



**VILLAGE PREPARATORY SCHOOL
CUYAHOGA COUNTY**

REGULAR AUDIT

FOR THE YEARS ENDED JUNE 30, 2010



Mary Taylor, CPA
Auditor of State

**VILLAGE PREPARATORY SCHOOL
CUYAHOGA COUNTY
TABLE OF CONTENTS**

Independent Accountants' Report	1
Management's Discussion and Analysis	3
Statement of Net Assets as of June 30, 2010	7
Statement of Revenues, Expenses and Changes in Net Assets for the Fiscal Year Ended June 30, 2010	8
Statement of Cash Flows for the Fiscal Year Ended June 30, 2010.....	9
Notes to the Basic Financial Statements.....	11
Independent Accountants' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by <i>Government Auditing Standards</i>	21
Independent Accountants' Report on Applying Agreed-Upon Procedures	23

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Dave Yost • Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

Village Preparatory School
Cuyahoga County
1415 East 36th Street
Cleveland, OH 44114

To the Board of Directors:

We have audited the accompanying financial statements of the business-type activities of the Village Preparatory School, Cuyahoga County, Ohio (the School), as of and for the year ended June 30, 2010, which collectively comprise the School's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the School'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 opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Village Preparatory School, Cuyahoga County, Ohio, as of June 30, 2010, and the respective changes in financial position and where applicable, cash flows, thereof 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 January 12, 2011, 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. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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

A handwritten signature in black ink that reads "Dave Yost". The signature is written in a cursive style with a large, looping initial "D".

Dave Yost
Auditor of State

January 12, 2011

**Village Preparatory School
Cuyahoga County
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2010
Unaudited**

Our discussion and analysis of the Village Preparatory School's (the School) financial performance provides an overall review of the School's financial activities for the fiscal year ended June 30, 2010. The intent of this discussion and analysis is to look at the School's financial performance as a whole; readers should also review the basic financial statements and notes to the basic financial statements to enhance their understanding of the School's financial performance.

The Management's Discussion and Analysis (MD&A) is an element of the reporting model adopted by the Governmental Accounting Standards Board (GASB) in their Statement No. 34 Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Government issued June 1999.

Financial Highlights

- 2010 was the first year of operation for the School.
- Total assets were \$1,883,847 at June 30, 2010.
- Total liabilities were \$666,222 at June 30, 2010.
- The School had net assets of \$1,217,625 at June 30, 2010.
- Net income for the year ended June 30, 2010 was \$1,214,997.

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 Revenue, Expenditures, and Changes in Net Assets and a Statement of Cash Flows.

One of the most important questions asked about the School's finances is, "Is the School better off or worse off as a result of the year's activities?" The basic financial statements report information about the School as a whole and about its activities in a manner that helps to answer this question. These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting used by private sector corporations. All of the current year's revenues and expenses are taken into consideration regardless of when cash is received or paid.

The Statement of Net Assets and the Statement of Revenues, Expenditures, and Changes in Net Assets report the School's net assets and changes in them. The statements provide the reader a tool to assist in determining whether the School's financial health is improving or deteriorating. The reader will need to consider other nonfinancial factors such as state revenue, student enrollment growth, and facility conditions in arriving at their conclusion regarding the overall health of the School.

The Statement of Cash Flows provides information about how the School finances and meets the cash flow needs of its operations.

**Village Preparatory School
Cuyahoga County
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2010
Unaudited**

In future years, when prior information is available, comparative analysis will be prepared.

Statement of Net Assets

Current Assets	\$ 660,600
Capital Assets, Net	1,223,247
Total Assets	1,883,847
Current Liabilities	666,222
Non-current Liabilities	-
Total Liabilities	666,222
Net Assets:	
Invested in Capital Assets,	
Net of Related Debt (\$0)	1,223,247
Unrestricted	(5,622)
Total Net Assets	\$1,217,625

Current assets consisted of cash, federal grants receivable and a private donation receivable while current liabilities consisted of accounts payable due to various vendors and accrued salaries and benefits expense at June 30, 2010.

