



**Mary Taylor, CPA**  
Auditor of State



PROMISE ACADEMY  
CUYAHOGA COUNTY

TABLE OF CONTENTS

<b>TITLE</b>	<b>PAGE</b>
Independent Accountants' Report	1
Management's Discussion and Analysis	3
Statement of Net Assets as of June 30, 2008	7
Statement of Revenues, Expenses and Changes in Net Assets for the Period February 5, 2007 through June 30, 2008	8
Statement of Cash Flows for the Period February 5, 2007 through June 30, 2008	9
Notes to the Financial Statements	11
Independent Accountants' Report on Compliance and on Internal Control Required by <i>Government Auditing Standards</i>	23

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# Mary Taylor, CPA

Auditor of State

## INDEPENDENT ACCOUNTANTS' REPORT

Promise Academy  
Cuyahoga County  
1701 East 13<sup>th</sup> Street  
Cleveland, Ohio 44114

To the Board of Trustees:

We have audited the accompanying basic financial statements of the Promise Academy, Cuyahoga County, Ohio (the Academy), as of and for the period February 5, 2007 through June 30, 2008, as listed in the table of contents. These financial statements are the responsibility of the Academy's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Promise Academy, Cuyahoga County, Ohio, as of June 30, 2008, and the respective changes in its net assets and cash flows for the period February 5, 2007 through June 30, 2008, 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 17, 2009, 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.

Promise Academy  
Cuyahoga County  
Independent Accountants' Report  
Page 2

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

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

February 17, 2009

**PROMISE ACADEMY  
CUYAHOGA COUNTY**

**MANAGEMENT'S DISCUSSION and ANALYSIS  
FOR THE PERIOD FEBRUARY 5, 2007 THROUGH JUNE 30, 2008  
(Unaudited)**

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The Management's Discussion and Analysis (MD&A) of Promise Academy's (the Academy) financial performance provides an overall review of the Academy's financial activities for the period February 5, 2007 through June 30, 2008. The intent of this discussion and analysis is to look at the Academy's financial performance as a whole; readers should also review the basic financial statements and notes to the basic financial statements to enhance their understanding of the Academy's financial performance.

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

**Financial Highlights**

- Total net assets were (\$125,695) for period ended June 30, 2008.
- Total assets were \$797,836 for the period ended June 30, 2008
- Total liabilities were \$923,531, of which accounts payable amounted to \$11,599, while amounts payable to the Cleveland Metropolitan School District amounted to \$911,932.

**Using this Financial Report**

This report consists of three parts, the MD&A, the basic financial statements, and notes to those statements. The basic financial statements include a Statement of Net Assets, a Statement of Revenues, Expenses and Changes in Net Assets, and a Statement of Cash Flows.

**Statement of Net Assets**

The Statement of Net Assets includes all assets and liabilities, both financial and capital, and short-term and long-term using the accrual basis of accounting and economic resources focus, which is similar to the accounting used by most private-sector companies. This basis of accounting takes into account all revenues and expenses during the year, regardless of when the cash is received or paid.

Table 1 provides a summary of the Academy's Statement of Net Assets for the period February 5, 2007 through June 30, 2008:

PROMISE ACADEMY  
CUYAHOGA COUNTY

MANAGEMENT'S DISCUSSION and ANALYSIS  
FOR THE PERIOD FEBRUARY 5, 2007 THROUGH JUNE 30, 2008  
(Unaudited)

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(Continued)

(Table 1)

**Current Assets**

Cash \$ 792,959

Total Current Assets 792,959

**Noncurrent Assets**

Capital Assets (Net of Accumulated Depreciation) 4,877

Total Noncurrent Assets 4,877

**Total Assets** 797,836

**Liabilities**

**Current Liabilities**

Accounts Payable 11,599

Amount Payable to Cleveland Metropolitan  
School District (for Year Ending 2007 and 2008) 911,932

**Total Liabilities** 923,531

**Net Assets**

Unrestricted (Deficit) (125,695)

**Total Net Assets** \$ (125,695)

The most significant liabilities are payable to the Cleveland Metropolitan School District for Contracted Services.

