



Balestra, Harr & Scherer, CPAs, Inc.

Accounting, Auditing and Consulting Services for Federal, State and Local Governments

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NOBLE ACADEMY - CLEVELAND
CUYAHOGA COUNTY

REGULAR AUDIT

For the Year Ended June 30, 2012
Fiscal Year Audited Under GAGAS: 2012



Dave Yost • Auditor of State

Board of Directors
Noble Academy of Cleveland
1200 East 200th Street
Cleveland, Ohio 44117

We have reviewed the *Independent Auditor's Report* of the Noble Academy of Cleveland, Cuyahoga County, prepared by Balestra, Harr & Scherer, CPAs, Inc., for the audit period July 1, 2011 through June 30, 2012. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The Noble Academy of Cleveland is responsible for compliance with these laws and regulations.

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

Dave Yost
Auditor of State

March 28, 2013

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**NOBLE ACADEMY - CLEVELAND
CUYAHOGA COUNTY**

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

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Independent Auditor's Report

Members of the Board
Noble Academy - Cleveland
1200 East 200th Street
Cleveland, Ohio 44117

We have audited the accompanying financial statements of the business-type activities of Noble Academy of Cleveland, Cuyahoga County, (the Academy) as of and for the year ended June 30, 2012, as listed in the table of contents. These financial statements are the responsibility of the Academy's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to reasonably assure whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of Noble Academy of Cleveland, Cuyahoga County, Ohio, as of June 30, 2012, and the change in financial position and cash flows, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 17 to the financial statements, the Academy has suffered recurring losses and has a net asset deficiency. Note 17 describes management's plan regarding these matters. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 18, 2013, on our consideration of the Academy's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance, and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require this presentation to include Management's discussion and analysis, as listed in the table of contents, to supplement the basic financial statements. Although this information is not part of the basic financial statements, the Governmental Accounting Standards Board considers it essential for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any other assurance.

Balestra, Harr & Scherer, CPAs

Balestra, Harr & Scherer, CPAs, Inc.
January 18, 2013

Noble Academy - Cleveland
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2012
(Unaudited)

The discussion and analysis of Noble Academy - Cleveland's (the Academy) financial performance provides an overall review of the financial activities for the fiscal year ended June 30, 2012. Readers should also review the financial statements and notes to enhance their understanding of the Academy's financial performance.

Financial Highlights

Key financial highlights for fiscal year 2012 are as follows:

- Total assets were \$171,407.
- Total liabilities were \$177,500.
- Total net assets decreased \$26,664.

Using this Financial Report

This report consists of three parts: the management's discussion and analysis, the basic financial statements, and notes to those statements. The basic financial statements include a Statement of Net Assets, a Statement of Revenues, Expenses and Change in Net Assets, and a Statement of Cash Flows.

Reporting the School as a Whole

One of the most important questions asked about the Academy is, "As a whole, what is the Academy's financial condition as a result of the year's activities?" The statement of net assets and the statement of revenues, expenses and change in net assets, which appear first in the Academy's financial statements, report information on the Academy as a whole and its activities in a way that helps you answer this question. We prepare these statements to include all assets and liabilities, using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when the cash is received or paid.

These two statements report the Academy's net assets – the difference between assets and liabilities, as reported in the statement of net assets – as one way to measure the Academy's financial health or financial position. Over time, increases or decreases in the Academy's net assets – as reported in the statement of revenues, expenses and change in net assets – are indicators of whether its financial health is improving or deteriorating. The relationship between revenues and expenses is the Academy's operating results. However, the Academy's goal is to provide services to our students, not to generate profits as commercial entities do. One must consider many other non-financial factors, such as the quality of the education provided and the safety of the Academy, to assess the overall health of the Academy.

The statement of net assets and the statement of revenues, expenses and change in net assets report the activities of the Academy, which encompass all the Academy's services, including instruction, supporting services, community services, and food services. Unrestricted state aid and state and federal grants finance most of these activities.