Capital assets represented 64.9% of total assets at June 30, 2010. Capital assets consisted of building improvements and furniture, fixtures and equipment. There was \$1,223,247 of leasehold improvements before depreciation at June 30, 2010. There was no debt related to leasehold improvements at June 30, 2010. Capital assets are used to provide services to the students and are not available for future spending.

The School had a positive net asset balance of \$1,217,625 at June 30, 2010.

**Village Preparatory School
Cuyahoga County
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2010
Unaudited**

Statement of Revenue, Expenditures, and Changes in Net Assets

	OPERATING REVENUE;		
	Foundation payments	\$ 493,094	
	Other operating revenues	2,038	
	Total operating revenue	495,132	
	EXPENSES;		
	Salaries	457,576	
	Supplies and materials	203,541	
	Purchased services	201,098	
	Minor equipment	96,408	
	Fringe benefits and payroll taxes	72,368	
	Food service	61,136	
	Dues and fees	17,362	
	Insurance	13,441	
	Other	7,281	
	Total expenses	1,130,211	
	OPERATING INCOME	(635,079)	
	NON-OPERATING REVENUE:		
	Public and private grants and donations	1,549,247	
	Federal subsidies	296,327	
	Other income	4,502	
	Total non-operating revenue	1,850,076	
	NET INCOME	1,214,997	
	NET ASSETS BEGINNING OF THE YEAR	2,628	
	NET ASSETS END OF THE YEAR	\$ 1,217,625	

In 2010, the School began its first year of operation with 75 kindergarten students. Purchased services, supplies and materials and minor equipment expenses reflect the start-up costs for a new school. Many of these expenses were funded with a \$225,000 Federal start-up grant.

**Village Preparatory School
Cuyahoga County
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2010
Unaudited**

For the year ended June 30, 2010, foundation payments accounted for 21% of total revenues while non-operating revenues accounted for 79% of total revenues. Other non-operating revenues consisted primarily of private grants and donations in 2010.

Staff costs represented by salaries and fringe benefits were the largest expense and represented 46.9% of total expenses in 2010.

Capital Assets

The School has \$1,223,247 invested in capital assets net of depreciation. All \$1,223,247 was added in 2010. Since the assets had not been placed into service at year-end, there was no depreciation expense. The assets were funded by private donations. Refer to Note 5 of the basic financial statements for more information. Information regarding the capital asset accounting policy is included in Note 2 of the basic financial statements.

Current Financial Issues

The future financial stability of the School is not without challenges.

The major challenge is the state economy. The School does not receive any funds from taxes. The primary sources of funding are the state foundation program and private donations. A continued economic slowdown in the state could result in budgetary cuts to education and reduced donations, which would have a negative impact on the School.

Contacting the School's Financial Management

This financial report is designed to provide our citizen's, taxpayers, investors and creditors with a general overview of the School's finances and to show the School's accountability for the money it receives. If you have questions about this report or need additional information contact John Dues, Head of School of the Village Preparatory School, 1417 East 36th Street, Cleveland, OH 44114 or email to john.dues@eprepschool.org.

**VILLAGE PREPARATORY SCHOOL
 CUYAHOGA COUNTY
 STATEMENT OF NET ASSETS
 AS OF JUNE 30, 2010**

ASSETS

CURRENT ASSETS:

Cash	\$ 43,950	
Program receivable - Government agencies	16,555	
Grant receivable - Friends of E Prep Schools	600,095	
Total current assets		\$ 660,600

NON-CURRENT ASSETS:

Capital assets, net of accumulated depreciation		<u>1,223,247</u>
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TOTAL ASSETS		<u>1,883,847</u>
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LIABILITIES

CURRENT LIABILITIES:

Accounts payable	641,631	
Accrued expenses	24,591	
Total current liabilities		<u>666,222</u>

TOTAL LIABILITIES		<u>666,222</u>
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NET ASSETS

Invested in capital assets	1,223,247	
Unrestricted	<u>(5,622)</u>	
TOTAL NET ASSETS		<u><u>\$ 1,217,625</u></u>

The accompanying Notes to Financial Statements are an integral part of these statements.

