



Mary Taylor, CPA
Auditor of State

**CUYAHOGA ARTS AND CULTURE
CUYAHOGA COUNTY**

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Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

Cuyahoga Arts and Culture
Cuyahoga County
Bulkley Building, Suite 407
1501 Euclid Avenue
Cleveland, Ohio 44115

To the Board of Trustees

We have audited the accompanying basic financial statements of the governmental activities and the general fund, of Cuyahoga Arts and Culture, Cuyahoga County, Ohio, (CAC) as of and for the year ended December 31, 2007, which collectively comprise CAC's basic financial statements as listed in the table of contents. These financial statements are the responsibility of CAC'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 financial position of the governmental activities and the general fund, of Cuyahoga Arts and Culture, Cuyahoga County, Ohio, as of December 31, 2007, and the changes in financial position 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 December 18, 2008, on our consideration of CAC's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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

A handwritten signature in black ink that reads "Mary Taylor". The signature is written in a cursive, flowing style.

Mary Taylor, CPA
Auditor of State

December 18, 2008

Cuyahoga Arts and Culture, Cuyahoga County
Management's Discussion and Analysis
For the Year Ended December 31, 2007
Unaudited

The discussion and analysis of Cuyahoga Arts and Culture (CAC) financial performance provides an overall review of CAC's financial activities for the year ended December 31, 2007. The intent of this discussion and analysis is to look at CAC's financial performance as a whole; readers should also review the basic financial statements and notes to enhance their understanding of CAC's financial performance.

Financial Highlights

Key Financial highlights for 2007 are as follows:

- Cuyahoga Arts and Culture began operations in 2007. These are the first financial statements of Cuyahoga Arts and Culture.
- Reported Net Assets are \$18,367,548.
- Cuyahoga Arts and Culture had \$1,732,840 in cigarette tax receivable from Cuyahoga County generated by the sale of cigarettes.
- Cuyahoga Arts and Culture had \$740,387 in expenses. These expenses were offset by \$19,107,935 in revenues.

Using this Annual Financial Report

This annual report consists of a series of financial statements and notes to those statements. These statements are prepared and organized so the reader can understand CAC as a financial whole or as an entire operating entity. The statements then proceed to provide an increasingly detailed look at our specific financial conditions.

The Statement of Net Assets and Statement of Activities provide information about the activities of the CAC, presenting both an aggregate view of CAC's finances and a longer-term view of those assets. The Statement of Activities shows a net (expense) revenue and changes to net assets related to each department of CAC. Fund financial statements tell how services were financed in the short-term as well as what dollars remain for future spending.

Reporting on the Cuyahoga Arts and Culture as a Whole

Statement of Net Assets and the Statement of Activities

The Statement of Net Assets and Statement of Activities include all assets and liabilities using the accrual basis of accounting similar to the accounting method used by the private sector. The basis for this accounting takes into account all of the current year's revenues and expenses regardless of when the cash was received or paid.

These two statements report CAC's net assets and the changes in those assets. The change in net assets is important because it tells the reader whether, for CAC as a whole, the financial position of the CAC has improved or diminished.

All of CAC's programs and services are reported as Governmental Activities in the Statement of Net Assets and the Statement of Activities. Governmental Activities consist of functions that are principally supported by excise tax revenues. Activities include arts and cultural programming and administration.

Cuyahoga Arts and Culture, Cuyahoga County
Management's Discussion and Analysis
For the Year Ended December 31, 2007
Unaudited

Reporting on the Most Significant Fund

Governmental Fund

The presentation for CAC's only fund, the general fund, focuses on how resources flow into and out of it and the balance that is left at year end and available for spending in future periods. The general fund is reported using modified accrual accounting which measures cash and all other financial assets that are expected to be readily converted to cash. The governmental fund statements provide a detailed short-term view of CAC's general operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future on services provided to our users. The relationship (or difference) between governmental activities (reported on the Statement of Net Assets and the Statement of Activities) and the general fund is reconciled in the financial statements.

Cuyahoga Arts and Culture as a Whole

Recall that the Statement of Net Assets looks at CAC as a whole. Table 1 provides a summary of CAC's net assets for 2007.

Table 1
Net Assets

	2007
Assets	
Current and Other Assets	\$18,333,097
Depreciable Capital Assets	52,243
<i>Total Assets</i>	18,385,340
Liabilities	
Current and Other Liabilities	17,792
Net Assets	
Invested in Capital Assets	52,243
Unrestricted	18,315,305
<i>Net Assets</i>	\$18,367,548

The \$18,367,548 in net assets is primarily attributed to the collection of the County levied cigarette tax on the sale of cigarettes. At the election held on November 7, 2006, the electors in the County approved the levy of a tax on the sale of cigarettes at wholesale at the rate of 15 mills per cigarette (amounting to 1-1/2 cents per cigarette) for a period of ten years beginning February 1, 2007. The County then gives the Cuyahoga Arts and Culture revenues in the form of a tax.

Liabilities in 2007 amounted to \$17,792. Liabilities consisted of accounts payable, accrued wages, intergovernmental payable and compensated absences.

