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

REGULAR AUDIT

FOR THE YEAR ENDED JUNE 30, 2014

Dave Yost · Auditor of State

HBCU PREPARATORY SCHOOL 2
CUYAHOGA COUNTY

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INDEPENDENT AUDITOR'S REPORT

HBCU Preparatory School 2
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 2, 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 that we plan and perform the audit to reasonably assure the financial statements are free from material misstatement.

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

We believe the audit evidence we obtained is sufficient and appropriate to support our 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 2, Cuyahoga County, Ohio (the School), as of June 30, 2014, and the changes in financial position and its cash flows for the year then ended in accordance with 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

HBCU PREPARATORY SCHOOL 2
CUYAHOGA COUNTY, OHIO

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

The discussion and analysis of HBCU Preparatory School 2'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

The School's key financial highlights for the fiscal year 2014 are as follows:

- Total assets increased by $52,510 or 20.65%.
- Total liabilities increased by $17,236 or 29.33%.
- Total net position increased by $35,274 or 18.05%.
- Total operating revenues were $932,643. Total operating expenses were $ 1,024,465.

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 and Other Assets	$ 293,111	$ 245,553
Capital Assets, net of depreciation	13,642	8,690
Total Assets	306,753	254,243
Liabilities		
Current Liabilities	76,016	58,780
Total Liabilities	76,016	58,780
Net Position		
Net Investment in Capital Assets	13,642	8,690
Unrestricted	217,095	186,773
Total Net Position	$ 230,737	$ 195,463

Overtime, net position can serve as a useful indicator of governmental financial position. At June 30, 2014, the School's net position totaled $230,737 compared to $195,463 in 2013. The School reported intergovernmental receivable of $37,515 resulting from the Title I and Special Education expenditures not yet reimbursed by the Ohio Department of Education (See Note 5 for details). In addition the balance of the School's loan to HBCU Preparatory School 1 (its sister school) was $179,980 as of June 30, 2014 compared to $216,518 in 2013.

The School also reported accrued wages and benefits of $61,317 and $38,924 for 2014 and 2013 respectively, for payroll and other benefits accrued for its employees. The School had account payable of $13,999 and $19,156 for fiscal years 2014 and 2013, respectively, due to several vendors.

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	$ 932,643	$ 783,190
Total Operating Revenue	932,643	783,190
Operating Expenses		
Salaries	440,343	371,105
Fringe Benefits	118,455	96,168
Purchased Services	435,906	419,375
Materials and Supplies	13,970	12,481
Capital Outlays	8,076	3,579
Depreciation	7,715	18,824
Total Operating Expenses	1,024,465	921,532
Operating Loss	(91,822)	(138,342)
Non-Operating Revenues and (Expenses)		
Grants - Federal and State	121,487	136,054
Local Sources	5,609	17,786
Total Non-Operating Revenues	127,096	153,840
Change in Net Position	35,274	15,498
Net Position Beginning of the Year (Restated)	195,463	179,965
Net Position End of Year	$ 230,737	$ 195,463

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 revenues due to increased student enrollment from 101 in 2013 to 117 in 2014.

The School received federal and state grant monies through, Title I, Title VI-B of $121,487 in 2014 compared to $136,054 in 2013.

The School's operating expenses increased to $1,024,465 from $921,532 due to increased staffing costs and purchased services in 2014. The increase is a direct result of the increased student enrollment in 2014.

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 net investment in capital assets. Detailed information regarding capital asset activity is included in the Note 6 in the notes to the basic financial statements.

DEBT OBLIGATIONS

The School has no long term debt obligations outstanding at June 30, 2014.