Table 2 shows Statement of Revenues, Expenses and Changes in Net Assets for the period February 5, 2007 through June 30, 2008:

PROMISE ACADEMY  
CUYAHOGA COUNTY

MANAGEMENT'S DISCUSSION and ANALYSIS  
FOR THE PERIOD FEBRUARY 5, 2007 THROUGH JUNE 30, 2008  
(Unaudited)

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(Continued)

(Table 2)

**Operating Revenues**

Foundation and Poverty Based Assistance Revenues	\$ 2,669,181
Other Operating Revenues	370
<b>Total Operating Revenues</b>	<u>2,669,551</u>

**Operating Expenses**

Contracted Services Fee	1,653,297
Purchased Services	455,897
Supplies and Materials	678,880
Miscellaneous Expense	42,848
Depreciation	1,219
<b>Total Operating Expenses</b>	<u>2,832,141</u>

**Operating Income (Loss)** (162,590)

**Non-Operating Revenues**

Federal and State Grants	15,832
Other Operating Revenues	<u>21,063</u>

Total Non-Operating Revenues 36,895

**Net Income (Loss)** (125,695)

Net Assets at Beginning of Year 0

Net Assets at End of Year (\$125,695)

**PROMISE ACADEMY  
CUYAHOGA COUNTY**

**MANAGEMENT'S DISCUSSION and ANALYSIS  
FOR THE PERIOD FEBRUARY 5, 2007 THROUGH JUNE 30, 2008  
(Unaudited)**

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**(Continued)**

Community Schools receive no support from tax revenues. Most expenses are in supplies and materials and in purchased services. Per contract, the Academy remits most of its revenue to the Cleveland Metropolitan School District, which incurs costs on behalf of the Academy to provide instruction and other costs. See Note 8 for more details.

**Capital Assets**

The Academy's asset capitalization minimum is \$5,000, at June 30, 2008.

**Current Financial Issues**

The Academy was formed in 2005 sponsored by the Cleveland Metropolitan School District. An idea to service students at risk of dropping out of school was turned into a community school by petitioning the Ohio Department of Education for a charter. Through the efforts of many individuals, the charter was issued, but the Academy was only physically materialized through the efforts of Dr. Eugene Sanders in February of 2007.

The Academy officially opened on February 5, 2007. The building was subleased from the Cleveland Metropolitan School District. The governing board of the Academy is composed of five members, each appointed. The Academy receives its finances primarily from state aide. The average number of years experience for teachers was 15 years.

**Contacting the Academy's Financial Management**

This financial report is designed to provide our citizen's with a general overview of the Academy's finances and to show the Academy's accountability for the money it receives. If you have questions about this report or need additional information contact Melinda Budavári Toth, Treasurer at Promise Academy, 1701 East 13th Street, Cleveland, Ohio 44114 or e-mail at [melinda.b.toth@cmsdnet.net](mailto:melinda.b.toth@cmsdnet.net).

PROMISE ACADEMY  
CUYAHOGA COUNTY

STATEMENT OF NET ASSETS  
FOR THE PERIOD FEBRUARY 5, 2007 THROUGH JUNE 30, 2008

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**Assets:**

**Current Assets:**

Cash and Cash Equivalents	\$792,959
Total Current Assets	<u>792,959</u>

**Non-Current Assets:**

Fixed Assets (Net of Accumulated Depreciation and Amortization)	<u>4,877</u>
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Total Assets	797,836
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**Liabilities:**

**Current Liabilities:**

Accounts Payable	11,599
Due to Cleveland Municipal School District	911,932
Accrued Payroll	
Accrued Rent	
Total Current Liabilities	<u>923,531</u>

**Net Assets**

Unrestricted	<u>(125,695)</u>
Total Net Assets	<u>(\$125,695)</u>

See accompanying notes to the basic financial statements

**PROMISE ACADEMY  
CUYAHOGA COUNTY**

**STATEMENT OF REVENUES, EXPENSES, AND  
CHANGES IN NET ASSETS  
FOR THE PERIOD FEBRUARY 5, 2007 THROUGH JUNE 30, 2008**

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**Operating Revenue:**

Foundation Payments	2,669,181
Other Operating Revenues	<u>370</u>
Total Operating Revenues	2,669,551

**Operating Expenses:**

Contracted Services Fee	1,653,297
Purchased Services	455,897
Materials and Supplies	678,880
Other Operating Expenses	42,848
Depreciation and Amortization	1,219