**VILLAGE PREPARATORY SCHOOL
 CUYAHOGA COUNTY
 STATEMENT OF REVENUE, EXPENDITURES, AND CHANGES IN NET ASSETS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

OPERATING REVENUE:		
Foundation payments	\$ 493,094	
Other operating revenue	2,038	
Total operating revenue		\$ 495,132
EXPENSES:		
Program services:		
Salaries	457,576	
Supplies and materials	203,541	
Purchased services	201,098	
Minor equipment	96,408	
Fringe benefits and payroll taxes	72,368	
Food service	61,136	
Dues and fees	17,362	
Insurance	13,441	
Other	7,281	
Total expenses		1,130,211
OPERATING INCOME		(635,079)
NON-OPERATING REVENUE:		
Private grants and donations	1,549,247	
Federal subsidies	296,327	
Other income	4,502	
Total non-operating revenue		1,850,076
NET INCOME		1,214,997
NET ASSETS BEGINNING OF THE YEAR		2,628
NET ASSETS END OF THE YEAR		\$ 1,217,625

The accompanying Notes to Financial Statements are an integral part of these statements.

**VILLAGE PREPARATORY SCHOOL
CUYAHOGA COUNTY
STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

CASH FLOW FROM OPERATING ACTIVITIES:

Cash received from Foundation payments	\$ 493,094	
Cash received from other operating revenues	2,038	
Cash payments for personal services	(505,353)	
Cash payments for purchased services	(202,847)	
Cash payments for supplies and materials	(169,526)	
Cash payments for minor equipment	(96,408)	
Cash payments for food services	(61,136)	
Cash payments for dues fees	(17,167)	
Cash payments for others	<u>(20,722)</u>	
Cash used in operating activities		\$ (578,027)

CASH FLOW FROM NONCAPITAL FINANCING ACTIVITIES:

Cash received from federal subsidies	279,772	
Cash received from private grants and foundations	326,000	
Cash received from others	<u>4,502</u>	
Cash provided by noncapital financing activities		<u>610,274</u>

NET INCREASE IN CASH 32,247

CASH AT BEGINNING OF YEAR 11,703

CASH AT END OF YEAR \$ 43,950

**RECONCILIATION OF OPERATING INCOME TO NET CASH
USED IN OPERATING ACTIVITIES:**

Operating income	\$ (635,079)	
Adjustments to reconcile net surplus to net cash used in operating activities		
Increase in assets:		
Grant receivable - Friends of E Prep Schools	(600,095)	
Increase in liabilities:		
Accounts payable	632,556	
Accrued expenses	<u>24,591</u>	
Cash used in operating activities		<u><u>\$ (578,027)</u></u>

SUPPLEMENTAL DISCLOSURES OF CASHFLOW INFORMATION:

Non-cash investing and financing activities:		
Acquisition of capital assets through in-kind donations		<u><u>\$ 1,223,247</u></u>

The accompanying Notes to Financial Statements are an integral part of these statements.

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**VILLAGE PREPARATORY SCHOOL
CUYAHOGA COUNTY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

1. DESCRIPTION OF THE SCHOOL DISTRICT AND REPORTING ENTITY

Village Preparatory School (the School) is a nonprofit corporation established pursuant to Ohio Revised Code Chapters 3314 and 1702 to address the needs of students in grades kindergarten through five. The School, which is part of the State's Education program, is independent of any school district and is non sectarian 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 necessary services necessary for the operation of the School. Management is not aware of any course of action or series of events that have occurred that may adversely affect the School's tax exempt status.

The School was approved for operation under contract with the Cleveland Municipal School District (the Sponsor) for a period of five years commencing June 30, 2008. The Sponsor is responsible for evaluating the performance of the School and has the authority to deny renewal of the contract at its expiration or terminate the contract prior to its expiration.

The School operates under the direction of a six member Board of Directors. The Board is responsible for carrying out the provisions of the contract which include, but are not limited to, state mandated provisions regarding student population, curriculum, academic goals, performance standards, admission standards, and qualifications of teachers. The Board of Directors control the School's instructional/support facility staffed by 18 certificated personnel who provide services to 75 students.

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 School 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 more significant of the School's accounting policies are described below.