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 2
CUYAHOGA COUNTY, OHIO

STATEMENT OF NET POSITION
JUNE 30, 2014

Assets:		
Current assets:		
Cash and Cash Equivalents.	$	70,616
Intergovernmental Receivable.		37,515
Deposits and Escrow.		5,000
Total current assets		113,131
Noncurrent assets:		
Advance Receivable		179,980
Depreciable capital assets, net		13,642
Total non-current assets		193,622
Total assets		306,753
Liabilities:		
Current liabilities:		
Accounts payable.		13,999
Accrued wages and benefits		61,317
Due to Others		700
Total current liabilities		76,016
Total liabilities		76,016
Net Position:		
Net Investment in Capital Assets		13,642
Unrestricted		217,095
Total Net Position.	$	230,737

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

HBCU PREPARATORY SCHOOL 2
CUYAHOGA COUNTY, OHIO

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

Operating revenues:	
State foundation	$ 932,643
Total operating revenues	932,643
Operating expenses:	
Salaries	440,343
Fringe Benefits	118,455
Purchased services	435,906
Materials and supplies	13,970
Depreciation	7,715
Capital Outlays	8,076
Total operating expenses.	1,024,465
Operating loss	(91,822)
Non-operating revenues:	
Federal and State grants.	121,487
Local Sources	5,609
Total non-operating revenues	127,096
Change in net assets	35,274
Net Position at beginning of year (Restated)	195,463
Net Position at end of year	$ 230,737

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

HBCU PREPARATORY SCHOOL 2
CUYAHOGA COUNTY, OHIO

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

Cash flows from operating activities:		
Cash received from state foundation	$	932,643
Cash payments for purchased services -		(441,062)
Cash payments for Employees		(417,950)
Cash payments for Employee Benefits		(118,455)
Cash payments for materials and supplies		(13,970)
Cash payments for other expenses		(8,076)
Net cash used in operating activities		(66,870)
Cash flows from noncapital financing activities:		
Cash received from Federal and State grants		108,006
Cash received from Non-Operating Sources		5,609
Net cash provided by noncapital financing activities.		113,615
Cash flows from capital and related financing activities:		
Cash Received from School Advance.		36,538
Acquisition of capital assets		(12,667)
Net cash used in capital and related financing activities.		23,871
Net increase (decrease) in cash and cash		
Net increase in cash		70,616
Cash at beginning of year		-
Cash at end of year.	$	70,616
Reconciliation of operating loss to net cash used in operating activities:		
Operating loss.	$	(91,822)
Adjustments:		
Depreciation		7,715
Changes in assets and liabilities:		
(Decrease) in accounts payable		(5,156)
Increase in accrued wages and benefits		22,393
Net cash used in operating activities	$	(66,870)

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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1. DESCRIPTION OF ENTITY

HBCU Preparatory School 2 (The School) is a nonprofit corporation established pursuant to Ohio Revised Code Chapters 3314 and 1702 to address the needs of students in kindergarten through the second grade. The School which was formerly known as Phoenix Village Academy S 1, changed its name on October 29, 2013, to HBCU Preparatory School 2. 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.

Kids Count of Dayton, Inc. is currently the Sponsor of the School.

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

Capital Assets are capitalized at cost. The costs of additions are capitalized while repairs 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. Deprecation 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 $13,999 due to various vendors.

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 $61,317 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 2 and HBCU Preparatory School 1 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 Advance Receivable 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 $23,151. 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 $23,185 as follows.

		Prior Period Adjustments		
Account Description	**Original Balance at 06/30/13**	**Debit**	**Credit**	**Restated Balance at 06/30/13**
Accrued Payroll	$ 62,075	$ 23,151	$ -	$ 38,924
Accounts Payable	19,190	34	-	19,156
Salaries	394,256	-	23,151	371,105
Material and Supplies	12,515	-	34	12,481

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

Net Position at June 30, 2013	$ 172,278
Net effects of prior period adjustments	23,185
Net Position at June 30, 2013 (Restated)	$ 195,463

4. CASH AND CASH EQUIVALENTS

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.

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 $70,616 and the bank balance was $80,519.

