HBCU PREPARATORY SCHOOL 1
(FORMERLY DOING BUSINESS AS PHOENIX VILLAGE ACADEMY PRIMARY 2)
CUYAHOGA COUNTY

REGULAR AUDIT

FOR THE YEAR ENDED JUNE 30, 2014

Dave Yost • Auditor of State

HBCU PREPARATORY SCHOOL 1
CUYAHOGA COUNTY

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INDEPENDENT AUDITOR'S REPORT

HBCU Preparatory School 1
Cuyahoga County
12406 Shaker Boulevard
Cleveland, Ohio 44120

To the Board of Trustees:

Report on the Financial Statements

We have audited the accompanying financial statements of the HBCU Preparatory School 1, 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 overall financial statement presentation.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the HBCU Preparatory School 1, Cuyahoga County 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 29, 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

Dave Yost
Auditor of State
Columbus, Ohio

April 29, 2015

MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2014
UNAUDITED

The discussion and analysis of HBCU Preparatory School 1's (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.

FINANCIAL HIGHLIGHTS

Key financial highlights for the School for the fiscal year 2014 are as follows:

- Total assets increased by $20,093 or 42.42%.
- Total liabilities decreased by $42,233 or 13.57%.
- Total net position increased by $62,326 or 23.62%.
- Total operating revenues were $699,760. Total operating expenses were $870,884.

USING THIS ANNUAL REPORT

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

The Statement of Net Position and Statement of Revenues, Expenses, and Changes in Net Position reflect how the School did financially during fiscal year 2014. These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting includes all of the current year revenues and expenses regardless of when cash is received or paid.

These statements report the School's net position and changes in that net position. 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.

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 liabilities, both financial and capital, and short-term and long-term using the accrual basis of accounting and economic resource focus, which is similar to the accounting used by most private-sector companies. This basis of accounting takes into account all revenues and expenses during the year, regardless of when the cash is received or paid.

Table 1 provides a summary of the School's net position for fiscal years 2014 and 2013.

Statement of Net Position | Table 1

	2014	2013 (as Restated)
Assets		
Current Assets	$ 66,045	$ 44,779
Capital Assets, Net of depreciation	1,418	2,591
Total Assets	67,463	47,370
Liabilities		
Current Liabilities	266,438	293,671
Long-Term Liabilities	2,533	17,533
Total Liabilities	268,971	311,204
Net Position		
Net Investment in Capital Assets	3,764	2,591
Unrestricted	(205,272)	(266,425)
Total Net Position (Deficit)	$ (201,508)	$ (263,834)

Overtime, net position can serve as a useful indicator of governmental financial position. At June 30, 2014, the School's net position was a deficit of $201,508 compared to $263,834 in 2013. The School reported intergovernmental receivable of $16,880 resulting from the Title I and Special Education expenditures not yet reimbursed by the Ohio Department of Education, as well as foundation payments as a result of the Department's FTE review for Fiscal Year 2014. (See Note 5 for details).

The School had account payable of $21,203 and $13,703 for fiscal years 2014 and 2013, respectively, due to several vendors. The School also reported accrued wages and benefits of $40,935 and $27,130 for 2014 and 2013 respectively, for payroll and other benefits accrued for its employees. In addition the balance of the School's loan from HBCU Preparatory SCHOOL 1I (its sister school) was $177,980 as of June 30, 2014 compared to $216,518 in 2013, while its loan from Ashe Culture Center, the School's former sponsor decreased $10,000 and at June 30, 2014 was $11,320. The School restated its prior year Net Position for the correction of errors pertaining to prior year's net position (See Note 3 to the financial statements).

Statement of Revenues, Expenses and Changes in Net Position

Table 2 shows the changes 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

	2014	2013 (As Restated)
Operating Revenue		
State Aid	$ 699,760	$ 482,255
Total Operating Revenue	699,760	482,255
Operating Expenses		
Salaries	329,077	212,990
Fringe Benefits	70,364	49,130
Purchased Services	451,544	339,470
Materials and Supplies	17,617	11,376
Depreciation	1,173	2,750
Other	1,109	444
Total Operating Expenses	870,884	616,160
Operating Loss	(171,124)	(133,905)
Non-Operating Revenues and (Expenses)		
Grants - Federal and State	223,686	213,955
Other Non-Operating Revenues	9,764	-
Total Non-Operating Revenues	233,450	213,955
Change in Net Position	62,326	80,050
Net Position Beginning of the Year (Restated)	(263,834)	(343,884)
Net Position (Deficit) End of Year	$ (201,508)	$ (263,834)

Revenues generated by a community school are almost entirely dependent on per pupil allotment given by the State foundation and from grants from the United State Department of Education. The School received more in foundation revenue due to increased student enrollment from 66 in 2013 to 88 in 2014.

