# NOBLE ACADEMY - CLEVELAND
# CUYAHOGA COUNTY

## REGULAR AUDIT

## FOR THE YEAR ENDED JUNE 30, 2008

Mary Taylor, CPA
Auditor of State

**NOBLE ACADEMY - CLEVELAND**
**CUYAHOGA COUNTY**

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**INDEPENDENT ACCOUNTANTS' REPORT**

Noble Academy - Cleveland
Cuyahoga County
1200 East 200th Street
Euclid, Ohio 44117

To the Board of Directors:

We have audited the accompanying basic financial statements of Noble Academy - Cleveland, Cuyahoga County, Ohio, (the Academy), as of and for the year ended June 30, 2008, as listed in the table of contents. These financial statements are the responsibility of the Academy's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Noble Academy - Cleveland, Cuyahoga County, Ohio, as of June 30, 2008, and the changes in financial position and cash flows, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 21, 2010, on our consideration of the Academy's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information accounting principles generally accepted in the United States of America requires. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measuring and presenting the required supplementary information. However, we did not audit the information and express no opinion on it.

Mary Taylor

**Mary Taylor, CPA**
Auditor of State

May 21, 2010

The discussion and analysis of Noble Academy Cleveland's (the Academy) financial performance provides an overall review of the financial activities for the fiscal year ended June 30, 2008. Readers should also review the financial statements and notes to enhance their understanding of the Academy's financial performance.

## Financial Highlights

Key financial highlights for fiscal year 2008 are as follows:

- Total net assets increased by $70,002.
- The Academy had total operating revenues of $1,081,104.
- The Academy had total operating expenses of $1,426,584.
- The current liabilities $156,366.
- The Academy received Federal and State Grants totaling $259,239.

## Using this Financial 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 assets, a statement of revenues, expenses and change in net assets, and a statement of cash flows.

## Reporting the School as a Whole

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

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

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

Table 1 provides a comparison of the Academy's net assets as of June 30, 2008 and 2007.

Table 1

Net Assets

| | June 30, 2008 | June 30, 2007 |
|---|---|---|
| Assets | | |
| Current and Other Assets | $14,366 | $39,667 |
| Capital Assets, Net | 111,022 | 45,129 |
| Total Assets | 125,388 | 84,796 |
| Liabilities | | |
| Current Liabilities | 156,366 | 185,776 |
| Total Liabilities | 156,366 | 185,776 |
| Net Assets | | |
| Invested in Capital Assets | 111,022 | 45,129 |
| Unrestricted | (142,000) | (146,109) |
| Total Net Assets | $(30,978) | $(100,980) |

The unrestricted net assets represent the accumulated results of the School's operations to date. These assets can be used to finance day to day operations without constraints, such as legislative or legal requirements. The results of the current year operations for the School as a whole are reported in the Statement of Revenues, Expenses and Changes in Net Assets, which shows the change in net assets.

Table 2 shows the changes in net assets for the fiscal year 2008 and the period ended June 30, 2007.

Table 2

Revenues, Expenses and Change in Net Assets

| | 2008 | 2007 |
|---|---|---|
| Operating Revenue/Expense | | |
| Revenue | | |
| Foundation Payments | $1,030,738 | $541,699 |
| Food Services | 4,798 | 2,099 |
| Extracurricular Activities | 7,770 | 1,527 |
| Other Local Revenue | 37,798 | 17,792 |
| Total Operating Revenues | 1,081,104 | 563,117 |
| Expense | | |
| Salaries | 668,640 | 400,950 |
| Fringe Benefits | 124,091 | 68,356 |
| Purchased Services | 481,429 | 371,480 |
| Materials and Supplies | 102,862 | 114,072 |
| Miscellaneous Expenses | 37,034 | 18,632 |
| Depreciation Expense | 12,528 | 5,395 |
| Total Operating Expenses | 1,426,584 | 978,885 |
| Net Operating Loss | (189,237) | (415,768) |
| Non-Operating Revenues/Expenses | | |
| Management Fee Forgiveness | 156,243 | 0 |
| Restricted Federal Grants | 254,011 | 29,325 |
| Restricted State Grants | 5,228 | 53,000 |
| Contributions and Donations | 0 | 232,463 |
| Total Non-Operating Revenues | 415,482 | 314,788 |
| Change in Net Assets | 70,002 | (100,980) |
| Net Assets at Beginning of Year | (100,980) | 0 |
| Net Assets at End of Year | $(30,978) | $(100,980) |

Foundation support is the primary support of the School, comprising 95 percent of operating revenue and 69 percent of total revenues. The School also received significant Federal Grants, which represent 17 percent of total revenue.

