



Dave Yost • Auditor of State

**MENLO PARK ACADEMY
CUYAHOGA COUNTY
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Dave Yost • Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

Menlo Park Academy
Cuyahoga County
14440 Triskett Road
Cleveland, Ohio 44111

To the Board of Directors:

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

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Menlo Park Academy, Cuyahoga County, Ohio as of June 30, 2012, and the changes in its financial position and its 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 February 25, 2013, on our consideration of the Academy's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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

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

February 25, 2013

**MENLO PARK ACADEMY
CUYAHOGA COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(UNAUDITED)

Management's discussion and analysis of Menlo Park Academy's ("MPA") financial performance provides an overall review of MPA's financial activities for the fiscal year ended June 30, 2012. The intent of this discussion and analysis is to look at MPA's financial performance as a whole; readers should also review the notes to the basic financial statements and the financial statements to enhance their understanding of MPA's financial performance.

Financial Highlights

Key financial highlights for fiscal year 2012 are as follows:

- In total, net assets were \$580,177 at June 30, 2012.
- MPA had operating revenues of \$1,962,768, operating expenses of \$1,863,630 and non-operating revenues of \$98,571 during fiscal year 2012. The total change in net assets for the year was an increase of \$197,709.

Using these Basic Financial Statements

This annual report consists of three parts, Management's Discussion and Analysis, the Financial Statements and the Notes to the Financial Statements. These statements are organized so the reader can understand MPA's financial activities. The *Statement of Net Assets* and *Statement of Revenues, Expenses and Changes in Net Assets* provide information about the activities of MPA, including all short-term and long-term financial resources and obligations.

Reporting MPA's Financial Activities

Statement of Net Assets, Statement of Revenues, Expenses, and Changes in Net Assets and the Statement of Cash Flows

These documents look at all financial transactions to determine how well MPA has performed financially through June 30, 2012. These statements include *all assets, liabilities, revenues and expenses* using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting will take into account all of the current year's revenues and expenses regardless of when cash is received or paid.

These two statements report MPA's *net assets* and changes in those assets. This change in net assets tells the reader whether, for MPA as a whole, the *financial position* of MPA has improved or diminished. The causes of this change may be the result of many factors, some financial, some not. These statements can be found on pages 7 and 8 of this report.

The statement of cash flows provides information about how MPA finances and meets the cash flow needs of its operations. The statement of cash flows can be found on page 9 of this report.

The table on the next page provides a summary of MPA's net assets for fiscal years 2012 and 2011.

**MENLO PARK ACADEMY
CUYAHOGA COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(UNAUDITED)

Net Assets

| | 2012 | 2011 |
|----------------------------|------------|------------|
| <u>Assets</u> | | |
| Current assets | \$ 757,753 | \$ 598,000 |
| Capital assets, net | 39,667 | 36,592 |
| Total assets | 797,420 | 634,592 |
| <u>Liabilities</u> | | |
| Current liabilities | 217,243 | 252,124 |
| Total liabilities | 217,243 | 252,124 |
| <u>Net Assets</u> | | |
| Invested in capital assets | 39,667 | 36,592 |
| Restricted | 3,701 | 7,729 |
| Unrestricted | 536,809 | 338,147 |
| Total net assets | \$ 580,177 | \$ 382,468 |

Over time, net assets can serve as a useful indicator of MPA's financial position. At June 30, 2012, MPA's net assets totaled \$580,177.

Current assets represent cash, prepayments, and accounts receivable. The increase in current assets is primarily a result of the increase in cash and cash equivalents of \$166,818 due to an increase in Foundation revenue and an increase in enrollment. Current liabilities represent accrued wages and benefits, unearned revenues, accounts payable, pension obligations and amounts due to other governments, which included amounts due to the Sponsor for fiscal agent services. Current liabilities decreased due to a decrease in accounts payable of \$59,227 because of the timing of payments for goods and services.