Cuyahoga Arts and Culture, Cuyahoga County
Management's Discussion and Analysis
For the Year Ended December 31, 2007
Unaudited

Table 2 shows the changes in net assets for the years ended December 31, 2007.

Table 2
Changes in Net Assets

	2007
Revenues	
General Revenue	
Cigarette Tax	\$18,816,190
Investment Earnings	291,745
<i>Total Revenues</i>	<i>19,107,935</i>
Program Expenses	
Arts and Culture Programming	438,322
General Government	302,065
<i>Total Program Expenses</i>	<i>740,387</i>
<i>Change in Net Assets</i>	<i>18,367,548</i>
<i>Net Assets Beginning of Year</i>	<i>0</i>
<i>Net Assets End of Year</i>	<i>\$18,367,548</i>

The main revenue for CAC is the collection of the County levied cigarette tax. The purpose of the cigarette tax is to support the operating or capital needs of arts or cultural organizations located in the County.

In 2007, collections totaled \$18,816,190.

Expenses of \$740,387 are primarily for the operations associated with the making of grants to area arts or cultural organizations. No grant monies were distributed in 2007, although CAC did announce that it was planning to award \$15 million in grants to 68 qualified arts and cultural organizations in 2008.

Cuyahoga Arts and Culture Fund

Information about CAC's governmental fund begins on page 10. This fund is accounted for using the modified accrual basis of accounting. CAC had governmental revenues of \$19,107,935 and expenditures of \$785,954. Revenues are primarily attributable to levied County cigarette tax dollars which are tax revenues to the Cuyahoga Arts and Culture.

Budgeting Highlights

Although CAC is not legally required to file a budget, the Board of Trustees does appropriate funds annually. The general fund is monitored closely looking for possible revenue shortfalls or any over spending.

Cuyahoga Arts and Culture, Cuyahoga County
Management's Discussion and Analysis
For the Year Ended December 31, 2007
Unaudited

Original and final budgeted revenues for the general fund were \$16,516,828; the actual revenue was \$17,375,095. The major factor contributing to the increase of actual revenues over final budgeted revenues was more tax monies received than forecasted.

Capital Assets

Table 3
 Capital Assets at December 31
 (Net of Depreciation)

	2007
Furniture and Equipment	\$32,383
Software	19,860
<i>Totals</i>	\$52,243

See note 8 of the basic financial statements for additional information on capital assets.

Current Financial Related Activities

Long- and short-term goals The revenues and expenditures within the budget are directed to achieve CAC's purpose. The budget supports specific funding programs and verifies to the public that CAC has been debt-free.

Performance tools and response to change The annual financial report provides measurement tools to assess the financial performance of CAC as a whole.

Contacting the Cuyahoga Arts and Culture Fiscal Office

This financial report is designed to provide our citizenry with the general overview of CAC's finances and show CAC's accountability for all money it receives, spends or invests. If you have any questions about this report or need financial information, contact Catherine Boyle, Executive Director, Cuyahoga Arts and Culture, 1501 Euclid Avenue, Suite 407, Cleveland, Ohio 44115, or by email at cboyle@cacgrants.org.

Cuyahoga Arts and Culture, Cuyahoga County

Statement of Net Assets

December 31, 2007

	<u>Governmental Activities</u>
Assets	
Cash and Cash Equivalents	\$16,595,728
Cigarette Tax Receivable	1,732,840
Prepaid Items	4,529
Capital Assets, Net of Accumulated Depreciation:	
Furniture and Equipment	32,383
Software	19,860
	<hr/>
<i>Total Assets</i>	<u>18,385,340</u>
Liabilities	
Accounts Payable	536
Accrued Wages and Benefits	5,201
Intergovernmental Payable	5,379
Compensated Absences	6,676
	<hr/>
<i>Total Liabilities</i>	<u>17,792</u>
Net Assets	
Invested in Capital Assets	52,243
Unrestricted	18,315,305
	<hr/>
<i>Total Net Assets</i>	<u><u>\$18,367,548</u></u>

See accompanying notes to the basic financial statements

Cuyahoga Arts and Culture, Cuyahoga County

Statement of Activities

For the Year Ended December 31, 2007

Expenses:

Arts and Culture Programming:

Arts and Culture:

Personal Services \$59,814

Contractual Services 375,262

Depreciation 3,246

Total Arts and Culture 438,322

General Government:

Personal Services \$167,319

Materials and Supplies 16,717

Contractual Services 116,947

Depreciation 1,082

Total General Government 302,065

Total Program Expenses 740,387

General Revenue:

Cigarette Tax 18,816,190

Interest 291,745

Total General Revenues 19,107,935

Increase in Net Assets 18,367,548

Net Assets Beginning of Year 0

Net Assets End of Year \$18,367,548

See accompanying notes to the basic financial statements

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Cuyahoga Arts and Culture, Cuyahoga County

Balance Sheet

Governmental Fund

December 31, 2007

	<u>General Fund</u>
Assets	
Cash and Cash Equivalents	\$16,595,728
Cigarette Tax Receivable	1,732,840
Prepaid Items	<u>4,529</u>
<i>Total Assets</i>	<u><u>\$18,333,097</u></u>
Liabilities	
Accounts Payable	\$536
Accrued Wages	5,201
Intergovernmental Payable	<u>5,379</u>
<i>Total Liabilities</i>	11,116
Fund Balance	
Unreserved, Undesignated	<u>18,321,981</u>
<i>Total Liabilities and Fund Balance</i>	<u><u>\$18,333,097</u></u>