Total Operating Expenses	<u>2,832,141</u>
Operating Loss	<u>(162,590)</u>

**Non-Operating Revenue:**

Federal and State Grants	15,832
Other Non-Operating Revenues	21,063
Total Non-Operating Revenue	<u>36,895</u>

Net Loss	(125,695)
Net Assets Beginning of Period	<u>0</u>
Net Assets End of Period	<u><u>(125,695)</u></u>

See accompanying notes to the basic financial statements

**PROMISE ACADEMY  
CUYAHOGA COUNTY**

**STATEMENT OF CASH FLOWS  
FOR THE PERIOD FEBRUARY 5, 2007 THROUGH JUNE 30, 2008**

<b><u>Increase/Decrease in Cash and Cash Equivalents:</u></b>	
<b><u>Cash Flows from Operating Activities:</u></b>	
Cash Received from State of Ohio	\$2,669,181
Cash Payments to Contracted Services	(750,642)
Cash Payments to Suppliers for Goods and Services	(707,284)
Cash Payments to Purchased Services	(449,465)
Other Operating Revenues	<u>370</u>
Net Cash Provided By/Used For Operating Activities	<u>762,160</u>
<b><u>Cash Flows from Noncapital Financing Activities:</u></b>	
State grants Received	15,832
Cash Received from Other Sources	<u>21,063</u>
Net Cash Provided by Non-Capital Financing Activities	36,895
<b>Cash Flows from Capital and Related Financing Activities:</b>	
Payments for Capital Acquisitions	<u>(6,096)</u>
Net Cash Used for Capital and Related financing Activities	<u>(6,096)</u>
Net Increase/Decrease in Cash and Cash Equivalents	792,959
Cash and Cash Equivalents Beginning of the Year	<u>0</u>
Cash and Cash Equivalents End of the Year	<u><u>\$792,959</u></u>
<b><u>Reconciliation of operating Loss to Net Cash Used for Operating Activities:</u></b>	
Operating Loss	(\$162,590)
<b><u>Adjustments to Reconcile Operating Loss to Net Cash Used for Operating Activities:</u></b>	
Depreciation and Amortization	1,219
<b>Changes in Assets and Liabilities:</b>	
Increase in Accounts Payable	11,599
Increase in Due to Municipal School District	911,932
Total Adjustments	<u>924,750</u>
Net Cash Used for Operating Activities	<u><u>\$762,160</u></u>

See accompanying notes to the basic financial statements

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**PROMISE ACADEMY  
CUYAHOGA COUNTY**

**NOTES to the BASIC FINANCIAL STATEMENTS  
FOR THE PERIOD FROM FEBRUARY 5, 2007 THROUGH  
FISCAL YEAR ENDED JUNE 30, 2008  
(Unaudited)**

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**NOTE 1 – DESCRIPTION of the SCHOOL and REPORTING ENTITY**

Promise Academy (the Academy) is a nonprofit corporation established pursuant to Ohio Revised Code Chapters 3314 and 1702 to address the needs of students in grades nine through twelve. The Academy, which is part of the State's education program, is independent of any school district and is non-sectarian in its programs, admission policies, employment practices, and all other operations. The Academy may sue and be sued, acquire facilities as needed, and contract for any services necessary for the operation of the Academy. The Academy qualifies a tax an exempt organization under Section 501c (3) of the Internal Revenue Code. Management is not aware of any course of action or series of events that have occurred that might adversely affect the school's tax-exempt status. The Academy was approved for operation under contract with the Cleveland Metropolitan School District (the Sponsor) for a period of five years commencing October 10, 2006. The Sponsor is responsible for evaluating the performance of the Academy and has the authority to deny renewal of the contract at its expiration or terminate the contract prior to its expiration.

The Academy operates under the direction of a five-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 the Academy's one instructional facility staffed by 5 certificated full time teaching personnel who provide services to 303 students. The number students fluctuate throughout the period, from as low as 110 to, as high as 340.

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

**A. Basis of Presentation**

The Academy's basic financial statements consist of a Statement of Net Assets, a Statement of Revenue, 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.