The revenue generated by community schools is heavily dependent upon per-pupil allotment given by the State foundation program. Foundation payments were 81.57% of total operating and non-operating revenues during fiscal year 2012.

The statement of revenues, expenses, and changes in net assets show the cost of operating expenses and the revenues offsetting those services.

**MENLO PARK ACADEMY
CUYAHOGA COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(UNAUDITED)

The table below shows the changes in net assets for fiscal year 2012 and 2011.

Change in Net Assets

| | 2012 | 2011 |
|---------------------------------------|--------------|--------------|
| <u>Operating Revenues:</u> | | |
| State foundation | \$ 1,681,383 | \$ 1,177,773 |
| Classroom materials and fees | 146,646 | 116,205 |
| Charges for services | 6,093 | 425 |
| Other | 128,646 | 86,794 |
| Total operating revenue | 1,962,768 | 1,381,197 |
| <u>Operating Expenses:</u> | | |
| Salaries and wages | 913,509 | 721,229 |
| Fringe benefits | 269,596 | 174,782 |
| Purchased services | 509,005 | 342,454 |
| Materials and supplies | 132,592 | 171,325 |
| Depreciation | 10,014 | 10,680 |
| Other | 28,914 | 24,304 |
| Total operating expenses | 1,863,630 | 1,444,774 |
| <u>Non-operating Revenues:</u> | | |
| State and Federal grants | 28,545 | 210,663 |
| Contributions and donations | 70,026 | 70,686 |
| Total non-operating revenues | 98,571 | 281,349 |
| Change in net assets | 197,709 | 217,772 |
| Net assets at beginning of year | 382,468 | 164,696 |
| Net assets at end of year | \$ 580,177 | \$ 382,468 |

The increase in State foundation revenue was due to an increased enrollment from 230 students at the end of fiscal year 2011 to 286 students in fiscal year 2012. The increase in operating expenses, including salaries and wages expenses and fringe benefit expenses was a result of an increase in teaching personnel related to the increase in enrollment. The decrease in State and Federal grants is due to the receipt of one-time educational stabilization funding from the American Recovery and Reinvestment Act (ARRA) in 2011.

Capital Assets

At June 30, 2012, MPA had \$39,667 invested in furniture, fixtures and equipment, and leasehold improvements, net of accumulated depreciation. For more information on capital assets, see Note 6 to the basic financial statements.

**MENLO PARK ACADEMY
CUYAHOGA COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(UNAUDITED)**

Current Financial Related Activities

The utilization of the Educational Service Center of Lake Erie West as MPA's fiscal agent greatly improves the internal control structure and quality of its financial records. MPA's student enrollment grew from 230 at the beginning of the year to 286 students in fiscal year 2012.

In order to continually provide learning opportunities to its students, MPA will apply resources to best meet the needs of its students. It is the intent of MPA to apply for State and Federal funds that are made available to finance its operations.

Contacting MPA's Financial Management

This financial report is designed to provide our clients and creditors with a general overview of MPA's finances and to show MPA's accountability for the money it receives. If you have questions about this report or need additional financial information contact Caroline Zito, Business Manager, by mail at Menlo Park Academy, 14440 Triskett Rd. Cleveland, Ohio 44111-2263 or by calling 440.925.6365 or by faxing 440.925.0698.

**MENLO PARK ACADEMY
CUYAHOGA COUNTY, OHIO**

STATEMENT OF NET ASSETS
JUNE 30, 2012

| | |
|---|-------------------|
| Assets: | |
| Current assets: | |
| Cash and cash equivalents. | \$ 744,969 |
| Receivables: | |
| Accounts | 2,036 |
| Prepayments | <u>10,748</u> |
| Total current assets | <u>757,753</u> |
| Non-current assets: | |
| Depreciable capital assets, net | <u>39,667</u> |
| Total assets. | <u>797,420</u> |
| Liabilities: | |
| Current liabilities: | |
| Accounts payable. | 12,898 |
| Accrued wages and benefits | 84,860 |
| Pension obligation payable. | 37,520 |
| Intergovernmental payable | 42,850 |
| Unearned revenue. | <u>39,115</u> |
| Total liabilities | <u>217,243</u> |
| Net assets: | |
| Invested in capital assets. | 39,667 |
| Restricted for: | |
| Locally funded programs. | 2,035 |
| Federally funded programs. | 533 |
| Other purposes. | 1,133 |
| Unrestricted. | <u>536,809</u> |
| Total net assets | <u>\$ 580,177</u> |