See accompanying notes to the basic financial statements

Cuyahoga Arts and Culture, Cuyahoga County
*Reconciliation of Total Governmental Fund Balance to
Net Assets of Governmental Activities
December 31, 2007*

Total Governmental Fund Balance \$18,321,981

*Amounts reported for governmental activities
in the statement of net assts are different because*

Capital assets used in governmental activities
are not financial resources and therefore are
not reported in the funds. 52,243

Long-term liabilities such as compensated absences
are not due and payable in the current period
and therefore are not reported in the funds.
Compensated Absences (6,676)

Net Assets of Governmental Activities \$18,367,548

See accompanying notes to the basic financial statements

Cuyahoga Arts and Culture, Cuyahoga County
Statement of Revenues, Expenditures and Changes
in Fund Balance
Governmental Fund
For the Year Ended December 31, 2007

	<u>General Fund</u>
Revenues	
Cigarette Tax	\$18,816,190
Interest	291,745
	<u>19,107,935</u>
<i>Total Revenues</i>	<u>19,107,935</u>
Expenditures	
Current:	
Arts and Culture Programming:	
Arts and Culture	
Personal Services	58,145
Contractual Services	375,262
	<u>433,407</u>
Total Arts and Culture	<u>433,407</u>
General Government	
Personal Services	162,312
Materials and Supplies	16,717
Contractual Services	116,947
	<u>295,976</u>
Total General Government	<u>295,976</u>
Capital Outlay	<u>56,571</u>
<i>Total Expenditures</i>	<u>785,954</u>
<i>Net Change in Fund Balance</i>	18,321,981
<i>Fund Balance Beginning of Year</i>	<u>0</u>
<i>Fund Balance End of Year</i>	<u><u>\$18,321,981</u></u>

See accompanying notes to the basic financial statements

Cuyahoga Arts and Culture, Cuyahoga County
*Reconciliation of the Statement of Revenues, Expenditures and Changes
in Fund Balance of the Governmental Fund
to the Statement of Activities
For the Year Ended December 31, 2007*

Net Change in Fund Balances - Total Governmental Fund \$18,321,981

*Amounts reported for governmental activities in the
statement of activities are different because*

Governmental funds report capital outlays as expenditures.
However, in the statement of activities, the cost of those
assets is allocated over their estimated useful lives as
depreciation expense. This is the amount by which
capital outlays exceeded depreciation in the current
period.

Capital Outlay	56,571
Depreciation	<u>(4,328)</u>

Total	52,243
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Some expenses reported in the statement of activities, such as
compensated absences, do not require the use of current
financial resources and therefore are not reported as
expenditures in governmental funds.

Compensated Absences	<u>(6,676)</u>
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<i>Change in Net Assets of Governmental Activities</i>	<u><u>\$18,367,548</u></u>
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See accompanying notes to the basic financial statements

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Cuyahoga Arts and Culture, Cuyahoga County

Notes To The Basic Financial Statements

For The Year Ended December 31, 2007

Note 1 - Reporting Entity and Basis of Presentation

Cuyahoga Arts and Culture (CAC) is a political subdivision of the State and a body corporate, established June 16, 2005, by the Cuyahoga County Commissioners, under the authority of Section 3381.04, Ohio Revised Code.

CAC's governing body is a three member Board of Trustees (the Trustees), who are appointed by the Cuyahoga County Commissioners. In October 2007, the Board was increased to five members. Trustees serve staggered terms of one, two and three years. Each Trustee serves a term of three years from the date of his appointment by the Cuyahoga County Commissioners and until such Trustee's replacement has been appointed. CAC is classified as a related organization of Cuyahoga County.

CAC is dedicated to making grants to support the operating or capital expenses of arts and culture organizations located within the County, or acquiring, constructing, equipping, furnishing, repairing, remodeling, renovating, enlarging, improving, or administering artistic or cultural facilities. These activities are directly controlled by the Trustees through the budgetary process and are included within this report.

In evaluating how to define CAC for financial reporting purposes, management has considered all agencies, departments and organizations making up Cuyahoga Arts and Culture and its potential component units consistent with Governmental Accounting Standards Board Statement No. 14, "The Financial Reporting Entity."

Component units are legally separate organizations for which CAC is financially accountable. CAC is financially accountable for an organization if CAC appoints a voting majority of the organization's governing board and (1) CAC is able to significantly influence the programs or services performed or provided by the organization; or (2) CAC is legally entitled to or can otherwise access the organization's resources; CAC is legally obligated or has otherwise assumed the responsibility to finance deficits of or provide financial support to the organization or CAC is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on CAC in that CAC approves the budget, the issuance of debt, or the levying of taxes. CAC has no component units.

Note 2 - Summary of Significant Accounting Policies

The financial statements of CAC have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to local governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial principles. CAC also applies Financial Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989 to its governmental activities provided they don't conflict with or contradict GASB pronouncements.