**PROMISE ACADEMY  
CUYAHOGA COUNTY**

**NOTES to the BASIC FINANCIAL STATEMENTS  
FOR THE PERIOD FROM FEBRUARY 5, 2007 THROUGH  
FISCAL YEAR ENDED JUNE 30, 2008  
(Unaudited)**

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**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (continued)

**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 Statement 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 the Academy finances and meets the cash flow needs of its enterprise activities.

**C. Basis of Accounting**

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. The Academy'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 non-exchange transactions, in which the Academy 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 the Academy must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the Academy on 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, except under Ohio Revised Code Section 5705.391, the Academy must prepare a five year spending plan and submit it to the Office of Community Schools at the Ohio Department of Education.

**E. Cash and Cash Equivalents**

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 the Academy are considered to be cash equivalents. Investments with an initial maturity of more than three months that are not purchased from the pool are reported as investments. During fiscal year 2008, the Academy's cash equivalents were limited to a business sweep checking account. Interest revenue credited to the General Fund during fiscal year 2008 amounted to \$21,063.

**PROMISE ACADEMY  
CUYAHOGA COUNTY**

**NOTES to the BASIC FINANCIAL STATEMENTS  
FOR THE PERIOD FROM FEBRUARY 5, 2007 THROUGH  
FISCAL YEAR ENDED JUNE 30, 2008  
(Unaudited)**

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**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (continued)

**F. Operating Revenues and Expenses**

Operating revenues are those revenues that are generated directly from the primary activities. For the Academy, these revenues are primarily foundation payments from the state. Operating expenses are necessary costs incurred to provide the good or service that is the primary activity of the Academy. Revenues and expenses not meeting this definition are reported as non-operating.

**G. 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.

**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. There were no restricted net assets.

**I. Capital Assets**

Capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the fiscal year. Donated capital assets are recorded at their fair market values as of the date received. The Academy maintains a capitalization threshold of five thousand dollars. The Academy 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 capitalized.

**J. Current Liabilities**

The Academy has recognized certain liabilities on its Statement of Net Assets relating to expenses, which are due but unpaid as of June 30, 2008, including:

Accounts Payable – a liability has been recognized at June 30, 2008 for instructional supplies, and amounts payable to the Cleveland Municipal School District for contracted service fees.

**PROMISE ACADEMY  
CUYAHOGA COUNTY**

**NOTES to the BASIC FINANCIAL STATEMENTS  
FOR THE PERIOD FROM FEBRUARY 5, 2007 THROUGH  
FISCAL YEAR ENDED JUNE 30, 2008  
(Unaudited)**

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**NOTE 3 – DEPOSITS**

At fiscal year end, the carrying amount of the Academy's deposits was \$792,959. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2008, none of the Academy's bank balance was exposed to custodial risk as discussed below.

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

The Academy had 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 the Academy 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 pledged.

**NOTE 4 - RISK MANAGEMENT**

**A. Property and Liability**

The Academy is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2008, the Academy obtained insurance effective October 30, 2006 to October 30, 2008, through commercial insurance companies for the following:

Commercial General Liability:	
Per occurrence	\$ 3,000,000
General Aggregate	3,000,000
Products/ Completed Ops	3,000,000
Personal & Advertising Injury	3,000,000
Education Legal/ Employment Practice Liability:	
Per Occurrence	2,000,000
Aggregate	2,000,000

**PROMISE ACADEMY  
CUYAHOGA COUNTY**

**NOTES to the BASIC FINANCIAL STATEMENTS  
FOR THE PERIOD FROM FEBRUARY 5, 2007 THROUGH  
FISCAL YEAR ENDED JUNE 30, 2008  
(Unaudited)**

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**NOTE 4 - RISK MANAGEMENT** (continued)

There have been no claims filed.

**B. Workers' Compensation**

The Academy does not pay directly into the State Workers' Compensation System. All employees are contracted through the Cleveland Metropolitan School District, which pays the Workers' Compensation System based on their payroll. The premium is calculated by multiplying the monthly total gross payroll by a factor that is calculated by the State.

**NOTE 5 - DEFINED BENEFIT PENSION PLANS**

**A. School Employees Retirement System**

The Cleveland Metropolitan School District ("CMSD") contributes to the School Employees Retirement System (SERS) on behalf of the Academy. SERS is a cost-sharing multiple employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by 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 contacting SERS, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3476 or by calling (800) 878-5853. It is also posted on SERS' website, [www.ohsers.org](http://www.ohsers.org), under Forms and Publications.