Salaries and benefits comprise the largest portion of operating expenses, representing 56 percent of total operating expenses. Purchased services also represent a large portion of operating expenses, or 34 percent. Net assets increased $70,002 resulting from total revenues in excess of total expenses.

## Capital Assets

At the end of fiscal year 2008 the Academy had $128,945, invested in instructional and office equipment, and building improvements (net of $5,395 in accumulated depreciation). Table 3 shows fiscal year 2008:

Table 3

Capital Assets
(Net of Depreciation)

| | 2008 | 2007 |
|---|---|---|
| Furniture and Equipment | $92,356 | $45,129 |
| Leasehold Improvements | 18,666 | 0 |
| Totals | $111,022 | $45,129 |

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

## Debt

The Academy received a personal, interest-free loan from the Academy's Director. The note does not specify a maturity date for the loan. The Academy expects to pay it back in fiscal year 2009.

For more information on the Academy's debt see Note 12 to the basic financial statements

## Contacting the School's Financial Management

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

**Noble Academy Cleveland**

*Statement of Net Assets*

*June 30,2008*

| | |
|---|---|
| **ASSETS:** | |
| **Current Assets:** | |
| Cash and cash equivalents | $8,907 |
| Intergovernmental receivable | 5,459 |
| Total current assets | 14,366 |
| **Noncurrent Assets:** | |
| Depreciable capital assets (net of accumulated depreciation | 111,022 |
| Total assets | 125,388 |
| **LIABILITIES:** | |
| **Current Liabilities:** | |
| Accounts payable | 56,309 |
| Accrued wages and benefits payable | 61,803 |
| Payroll liabilities | 18,254 |
| Personal loans | 20,000 |
| Total current liabilities | 156,366 |
| **NET ASSETS:** | |
| Invested in capital assets | 111,022 |
| Unrestricted (deficit) | (142,000) |
| Total net assets | $(30,978) |

See accompanying notes to the basic financial statements.

**Noble Academy Cleveland**

*Statement of Revenues, Expenses and Change in Net Assets*

*For the Fiscal Year Ended June 30,2008*

| | |
|---|---|
| **OPERATING REVENUES:** | |
| Foundation payments | $1,030,738 |
| Food services | 4,798 |
| Extracurricular activities | 7,770 |
| Other revenue | 37,798 |
| Total operating revenues | 1,081,104 |
| **OPERATING EXPENSES:** | |
| Salaries | 668,640 |
| Fringe benefits | 124,091 |
| Purchased services | 481,429 |
| Materials and supplies | 102,862 |
| Depreciation | 12,528 |
| Miscellaneous | 37,034 |
| Total operating expenses | 1,426,584 |
| Operating loss | (345,480) |
| **NON-OPERATING REVENUES:** | |
| Management fee forgiveness | 156,243 |
| Restricted federal grants | 254,011 |
| Restricted state grants | 5,228 |
| Total non-operating revenues | 415,482 |
| Change in net assets | 70,002 |
| Net assets, beginning of year | (100,980) |
| Net assets, end of year | $(30,978) |

See accompanying notes to the basic financial statements.