A. Basis of Presentation

CAC's basic financial statements consist of government-wide statements, including a statement of net assets and a statement of activities, and fund financial statements which provide a more detailed level of financial information.

Cuyahoga Arts and Culture, Cuyahoga County

Notes To The Basic Financial Statements

For The Year Ended December 31, 2007

Government-wide Financial Statements

The Statement of Net Assets and the Statement of Activities display information about CAC as a whole.

The statement of net assets presents the financial condition of the governmental activities of CAC at year-end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of CAC's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program, grants and contributions that are restricted to meeting the operational or capital requirements of a particular program and interest earned on grants that is required to be used to support a particular program. Revenues which are not classified as program revenues are presented as general revenues of CAC, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each governmental program is self-financing or draws from the general revenues of CAC.

Fund Financial Statements

During the year, CAC accounts for its financial activities in a single governmental fund. A fund is defined as a fiscal and accounting entity with a self balancing set of accounts. Governmental funds are those through which most governmental functions are financed. Governmental fund reporting focuses on the sources, uses and balances of current financial resources. The difference between governmental fund assets and liabilities is reported as fund balance. CAC's only governmental fund is the General Fund which accounts for all financial resources. The general fund balance is available to CAC for any purpose provided it is expended according to the general laws of Ohio.

B. Measurement Focus

Government-wide Financial Statements

The government-wide financial statements are prepared using a flow of economic resources measurement focus. All assets and all liabilities associated with the operation of CAC are included on the Statement of Net Assets. The Statement of Activities presents increases (i.e., revenues) and decreases (i.e., expenses) in total net assets.

Fund Financial Statements

The General Fund is accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. The statement of revenues, expenditures and changes in fund balance reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements therefore include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for the General Fund.

Cuyahoga Arts and Culture, Cuyahoga County

Notes To The Basic Financial Statements

For The Year Ended December 31, 2007

C. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. The General Fund uses the modified accrual basis of accounting. Differences in the accrual and modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred revenue and in the presentation of expenses versus expenditures.

Revenues - Exchange and Nonexchange Transactions

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the year in which the resources are measurable and become available. Available means that the resources will be collected within the current year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current year. For CAC, available means expected to be received within sixty days of year-end.

Nonexchange transactions, in which CAC receives value without directly giving equal value in return, include grants. Revenue from grants, entitlements and donations is recognized in the 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 year when use is first permitted, matching requirements, in which CAC must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to CAC on a reimbursement basis. On the modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at year-end: cigarette tax and interest.

Deferred Revenue

Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

On governmental fund financial statements, receivables that will not be collected within the available period have also been reported as deferred revenue.

Expenses/Expenditures

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation and amortization, are not recognized in governmental funds.

D. Cash and Cash Equivalents

During 2007, CAC's investments were limited to STAROhio.

STAROhio is an investment pool managed by the State Treasurer's Office. STAROhio allows governments within the State to pool their funds for investment purposes. STAROhio is not registered

Cuyahoga Arts and Culture, Cuyahoga County

Notes To The Basic Financial Statements

For The Year Ended December 31, 2007

with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAROhio are valued at STAROhio's share price which is the price the investment could be sold for at year-end.

Investment procedures are restricted by the provisions of the Ohio Revised Code. Interest revenue credited to the general fund amounted to \$291,745 during 2007.

Investments with an original maturity of three months or less at the time of purchase are presented on the financial statements as cash equivalents.

E. Prepaid Items

Payments made to vendors for services that will benefit periods beyond the current year are recorded as prepaid items using the consumption method by recording a current asset for the prepaid amount at the time of purchase and reflecting the expenditure/expense in the year in which the services are consumed.

F. Capital Assets

CAC's only capital assets are general capital assets. General capital assets are capital assets which are associated with and generally arise from governmental activities. They generally result from expenditures in the general fund. General capital assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the financial statements of the general fund.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. The CAC maintains a capitalization threshold of five hundred dollars for furniture and equipment and software.

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

Description	Governmental Activities Estimated Lives
Furniture and Equipment	5 - 7 years
Software	3 years

G. Accrued Liabilities

All payables and accrued liabilities are reported in the government-wide financial statements.

Governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources are reported as obligations of the fund.

Cuyahoga Arts and Culture, Cuyahoga County

Notes To The Basic Financial Statements

For The Year Ended December 31, 2007

H. Compensated Absences

Exempt and non-exempt staff are eligible for paid time off (PTO). Full-time and part-time staff are granted 25 days or more based on years of service, on a pro-rated basis, per year at the beginning of the calendar year. PTO accruals are pro-rated by the month of employment for people joining CAC during the fiscal year. In the event of separation, employees are paid their accrued PTO in their last paycheck if they provide a written notice prior to separation. Current year accruals are paid out at the rate of 50 percent if employment terminates between January 1 and June 30 and at 100 percent thereafter.

If an employee does not use their PTO time in a given year, they will lose all but the equivalent of two week's time (10 days) unless the Board approves additional carryover.