A. Basis of Presentation

The School uses enterprise accounting to maintain its financial records during the school year. Enterprise accounting focuses on the determination of operating income, changes in net assets, financial position, and cash flows. Enterprise accounting may be used to account for any activity for which a fee is charged to external users for goods and services.

B. Measurement Focus and Basis of Accounting

Enterprise accounting uses a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities are included on the Statement of Net Assets. Operating statements present increases and decreased in net total assets. The Statement of Cash Flows reflects how the School finances and meets its cash flow needs.

**VILLAGE PREPARATORY SCHOOL
CUYAHOGA COUNTY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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. Revenues resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded when the exchange takes place. Revenues resulting from non-exchange transactions, in which the School receives value without directly giving equal value in return, such as grants and entitlements, are recognized in the year when use is first permitted; matching requirements, in which the School must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the School on a reimbursement basis. Expenses are recognized at the time they are incurred. In future years, when prior information is available, comparative analysis will be prepared.

C. Budgetary Process

Pursuant to Ohio Revised Code Chapter 5705.391 the School prepares and adopts an annual budget which includes estimated revenues and expenditures for the fiscal year and a five year forecast of revenues and expenditures. The budget is consistent with the five year plan required by the Ohio Department of Education to be submitted by the Treasurer in November and May of each year.

D. Cash and Investments

All monies received by the School are pooled and maintained in a separate account in the School's name. Monies for the School are maintained in this account or temporarily used to purchase short term investments.

For purposes of the Statement of Cash Flows and for presentation on the Statement of Net Assets, investments with a maturity of three months or less at the time they are purchased are considered to be cash equivalents.

E. Estimates

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 and Depreciation

Capital assets are capitalized at cost and updated for additions and retirements during the year. Donated capital assets are recorded at their fair values as of the dates received. The School maintains a capitalization threshold of \$5,000. The School does not possess any infrastructure. Improvements are capitalized, and the cost 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.

All recorded capital assets are depreciated using the straight lien method over the following estimated useful lives. Improvements to capital assets are depreciated over the remaining useful live of the related capital assets.

**VILLAGE PREPARATORY SCHOOL
CUYAHOGA COUNTY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

F. Capital Assets and Depreciation (Continued)

<u>Assets</u>	<u>Years</u>
Furniture, Fixtures and Equipment	5
Leasehold Improvements	20
Buildings and Improvements	30

G. Intergovernmental Revenues

The School currently participates in the State Foundation Program. Revenues received from this program are recognized as operating revenues in the accounting period in which all eligibility requirements are met.

The School also participates in various federal and state grant programs through the Ohio Department of Education. The programs the School participated in during fiscal year 2010 included the National School Lunch and Breakfast Program, Charter Schools Start Up Program, Title II A Improving Teacher Quality, Title II D Enhancing Education through Technology Program, and Fiscal Stabilization. Grants and entitlements received under these programs are recognized as non-operating revenues in the accounting period in which all eligibility requirements have been met.

Eligibility requirements included timing requirements, which specify the year when the resources are required to be used or the fiscal year 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 resources are provided to the School on a reimbursement basis.

Amounts awarded under the above named programs for the 2010 school year totaled \$789,421.

H. 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, reduced by the outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use through external restrictions imposed by creditors, grantors, or laws and regulation of other governments. The School applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

I. 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 is the primary activity of the School. Revenues and expenses not meeting this definition are reported as non-operating.

J. Compensated Absences

Personal leave benefits (sick, vacation, or personal) are earned at a rate of one day per month and cannot be carried over into the subsequent year. No accrual for personal leave is made since unused leave time is not paid to employees upon termination of employment.

**VILLAGE PREPARATORY SCHOOL
 CUYAHOGA COUNTY
 NOTES TO THE FINANCIAL STATEMENTS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

3. DEPOSITS

At June 30, 2010, the carrying amount of all School deposits was \$43,950. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2010, \$100,785 of the School's bank balance was covered by the Federal Deposit Insurance Corporation and was not exposed to custodial credit risk.