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	$ 12,177
Title IV-B	$ 24,090
Foundation Revenues	$ 1,248
Total	$ 37,515

6. CAPITAL ASSETS

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

	Balance at 06/30/2013	Additions	Deletions	Balance at 06/30/2014
Capital Assets Being Depreciated				
Computer Equipment	$ 118,253	$ -	$ -	$ 118,253
Furniture and Equipment	9,655	12,667		22,322
Total Capital Assets Being Depreciated	127,908	12,667	-	140,575
Less Accumulated Depreciation				
Computer Equipment	(115,003)	(3,250)		(118,253)
Furniture and Equipment	(4,215)	(4,465)		(8,680)
Total Accumulated Depreciation	(119,218)	(7,715)	-	(126,933)
Net Capital Assets	8,690	4,952	-	13,642

7. ADVANCES RECEIVABLE

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

	Advances Receivable 6/30/2013	Additions	Reductions	Advances Receivable 6/30/2014
HBCU Preparatory School 1	$ 216,518	$800	$37,338	$ 179,980

The aforementioned has not yet been repaid at the June 30, 2014 and is recorded in the Statements of Net Position as Advances Payable.

These advances are approved by the School's administration with the Board and Sponsor acknowledgement.

8. DUE TO OTHERS

The table below details the School's Due to others activity for the fiscal year:

	Due to Others 6/30/2013	Additions	Reduction	Due To Others 6/30/2014
Phoenix Village Academy P 1	$ 700	$0	$ 0	$ 700
Educare Consulting	$ 0	$2,000	$ 2,000	$ 0
	$700	$2,000	$ 2,000	$ 700

These payments were received to assist the School in meeting its financial obligations; no written agreements exist governing these types of transactions. No interest is assessed.

9. EDUCATIONAL FACILITY LEASE

The School leases its facility at the former Our Lady of Peace Parish. 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 $65,743 in rental and related occupancy payments and expenses. This amount is recorded and reflected in the Statement of Revenue, Expenses and Change in 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. The school did not have any claim exceeding the insurance amount for the last three years.

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.

11. PENSION PLANS (CONTINUED)

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

The School's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2014, 2013, and 2012 were $23,751, $21,106, and $19,123 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, 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.

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 $32,458, $28,386, and $28,960, respectively; 100 percent has been contributed for the fiscal years 2014, 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 $1,040, $258, and $4,072, respectively; 100 percent has been contributed for fiscal years 2014, 2013 and 2012.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For fiscal year 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 $1,378, $1,192, and $ 1,231 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.

12. POSTEMPLOYMENT BENEFITS (CONTINUED)

B. STATE TEACHERS RETIREMENT SYSTEM OF OHIO (CONTINUED)

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 $2,497, $2,184, and $2,227 respectively; 100 percent has been contributed for the fiscal years 2014, 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 $907 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 $1,248 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).

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 $27,226.

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	2014 Amount
Professional and Technical Services	$ 32,794
Occupancy	65,743
Sponsorship Fees	27,226
Other contract Services	246,236
Other	63,907
Total Purchased Services	$ 435,906

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

HBCU Preparatory School 2
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 and the related notes to the financial statements, of the HBCU Preparatory School 2, Cuyahoga County, (the School) as of and for the year ended June 30, 2014, 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
Auditor of State
Columbus, Ohio

April 29, 2015

HBCU PREPARATORY SCHOOL 2
CUYAHOGA COUNTY

SCHEDULE OF FINDINGS
JUNE 30, 2014

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

1. **Condition of Accounting Records**

Finding Number	2014-001

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 requirements.

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;
- The School did not provide accurate schedules of Accrued Payroll;
- The School provided a consolidated trial balance but adjustments made to various asset and liability accounts were unsupported;
- Amounts reported in the School's pension notes disclosures for 2012, 2013 and 2014 were inaccurate.
- Three 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;
- Aadequate supporting documentation was not always attached to the voucher packet for disbursements sampled;

- The School could not readily determine the status of two long outstanding checks;
- The School issued checks out of sequence

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 2 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 accounts records and transactions.

2. Developing and Implementing an Effective Monitoring Control System

Finding Number	2014-002

<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 internal 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 School failed to perform adequate monitoring over financial activities. The lack of effective monitoring could lead to the misallocation or misstatement of School 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 2 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 and state laws or regulations. Accordingly, the Governing Authority will take all reasonable steps to implement the Auditor's recommendations.

HBCU PREPARATORY SCHOOL 2
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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HBCU PREPARATORY SCHOOL 2

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