Noble Academy - Cleveland
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2012
(Unaudited)

Table 1 provides a comparison of net assets as of June 30, 2012 with net assets as of June 30, 2011.

Table 1

Net Assets		
<u>Assets</u>	June 30, 2012	June 30, 2011
Current and Other Assets	\$43,319	\$68,964
Capital Assets, Net	128,088	133,428
Total Assets	171,407	202,392
<u>Liabilities</u>		
Current Liabilities	176,635	178,502
Noncurrent Liabilities	865	3,319
Total Liabilities	177,500	181,821
<u>Net Assets</u>		
Invested in Capital Assets	128,088	133,428
Unrestricted	(134,181)	(112,857)
Total Net Assets	(\$6,093)	\$20,571

Total assets decreased \$30,985. Capital assets decreased by \$5,340, due to depreciation exceeding additions for the year. Intergovernmental payable increased by \$3,616. Total liabilities decreased by \$4,321. This decrease is due mainly to decreases in accrued wages of \$20,498 in accrued wages and accounts payable of \$26,167.

Noble Academy - Cleveland
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2012
(Unaudited)

Table 2 shows the changes in net assets for the fiscal years 2012 and 2011.

	June 30, 2012	June 30, 2011
OPERATING REVENUES:		
Foundation payments	\$1,656,898	\$1,364,693
Food services	2,195	1,372
Classroom fees	7,938	6,409
Extracurricular activities	15,800	2,381
Other revenue	23,616	17,530
Total operating revenues	1,706,447	1,392,385
OPERATING EXPENSES:		
Salaries	1,025,744	963,708
Fringe benefits	242,566	222,668
Purchased services	688,221	516,151
Materials and supplies	165,466	112,181
Depreciation	48,808	41,332
Miscellaneous	72,104	52,889
Total operating expenses	2,242,909	1,908,929
Operating loss	(536,462)	(516,544)
NON-OPERATING REVENUES (EXPENSES):		
Interest expense	(384)	(565)
Restricted grants in aid - federal	408,292	377,689
Restricted grants in aid - state	2,013	7,119
Donated management fee	99,577	650
Other revenue	300	1,200
Total non-operating revenues (expenses)	509,798	386,093
Change in net assets	(26,664)	(130,451)
Net assets, beginning of year	20,571	151,022
Net assets, end of year	(\$6,093)	\$20,571

Foundation payments and restricted grants in aid - federal increased \$292,205 and \$30,603, respectively, primarily as a result of an increase in student enrollment. The Academy also received in-kind support (donated management fee) in the amount of \$99,577 in 2012. Purchased services increased \$172,070 primarily as a result of the management fees increasing approximately \$120,000 and contracted food service expenses increasing roughly \$25,000.

Noble Academy - Cleveland
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2012
(Unaudited)

Foundation support is the primary support of the Academy, comprising 97% of operating revenue and 75% of total revenues. The Academy also received a significant portion of federal grants and in-kind contributions in the form of a donated management fee, which represent 18% and 4% of total revenue, respectively. Salaries and benefits comprise the largest portion of operating expenses, representing 57% of total operating expenses. Purchased services also represent a large portion of operating expenses, or 31%. Net assets decreased \$26,664 resulting from expenses in excess of revenues.

Capital Assets

At the end of fiscal year 2012, the Academy had \$275,787, invested in furniture and equipment and improvements (\$128,088 net of accumulated depreciation). Table 3 shows fiscal year 2012:

Table 3

Capital Assets				
	Balance			Ending
	July 1, 2011	Additions	Deletions	June 30, 2012
Furniture and Equipment	\$237,668	\$43,468	(\$26,937)	\$254,199
Improvements	21,588	-	-	21,588
Total Fixed Assets	259,256	43,468	(26,937)	275,787
Less: Accumulated Depreciation	(125,828)	(48,808)	26,937	(147,699)
Net Fixed Assets	\$133,428	(\$5,340)	\$ -	\$128,088

For more information on capital assets see Note 4 to the basic financial statements.