The School received federal and state grant monies through, Title I, Title VI-B of $ 223,686 in 2014 compared to $213,955 in 2013.

The School's operating expenses increased to $870,884 from $616,160 due to increased staffing costs and purchased services in 2014. The increase in expenses is a direct result of the increased student enrollment in 2014.

The School's beginning net position balance was restated to correct previously accrued payroll and to account for a prior year payable that was voided.

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, 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 has developed a one year spending plan and a five-year forecast that is reviewed semi-annual by the Board of Trustees. The five-year forecast is also submitted to the Sponsor and the Ohio Department of Education, annually.

CAPITAL ASSETS

The School has invested in capital assets, net of accumulated depreciation. Detailed information regarding capital asset activity is included in the Note 6 in the notes to the basic financial statements.

DEBT OBLIGATIONS

The School recorded rental arrearages for past due rent owed to the former landlord. A promissory note was signed in 2013, wherein the School agreed to pay $1,500 per month to satisfy the debt. This liability is shown in the statement of net position as lease liability. See Note 8 to the financial statements.

RESTRICTIONS AND OTHER LIMITATIONS

The future stability of the School is not without challenges. The School does not receive any funds from taxes. The primary source of funding is the State foundation program. An economic slowdown in the State could result in budgetary cuts to education, which would have a negative impact on the School.

CONTACTING THE SCHOOL'S FINANCIAL MANAGEMENT

This financial report is designed to provide our clients and creditors with a general overview of the School's finances and to demonstrate accountability for the money it receives. If you have questions about this report or need additional information, please contact Mr. Sylvester Monroe, Treasurer, 12406 Shaker Blvd. Cleveland, Ohio 44120 or e-mail at smonroe.treasurer@gmail.com

HBCU PREPARATORY SCHOOL 1
CUYAHOGA COUNTY, OHIO

STATEMENT OF FINANCIAL POSITION
JUNE 30, 2014

Assets:	
Current assets:	
Equity in pooled cash	
Cash.	$ 49,165
Receivables:	
Intergovernmental	16,880
Total current assets	66,045
Noncurrent assets:	
Depreciable capital assets, net	1,418
Total assets	67,463
Liabilities:	
Current liabilities:	
Accounts payable.	21,203
Accrued wages and benefits	40,935
Short term Portion of Lease Liability.	15,000
Advances Payable	189,300
Total current liabilities	266,438
Non-current liabilities:	
Lease Liability.	2,533
Total non-current liabilities	2,533
Total liabilities	268,971
Net Position:	
Net Investment in Capital Assets	3,764
Unrestricted (deficit)	(205,272)
Total Net Position (Deficit)	$ (201,508)

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

HBCU PREPARATORY SCHOOL 1
CUYAHOGA COUNTY, OHIO

STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET POSITION
FOR THE YEAR ENDED JUNE 30, 2014

Operating revenues:	
State foundation	$ 699,760
Total operating revenues	699,760
Operating expenses:	
Salaries	329,077
Fringe Benefits	70,364
Purchased services	451,544
Materials and supplies	17,617
Depreciation	1,173
Other	1,109
Total operating expenses.	870,884
Operating loss	(171,124)
Non-operating revenues:	
Federal and State grants.	223,686
Other Non-Operating Revenues	9,764
Total non-operating revenues	233,450
Change in net position	62,326
Net Position at beginning of year (Restated)	(263,834)
Net Position (deficit) at end of year	$ (201,508)