**Noble Academy Cleveland**
*Statement of Cash Flows*
*For the Fiscal Year Ended June 30,2008*

| | |
|---|---|
| **DECREASE IN CASH AND CASH EQUIVALENTS** | |
| | |
| **CASH FLOWS FROM OPERATING ACTIVITIES:** | |
| Cash received from State of Ohio | $1,039,459 |
| Cash received from other operating revenues | 50,366 |
| Cash payments to suppliers for goods and services | (525,205) |
| Cash payments to employees for services and benefits | (743,984) |
| Other cash payments | (37,034) |
| Net cash used for operating activities | (217,398) |
| | |
| **CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:** | |
| Federal grants received | 249,195 |
| State grants received | 5,228 |
| Contributions and Donations | 20,000 |
| Net cash provided by noncapital financing activities | 274,423 |
| | |
| **CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:** | |
| Payment for capital acquisitions | (78,421) |
| Net cash used for capital and related financing activities | (78,421) |
| | |
| Net decrease in cash and cash equivalents | (39,210) |
| Cash and cash equivalents at beginning of year | 30,303 |
| Cash and cash equivalents at end of year | $8,907 |
| | |
| **RECONCILIATION OF OPERATING LOSS TO NET CASH USED FOR OPERATING ACTIVITIES** | |
| Operating loss | ($345,480) |
| | |
| **ADJUSTMENTS TO RECONCILE OPERATING LOSS TO NET CASH USED FOR OPERATING ACTIVITIES:** | |
| Depreciation | 12,528 |
| Management fee forgiveness | 156,243 |
| **Changes in Assets and Liabilities:** | |
| Decrease in accounts payable | (98,157) |
| Increase in accrued wages and benefits payable | 27,101 |
| Decrease in intergovernmental receivable | 8,721 |
| Decrease in payroll liabilities | 21,646 |
| Total adjustments | 128,082 |
| | |
| Net cash used for operating activities | ($217,398) |

See accompanying notes to the basic financial statements

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## 1. DESCRIPTION OF THE ACADEMY AND REPORTING ENTITY

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

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

The Academy was approved for operation under contract with the Buckeye Hope Foundation (the Sponsor) for a period of five years commencing March 15, 2006.

The Academy operates under the direction of a self-appointed 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 population, curriculum, academic goals, performance standards, admission standards, and qualifications of teachers. The Board of Trustees controls the Academy's facility, which is currently staffed by 22 full and part time personnel who provide services to up to 162 students during the year.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the Academy have been prepared in conformity with generally accepted accounting principles as applied to governmental nonprofit organizations. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The Academy also applies Financial Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989, provided they do not conflict with or contradict GASB pronouncements. The Academy does not apply FASB statements issued after November 30, 1989. The more significant of the Academy's accounting policies are described below.

### A. Basis of Presentation

The Academy's basic financial statements consist of a Statement of Net Assets; a Statement of Revenues, Expenses, and Change in Net Assets; and a Statement of Cash Flows.

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

### B. Measurement Focus and Basis of Accounting

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

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

### B. Measurement Focus and Basis of Accounting (Continued)

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

### C. Budgetary Process

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

### D. Cash

To improve cash management, all cash received by the Academy is pooled in a central bank account. The Academy did not have any investments during fiscal year 2008.

### E. Capital Assets and Depreciation

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

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

| | Useful Life |
|---|---|
| Leasehold Improvements | 3 to 10 years |
| Heavy Duty Office or Classroom Furniture | 5 to 10 years |
| Computers and Other Electronic Equipment | 3 to 5 years |

### F. Intergovernmental Revenues

The Academy currently participates in the State Foundation Program, Special Education Program, and Federal CCIP Program. Revenues received from the State Foundation Program, Special Education Program and other State programs are recognized as operating revenues whereas revenues from the Federal CCIP Program and other State Grants are recognized as non-operating revenues in the accounting period in which all eligibility requirements have been met.

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

### F. Intergovernmental Revenues (Continued)

Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the Academy must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the Academy on a reimbursement basis.

### G. Operating Revenues and Expenses

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

### H. Compensated Absences

Academy policy indicates that all full-time employees are entitled up to eight days of sick or personal leave per year. Full-time employees who do not use all of their sick or personal days within the year will receive $110 for each unused day. All leave earned by employees must be used in the current period and balances are not carried forward, and therefore, are not recorded as a liability.

### I. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets consist of capital assets, net of accumulated depreciation. Net assets are reported as restricted when there are limitations imposed on their use, either through enabling legislation adopted by the Academy or through external restrictions imposed by creditors, grantors, or contracts. The Academy applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net assets are available. At fiscal year end June 30, 2008, the Academy had no restricted net assets.

### J. Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

## 3. DEPOSITS

As of June 30, 2008, the Academy’s bank balance of $8,907 was covered by FDIC.

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

## 4. CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2008 was as follows:

**Capital Assets**

| | Balance July 1, 2007 | Additions | Deletions | Ending June 30, 2008 |
|---|---|---|---|---|
| Equipment - Instructional | $47,454 | $55,178 | $0 | $102,632 |
| Equipment - Office | 3,070 | 4,577 | 0 | 7,647 |
| Improvements | 0 | 18,666 | 0 | 18,666 |
| Total Fixed Assets | 50,524 | 78,421 | 0 | 128,945 |
| Less: Accumulated Depreciation | (5,395) | (12,528) | 0 | (17,923) |
| Net Fixed Assets | $45,129 | $65,893 | $0 | $111,022 |

## 5. DEFINED BENEFIT PENSION PLANS

### A. School Employees Retirement System

Plan Description - The Academy contributes to the School Employees Retirement System (SERS), a cost-sharing multiple employer 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 Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746.