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**MENLO PARK ACADEMY
CUYAHOGA COUNTY, OHIO**

STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET ASSETS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

| | |
|--|-------------------|
| Operating revenues: | |
| State Foundation. | \$ 1,681,383 |
| Classroom materials and fees. | 146,646 |
| Charges for services. | 6,093 |
| Other operating revenue. | 128,646 |
| Total operating revenues. | 1,962,768 |
| Operating expenses: | |
| Salaries and wages. | 913,509 |
| Fringe benefits. | 269,596 |
| Purchased services. | 509,005 |
| Materials and supplies | 132,592 |
| Depreciation | 10,014 |
| Other. | 28,914 |
| Total operating expenses. | 1,863,630 |
| Operating income | 99,138 |
| Non-operating revenues: | |
| Federal and State grants. | 28,545 |
| Contributions and donations | 70,026 |
| Total non-operating revenues. | 98,571 |
| Change in net assets. | 197,709 |
| Net assets at beginning of year | 382,468 |
| Net assets at end of year. | \$ 580,177 |

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**MENLO PARK ACADEMY
CUYAHOGA COUNTY, OHIO**

STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

| | |
|---|-------------------|
| Cash flows from operating activities: | |
| Cash received from State foundation | \$ 1,666,208 |
| Cash received from classroom materials and fees | 146,883 |
| Cash received from charges for services. | 6,093 |
| Cash received from other operations | 128,646 |
| Cash payments for salaries and wages. | (894,875) |
| Cash payments for fringe benefits | (251,002) |
| Cash payments for contractual services | (501,623) |
| Cash payments for materials and supplies | (182,035) |
| Cash payments for other expenses | (28,920) |
| | 89,375 |
| Net cash provided by operating activities | 89,375 |
| Cash flows from noncapital financing activities: | |
| Federal and state grants. | 35,884 |
| Contributions and donations. | 72,023 |
| | 107,907 |
| Net cash provided by noncapital financing activities. | 107,907 |
| Cash flows from capital and related financing activities: | |
| Acquisition of capital assets | (30,464) |
| | (30,464) |
| Net cash used in capital and related financing activities. | (30,464) |
| Net increase in cash and cash equivalents. | 166,818 |
| Cash and cash equivalents at beginning of year | 578,151 |
| Cash and cash equivalents at end of year | \$ 744,969 |
| | 744,969 |
| Reconciliation of operating income to net cash provided by operating activities: | |
| Operating income | \$ 99,138 |
| Adjustments: | |
| Depreciation | 10,014 |
| Changes in assets and liabilities: | |
| (Increase) in accounts receivable | (1,086) |
| (Increase) in prepayments | (1,185) |
| (Decrease) in accounts payable. | (41,852) |
| Increase in accrued wages and benefits. | 21,094 |
| (Decrease) in intergovernmental payable | (973) |
| Increase in pension obligation payable. | 2,902 |
| Increase in unearned revenue | 1,323 |
| | 1,323 |
| Net cash provided by operating activities. | \$ 89,375 |

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

Non-cash transactions:

In 2011, MPA purchased \$17,375 in capital assets on account.

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**MENLO PARK ACADEMY
CUYAHOGA COUNTY, OHIO**

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

NOTE 1 - DESCRIPTION OF THE ENTITY

Menlo Park Academy (“MPA”) is a nonprofit corporation established pursuant to Ohio Revised Code Chapters 3314 and 1702. MPA is an approved tax-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 MPA’s tax-exempt status. MPA’s objective is to provide educational services to gifted students in grades kindergarten through 8th grade. MPA, which is part of the State’s education program, is independent of any school district and is nonsectarian in its programs, admission policies, employment practices, and all other operations. MPA may acquire facilities as needed and contract for any services necessary for the operation of MPA.