Custodial credit risk is the risk that, in the event of bank failure, the School's deposits may not be returned. All deposits are collateralized with eligible securities in amounts equal to at least 105 percent of the carrying value of the deposits. Such collateral, as permitted by the Ohio Revised Code, is held in single financial institution collateral pools at Federal Reserve Banks, or at member banks of the Federal Reserve System, in the name of the respective depository bank and pledged as a pool of collateral against all of the public deposit it holds or as specific collateral held at the Federal Reserve Bank in the name of the School.

The School has no deposit policy for custodial credit risk beyond the requirements of State statute. Ohio law requires that deposits be either 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 repayments, or by a collateral pool of eligible securities deposited with a qualified trustee and pledged to secure the repayment of all public monies deposited in the financial institution whose market value at all times shall be at least one hundred five percent of the deposits being secured.

4. INTERGOVERNMENTAL RECEIVABLES

All receivables are considered collectible in full due to the stable condition of State programs, and the fiscal year guarantee of federal funds. Intergovernmental receivables of the School at June 30, 2010 consisted of the following federal grants in which all grant requirements had been satisfied: Public Schools Charter Program Start Up Grant \$13,557, Technology \$2,305 and Improving Technology \$693.

5. CAPITAL ASSETS

A summary of the School's capital assets at June 30, 2010, follows:

	<u>Balance 6/30/09</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance 6/30/10</u>
Capital Assets Being Depreciated:				
Leasehold Improvements	\$ -	\$1,223,247	\$ -	\$1,223,247
Total Capital Assets Being Depreciated	<u>-</u>	<u>1,223,247</u>	<u>-</u>	<u>1,223,247</u>
<u>Less Accumulated Depreciation:</u>				
Leasehold Improvements	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Accumulated Depreciation	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Capital Assets, Net of Accumulated Depreciation	<u>\$ -</u>	<u>\$1,223,247</u>	<u>\$ -</u>	<u>\$1,223,247</u>

No depreciation has been recorded on leasehold improvements since they have not been placed into service at June 30, 2010.

**VILLAGE PREPARATORY SCHOOL
CUYAHOGA COUNTY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

6. RISK MANAGEMENT

A. Property and 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 fiscal year 2010, the School contracted with Philadelphia Indemnity Insurance Company for property, business income, and building improvement insurance. There is a \$1,000 deductible.

Professional liability is protected by Philadelphia Indemnity Insurance with a \$1,000,000 single occurrence limit and \$1,000,000 aggregate with a \$5,000 deductible.

B. Employee Benefits

The School has contracted with a private carrier to provide employee medical insurance to its employees. The School pays \$250 of the monthly premiums for medical insurance while the employee is responsible for the remaining balance.

7. DEFINED BENEFIT PENSION PLANS

A. School Employee Retirement System

Plan Description - The School contributes to the State 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 State 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 School is required to contribute at an actuarially determined rate. The current School rate is 14 percent of annual covered payroll. A portion of the School's contribution is used to fund pension obligations and death benefits with the remainder being used to fund health care benefits; for fiscal year 2010, 12.78 percent of annual covered salary was the portion used to fund pension obligations and death benefits. 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 members and employer contributions. The School's contributions for pension obligation to SERS for the fiscal years ended June 30, 2010 was \$13,389 of which 100 percent has been contributed.

B. State Teachers Retirement System

Plan Description - The School participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing multiple employer 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 East Broad Street, Columbus, Ohio 43215-3771, by calling (888) 227-7877, or by visiting the STRS Ohio website www.strsoh.org.

**VILLAGE PREPARATORY SCHOOL
CUYAHOGA COUNTY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

7. DEFINED BENEFIT PENSION PLANS (continued)

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 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 Combined Plan offers features of both the DC Plan and the DB Plan. The member may elect to receive a lifetime annuity or a lump sum withdrawal. The Combined Plan offers features of both the DC Plan and 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 only entitled to their account balance. If a member 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, 2010 plan members are required to contribute 10 percent of their annual covered salaries. The School was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendation 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 School's required contributions for pension obligations to STRS Ohio for the fiscal year ended June 30, 2010 was \$42,264 of which 100 percent has been contributed.