Contacting the Academy's Financial Management

This financial report is designed to provide our citizens, taxpayers, and creditors with a general overview of the Academy's finances. Questions concerning any of the information in this report or requests for additional information should be directed to Ramazan Celep, Treasurer, Noble Academy - Cleveland, 1200 E. 200th Street Euclid, Ohio 44117.

Noble Academy - Cleveland

Statement of Net Assets

As of June 30, 2012

ASSETS:

Current Assets:

Cash and cash equivalents	<u>\$43,319</u>
Total current assets	<u>43,319</u>

Noncurrent Assets:

Capital assets (Net of Accumulated Depreciation)	<u>128,088</u>
Total assets	<u>171,407</u>

LIABILITIES:

Current Liabilities:

Accounts payable	20,472
Accrued wages and benefits payable	87,574
Intergovernmental payable	12,053
Payroll liabilities	14,082
Capital Lease - Due within one year	2,454
Note payable - Current portion	<u>40,000</u>
Total current liabilities	<u>176,635</u>

Noncurrent Liabilities:

Capital Lease - Due in more than one year	<u>865</u>
Total liabilities	<u>177,500</u>

NET ASSETS:

Invested in capital assets	128,088
Unrestricted (deficit)	<u>(134,181)</u>
Total net assets	<u><u>(\$6,093)</u></u>

See accompanying notes to the basic financial statements.

Noble Academy - Cleveland
Statement of Revenues, Expenses and Change in Net Assets
For the Fiscal Year Ended June 30, 2012

OPERATING REVENUES:	
Foundation payments	\$1,656,898
Food services	2,195
Classroom fees	7,938
Extracurricular activities	15,800
Other revenue	<u>23,616</u>
Total operating revenues	<u>1,706,447</u>
OPERATING EXPENSES:	
Salaries	1,025,744
Fringe benefits	242,566
Purchased services	688,221
Materials and supplies	165,466
Depreciation	48,808
Miscellaneous	<u>72,104</u>
Total operating expenses	<u>2,242,909</u>
Operating loss	<u>(536,462)</u>
NON-OPERATING REVENUES (EXPENSES):	
Interest expense	(384)
Restricted grants in aid - federal	408,292
Restricted grants in aid - state	2,013
Donated management fee	99,577
Other revenue	<u>300</u>
Total non-operating revenues (expenses)	<u>509,798</u>
Change in net assets	(26,664)
Net assets, beginning of year	<u>20,571</u>
Net assets, end of year	<u><u>(\$6,093)</u></u>

See accompanying notes to the basic financial statements.

Noble Academy - Cleveland
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2012

CASH FLOWS FROM OPERATING ACTIVITIES:	
Cash received from State of Ohio	\$1,665,335
Cash received from other operating revenues	49,549
Cash payments to suppliers for goods and services	(780,277)
Cash payments to employees for services and benefits	(1,292,645)
Other cash payments	(72,104)
Net cash used for operating activities	<u>(430,142)</u>
 CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:	
Federal grants received	408,292
State grants received	2,013
Contributions and Donations	300
Net cash provided by noncapital financing activities	<u>410,605</u>
 CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:	
Issuance of note payable	80,000
Payment on Note	(40,000)
Principal paid on capital lease payable	(2,256)
Interest paid on note payable	(384)
Payment for capital acquisitions	(43,468)
Net cash used for capital and related financing activities	<u>(6,108)</u>
 Net decrease in cash and cash equivalents	 (25,645)
Cash and cash equivalents at beginning of year	<u>68,964</u>
Cash and cash equivalents at end of year	<u><u>\$43,319</u></u>
 RECONCILIATION OF OPERATING LOSS TO NET CASH USED FOR OPERATING ACTIVITIES	
Operating loss	(\$536,462)
 ADJUSTMENTS TO RECONCILE OPERATING LOSS TO NET CASH USED FOR OPERATING ACTIVITIES:	
Depreciation	48,808
Donated management fee	99,577
 Changes in Assets and Liabilities:	
Decrease in accounts payable	(26,167)
Decrease in accrued wages and benefits payable	(20,498)
Increase in intergovernmental payable	12,053
Decrease in payroll liabilities	(7,453)
Total adjustments	<u>106,320</u>
 Net cash used for operating activities	 <u><u>(\$430,142)</u></u>

See accompanying notes to the basic financial statements.