MPA entered into a sponsorship agreement with Educational Service Center of Lake Erie West (the “Sponsor”) on September 16, 2008 for a period through June 30, 2012. The Sponsor is responsible for evaluating the performance of MPA and has the authority to deny renewal of the contract at its expiration or terminate the contract prior to its expiration. MPA also has an agreement with the Sponsor to act as fiscal agent (See Note 11). The contract is effective for 10 years, for the period July 1, 2011 to June 30, 2021. Acceleration of expiration date or renegotiation of the contract to be effective at the end of the 5th, 7th, or the 9th year of the contract.

MPA operates under the direction of an eleven-member Governing Board. The Governing 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 Governing Board controls MPA’s one instructional/support facility staffed by 10 non-certified and 23 certified personnel who provide services to 286 students.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of MPA have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to a governmental nonprofit organization. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. MPA also applies Financial Accounting Standards Board (FASB) guidance issued on or before November 30, 1989, to its proprietary activities, provided it does not conflict with or contradict GASB pronouncements. MPA has elected not to apply FASB statements and interpretations issued after November 30, 1989. The more significant of MPA’s accounting policies are described below.

A. Basis of Presentation

MPA’s basic financial statements consist of a statement of net assets, a statement of revenues, expenses, and changes in net assets, and a statement of cash flows. Enterprise fund reporting focuses on the determination of the change in net assets, financial position and cash flows.

B. Measurement Focus

Enterprise accounting uses a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities are included on the statements of net assets. The statement of revenues, expenses and changes in net assets presents increases (i.e., revenues) and decreases (i.e., expenses) in net total assets. The statement of cash flows provides information about how MPA finances and meets the cash flow needs of its enterprise activities.

**MENLO PARK ACADEMY
CUYAHOGA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

C. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. MPA'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 on the accrual basis when the exchange takes place. Revenues resulting from nonexchange transactions, in which MPA receives value without directly giving equal value in return, such as grants and entitlements, are recognized in the fiscal year in which all eligibility requirements have been satisfied. 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 MPA must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to MPA on reimbursement basis.

Expenses are recognized at the time they are incurred.

D. Budgetary Process

Unlike other public schools located in the State of Ohio, community schools are not required to follow budgetary provisions set forth in Ohio Revised Code Chapter 5705, unless specifically provided in the contract between MPA and its sponsor. The contract between MPA and its Sponsor does prescribe an annual budget requirement in addition to preparing a five-year forecast, which is to be updated on an annual basis. Each year, on or before June 30, a revised budget shall be submitted to the Sponsor.

E. Cash and Cash Equivalents

All monies received by MPA are accounted for by MPA's fiscal agent, the Educational Service Center of Lake Erie West. All cash received by the fiscal agent is maintained in separate bank accounts in MPA's name. Monies for MPA are maintained in these accounts or temporarily used to purchase short-term investments.

For the purposes of the statement of cash flows and for presentation on the statement of net assets, investments with original maturities of three months or less at the time they are purchased by MPA are considered to be cash equivalents.

F. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2012, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expense is reported in the year in which services are consumed.

**MENLO PARK ACADEMY
CUYAHOGA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

G. Capital Assets

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. MPA maintains a capitalization threshold of five hundred dollars. MPA does not possess any infrastructure. Improvements are capitalized; 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.

All reported capital assets are depreciated. Depreciation is computed using the straight-line method over the following useful lives:

| <u>Description</u> | <u>Estimated Life</u> |
|-----------------------------------|-----------------------|
| Furniture, Fixtures and Equipment | 7 years |
| Leasehold Improvements | 2 - 4 years |

H. Net Assets

Net assets represent the difference between assets and liabilities. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

MPA applies restricted resources first 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. For MPA, these revenues are primarily foundation payments from the State. Operating expenses are necessary costs incurred to provide the goods or services that are the primary activity of MPA. Revenues and expenses not meeting this definition are reported as non-operating.