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

HBCU PREPARATORY SCHOOL 1
CUYAHOGA COUNTY, OHIO

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2014

Cash flows from operating activities:	
Cash received from state foundation	$ 699,370
Cash payments for purchased services -	(444,044)
Cash payments for Employees	(315,272)
Cash payments for Employee Benefits	(70,364)
Cash payments for materials and supplies	(17,617)
Cash payments for other expenses	(1,109)
Net cash used in operating activities	(149,036)
Cash flows from noncapital financing activities:	
Cash received from Federal and State grants	222,029
Cash received from Non-Operating Sources	9,764
Net cash provided by noncapital financing activities.	231,793
Cash flows from capital and related financing activities:	
Cash Paid to Schools for Advances	(48,538)
Cash Paid for Lease Liabilities	(15,000)
Net cash used in capital and related financing activities.	(63,538)
Net increase (decrease) in cash and cash	
Net increase in cash	19,219
Cash at beginning of year	29,946
Cash at end of year.	$ 49,165
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss.	$ (171,124)
Adjustments:	
Depreciation	1,173
Changes in assets and liabilities:	
(Increase) in accounts receivable	(390)
Increase in accounts payable	7,500
Increase in accrued wages and benefits	13,805
Net cash used in operating activities	$ (149,036)

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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1. DESCRIPTION OF ENTITY

HBCU Preparatory School 1 (The School) is a nonprofit corporation established pursuant to Ohio Revised Code Chapters 3314 and 1702 to address the needs of students in third grade through the six grade. The School which was formerly known as Phoenix Village Academy P2, changed its name on October 29, 2013, to HBCU Preparatory School 1. This change was motivated by management desire to better align the school's core value to those of the HBCU Preparatory School Network, in which the School is a member. Consequently to the name change, the School is in the process of applying for a tax-exempt status with the IRS for the new entity. Management is not aware of any course of action or series of events that have occurred that might adversely affect the School's tax-exempt status determination by the IRS.

The School, which is part of the State's education program, is independent of any school district and is nonsectarian in its programs, admissions policies, employment practices, and all other operations. The School may sue and be sued, acquire facilities as needed, and contract for any services necessary for the operation of the School. The School was approved for operation under a contract with Ohio State Board of Education. 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 termination the contract prior to its expiration.

The School signed a contract with Kids Count of Dayton Inc. to act as its sponsor.

The School operates under the direction of a five-member Board of Trustees. 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial Statements of the School have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental nonprofit organizations. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the School's accounting policies are described below.

A. BASIS OF PRESENTATION

The School's basic financial statements consist of a Statement of Net Position, a Statement of Revenue, Expenses and Changes in Net Position, and a Statement of Cash Flows.

The School uses a single enterprise presentation for its financial records. Enterprise fund reporting focuses on the determination of the changes net position, financial position and cash flows.

B. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

The enterprise activity is accounted for using a flow of economic resources measurement focus. All assets and liabilities associated with the operation of the School are included on the statement of net position. The statement of revenues, expenses, and changes in net position presents increases (e.g revenues) and decreases (e.g expenses) in total net position. The statement of cash flows reflects how the School's finances meet its cash flow needs.

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. The School's financial statements are prepared using the accrual basis of accounting

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING (CONTINUED)

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. Revenue resulting from nonexchange transactions, in which the School receives value without directly giving equal value in return, such as grants and entitlements, are recognized in the period in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the period when the resources are required to be used or the period 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. Expenses are recognized at the time 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, unless specifically provided for in the schools sponsorship agreement. The contract between the School and its Sponsor requires a budget to be adopted annually, and be reviewed on a monthly basis. The Board also develops a five year forecast which is reviewed semi-annually.

D. CASH AND CASH EQUIVALENTS

All monies received by the School are maintained in a demand deposit account. The School considers all short-term, highly liquid and investments with an initial maturity of 3 months or less to be cash equivalents. The School had no investments at 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.

F. CAPITAL ASSETS

Fixed assets are capitalized at cost. The costs of additions are capitalized, while repair and maintenance costs are expensed when incurred. When property is sold or retired, the related costs and accumulated depreciation are removed from the accounts and any gain or loss is included in additions to or deductions from net assets. Depreciation of capital assets is calculated utilizing the straight-line method over the estimated useful lives of the assets. The useful lives follow:

Asset	Useful Life
Furniture, Equipment and Materials	5 years
Computers and Office Equipment	7 years

The School has an asset capitalization threshold policy of $1,000. (See Note 6)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

G. NET POSITION

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

H. ACCRUED LIABILITIES

Obligations incurred but unpaid at June 30 are reported as accrued liabilities in the accompanying financial statements. As of June 30, 2014 accounts payable was $21,203.

I. ACCRUED WAGES AND BENEFITS

Accrued Wages and benefits represent the total wages and benefits already earned by employees as of June 30, 2014. The total accrued wages and benefits was $40,935 at June 30, 2014.

J. 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. Revenue and expenses not meeting this definition are reported as non-operating.