Noble Academy - Cleveland
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

1. DESCRIPTION OF THE ACADEMY AND REPORTING ENTITY

Noble Academy – Cleveland (the Academy), is a nonprofit corporation established pursuant to Ohio Revised Code Chapters 3314 and 1702 to address the needs of students in grades K through 12 in Euclid. The Academy, which is part of the State’s education program, is independent of any other Academy and is nonsectarian in its programs, admission policies, employment practices, and all other operations.

The Academy may sue and be sued, acquire facilities as needed, and contract for any services necessary for the operation of the Academy. The Academy qualifies as an exempt organization under Section 501(c) (3) of the Internal Revenue Code. Management is not aware of any course of action or series of events that have occurred that might adversely affect the Academy’s tax-exempt status.

The Academy was approved for operation under contract with the Buckeye Hope Foundation (the Sponsor) for a period of five years commencing March 15, 2006. During fiscal year 2011, this contract was extended through June 30, 2015.

The Academy operates under the direction of a self-appointed five-member Board of Directors. The Board is responsible for carrying out the provisions of the contract, which include, but are not limited to, state mandated provisions regarding student population, curriculum, academic goals, performance standards, admission standards, and qualifications of teachers. The Board of Directors controls the Academy’s facility, which is currently staffed by 32 full and part time personnel who provide services to up to 253 students during the year.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the Academy have been prepared in conformity with generally accepted accounting principles 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 Academy also applies Financial Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989, provided they do not conflict with or contradict GASB pronouncements. The Academy does not apply FASB statements issued after November 30, 1989. The more significant of the Academy’s accounting policies are described below.

A. Basis of Presentation

The Academy’s basic financial statements consist of a statement of net assets; a statement of revenues, expenses and change in net assets; and a statement of cash flows.

The Academy uses enterprise accounting to report its financial activities. Enterprise accounting focuses on the determination of operating income, changes in net assets, financial position, and cash flows.

B. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment is determined by its measurement focus. Enterprise accounting uses a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of the Academy are included on the statement of net assets. The statement of revenues, expenses and change in net assets present increases (e.g., revenues) and decreases (e.g., expenses) in total net assets. The statement of cash flows provides information about how the Academy finances and meets the cash flow needs of its enterprise activities.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Measurement Focus and Basis of Accounting (Continued)

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. The full accrual basis of accounting is used for reporting purposes. 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. Revenues resulting from non-exchange transactions, in which the Academy receives value without directly giving equal value in return, such as grants, entitlements and donations are recognized in the period in which all eligibility requirements have been satisfied. Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Grants and entitlements received before eligibility requirements are met are recorded as deferred revenue. Expenses are recognized at the time they are incurred.

C. Budgetary Process

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

D. Cash

To improve cash management, all cash received by the Academy is pooled in a central bank account. The Academy did not have any investments during fiscal year 2012.

E. Capital Assets and Depreciation

Capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. The Academy maintains a capitalization threshold of one thousand dollars. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized. Improvements are capitalized. The Academy does not capitalize interest.

Furniture and equipment are depreciated using the straight-line method over the following estimated useful lives. Improvements to capital assets are depreciated over the remaining useful lives of the related capital assets. Leasehold improvements are depreciated using the straight-line method over the life of the lease.

	<u>Useful Life</u>
Leasehold Improvements	3 to 10 years
Heavy Duty Office or Classroom Furniture	5 to 10 years
Computers and Other Electronic Equipment	3 to 5 years

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. Intergovernmental Revenues

The Academy currently participates in the State Foundation Program, Special Education Program, and Federal CCIP Program. Revenues received from the State Foundation Program, Special Education Program and other State programs are recognized as operating revenues whereas revenues from the Federal CCIP Program and other State Grants are recognized as non-operating revenues in the accounting period in which all 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 Academy must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the Academy on a reimbursement basis.

G. Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the Academy. Operating expenses are necessary costs incurred to provide the service that is the primary activity of the Academy. All revenues and expenses not meeting these definitions are reported as non-operating.

H. Compensated Absences

Academy policy indicates that all full-time employees are entitled up to eight days of sick or personal leave per year. Full-time employees who do not use all of their sick or personal days within the year will receive \$125 for each unused day. All leave earned by employees must be used in the current period and balances are not carried forward and therefore, are not recorded as a liability.

I. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets consist of capital assets, net of accumulated depreciation. Net assets are reported as restricted when there are limitations imposed on their use, either through enabling legislation adopted by the Academy or through external restrictions imposed by creditors, grantors, or contracts. The Academy applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net assets are available. At fiscal year end June 30, 2012, the Academy had no restricted net assets.

J. 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 those estimates.

Noble Academy - Cleveland
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

3. DEPOSITS

As of June 30, 2012, the Academy's bank balance of \$54,262 was covered by FDIC.

Custodial credit risk is the risk that in the event of a bank failure, the Academy's deposits may not be returned to it. According to state law, public depositories must give security for all public funds on deposit in excess of those funds that are insured by the Federal Deposit Insurance Corporation (FDIC) or by any other agency or instrumentality of the federal government. These institutions may either specifically collateralize individual accounts in lieu of amounts insured by the FDIC, or may pledge a pool of government securities valued at least 105 percent of the total value of public monies on deposit at the institution. The Academy has no policy regarding custodial credit risk.

4. CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2012, was as follows:

	Capital Assets			
	Balance	Additions	Deletions	Ending
	July 1, 2011			June 30, 2012
Furniture and Equipment	\$237,668	\$43,468	(\$26,937)	\$254,199
Improvements	21,588	-	-	21,588
Total Fixed Assets	259,256	43,468	(26,937)	275,787
Less: Accumulated Depreciation	(125,828)	(48,808)	26,937	(147,699)
Net Fixed Assets	\$133,428	(\$5,340)	\$ -	\$128,088

5. DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

The Academy contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing multiple-employer defined benefit 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 state statute per 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 can be obtained on SERS' website at www.ohsers.org under Employers/Audit Resources.

Plan members are required to contribute 10% of their annual covered salary and the Academy is required to contribute 14% of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS' Retirement Board. The Retirement Board acting with the advice of the actuary, allocates the employer contribution rate among four of the funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund) of the System. For fiscal year ending June 30, 2012, the allocation to pension and death benefits is 12.70%. The remaining 1.30% of the 14% employer contribution rate is allocated to the Health Care and Medicare B Funds. The School District's contributions to SERS for the years ended June 30, 2012, 2011, and 2010 were \$9,912, \$8,568 and \$19,663 respectively; and 100 percent has been contributed for fiscal years 2012, 2011 and 2010.

5. DEFINED BENEFIT PENSION PLANS (Continued)

B. State Teachers Retirement System

Plan Description – The Academy participates in the State Teachers Retirement System of Ohio (STRS Ohio) a cost-sharing, multiple employer public employee retirement system. 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 East Broad Street, Columbus, Ohio 43215-3371, by calling (888) 227-7877, or by visiting the STRS Ohio Web site at www.strsoh.org.

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

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

Funding Policy – For fiscal year ended June 30, 2012, plan members were required to contribute 10 percent of their annual covered salaries. The Academy 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 Academy's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2012, 2011 and 2010 were \$134,106, \$119,520 and \$90,009 respectively; 100 percent has been contributed for fiscal years 2012, 2011 and 2010.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System have an option to choose Social Security or the School Employees Retirement System/State Teachers Retirement System. As of June 30, 2012, three members of the Board of Education have elected Social Security. The Board's liability is 6.2 percent of wages.