8. POSTEMPLOYMENT BENEFITS

A. School Employees Retirement System

Plan Description - The School participates in two cost-sharing, multiple employer postemployment benefit plans administered by the School Employees Retirement System (SERS) for non-certificated retirees and their beneficiaries, a Health Care Plan and a Medicare Part B Plan. The Health Care Plan includes hospitalization and physicians' fees through several types of plans including HMO's, PPO's 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.

**VILLAGE PREPARATORY SCHOOL
CUYAHOGA COUNTY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

8. POSTEMPLOYMENT BENEFITS (continued)

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 401h. For 2010, 0.46 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 2010, this amount was \$0.

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

The School's contributions for health care for the fiscal years ended June 30, 2010 was \$482 of which 100 percent has been contributed.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For fiscal year 2010, 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, 2010 was \$796 of which 100 percent has been contributed.

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, 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 2010, 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 the fiscal year ended June 30, 2010 was \$3,251 of which 100 has been contributed.

9. CONTRACTS

A. Sponsor Contract

The School entered into a five-year contract commencing on June 30, 2008 and continuing through June 29, 2014, with the Cleveland Municipal School District (the "Sponsor") for its establishment. Under the contract, the following terms were agreed upon:

**VILLAGE PREPARATORY SCHOOL
CUYAHOGA COUNTY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

9. **CONTRACTS (continued)**

A. **Sponsor Contract (continued)**

- The School shall operate in substantial compliance with its “Educational Plan”, which contains the School’s mission, educational philosophy, the ages and grade of students, the characteristics of students the School expects to attract, the focus of the curriculum, a description of the learning opportunities offered to the students, the academic goals and the method of measurement that will be used to determine progress toward these goals, graduation requirements, and the focus of the curriculum.
- The School shall operate in substantial compliance with the “Financial Plan”, which establishes and estimated school budget each year and a total estimated per pupil expenditure amount for each such year.
- The School shall annually pay to the Sponsor three percent (3.0%) of the total amount of payments for operating expenses the School receives from the State of Ohio. The School made payments of \$15,803 to the Sponsor in fiscal year 2010.

B. **Fiscal Services Contract**

The sponsorship contract states that the School shall have a designated fiscal officer who shall meet all the requirements as set forth by law including:

- Maintain the financial records of the School in the same manner as are financial records of schools, pursuant to rules of the Auditor of State.
- Comply with the policies and procedures regarding internal financial control of the School
- Comply with the requirements and procedures for financial audits by the Auditor of State.

The School entered into contracts with Cleveland Metropolitan School (CMSD) for fiscal services including school treasurer services, payroll services, and capital asset services. Total payments made to CMSD for fiscal year 2010 were \$10,000.

10. **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 agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall position of the School at June 30, 2010.

B. **State Funding**

The Ohio Department of Education conducts reviews of enrollment data and FTE calculations made by the schools. These reviews are conducted to ensure the schools are reporting accurate student enrollment data to the State, upon which state funding is calculated. The conclusions of this review could result in state funding being adjusted. The School does not anticipate any material adjustment for fiscal year 2010 as a result of such review.

**VILLAGE PREPARATORY SCHOOL
CUYAHOGA COUNTY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

11. PURCHASED SERVICES EXPENSES

For the year ended June 30, 2010, purchased service expenses were payments for services rendered by various vendors as follows:

Professional and Technical Services	\$ 94,998
Property Services	73,554
Communications	14,266
Utilities	8,648
Pupil Transportation	5,980
Travel Mileage/Meeting Expense	<u>3,652</u>
Total Purchased Services	<u>\$ 201,098</u>

12. COST SHARING AGREEMENT

The School is a separate corporation from Cleveland Entrepreneurship Preparatory School (E PREP). E PREP is a nonprofit corporation established pursuant to Ohio Revised Code Chapters 3314 and 1702 to address the needs of students in grades kindergarten through grade five that shares certain facilities and subcontractors with the School. The School entered into a cost sharing agreement with E PREP for a period of one year beginning July 1, 2009 whereby the School receives services from E PREP including certain administrative employees, classroom space, and other miscellaneous costs including those associated with recruitment efforts. Total payments associated with this cost sharing agreement were \$188,838 for fiscal 2010.