K. ADVANCES TO/FROM SCHOOLS

HBCU Preparatory School 1 and HBCU Preparatory School 2 are considered family schools. These schools have the same educational philosophy, methodology and provide continuity in the student's educational career, from the primary to the secondary buildings. Charter schools traditionally are underfunded and rely primarily on the state foundation, state and federal grants to finance operations. From time to time, the schools experience cash flow shortages. These schools advance cash to each other to ensure there is sufficient cash to meet payroll and operational expenses. This activity is reported in the Statement of Net Position as Advances Payable for the School. These advances are considered collectible. (See Note 7)

3. RESTATEMENT OF PRIOR YEAR'S NET POSITION

In 2013, the School recorded payroll accruals for its administrative support and maintenance staff, whose contract ended on June 30, 2013 for a total of $13,504. Also, the School voided a $34 transactions recorded as payable in the prior year. These accruals resulted in an understatement of the School's net position by $13,538 as follows:

		Prior Period Adjustments		
Account Description	**Original Balance at 06/30/13**	**Debit**	**Credit**	**Restated Balance at 06/30/13**
Accrued Payroll	$ 40,634	$ 13,504	$ -	$ 27,130
Accounts Payable	$ 13,737	$ 34		13,703
Salaries	226,494	-	13,504	212,990
Material and Supplies	11,376		34	11,342

The net effect of these prior period adjustments on Net Position follows:

Net Position at June 30, 2013	$ (277,372)
Net effects of Prior Period Adjustments	13,538
Net Position at June 30, 2013 (Restated)	$ (263,834)

4. CASH AND CASH EQUIVALENTS

The School maintains its cash balances at one financial institution 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 $49,165, and the bank balance was 58,224.

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 balances were exposed to custodial credit risk.

5. INTERGOVERNMENTAL RECEIVABLE

Receivables at June 30, 2014, consisted of intergovernmental receivable (Federal and State grants), and Foundation payment receivable from the Ohio Department of Education Full Time Equivalent Audit. All receivables are considered collectible in full and will be received within one year.

A summary of the principal items of intergovernmental receivables follows:

Description	Amount
Title I	$ 12,563
Title IV-B	$ 3,927
Foundation Revenues	$ 390
Total	$ 16,880

6. CAPITAL ASSETS

Capital Assets activities for the fiscal year ended July 30, 2014 was as follows:

	Balance at 06/30/2013	Additions	Deletions	Balance at 06/30/2014
Capital Assets Being Depreciated				
Computer Equipment	$ 49,855	$ -	$ -	$ 49,855
Furniture and Appliances	5,867			5,867
Total Capital Assets Being Depreciated	55,722	-	-	55,722
Less Accumulated Depreciation				
Computer Equipment	(49,855)			(49,855)
Furniture and Appliances	(3,276)	(1,173)		(4,449)
Total Accumulated Depreciation	(53,131)	(1,173)	-	(54,304)
Net Total Capital Assets	2,591	(1,173)	-	1,418

7. ADVANCES PAYABLE

HBCU Preparatory School 2's advance loan to HBCU Preparatory School 1 activity is presented in the following table:

	Advances Payable at 6/30/2013	Additions	Reductions	Advances Payable at 6/30/2014
HBCU Preparatory School 2	$ 216,518	$800	$39,338	$ 177,980
Ashe Culture Center	$21,320	$0	$10,000	$11,320
Total	$237,838	$800	$49,338	$189,300

The advances from HBCU Preparatory School 2, and all subsequent payments are approved by the School's administration with the Board and Sponsor acknowledgement.

The Advance from Ashe Culture Center was made by the School's former sponsor to cover payroll and other expenses in prior years. A total payment of $10,000 was made in 2014.

8. LONG-TERM LEASE LIABILITY

Up until October 2011, the School leased its educational facilities with All Star Development Inc. The lease was entered on August 4, 2008 and was for a five year period with monthly lease payments of $5,750. In 2008, the School posted $17,250 or three months' worth of rent as deposit. A five percent yearly increase in monthly lease payment was included in the lease. On October 2011, the School and All Star Development Inc. ended the lease contract. The total arrearages on the rental contract were $49,783. The School used the deposit of $17,250 to satisfy part of the arrearage. On July 1, 2013, the School signed an interest free promissory note of $32,533, representing past due arrearage of rent. Under the promissory note, no interest is charged, and the School's payments are scheduled at $1,250 per month, payable in 24 months, with the remaining balance of $1,355 added unto the final installment payment for the final month.