J. Intergovernmental Revenue

MPA currently participates in the State Foundation Program, the Education Jobs grant and the IDEA Part-B Grant. Revenues from the State Foundation Program are recognized as operating revenue in the accounting period in which all eligibility requirements had been met. Grants and entitlements are recognized as non-operating revenues in the accounting period in which all eligibility requirements have been met. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is permitted, matching requirements, in which MPA must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to MPA on a reimbursement basis.

K. 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.

**MENLO PARK ACADEMY
CUYAHOGA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

NOTE 3 - CHANGE IN ACCOUNTING PRINCIPLES

For fiscal year 2012, the MPA has implemented GASB Statement No. 57, "OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans", and GASB Statement No. 64, "Derivative Instruments: Application of Hedge Accounting Termination Provisions - an Amendment of GASB Statement No. 53".

GASB Statement No. 57 addresses issues related to the use of the alternative measurement method and the frequency and timing of measurements by employers that participate in agent multiple-employer other postemployment benefit (OPEB) plans. The implementation of GASB Statement No. 57 did not have an effect on the financial statements of the MPA.

GASB Statement No. 64 clarifies the circumstances in which a hedge accounting should continue when a swap counterparty, or a swap counterparty's credit support provider, is replaced. The implementation of GASB Statement No. 64 did not have an effect on the financial statements of the MPA.

NOTE 4 - DEPOSITS

State statutes require the classification of the monies held by MPA into three categories:

Active deposits are public deposits necessary to meet current demands on the treasury. Such monies must be maintained either as cash in MPA Treasury, in commercial accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts, or in money market deposit accounts.

Inactive monies are public deposits that the Board has identified as not required for use within the current five year period of designation of depositories. Inactive deposits must either be evidenced by certificates of deposit maturing not later than the end of the current period of designation of depositories, or by savings or deposit accounts including, but not limited to, passbook accounts.

Interim deposits are deposits of interim monies. Interim monies are those monies which are not needed for immediate use, but which will be needed before the end of the current period of designation of depositories.

Interim monies must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit or by savings accounts including, but not limited to passbook accounts.

Interim monies may be deposited or invested in the following securities:

1. United States Treasury Notes, Bills, Bonds or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures or any other obligations or securities issued by any federal government agency or instrumentality, including, but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio, or Ohio local governments;

**MENLO PARK ACADEMY
CUYAHOGA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

NOTE 4 - DEPOSITS - (Continued)

5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool the State Treasury Asset Reserve of Ohio (STAR Ohio);
7. Certain banker's acceptance and commercial paper notes for a period not to exceed one hundred eighty days from the purchase date in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time; and,
8. Under limited circumstances, corporate debt interests rated in either of the two highest classifications by at least two nationally recognized rating agencies.

Investments of stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. An investment must mature within five years from the date of purchase, unless matched to a specific obligation or debt of MPA and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions.

A. Deposits with Financial Institutions

At June 30, 2012, the carrying amount of all MPA's deposits was \$744,969. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2012, the MPA's entire bank balance of \$798,828 was covered by the Federal Deposit Insurance Corporation (FDIC).

B. Investments

MPA had no investments.

NOTE 5 - RECEIVABLES

Receivables at June 30, 2012, consisted of accounts receivable for classroom materials and fees. All receivables are considered collectible in full. MPA had \$2,036 in accounts receivable at June 30, 2012.