J. Fund Balance Reserves

Those portions of fund balance which are legally segregated for a specific future use or which do not represent expendable resources and therefore are not available for appropriation or expenditure are reported as reserved. For 2007, the CAC has no reserves for fund balance.

K. 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.

L. Estimates

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

M. Budgetary Process

The CAC is not required under State statute to file budgetary information with the County Auditor. However, the CAC does follow the budgetary process for control purposes. The Trustee's set limits on expenditures plus encumbrances at the object level.

The Executive Director reviews the prior year's revenues and factors in the wages expected to be charged and the intergovernmental revenue anticipated to be received in order to determine the estimated resources for the current year. The estimated resources may be amended during the year if projected increases or decreases in revenue are identified by the Executive Director. The amounts reported as the original budgeted amounts in the budgetary statements reflect amounts of the estimated resources approved by the Trustees when the original appropriations were adopted. The amounts reported as the final budgeted amounts in the budgetary statements reflect the amounts of the estimated resources that were in effect at the time the final appropriations were passed by the Trustees.

Note 3 - Deposits and Investments

CAC has chosen to follow State statutes and classify monies held by CAC into two categories, active and inactive. Active monies are public monies determined to be necessary to meet current demand. Active monies must be maintained either as cash in the treasury, in commercial accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts, or in money market deposit accounts.

Cuyahoga Arts and Culture, Cuyahoga County

Notes To The Basic Financial Statements

For The Year Ended December 31, 2007

Protection of CAC's deposits is provided by the Federal Deposit Insurance Corporation, by eligible securities pledged by the financial institution as security for repayment, by surety company bonds deposited with the Executive Director by the financial institution or by a single collateral pool established by the financial institution to secure the repayment of all public monies deposited with the institution.

Monies held by CAC, which are not considered active, are classified as inactive. Inactive monies may be deposited or invested in the following securities provided a written investment policy has been filed with the Ohio Auditor of State:

1. United States Treasury Bills, Notes, 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, or any book entry, zero-coupon United States treasury security that is a direct obligation of 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. Bond and other obligations of the State of Ohio or its political subdivisions, provided that such political subdivisions are located wholly or partly within the County;
5. Time certificates of deposits or savings or deposit accounts, including, but not limited to, passbook accounts;
6. No-load money market mutual funds consisting exclusively of obligations described in (1) or (2) above and repurchase agreements secured by such obligations, provided that these investments are made only through eligible institutions;
7. The State Treasurer's investment pool (STAR Ohio);
8. Securities lending agreements in which CAC lends securities and the eligible institution agrees to simultaneously exchange similar securities or cash, equal value for equal value;
9. Up to twenty-five percent of CAC's average portfolio in either of the following:
 - a. commercial paper notes in entities incorporated under the laws of Ohio or any other State that have assets exceeding five hundred million dollars rated at the time of purchase, which are rated in the highest qualification established by two nationally recognized standard rating services, which do not exceed ten percent of the value of the outstanding commercial paper of the issuing corporation and which mature within 270 days after purchase;

Cuyahoga Arts and Culture, Cuyahoga County

Notes To The Basic Financial Statements

For The Year Ended December 31, 2007

- b. bankers acceptances eligible for purchase by the federal reserve system and which mature within 180 days after purchase.
10. Fifteen percent of CAC's average portfolio in notes issued by U.S. corporations or by depository institutions that are doing business under authority granted by the U.S. provided that the notes are rated in the second highest or higher category by at least two nationally recognized standard rating services at the time of purchase and the notes mature within two years from the date of purchase.
11. No-load money market mutual funds rated in the highest category at the time of purchase by at least one nationally recognized standard rating service consisting exclusively of obligations guaranteed by the United States, securities issued by a federal government agency or instrumentality, and/or highly rated commercial paper.
12. One percent of CAC's average portfolio in debt interests rated at the time of purchase in the three highest categories by two nationally recognized standard rating services and issued by foreign nations diplomatically recognized by the United States government.

Reverse repurchase agreements, investments in derivatives, and investments in stripped principal or interest obligations that are not issued or guaranteed by the United States are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. Other than corporate notes, commercial paper, and bankers acceptances, an investment must mature within five years from the date of settlement unless matched to a specific obligation or debt of CAC. Investments must be purchased with the expectation that they will be held to maturity. Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the treasurer or qualified trustee or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

Deposits

Custodial Credit Risk Custodial credit risk for deposits is the risk that in the event of bank failure, CAC will not be able to recover deposits or collateral securities that are in possession of an outside party. At December 31, 2007, \$21,884 of CAC's bank balance of \$121,884 was uncollateralized and uninsured. Noncompliance with Federal requirements could potentially subject the District to a successful claim to the FDIC.

CAC has no deposit policy for custodial 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 CAC or a qualified trustee by the financial institution as security for repayment, or by a collateral pool of eligible securities deposited with a qualified trustee 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.

Investments

Investments are reported at fair value. As of December 31, 2007 CAC's only investment was STAROhio with a fair value of \$16,560,199 and 41 day average maturity.

Credit Risk. STAROhio carries a rating of AAA by Standards and Poor's. CAC has no investment policy that addresses credit risk.