The table below details the School's Long-Term Lease for the fiscal year:

Description	Balance at 06/30/2014	Amount Due in Less than 1 year
Long-Term Lease Liability	$ 17,533	$ 15,000
Total	$ 17,533	$ 15,000

9. EDUCATIONAL FACILITY LEASE

The School leases its current facility at the former Our Lady of Peace Parish in Cleveland, Ohio. The School signed a four year lease agreement effective July 1, 2011, is expiring June 30, 2015. Monthly payments under the terms of the lease increase each year according to an agreed upon schedule. In fiscal year 2014, the School paid $25,680 in rental and related occupancy payments and expenses. This amount is recorded and reflected in the Statement of Revenue, Expenses and Change in Fund Net Position as purchased services.

10. RISK MANAGEMENT

A. PROPERTY & LIABILITY

The School is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. For the fiscal year 2014, the School contracted with Philadelphia Insurance Companies for all of its insurance. In the past three years, the School did not have insurance claims that exceeded the policy.

B. WORKERS' COMPENSATION

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

C. EMPLOYEE BENEFITS

The School provides medical benefits to most employees. Depending upon the plan chosen, the employees share the cost of the monthly premium with the Board. The premium varies with employees depending on age, gender, and number of dependents.

11. PENSION PLANS

A. SCHOOL EMPLOYEES RETIREMENT SYSTEM OF OHIO (SERS OHIO)

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

Funding Policy – Plan members are required to contribute 10 percent of their annual covered salary and the School is required to contribute at 14 percent of annual covered payroll. 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. The Retirement Board, acting with advice from the actuary, allocates the employer contribution rate among four of the system's funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund). For the fiscal year ended June 30, 2014, the allocation to pension and death benefits was 13.10 percent. The remaining 0.90 percent of the 14 percent employer contribution rate is allocated to the Medicare B and Health Care Funds.

The School's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2014, 2013, and 2012 were $17,235, $9,039, and $9,095 respectively. 100 percent of that amount was contributed for the fiscal year ended June 30, 2014, 2013, and 2012.

B. STATE TEACHERS RETIREMENT SYSTEM (STRS OHIO)

Plan Description – The School participates in the State Teachers Retirement 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, Ohio 43215-3771, by calling 614-227-4090, 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 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% of earned compensation into an investment account. Investment decisions are made by the member. A member may elect to receive a lifetime monthly annuity or 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 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 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 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.

11. PENSION PLANS

A. STATE TEACHERS RETIREMENT SYSTEM (STRS OHIO) (CONTINUED)

Funding Policy – Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions. 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. The statutory minimum rate contribution will be increased one percent each year beginning July 1, 2013, until it reaches 14 percent on July 1, 2016. For fiscal year 2014, plan members were required to contribute 11 percent of their annual covered salaries. The School was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations.

The School's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2014, 2013, and 2012 were $24,583, $15,776, and $27,289 respectively; 98% was contributed for fiscal year 2014, and 100% percent has been contributed for the fiscal years 2013, and 2012

12. POSTEMPLOYMENT BENEFITS

A. SCHOOL EMPLOYEE RETIREMENT SYSTEMS (SERS)

Plan Description – The School participates in two cost sharing multiple employer defined benefit other postemployment benefit plans administered 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, 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 SERS based on authority granted by State statute. The financial reports of both Plans are included in the SERS Comprehensive Annual Financial Report, which can be obtained on SERS' Ohio Website, www.ohsers.org, under *Employers/Audit Resources.*

Funding Policy – State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 105(e). For 2014, 0.14 percent of covered payroll was allocated to health care. An additional healthcare surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, prorated according to service credit earned. For fiscal year 2014, the actuarially determined amount was $20,250.

Active member do not contribute to the postemployment benefit plans. 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 School's contributions for health care (including surcharge) for fiscal years ended June 30, 2014, 2013, and 2012 were $1,454, $110, and $2,688, respectively; 100 percent has been contributed for fiscal years 2014, 2013, and 2012.

12. POSTEMPLOYMENT BENEFITS (CONTINUED)

A. SCHOOL EMPLOYEE RETIREMENT SYSTEMS (SERS)(CONTINUED)

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 contributions for Medicare Part B for the fiscal years ended June 30, 2014 2013, and 2012 were $1,000, $511, and $585 respectively; 100 percent has been contributed for fiscal years 2014, 2013 and 2012.