Plan members are required to contribute 10 percent of their annual covered salary and CMSD is required to contribute at an actuarially determined rate. The current rate is 14 percent of annual covered payroll. A portion of CMSD's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2008, 9.16 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS Retirement Board up to statutory maximum amounts of 10 percent for plan members and 14 percent for employers. CMSD's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2008, 2007, and 2006 were \$8,899,797, \$8,960,351, and \$9,188,425, respectively. 46.60 percent has been contributed for fiscal year 2008, 100% for fiscal year 2007 and 2006. \$2,869,940 representing the unpaid contribution for fiscal year 2007 is recorded as a liability within the respective funds.

**PROMISE ACADEMY  
CUYAHOGA COUNTY**

**NOTES to the BASIC FINANCIAL STATEMENTS  
FOR THE PERIOD FROM FEBRUARY 5, 2007 THROUGH  
FISCAL YEAR ENDED JUNE 30, 2008  
(Unaudited)**

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**NOTE 5 - DEFINED BENEFIT PENSION PLANS** (continued)

**B. State Teachers Retirement System**

The Cleveland Metropolitan School District contributes to the State Teachers Retirement System of Ohio (STRS Ohio) on behalf of the Academy. STRS Ohio is a cost-sharing multiple employer public employee retirement system. 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 the STRS Ohio, 275 East Broad Street, Columbus, Ohio 43215-3771 or by calling (614) 227-4090, or by visiting the STRS Ohio Web site at [www.strsoh.org](http://www.strsoh.org).

New members have a choice of three retirement plans, a Defined Benefit (“DB”) Plan, a Defined Contribution (“DC”) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor. The DC plan allows members to place all their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and the employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan. Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one time irrevocable decision to transfer their account balances from the existing DB Plan into the DC Plan or the Combined Plan. This option expired on December 31, 2001. 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 dies before retirement benefits begin, the member’s designated beneficiary is entitled to receive the member’s account balance.

For fiscal year ended June 30, 2008, plan members were required to contribute 10 percent of their annual covered salaries. CMSD was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members

**PROMISE ACADEMY  
CUYAHOGA COUNTY**

**NOTES to the BASIC FINANCIAL STATEMENTS  
FOR THE PERIOD FROM FEBRUARY 5, 2007 THROUGH  
FISCAL YEAR ENDED JUNE 30, 2008  
(Unaudited)**

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**NOTE 5 - DEFINED BENEFIT PENSION PLANS** (continued)

and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

CMSD's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2008, 2007, and 2006 were \$42,851,450, 41,330,536, and \$43,365,595, respectively. 84.83% has been contributed for fiscal year 2008, and 100% for fiscal years 2007 and 2006.

**C. Social Security System**

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System have an option to choose Social Security or the School Employees Retirement System/State Teachers Retirement System.

**NOTE 6 – POST EMPLOYMENT BENEFITS**

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

Funding Policy – Ohio law authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For 2008, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. The School District's contributions for health care for the fiscal years ended June 30, 2008, 2007, and 2006 were \$3,296,265 \$3,179,272, and \$3,335,815 respectively; 84.83 percent has been contributed for fiscal year 2008 and 100 percent for fiscal years 2007 and 2006.

Plan Description – The Cleveland Metropolitan School District, on behalf of the Academy, participates in two cost-sharing multiple employer defined benefit OPEB plans administered by the School Employees Retirement System for non-certificated retirees and their beneficiaries, a Health Care Plan and a Medicare Part B Plan. The Health

**PROMISE ACADEMY  
CUYAHOGA COUNTY**

**NOTES to the BASIC FINANCIAL STATEMENTS  
FOR THE PERIOD FROM FEBRUARY 5, 2007 THROUGH  
FISCAL YEAR ENDED JUNE 30, 2008  
(Unaudited)**

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**NOTE 6 – POST EMPLOYMENT BENEFITS (continued)**

Care Plan includes hospitalization and physicians' fees through several types of plans including HMO's, PPO's and traditional indemnity plans as well as a prescription drug program. The Medicare Part B Plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries up to a statutory limit. Benefit provisions and the obligations to contribute are established by the System based on authority granted by State statute. The financial reports of both Plans are included in the SERS Comprehensive Annual Financial Report which is available by contacting SERS at 300 East Broad St., Suite 100, Columbus, Ohio 43215-3746.