Cuyahoga Arts and Culture, Cuyahoga County

Notes To The Basic Financial Statements

For The Year Ended December 31, 2007

Interest Rate Risk. CAC has no investment policy that addresses interest rate risk. State statute requires that an investment mature within five years from the date of purchase, unless matched to a specific obligation or debt of CAC, and that an investment must be purchased with the expectation that it will be held to maturity.

Note 4 – Public Funding

At the election held on November 7, 2006, the electors in Cuyahoga County approved the levy of a tax on the sale of cigarettes at wholesale at the rate of 15 mills per cigarette (amounting to 1-1/2 cents per cigarette) for a period of ten years, beginning February 1, 2007, for the purpose of making grants to support the operating or capital expenses of arts and cultural organizations located in Cuyahoga County, to defray the costs of acquiring, constructing, equipping, furnishing, improving, enlarging, renovating, remodeling, or maintaining an artistic or cultural facility, and to meet the operating expenses of CAC. This is a County tax authorized by Section 5743.021, Ohio Revised Code. The expenditures of the collections from the tax are limited by Section 3381.17, Ohio Revised Code, as follows:

1. The tax must be expended for the purpose of making annual grants to support operating or capital expenses of arts or culture organizations located within the County as the Board of Trustees shall determine;
2. Not more than ten per cent of the amount granted in any calendar year from the tax is permitted to be granted to arts or culture organizations that are not qualifying arts or cultural organizations;
3. Prior to making grants in any calendar year, the Board of Trustees shall afford an opportunity for the presentation, either in person or in writing, of the suggestions of the Area Arts Council;
4. Any grant to an arts and cultural organization shall be on such terms and conditions as the Board of Trustees considers advisable.

The purpose of the cigarette tax is to make grants to qualifying arts or cultural organizations in accordance with the investment models prepared by the Trustees and to provide funds to support the operations of CAC. Use of the cigarette tax collections for purposes not included in the investment models may be authorized by the Board of Trustees, to the extent permitted by Ohio Revised Code, Chapter 3381, following a public hearing held not earlier than 30 days following the mailing of notice of the hearing and a description of the proposed use to the County Commissioners, the Area Arts Council and any committee established by the Board of Trustees to advise on grant making matters.

Note 5 - Receivables

Receivables at December 31, 2007 consisted of a cigarette tax receivable of \$1,732,840. The receivable is considered fully collectible and will be received within one year. The cigarette tax receivable represents the proceeds from the County excise tax on the sale of cigarettes. This money is collected and distributed to the County by the State and then to CAC.

Cuyahoga Arts and Culture, Cuyahoga County

Notes To The Basic Financial Statements

For The Year Ended December 31, 2007

Note 6 - Risk Management

CAC is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During 2007, CAC contracted with several companies for various types of insurance as follows:

<u>Company</u>	<u>Type</u>	<u>Coverage</u>
Hartford Fire and Casualty	General Liability	\$4,000,000
	Automobile Liability	5,000,000
	Employers Liability	500,000
	Accounts Receivable	25,000
	Property	20,000
	Data Processing Equipment	10,000
	Employee Dishonesty	10,000
	S.H. Smith Insurance	Directors and Officers
Ohio Casualty Insurance	Employee Dishonesty Bond	100,000

Workers' compensation coverage is provided by the State. CAC pays the State Workers' Compensation System a premium based on a rate per \$100 of salaries. This rate is calculated based on accident history and administrative costs.

Note 7 - Contingencies

CAC is not a party to any legal proceedings.

Note 8 - Capital Assets

A summary of changes in capital assets during 2007 follows:

	<u>Balance 12/31/2006</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 12/31/2007</u>
Governmental Activities				
Capital Assets, Being Depreciated				
Furniture and Equipment	\$0	\$35,028	\$0	\$35,028
Software	0	21,543	0	21,543
<i>Total Capital Assets, Governmental Activities</i>	<u>0</u>	<u>56,571</u>	<u>0</u>	<u>56,571</u>
Less Accumulated Depreciation:				
Furniture and Equipment	0	(2,645)	0	(2,645)
Software	0	(1,683)	0	(1,683)
<i>Total Accumulated Depreciation</i>	<u>0</u>	<u>(4,328) *</u>	<u>0</u>	<u>(4,328)</u>
<i>Governmental Activities Capital Assets, Net</i>	<u>\$0</u>	<u>\$52,243</u>	<u>\$0</u>	<u>\$52,243</u>

*Depreciation expense for 2007 was charged to arts and culture \$3,246 and general government \$1,082.

Cuyahoga Arts and Culture, Cuyahoga County

Notes To The Basic Financial Statements

For The Year Ended December 31, 2007

Note 9 - Defined Benefit Pension Plan

Ohio Public Employees Retirement System

Plan Description – CAC participates in the Ohio Public Employees Retirement System (OPERS). OPERS administers three separate pension plans. The traditional plan is a cost-sharing, multiple-employer defined benefit pension plan. The member-directed plan is a defined contribution plan in which the member invests both member and employer contributions (employer contributions vest over five years at 20 percent per year). Under the member directed plan, members accumulate retirement assets equal to the value of the member and vested employer contributions plus any investment earnings. The combined plan is a cost-sharing, multiple-employer defined benefit pension plan that has elements of both a defined benefit and a defined contribution plan. Under the combined plan, employer contributions are invested by the retirement system to provide a formula retirement benefit similar to the traditional plan benefit. Member contributions, whose investment is self-directed by the member, accumulate retirement assets in a manner similar to the member directed plan. While members in the State and local divisions may participate in all three plans, law enforcement (generally sheriffs, deputy sheriffs and township police) and public safety divisions exist only within the traditional pension plan.