B. STATE TEACHERS RETIREMENT SYSTEM OF OHIO

Plan Description-The School contributes to the cost-sharing, multiple-employer defined benefit Health Plan (the "Plan") administered by the State teachers Retirement System of Ohio (STRS Ohio) for eligible retirees who participated in the defined benefit or combined pension plans offered by STRS Ohio. Benefits include hospitalization, physician's fees, prescription drugs and reimbursement of monthly Medicare Part B premiums. The Plan is included in the report of STRS of 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 give 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 contributions for health care for fiscal years ended June 30, 2014, 2013, and 2012 were $1,891, $1,214, and $2,009 respectively; 98% was contributed in fiscal year 2014, and 100 percent has been contributed for the fiscal years 2013 and 2012.

13. CONTINGENCIES

A. GRANTS

The School received financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreement and are subject to audit by the grantor. Any disallowed costs may require refunding to the grantor. Amount 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. 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. During the fiscal year 2014, the School paid $8,522 to the State through their foundation revenues for overpayments from fiscal year 2013. For fiscal year 2014, Ohio Department of Education owes the School a total of $390 as the result of the FTE calculation. This amount is included in the Intergovernmental Receivable balance shown on the Statement of Financial Position (See Note 5).

13. CONTINGENCIES (CONTINUED)

C. DATA REVIEWS

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, 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 is not yet available, but ODE believes this will result in receivables to the schools affected.

14. SPONSORSHIP- KIDS COUNT OF DAYTON, INC.

The School contracted with Kids Count of Dayton, Inc. as its sponsor and oversight services as required by law. The School pays the Sponsor three percent of State Aid. Sponsorship fees are calculated as three percent of state funds received by the School from the State of Ohio. For the fiscal year ended June 30, 2014, sponsorship fees totaled $21,455.

15. PURCHASED SERVICES

For the period of July 1, 2013 through June 30, 2014, the School made the following purchase service commitments. These commitments included sponsor fees, treasurer services, management and CCIP fees, transportation, student services, etc…

Description	Amount
Professional and Technical Services	$ 22,684
Occupancy	25,680
Sponsorship Fees	21,455
Food Services	140,697
Other Contract Services	241,026
Total Purchased Services	$ 451,542

16. FISCAL DISTRESS AND SUBSEQUENT EVENTS

As of June 30, 2014, the School had a deficit of $201,508. The School's administration and Board have instituted budgetary constraints with ensure discretionary expenditures remain with annual resources. The School has increased its enrollment in 2014 and in 2015 while maintaining its expenditures at 2013 levels to maintain solvency. The School shares school facilities with its sister school, HBCU Preparatory School 2. The lease, utilities, and other occupancy costs have been reallocated, between both schools, to decrease the overall expenditures for the School.

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

HBCU Preparatory School 1
Cuyahoga County
12406 Shaker Boulevard
Cleveland, Ohio 44120

To the Board of Trustees

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 HBCU Preparatory School 1, Cuyahoga County, (the School) as of and for the year ended June 30, 2014, and the related note to the financial statements and have issued our report thereon dated April 29, 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.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Therefore, unidentified material weaknesses or significant deficiencies may exist. However, as described in the accompanying schedule of findings we identified certain deficiencies in internal control over financial reporting, that we consider material weaknesses.

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 a 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. We consider findings 2014-001 and 2014-002 described in the accompanying schedule of findings to be material weaknesses.

Compliance and Other Matters

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

Entity's Response to Findings

The School's responses to the findings identified in our audit are described in the accompanying schedule of findings. We did not audit the School's responses and, accordingly, we express no opinion on them.

Purpose of this Report

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

Dave Yost

Dave Yost
Auditor of State
Columbus, Ohio

April 29, 2015

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

1. Developing and Implementing an Effective Monitoring Control System

Finding Number	2014-001

<u>MATERIAL WEAKNESS</u>

Monitoring is comprised of regular management and supervisory activities established to oversee whether management's objectives are being achieved. This process involves assessing the design and operation of controls on a timely basis and taking necessary corrective actions. Monitoring should assist management in identifying unexpected results and/or possible misstatements.