6. POSTEMPLOYMENT BENEFITS

A. School Employee Retirement System

Plan Description – The Academy participates in two cost-sharing, multiple employer defined benefit OPEB plans administered by the School Employees Retirement Systems 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 and traditional indemnity plans as well as a prescription drug program. The Medicare Part B Plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries up to a statutory limit. 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.

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 the Internal Revenue Code Section 401h. For 2012, 0.55 percent of covered payroll was allocated to health care. In addition employers pay a surcharge for employees earning less than an actuarially determined amount; for 2012, this amount was \$35,800.

Active employee members do not contribute to the Health Care Plan. Retirees and their beneficiaries are required to pay a health care premium that varies depending on the plan selected, the number of qualified years of service, Medicare eligibility and retirement status.

The Academy’s contributions for health care for the fiscal years ended June 30, 2012, 2011 and 2010 were \$2,945, \$2,546 and \$8,999 respectively; 100 percent has been contributed for fiscal years 2012, 2011 and 2010.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For 2012, this actuarially required allocation was 0.75 percent of covered payroll. The Academy’s contributions for Medicare Part B for the fiscal years ended June 30, 2012, 2011 and 2010 were \$531, \$459 and \$1,622 respectively, which equaled the required contribution for those fiscal years.

B. School Teachers Retirement System

Plan Description – The Academy contributes to the cost sharing, multiple employer defined benefit Health 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 postemployment health care may be deducted from employer contributions. For 2012, STRS Ohio allocated employer contributions equal to one percent of covered payroll to the Health Care Stabilization Fund. The Academy’s contributions for health care for the fiscal years ended June 30, 2012, 2011, and 2010 were \$9,579, \$9,194 and \$6,924, respectively; and 100 percent has been contributed for fiscal years 2012, 2011 and 2010.

Noble Academy - Cleveland
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

7. RISK MANAGEMENT

A. Property and Liability

The Academy 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 fiscal year 2012, the Academy contracted with Selective Insurance Company for property and general liability insurance with a \$1,000,000 single occurrence limit and \$3,000,000 annual aggregate and no deductible. There has been no reduction in coverage from the prior year. There have been no settlements exceeding coverage in any of the last three fiscal years.

B. Workers Compensation

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

8. EMPLOYEE MEDICAL AND DENTAL BENEFITS

The Academy has contracted with a private carrier to provide employee medical/surgical benefits. The Academy pays 60 percent of the monthly premium and the employee is responsible for the remaining 40 percent. The Academy has also contracted with private carriers to provide dental coverage. The Academy pays 60 percent of the monthly premium and the employee is responsible for the remaining 40 percent.

9. PURCHASED SERVICES

Purchased service expenses during fiscal year 2012 were as follows:

<u>Type</u>	<u>Amount</u>
Professional Services	\$432,852
Rent and Property Services	224,851
Admin Travel	5,250
Advertising and Communications	12,530
Pupil Transportation	12,738
Total	<u>\$688,221</u>

10. NOTES PAYABLE

The Academy signed an \$80,000 promissory note with Horizon Science Academy Cleveland Elementary on August 29, 2011. The note was issued to help the Academy cover various operating costs. The following is a schedule of the notes payable activity during fiscal year 2012:

	<u>Balance as of Jul 30, 2011</u>	<u>Addition</u>	<u>Paid</u>	<u>Balance as of June 30, 2012</u>
HSA – Cleveland Elementary	\$-	\$80,000	\$40,000	\$40,000
Total	<u>\$-</u>	<u>\$80,000</u>	<u>\$40,000</u>	<u>\$40,000</u>

11. OPERATING LEASES

The Academy entered into a sublease agreement with Breeze Inc. on August 15, 2006 for the facilities located at 1200 200th St. Cleveland, OH 44117. The monthly lease was \$12,500. On August 15, 2007 Breeze, Inc. opted out of the lease and the Academy signed a lease directly with the landlord of the premises, St. Paul Church. According to the new lease agreement which is renewable in one year terms, the monthly rent was \$13,054 for fiscal year 2012.