13. PRIVATE DONATION

The School is a separate corporation from Friends of E Prep Schools, an Ohio not-for-profit corporation. Friends of E Prep Schools is an agency that was organized to provide funding for operations for Cleveland Entrepreneurship Preparatory School and future schools like it. Funding provided to Village Preparatory School from Friends of E Prep amounted to \$106,000 for operating expenses and \$1,223,247 for capital expenditures during the year ended June 30, 2010. The school also received a private donation of \$220,000 from Walton Foundation during the year ended June 30, 2010.

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Dave Yost • Auditor of State

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

Village Preparatory School
Cuyahoga County
1415 East 36th Street
Cleveland, OH 44114

To the Board of Directors:

We have audited the financial statements of the business-type activities of the Village Preparatory School, Cuyahoga County, (the School) as of and for the year ended June 30, 2010, which collectively comprise the School's basic financial statements and have issued our report thereon dated January 12, 2011. 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 School's internal control over financial reporting as a basis for designing our audit procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of opining on the effectiveness of the School's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the School's internal control over financial reporting.

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

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

Compliance and Other Matters

As part of reasonably assuring whether the 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, 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 matters not requiring inclusion in this report that we reported to the School's management in a separate letter dated January 12, 2011.

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

A handwritten signature in black ink that reads "Dave Yost". The signature is written in a cursive style with a large, looping "D" and "Y".

Dave Yost
Auditor of State

January 12, 2011



Dave Yost • Auditor of State

INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

Village Preparatory School
Cuyahoga County
1415 East 36th Street
Cleveland, Ohio 44114

To the Board of Directors:

Ohio Rev. Code Section 117.53 states “the auditor of state shall identify whether the school district or community school has adopted an anti-harassment policy in accordance with Section 3313.666 of the Revised Code. This determination shall be recorded in the audit report. The auditor of state shall not prescribe the content or operation of any anti-harassment policy adopted by a school district or community school.”

Accordingly, we have performed the procedures enumerated below, which were agreed to by the Board, solely to assist the Board in evaluating whether Village Preparatory School “the School” has adopted an anti-harassment policy in accordance with Ohio Rev. Code Section 3313.666. Management is responsible for complying with this requirement. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of the Board. Consequently; we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

1. We noted the Board adopted an anti-harassment policy at its meeting on March 17, 2010.
2. We read the policy, noting it included the following requirements from Ohio Rev. Code Section 3313.666(B):
 - (1) A statement prohibiting harassment, intimidation, or bullying of any student on school property or at school-sponsored events;
 - (2) A definition of harassment, intimidation, or bullying that includes the definition in division (A) of Ohio Rev. Code Section 3313.666;
 - (3) A procedure for reporting prohibited incidents;
 - (4) A requirement that school personnel report prohibited incidents of which they are aware to the school principal or other administrator designated by the principal;
 - (5) A requirement that parents or guardians of any student involved in a prohibited incident be notified and, to the extent permitted by section 3319.321 of the Revised Code and the “Family Educational Rights and Privacy Act of 1974,” 88 Stat. 571, 20 U.S.C. 1232q, as amended, have access to any written reports pertaining to the prohibited incident;
 - (6) A procedure for documenting any prohibited incident that is reported;

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- (7) A procedure for responding to and investigating any reported incident;
- (8) A strategy for protecting a victim from additional harassment, intimidation, or bullying, and from retaliation following a report;
- (9) A disciplinary procedure for any student guilty of harassment, intimidation, or bullying, which shall not infringe on any student's rights under the first amendment to the Constitution of the United States;
- (10) A requirement that the district administration semiannually provide the president of the district board a written summary of all reported incidents and post the summary on its web site, if the district has a web site, to the extent permitted by section 3319.321 of the Revised Code and the "Family Educational Rights and Privacy Act of 1974," 88 Stat. 571, 20 U.S.C. 1232q, as amended.

We were not engaged to and did not conduct an examination, the objective of which would be the expression of an opinion on compliance with the anti-harassment policy. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the Board and School's sponsor, and is not intended to be and should not be used by anyone other than these specified parties.



Dave Yost
Auditor of State

January 12, 2011



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VILLAGE PREPARATORY SCHOOL

CUYAHOGA COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
FEBRUARY 22, 2011