Some effective monitoring practices include:

- Regular review of monthly financial statements;
- Review of revenues and expenses with independently accumulated information (budgets, past performances, peer group representatives, etc.);
- Review of large or unusual fluctuations;
- Identification of unusual fluctuations;
- Comparison of financial statement position with financial projections and other internally prepared projections of financial position and operating results;
- Comparison of predefined key performance indicators based on the financial statements;
- Review of items which have been outstanding for extended periods of time (outstanding check listing for payroll and non-payroll transactions);
- Monitoring compliance with grant agreements;
- Ensuring that an adequate segregation of duties exists; and
- Review of monthly bank reconciliations by someone independent of their preparation.

Although the Treasurer prepared monthly financial reports for the Board at each meeting, the Academy failed to perform adequate monitoring over financial activities. The lack of effective monitoring could lead to the misallocation or misstatement of Academy funds, expenditure of funds contrary to the directives of the Board, and non-compliance with federal or state laws or regulations. This could result in a loss of funding from federal and state sources, and errors or irregularities occurring in financial transactions which affect the bank reconciliations could go undetected. This deficiency could lead to inaccurate or incomplete financial statements.

We recommend the Board review the monthly financial reports they receive at their meetings and when satisfied as to their accuracy approve them through the minute records. In addition, management should ensure that any reports required by the grantor agencies, per the terms of grant agreements, are completed accurately and filed with the respective grantor agencies in a timely manner. Management should also ensure that proper segregation of duties exists, including an independent review of the monthly bank reconciliations.

Official's Response: HBCU Preparatory School 1 is committed to implementing an effective monitoring system designed to prevent the misallocation or misstatement of School funds, expenditure of funds contrary to the directives of the Board, and non-compliance with federal state laws or regulations. Accordingly, the Governing Authority will take all responsible steps to implement the Auditor's recommendations.

2. **Condition of Accounting Records**

Finding Number	2014-002

MATERIAL WEAKNESS

All local public offices shall maintain an accounting system and accounting records sufficient to enable the public office to identify, assemble, analyze, classify, record and report its transactions, maintain accountability for the related assets (and liabilities, if generally accepted accounting principles apply), document compliance with finance related legal and contractual requirement.

All local public offices should maintain or provide capital asset records including such information as the original cost, acquisition date, voucher number, the asset type (land, building, vehicle, etc.), asset description, location, and tag number. Local governments preparing financial statements using generally accepted accounting principles will want to maintain additional data.

Management is responsible for implementing and maintaining a system of controls designed to enable management to determine the accuracy of financial transactions of the School. Also, management is responsible for developing and maintaining complete and accurate financial records. Instead of complete and accurate financial records, we noted the following:

- The School did not maintain capital asset records during the year and has relied on an independent appraisal company report from 2010 for their capital asset records;
- The School does not perform a monthly bank-to-book reconciliation. Reconciliations are generated from the School's accounting software on a monthly basis, and are not accurate, nor are they reviewed;
- Checking account reconciliations contained outstanding checks that were either voided or not outstanding at year-end and did not agree to the amounts reported in the financial statements;
- School paid stop payment and wire transfer fees totaling $161 during the audit period
- School issued checks out of sequence;
- The School did not provide accurate schedules of Accrued Payroll;
- Amounts reported in the School's pension notes disclosures for 2012, 2013 and 2014 were inaccurate;
- Two of the five withdrawn students tested did not contain the appropriate or adequate supporting documentation showing the student was withdrawn for a proper purpose;
- No formal procedure was established to allocate rental payments between both schools located within the same building;
- Adequate supporting documentation was not always attached to the voucher packet for disbursements sampled; and
- SERS withholding payments differed from Paychex report. This resulted in underpayment to SERS of $95.

The School's management has available numerous sources of information describing the process of internal controls, recordkeeping requirements and reporting procedures. It is the responsibility of management to ensure that all responsible parties have access to this literature and training sessions. This deficiency could lead to inaccurate or incomplete financial statements.

We recommend the School implement and maintain controls over accounting records and transactions.

Official's Response: HBCU Preparatory School 1 is committed to overseeing the accuracy of the School's financial accounts and transactions. Accordingly, the Governing Authority will take all reasonable steps necessary to implement and maintain effective controls over accounting records and transactions.

HBCU PREPARATORY SCHOOL 1
CUYAHOGA COUNTY

SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2014

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; ***Explain***
2013-001	Condition of Accounting Records	No	Partially Corrected.
2013-002	Developing and Implementing an Effective Monitoring Control System	No	Partially Corrected.

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Dave Yost • Auditor of State

HBCU PREPARATORY SCHOOL 1

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 19, 2015