OPERS provides retirement, disability, survivor and death benefits and annual cost of living adjustments to members of the traditional and combined plans. Members of the member directed plan do not qualify for ancillary benefits. Authority to establish and amend benefits is provided by Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report that may be obtained by writing to OPERS, 277 East Town Street, Columbus, Ohio 43215-4642 or by calling (614) 222-5601 or (800) 222-7377.

Funding Policy – The Ohio Revised Code provides statutory authority for member and employer contributions. For the year ended December 31, 2007, members in state and local classifications contributed 9.5% of covered payroll, public safety members contributed 9.75%, and law enforcement members contributed 10.1%. CAC's contribution rate for 2007 was 13.85 percent. For the period January 1 through June 30, a portion of CAC's contribution equal to 5 percent of covered payroll was allocated to fund the post-employment health care plan; for the period July 1 through December 31, 2007 this amount was increased to 6 percent. Employer contribution rates are actuarially determined. State statute sets a maximum contribution rate for CAC of 14 percent.

CAC's required contributions for pension obligations to the traditional and combined plans for the year ended December 31, 2007 were \$13,945; 96.85 percent has been contributed for 2007. Contributions to the member-directed plan for 2007 were \$15,864 made by CAC and \$10,881 made by the plan members.

Note 10 - Postemployment Benefits

Ohio Public Employees Retirement System

Plan Description – OPERS maintains a cost sharing multiple employer defined benefit post-employment health care plan for qualifying members of both the traditional and combined pension plans. Members of the member directed plan do not qualify for ancillary benefits, including post-employment health care. The plan includes a medical plan, a prescription drug program and Medicare Part B premium reimbursement.

Cuyahoga Arts and Culture, Cuyahoga County

Notes To The Basic Financial Statements

For The Year Ended December 31, 2007

To qualify for post-employment health care coverage, age and service retirees under the traditional and combined plans must have ten or more years of qualifying Ohio service credit. Health care coverage for disability benefit recipients and qualified survivor benefit recipients is available. The Ohio Revised Code permits, but does not require, OPERS to provide health care benefits to its eligible members and beneficiaries. Authority to establish and amend benefits is provided in Chapter 145 of the Ohio Revised Code.

Disclosures for the health care plan are presented separately in the OPERS financial report which may be obtained by writing to OPERS, 277 East Town Street, Columbus, Ohio 43215-4642 4642 or by calling (614) 222-5601 or (800) 222-7377.

Funding Policy – The post-employment health care plan was established under, and is administered in accordance with, Internal Revenue Code 401 (h). State statute requires that public employers fund post-employment health care through contributions to OPERS. A portion of each employer's contribution to the traditional or combined plans is set aside for the funding of post-employment health care.

Employer contribution rates are expressed as a percentage of the covered payroll of active employees. In 2007, local government employers contributed 13.85 percent of covered payroll (17.17 percent for public safety and law enforcement). Each year, the OPERS retirement board determines the portion of the employer contribution rate that will be set aside for funding post-employment health care benefits. The amount of the employer contributions which was allocated to fund post-employment health care was 5.00 percent of covered payroll from January 1 through June 30, 2007, and 6.00 percent from July 1 to December 31, 2007.

The retirement board is also authorized to establish rules for the payment of a portion of the health care benefits by the retiree or the retiree's surviving beneficiaries. Payment amounts vary depending on the number of covered dependents and the coverage selected. Active members do not make contributions to the post-employment health care plan.

CAC's contributions allocated to fund post-employment health care benefits for the year ended December 31, 2007 were \$9,324; 96.85 percent has been contributed for 2007.

On September 9, 2004 the OPERS Retirement Board adopted a Health Care Preservation Plan which was effective January 1, 2007. Member and employer contribution rates increased as of January 1, 2006, January 1, 2007, and January 1, 2008, which allowed additional funds to be allocated to the health care plan.

Note 11 - Compensated Absences

The criteria for determining paid time off (PTO) liabilities are derived from negotiated agreements. Full-time and part-time staff are granted 25 days or more based on years of service, on a pro-rated basis, per year at the beginning of the calendar year. PTO accruals are pro-rated by the month of employment for people joining CAC during the fiscal year. In the event of separation, employees are paid their accrued PTO in their last paycheck if they provide written notice to CAC. Current year accruals are paid out at the rate of 50 percent if employment terminates between January 1 and June 30 and at 100 percent thereafter.

If an employee does not use their PTO time in a given year, they will lose all but the equivalent of two week's time (10 days) unless the board approves additional carryover.