Funding Policy - Plan members are required to contribute 10 percent of their annual covered salary and the Academy is required to contribute at an actuarially determined rate. The current School District rate is 14 percent of annual covered payroll. A portion of the Academy's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2008, 9.16 percent of annual covered salary was the portion used to fund pension obligations.

The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to a statutory maximum amount of 10 percent for plan members and 14 percent for employers. Chapter 3309 of the Ohio Revised Code provides statutory authority for member and employer contributions. The Academy's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2008 and 2007 were $13,243 and $3,338 respectively; 100 percent has been contributed for fiscal year 2008 and 100 percent for fiscal year 2007.

## 5. DEFINED BENEFIT PENSION PLANS (Continued)

### B. State Teachers Retirement System

Plan Description - The Academy participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple employer public employee retirement plan. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3771, by calling (888) 227-7877, or by visiting the STRS Ohio Web site at www.strsoh.org.

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

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

Funding Policy - For the fiscal year ended June 30, 2008, plan members were required to contribute 10 percent of their annual covered salaries. The Academy was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal year 2007, the portion used to fund pension obligations was also 13 percent. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The Academy's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2008 and 2007 were $76,039, and $45,314 respectively; 100 percent has been contributed for fiscal year 2008 and 100 percent for fiscal years 2007.

### C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System of Ohio have an option to choose Social Security or the School Employees Retirement System/State Teachers Retirement System. As of June 30, 2008, three members of the Board of Education have elected Social Security. The Board's liability is 6.2 percent of wages.

## 6. POSTEMPLOYMENT BENEFITS

### A. School Employees Retirement System

Plan Description – The Academy participates in two cost-sharing multiple employer defined benefit OPEB plans administered by the School Employees Retirement System for non-certificated retirees and their beneficiaries, a Health Care Plan and a Medicare Part B Plan. The Health Care Plan includes hospitalization and physicians' fees through several types of plans including HMO's, PPO's and traditional indemnity plans as well as a prescription drug program. The Medicare Part B Plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries up to a statutory limit. Benefit provisions and the obligations to contribute are established by the System based on authority granted by State statute. The financial reports of both Plans are included in the SERS Comprehensive Annual Financial Report which is available by contacting SERS at 300 East Broad St., Suite 100, Columbus, Ohio 43215-3746.

Funding Policy – State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 401h. For 2008, 4.18 percent of covered payroll was allocated to health care. In addition, employers pay a surcharge for employees earning less than an actuarially determined amount; for 2008, this amount was $635.

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

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The Academy's contributions for health care for the fiscal years ended June 30, 2008 and 2007 were $6,043, and $1,037 respectively; 100 percent has been contributed for fiscal year 2008 and 100 percent for fiscal year 2007.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For 2008, this actuarially required allocation was 0.66 percent of covered payroll. The Academy's contribution for Medicare Part B for the fiscal year ended June 30, 2008 was $954; 100 percent has been contributed for fiscal year 2008.

### B. State Teachers Retirement System

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

Funding Policy – Ohio law authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For 2008, STRS Ohio allocated employer contributions equal to one percent of covered payroll to the Health Care Stabilization Fund. The Academy's contributions for health care for the fiscal years ended June 30, 2008 and 2007 were $5,849 and $3,486 respectively; 100 percent has been contributed for fiscal year 2008 and 100 percent for fiscal year 2007.

## 7. RISK MANAGEMENT

### A. Property and Liability

The Academy is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2008, the Academy contracted with Great American Insurance Company for property and general liability insurance with a $1,000,000 single occurrence limit and $2,000,000 annual aggregate and no deductible. There has been no reduction in coverage from the prior year. There have been no settlements exceeding coverage in any of the last two fiscal years.

### B. Workers Compensation

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

## 8. EMPLOYEE MEDICAL AND DENTAL BENEFITS

The Academy has contracted with a private carrier to provide employee medical/surgical benefits. The Academy pays 50% of the monthly premium and the employee is responsible for the remaining 50%. The Academy has also contracted with private carriers to provide dental coverage. The Academy pays 50% of the monthly premium and the employee is responsible for the remaining 50%.

