred the following expenses on behalf of the School:

Direct Site Expenses:

| | |
|-------------------------------------|-------------------|
| Salaries and Wages and Benefits | \$ 366,656 |
| Professional and Technical Services | 101,488 |
| Property Services | 82,554 |
| Curriculum and materials | 169,697 |
| Other Direct Costs | <u>33,982</u> |
| Total Expenses | <u>\$ 754,377</u> |

**THURGOOD MARSHALL HIGH SCHOOL
CUYAHOGA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2014**

11. LEASE OBLIGATIONS

The School entered into a lease agreement with an owner of commercial property for the current school premises. The original lease term was from September 1, 2011 through August 31, 2013. The School exercised a renewal option for an additional two year term through June 30, 2015. Rent is \$2,200 a month beginning September 1, 2013 through August 31, 2014 and \$2,300 a month through June 30, 2015.

Future lease obligations are as follows:

| | |
|---------|------------------|
| FY 2015 | <u>27,400</u> |
| TOTAL | <u>\$ 27,400</u> |



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

Thurgood Marshall High School
(DBA Central Cleveland Drop Back In)
Cuyahoga County
13540 Lorain Avenue
Cleveland, Ohio 44111

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 Thurgood Marshall High School, Cuyahoga County, Ohio (the School) as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the School's basic financial statements and have issued our report thereon dated April 27, 2015.

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 no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

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.

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

April 27, 2015



Dave Yost • Auditor of State

THURGOOD MARSHALL HIGH 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 12, 2015**