Cuyahoga Arts and Culture, Cuyahoga County

Notes To The Basic Financial Statements

For The Year Ended December 31, 2007

The table below list the amount of PTO based on years of service:

<u>Full Years of Service</u>	<u>Paid Time Off Annual Accumulation</u>
0 - 5 years	25 Days
6 - 15 years	30 Days
15 or more years	35 Days

The changes in the CAC's compensated absences during 2007 were as follows:

	<u>Balance 1/1/2007</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 12/31/2007</u>	<u>Due in One Year</u>
Compensated Absences	<u>\$0</u>	<u>\$14,844</u>	<u>\$8,168</u>	<u>\$6,676</u>	<u>\$3,672</u>

Supplemental Information

Cuyahoga Arts and Culture, Cuyahoga County
*Schedule of Revenues, Expenditures and Changes in
Fund Balance - Budget (Non-GAAP Basis) and Actual
General Fund
For the Year Ended December 31, 2007*

	Budgeted Amounts		Actual	Variance with Final Budget Favorable (Unfavorable)
	Original	Final		
Revenues				
Cigarette Tax	\$16,144,545	\$16,144,545	\$17,083,350	\$938,805
Interest	372,283	372,283	291,745	(80,538)
<i>Total Revenues</i>	<u>16,516,828</u>	<u>16,516,828</u>	<u>17,375,095</u>	<u>858,267</u>
Expenditures				
Current:				
Arts and Culture Programming:				
Arts and Culture:				
Personal Services	51,999	51,999	55,729	(3,730)
Contractual Services	404,221	404,221	374,576	29,645
Total Arts and Culture	<u>456,220</u>	<u>456,220</u>	<u>430,305</u>	<u>25,915</u>
General Government				
Personal Services	142,670	142,670	155,065	(12,395)
Materials and Supplies	90,133	90,133	15,950	74,183
Contractual Services	149,436	149,436	121,476	27,960
Total General Government	<u>382,239</u>	<u>382,239</u>	<u>292,491</u>	<u>89,748</u>
Capital Outlay	<u>56,571</u>	<u>56,571</u>	<u>56,571</u>	<u>0</u>
<i>Total Expenditures</i>	<u>895,030</u>	<u>895,030</u>	<u>779,367</u>	<u>115,663</u>
<i>Net Change in Fund Balance</i>	15,621,798	15,621,798	16,595,728	973,930
<i>Fund Balance Beginning of Year</i>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
<i>Fund Balance End of Year</i>	<u>\$15,621,798</u>	<u>\$15,621,798</u>	<u>\$16,595,728</u>	<u>\$973,930</u>

See accompanying notes to the supplemental information

Cuyahoga Arts and Culture, Cuyahoga County

*Notes To The Supplemental Information
For The Year Ended December 31, 2007*

Note 1 – Budgetary Basis of Accounting

While reporting financial position, results of operations, and changes in fund balance on the basis of generally accepted accounting principles (GAAP basis), the budgetary basis is based upon accounting for transactions on a basis of cash receipts, disbursements and encumbrances. The Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget (Non-GAAP Basis) and Actual, general fund, is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget and to demonstrate compliance with State statute. The major differences between the budget basis and the GAAP basis (generally accepted accounting principles) are:

1. Revenues are recorded when received in cash (budget) as opposed to when susceptible to accrual (GAAP).
2. Expenditures are recorded when paid in cash (budget) as opposed to when the liability is incurred (GAAP).
3. Encumbrances are treated as expenditures (budget) rather than as a reservation of fund balance (GAAP).

The following table summarizes the adjustments necessary to reconcile the GAAP basis statement to the budgetary basis statement for the general fund.

Net Change in Fund Balance	
GAAP Basis	\$18,321,981
Net Adjustment for Revenue Accruals	(1,732,840)
Net Adjustment for Expenditure Accruals	<u>6,587</u>
Budget Basis	<u>\$16,595,728</u>



Mary Taylor, CPA

Auditor of State

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

Cuyahoga Arts and Culture
Cuyahoga County
Bulkley Building
1501 Euclid Avenue
Cleveland, Ohio 44115

To the Board of Directors

We have audited the basic financial statements of the governmental activities and the general fund of the Cuyahoga Arts and Culture, Cuyahoga County, Ohio, (CAC) as of and for the year ended December 31, 2007, which collectively comprise CAC's basic financial statements and have issued our report thereon dated December 18, 2008. 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 CAC's internal control over financial reporting as a basis for designing our audit procedures for expressing our opinion on the financial statements, but not to opine on the effectiveness of CAC's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of CAC's internal control over financial reporting.

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

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

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

We did note certain internal control matters that we reported to CAC's management in a separate letter dated December 18, 2008.

Lausche Building / 615 Superior Ave., NW / Twelfth Floor / Cleveland, OH 44113-1801
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Compliance and Other Matters

As part of reasonably assuring whether CAC'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 that we must report under *Government Auditing Standards*.

We intend this report solely for the information and use of the Board of Directors and management. We intend it for no one other than these specified parties.

A handwritten signature in black ink that reads "Mary Taylor". The signature is written in a cursive, flowing style.

Mary Taylor, CPA
Auditor of State

December 18, 2008



Mary Taylor, CPA
Auditor of State

CUYAHOGA ARTS AND CULTURE

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
JANUARY 8, 2009**