12. CONTINGENCIES

A. Auditor of State Review

The Auditor of State is currently performing a statewide review of supporting documentation of student attendance data reported to the Ohio Department of Education. The results of this review are still pending and will be reported separately to the Ohio Department of Education at a later date.

The Academy received financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the Academy. However, in the opinion of management, any such disallowed claims will not have a material effect on the financial position of the Academy. In fiscal year 2012, the Academy received grants from State and Federal agencies total of \$410,305.

B. Ohio Department of Education Enrollment Review

The Ohio Department of Education (ODE) conducts reviews of enrollment data and full time equivalency (FTE) calculations made by the Academy. These reviews are conducted to ensure the Community School is reporting accurate student enrollment data to the State, upon which state foundation funding is calculated. According to the FTE review made for fiscal year 2012, the Academy was overpaid by \$12,053.

13. SPONSORSHIP AGREEMENT

On March 15, 2006, Buckeye Hope Foundation assumed responsibility for sponsorship of the Academy. The Sponsor is responsible for evaluating the performance of the Academy and has the authority to deny renewal of the contract at its expiration or terminate the contract prior to its expiration. In fiscal year 2011, the original contract was extended until June 30, 2015. According to the contract, the Academy pays three percent of its foundation revenues to the Sponsor. In fiscal year 2012 the Academy's compensation to the Sponsor was \$46,043.

14. MANAGEMENT COMPANY AGREEMENT

In March 2006, the Academy contracted with Concepts Schools, Inc. to serve as the Academy's management company. The contract is renewed automatically every year in one year terms unless the Academy or the management company decides otherwise. According to the contract, the Academy transfers 12 percent of the funds received from the State. In fiscal year 2012, the Academy paid fees amount of \$100,697 to Concept Schools for management services. Fees amounting to \$99,577 were forgiven by Concept Schools, and are reflected in the statement of revenues, expenses and change in net assets as donated management fees.

Noble Academy - Cleveland
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

15. RELATED PARTIES

The Board members for the Academy are also Board members for other Horizon Science Academy Schools that are managed by the same management company, Concept Schools.

The Academy received a short term note from Horizon Science Academy Cleveland Elementary School which is managed by the same management company, Concept Schools.

16. CAPITAL LEASES

The Academy entered into a capital lease agreement for a copier/printer during the fiscal year ended June 30, 2009. The lease meets the criteria of a capital lease as defined by Statement of Financial Accounting Standards No. 13, "Accounting for Lease," which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee. Principal payments for fiscal year 2012 totaled \$2,256. The following is a schedule of the future minimum lease payments required for the capital lease:

Fiscal Year	Interest	Principal	Total
2013	\$186	\$2,454	\$2,640
2014	15	865	880
Total	\$201	\$3,319	\$3,520

17. MANAGEMENT PLAN

The Academy's recent cash flow challenges have been due primarily to high operating costs. The loss in net assets was significantly less in fiscal year 2012 than fiscal year 2011. The main reason for this improvement was an increase in enrollment.

As a result, management has implemented the following plan to ensure the Academy's long term financial viability:

- Continue advertising in an attempt to further increase enrollment.



Balestra, Harr & Scherer, CPAs, Inc.

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Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by *Government Auditing Standards*

Members of the Board
Noble Academy of Cleveland
1200 East 200th Street
Cleveland, Ohio 44117

We have audited the financial statements of the business-type activities of the Noble Academy of Cleveland, Cuyahoga County, Ohio (the Academy), as of and for the year ended June 30, 2012, which collectively comprise the Academy's basic financial statements and have issued our report thereon dated January 18, 2013, wherein we noted the Academy suffered reoccurring losses and has a net asset deficiency. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

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

We intend this report solely for the information and use of management, the members of the Board, the Academy's Sponsor and others within the Academy. We intend it for no one other than these specified parties.

Balestra, Harr & Scherer, CPAs

Balestra, Harr & Scherer, CPAs, Inc.
January 18, 2013



Dave Yost • Auditor of State

NOBLE ACADEMY OF CLEVELAND

CUYAHOGA COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
APRIL 9, 2013**