## 9. PURCHASED SERVICES

Purchased service expenses during fiscal year 2008 were as follows:

| Type | Amount |
|---|---|
| Professional Services | $49,889 |
| Rent and Property Services | 247,807 |
| Staff and Administrative Travel | 1,115 |
| Advertising and Communications | 29,484 |
| Food Services | 45,995 |
| Management Fees | 103,009 |
| Pupil Transportation | 4,130 |
| Total | $481,429 |

## 10. OPERATING LEASES

The Academy entered into a sublease agreement with Breeze Inc. on August 15, 2006 for the facilities located at 1200 200th St. Cleveland, OH 44117. The monthly lease was $12,500. Later on August 15, 2007 the Breeze Inc. opted out from the lease and the Academy signed a lease directly with the landlord of the premises, St. Paul Church. According to the new lease agreement which is renewable in one year terms, the monthly rent was $11,826 for fiscal year 2008.

## 11. CONTINGENCIES

### A. Grants

The Academy 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 agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the Academy. However, in the opinion of management, any such disallowed claims will not have a material effect on the financial position of the Academy. In fiscal year 2008, the Academy received grants from State and Federal agencies total of $259,239.

### B. Ohio Department of Education Enrollment Review

The Ohio Department of Education (ODE) conducts reviews of enrollment data and full time equivalency (FTE) calculations made by the Academy. These reviews are conducted to ensure the Community School is reporting accurate student enrollment data to the State, upon which state foundation funding is calculated.

## 12. PERSONAL NOTE PAYABLE

In February 2008, the School Board agreed to receive a personal, interest-free loan from the Academy's Director Hasan Kose in order to overcome cash flow shortage in operational expenses. The Note does not specify a maturity date for the loan. The Academy expects to pay it back in fiscal year 2009.

## 13. SPONSORSHIP AGREEMENT

On March 15, 2006, the Academy signed a sponsorship agreement with Buckeye Hope Foundation. The Sponsor is responsible for evaluating the performance of the Academy and has the authority to deny renewal of the contract at its expiration or terminate the contract prior to its expiration. According to the contract agreed by both parties, the Academy pays two percent of its foundation revenues to the Sponsor. In fiscal year 2008, the Academy's compensation to the Sponsor was $20,602.

## 14. MANAGEMENT COMPANY AGREEMENT

Academy contracted with Concepts Schools, Inc. on March 15, 2006 to serve as the Academy's Management Company. The contract is renewed automatically every year in one year terms unless the Academy or the management company decides otherwise. According to the contract the Academy transfers ten percent of the funds received from State. In fiscal year 2008, accrued fees of $53,234 were recorded under accounts payable.

## 15. RELATED PARTIES

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

Mary Taylor, CPA
Auditor of State

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

Noble Academy - Cleveland
Cuyahoga County
1200 East 200th Street
Euclid, Ohio 44117

To the Board of Trustees:

We have audited the financial statements of Noble Academy - Cleveland, Cuyahoga County, Ohio, (the Academy) as of and for the year ended June 30, 2008, and have issued our report thereon dated May 21, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

**Internal Control Over Financial Reporting**

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Academy's ability to initiate, authorize, record, process, or report financial data reliably in accordance with its applicable accounting basis, such that there is more than a remote likelihood that the Academy's internal control will not prevent or detect a more-than-inconsequential financial statement misstatement.

A material weakness is a significant deficiency, or combination of significant deficiencies resulting in more than a remote likelihood that the Academy's internal control will not prevent or detect a material financial statement misstatement.

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

We noted certain matters that we reported to the Academy's management in a separate letter dated May 21, 2010.

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**Compliance and Other Matters**

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

We did note certain noncompliance or other matters that we reported to the Academy's management in a separate letter dated May 21, 2010.

We intend this report solely for the information and use of the management, the Board of Trustees, and the Community School's Sponsor. We intend it for no one other than these specified parties.

Mary Taylor

**Mary Taylor, CPA**
Auditor of State

May 21, 2010

**NOBLE ACADEMY-CLEVELAND**

**CUYAHOGA COUNTY**

**CLERK'S CERTIFICATION**

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

Susan Babbitt

**CLERK OF THE BUREAU**

**CERTIFIED**
**JUNE 29, 2010**