**MENLO PARK ACADEMY
CUYAHOGA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

NOTE 6 - CAPITAL ASSETS

A summary of MPA's capital assets for the fiscal year ended June 30, 2012, follows:

| | Balance 07/01/11 | Additions | Deductions | Balance 06/30/12 |
|--|---------------------|-----------------|-------------|---------------------|
| Capital Assets: | | | | |
| Furniture, fixtures and equipment | \$ 35,816 | \$ 11,239 | \$ - | \$ 47,055 |
| Leasehold improvements | 16,850 | 1,850 | - | 18,700 |
| Total capital assets | <u>52,666</u> | <u>13,089</u> | <u>-</u> | <u>65,755</u> |
| Less: accumulated depreciation | | | | |
| Furniture, fixtures and equipment | (7,810) | (6,690) | - | (14,500) |
| Leasehold improvements | (8,264) | (3,324) | - | (11,588) |
| Total accumulated depreciation | <u>(16,074)</u> | <u>(10,014)</u> | <u>-</u> | <u>(26,088)</u> |
| Total capital assets, Net of accumulated depreciation | <u>\$ 36,592</u> | <u>\$ 3,075</u> | <u>\$ -</u> | <u>\$ 39,667</u> |

NOTE 7 - RISK MANAGEMENT

A. Insurance Coverage

MPA is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. For the fiscal year ended 2012, MPA contracted with Wells Fargo Insurance Services and had the following insurance coverage:

| | |
|---|-------------|
| Commercial General Liability per Occurrence | \$1,000,000 |
| Commercial General Liability Aggregate | 3,000,000 |
| Employee Benefits Liability | 1,000,000 |
| Employer's Liability | 1,000,000 |
| Employer's (OH Stop Gap) Liability | 1,000,000 |
| Automotive Liability - Non-owned Automobiles | 1,000,000 |
| Personal Property (\$2,500 deductible) | 160,000 |
| Computer Equipment (\$1,000 deductible) | 115,000 |
| Playground equipment (\$1,000 deductible) | 23,400 |
| Excess Liability Umbrella | 5,000,000 |
| Crime (\$2,500 deductible) | 250,000 |
| Professional Educators Legal Liability (\$1,000 deductible) | 1,000,000 |
| Sexual Abuse Liability | 1,000,000 |
| Directors and Officers Liability | 1,000,000 |

MPA owns no property, but leases one facility located at 14440 Triskett Road, Cleveland, Ohio (See Note 10).

Settled claims have not exceeded commercial coverage in the past three years and there have been no significant reductions in insurance coverage from fiscal year 2011.

**MENLO PARK ACADEMY
CUYAHOGA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

NOTE 7 - RISK MANAGEMENT - (Continued)

B. Workers' Compensation

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

C. Other Employee Benefits

MPA has contracted with a private carrier to provide employee medical and dental insurance to its full time employees.

NOTE 8 - PENSION PLANS

A. School Employees Retirement System

Plan Description - The MPA contributes to the School Employees Retirement System (SERS), a cost-sharing, multiple-employer defined benefit pension plan. SERS provides retirement, disability, survivor 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. It is also posted on the SERS' Ohio website, www.ohsers.org, under "Employers/Audit Resources".

Funding Policy - Plan members are required to contribute 10 percent of their annual covered salary and the MPA is required to contribute at an actuarially determined rate. The current MPA rate is 14 percent of annual covered payroll. A portion of the MPA's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal year 2012, 12.65 percent and 0.05 percent of annual covered salary was the portion used to fund pension obligations and death benefits, respectively. 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 MPA's required contributions for pension obligations and death benefits to SERS for the fiscal years ended June 30, 2012, 2011 and 2010 were \$23,097, \$11,706 and \$6,742, respectively; 54.46 percent has been contributed for fiscal year 2012 and 100 percent for fiscal years 2011 and 2010.

B. State Teachers Retirement System of Ohio

Plan Description - The MPA 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 website at www.strsoh.org, under "Publications".

**MENLO PARK ACADEMY
CUYAHOGA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

NOTE 8 - 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 a member's lifetime contributions and earned interest matched by STRS Ohio funds divided by an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump sum withdrawal. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. The DB portion of the Combined Plan payment is payable to a member on or after age 60; the DC portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50. Benefits are established by Chapter 3307 of the Ohio Revised Code.

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

Funding Policy - For fiscal year 2012, plan members were required to contribute 10 percent of their annual covered salaries. The MPA was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The MPA's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2012, 2011 and 2010 were \$92,691, \$78,332 and \$44,394, respectively; 87.86 percent has been contributed for fiscal year 2012 and 100 percent for fiscal years 2011 and 2010. Contributions to the DC and Combined Plans for fiscal year 2012 were \$26,498 made by the MPA and \$18,927 made by the plan members.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the SERS/STRS Ohio have an option to choose Social Security or the SERS/STRS Ohio. As of June 30, 2012, certain members of the Board have elected Social Security. The MPA's liability is 6.2 percent of wages paid.

**MENLO PARK ACADEMY
CUYAHOGA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

NOTE 9 - POSTEMPLOYMENT BENEFITS

A. School Employees Retirement System

Plan Description - The MPA 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, Medicare Advantage, and traditional indemnity plans. A prescription drug program is also available to those who elect health coverage. SERS employs two third-party administrators and a pharmacy benefit manager to manage the self-insurance and prescription drug plans, respectively. The Medicare Part B Plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries as set forth in Section 3309.69 of the Ohio Revised Code. Qualified benefit recipients who pay Medicare Part B premiums may apply for and receive a monthly reimbursement from SERS. The reimbursement amount is limited by statute to the lesser of the January 1, 1999 Medicare Part B premium or the current premium. The Medicare Part B premium for calendar year 2011 (latest information available) was \$96.40 for most participants, but could be as high as \$369.10 per month depending on their income and the SERS' reimbursement to retirees was \$45.50. 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. It is also posted on the SERS' Ohio website, www.ohsers.org, under "Employers/Audit Resources".

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 105(e). For 2012, 0.55 percent of covered payroll was allocated to health care. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. Statutes provide that no employer shall pay a health care surcharge greater than 2.0 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the statewide SERS-covered payroll for the health care surcharge. For fiscal year 2012, the actuarially determined amount was \$35,800.

Active members do not contribute to the postemployment benefit plans. The Retirement Board establishes the rules for the premiums paid by the retirees for health care coverage for themselves and their dependents or for their surviving beneficiaries. Premiums vary depending on the plan selected, qualified years of service, Medicare eligibility and retirement status.

The MPA's contributions for health care (including surcharge) for the fiscal years ended June 30, 2012, 2011 and 2010 were \$2,491, \$2,214 and \$393, respectively; 54.46 percent has been contributed for fiscal year 2012 and 100 percent for fiscal years 2011 and 2010.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For fiscal year 2012, this actuarially required allocation was 0.75 percent of covered payroll. The MPA's contributions for Medicare Part B for the fiscal years ended June 30, 2012, 2011, and 2010 were \$1,364, \$753 and \$401, respectively; 54.46 percent has been contributed for fiscal year 2012 and 100 percent for fiscal years 2011 and 2010.

**MENLO PARK ACADEMY
CUYAHOGA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

NOTE 9 - POSTEMPLOYMENT BENEFITS - (Continued)

B. State Teachers Retirement System of Ohio

Plan Description - The MPA 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, under "Publications" 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 2012, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. The MPA's contributions for health care for the fiscal years ended June 30, 2012, 2011 and 2010 were \$7,130, \$6,026 and \$3,415, respectively; 87.86 percent has been contributed for fiscal year 2012 and 100 percent for fiscal years 2011 and 2010.

NOTE 10 - OPERATING LEASES

MPA entered into an operating lease for the period June 1, 2009 through June 30, 2012 with Most Rev. Richard G. Lennon, Bishop of the Roman Catholic Diocese of Cleveland and Trustee for St. Mel Church to lease space to house MPA. This lease was amended in June 2010 to add additional space and extended the period of the lease through June 30, 2014. Payments made totaled \$110,539 for the fiscal year ended June 30, 2012. Rental increases at a rate of 3% over the rent paid the preceding year.

NOTE 11 - FISCAL AGENT

MPA entered into a service agreement as part of its Sponsorship contract with the Treasurer of the Educational Service Center of Lake Erie West to serve as the Chief Fiscal Officer of MPA. As part of this agreement, MPA shall compensate the Educational Service Center of Lake Erie West two percent (2%) of the per pupil allotment paid to MPA from the State of Ohio. A total contract payment of \$38,198 was paid during the fiscal year and a liability in the amount of \$2,939 was accrued for the fiscal year 2012.

The Treasurer shall perform all of the following functions while serving as the Chief Fiscal Officer of MPA:

- Maintain custody of all funds received by MPA in segregated accounts separate from the Sponsor or any other Community School's funds;
- Maintain all books and accounts of MPA;
- Maintain all financial records of MPA and follow procedures for receiving and expending State funds, which procedures shall include that the Treasurer shall disburse money only upon receipt of a voucher signed by the Chief Administrative Officer of MPA or that Officer's designee;
- Assist MPA in meeting all financial reporting requirements established by the Auditor of Ohio;

**MENLO PARK ACADEMY
CUYAHOGA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

NOTE 11 - FISCAL AGENT - (Continued)

- Invest funds of MPA in the same manner as the funds of the Sponsor are invested, but the Treasurer shall not commingle the funds with any of the Sponsor or any other community school; and,
- Pay obligations incurred by MPA within a reasonable amount of time, not more than 14 calendar days after receipt of a properly executed voucher signed by the Chief Administrative Officer of MPA so long as the proposed expenditure is within the approved budget and funds are available.

NOTE 12 - PURCHASED SERVICES

For fiscal year 2012, purchased services payments for services rendered by various vendors are as follows:

| <u>PURCHASED SERVICES</u> | |
|-------------------------------------|-------------------|
| Professional and technical services | \$ 266,506 |
| Property services | 145,310 |
| Travel mileage/meeting expense | 18,222 |
| Communications | 13,729 |
| Utilities | 25,594 |
| Contracted craft or trade services | 6,692 |
| Other | <u>32,952</u> |
| Total purchased services | <u>\$ 509,005</u> |

NOTE 13 - CONTINGENCIES

A. Grants

The MPA received financial assistance from federal and State agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is 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, the effect of any such disallowed claims on the overall financial position of the MPA at June 30, 2012, if applicable, cannot be determined at this time.

B. Litigation

MPA is not involved in any litigation that, in the opinion of management, would have a material effect on the financial statements.

**MENLO PARK ACADEMY
CUYAHOGA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

NOTE 13 - CONTINGENCIES - (Continued)

C. State Foundation Funding

The Ohio Department of Education conducts reviews of enrollment data and full-time equivalency (FTE) calculations made by community schools. These reviews are conducted to ensure the schools are reporting accurate student enrollment data to the state, upon which State foundation funding is calculated. The conclusion of the fiscal year 2011 review resulted in a State Foundation payable of \$37,939 at June 30, 2011. This amount is being repaid in twenty monthly installments of \$1,897 withheld from foundation settlements beginning in November 2011. The amount outstanding at June 30, 2012 is \$22,764. MPA anticipates no material adjustments to State funding as a result of the fiscal year 2012 review, which has yet to be completed.



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*

Menlo Park Academy
Cuyahoga County
14440 Triskett Road
Cleveland, Ohio 44111

To the Board of Directors:

We have audited the financial statements of Menlo Park Academy, Cuyahoga County, (the Academy) as of and for the year ended June 30, 2012, and have issued our report thereon dated February 25, 2013. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

We did note a certain matter not requiring inclusion in this report that we reported to the Academy's management in a separate letter dated February 25, 2013.

We intend this report solely for the information and use of management, the audit committee, the Board of Directors, the Community School's sponsor, and others within the Academy. 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, flowing style.

Dave Yost
Auditor of State

February 25, 2013



Dave Yost • Auditor of State

MENLO PARK ACADEMY

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
MARCH 7, 2013**