Funding Policy – State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 401h. For 2008, 4.18 percent of covered payroll was allocated to health care. In addition, employers pay a surcharge for employees earning less than an actuarially determined amount; for 2008, this amount was \$1,901,644.

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

The CMSD contribution for health care for the fiscal years ended June 30, 2008, 2007, and 2006 were \$4,061,261, \$4,456,084, and 4,633,723 respectively, 46.60 percent has been contributed for fiscal year 2008, and 100 percent for fiscal years 2007 and 2006.

The Retirement Board, acting on the advice of the actuary, allocates a portion of the employer contribution to the Medicare B fund. For 2008, this actuarially required allocation was 0.66 percent of covered payroll. The CMSD contributions for Medicare B for fiscal years ended June 30, 2008, 2007, and 2006 were \$641,252, \$609,304, and \$731,324 respectively; 46.60 percent has been contributed for fiscal year 2008, and 100 percent for fiscal years 2007 and 2006.

**NOTE 7 – OTHER EMPLOYEE BENEFITS**

For fiscal year ended June 30, 2008, all employees are contracted through the Cleveland Metropolitan School District (CMSD). Policies and procedures are approved by CMSD's Board of Education and are applied to Compensated Absences, Insurance Benefits, and Deferred Compensation of the staff purchased from CMSD by contract. Please review the Other Employee Benefits Note in CMSD's basic notes to the financial statements in their Comprehensive Annual Financial Report.

**PROMISE ACADEMY  
CUYAHOGA COUNTY**

**NOTES to the BASIC FINANCIAL STATEMENTS  
FOR THE PERIOD FROM FEBRUARY 5, 2007 THROUGH  
FISCAL YEAR ENDED JUNE 30, 2008  
(Unaudited)**

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**NOTE 8 – MANAGEMENT AGREEMENT**

The Academy entered into a contract, effective October 10, 2006 through June 30, 2008, renewable each year up to five years, with the Cleveland Metropolitan School District (CMSD) for educational and financial management services. In exchange for its time, organization, oversight, monitoring, fees, costs and other services, CMSD receives three percent of the total amount of payments for operating expenses that the Academy receives from the State of Ohio. As of June 30, 2008 this amounted to \$101,166. In addition, a management fee equal to 10 percent of revenue from the State of Ohio is paid to CMSD in the amount of \$198,552 for year ended June 30, 2008.

The Academy, upon completion of the annual audit, pays CMSD an annual fee in the subsequent year totaling 100 percent of cash balance above \$500,000 of all funds paid to the Academy by State of Ohio. Terms of contract require CMSD to provide the following:

- All labor, materials, and supervision necessary for the provision of educational services to students, and the management, operation, and maintenance of the Academy;
- Implementation and administration of the Educational Program, including the selection of instructional materials, equipment and supplies, and the administration of any and all extracurricular and co-curricular activities and programs;
- All personnel functions, including professional development for the Academy's principal, all instructional personnel, and support staff;
- All aspects of the business administration of the Academy;
- Transportation and food service for the Academy;
- A projected annual budget prior to each school year;
- Detailed statements of all revenues received, from whatever source, and detailed statements of all expenditures for services rendered to or on behalf of the Academy, whether incurred onsite or off-site, upon request;
- Annual audits in compliance with state law and regulations, showing the manner in which funds are spent at the Academy;
- Reports on Academy operations, finances, and students' performances, upon request; and
- Any other function necessary or expedient for the administration of the Academy.

**PROMISE ACADEMY  
CUYAHOGA COUNTY**

**NOTES to the BASIC FINANCIAL STATEMENTS  
FOR THE PERIOD FROM FEBRUARY 5, 2007 THROUGH  
FISCAL YEAR ENDED JUNE 30, 2008  
(Unaudited)**

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**NOTE 9 – CONTRACTED SERVICE FEE**

The Cleveland Metropolitan School District has informed the Academy that the Contracted Service Fee includes payment for the following:

● Salaries, Wages and Benefits	\$1,207,209
● Other Professional and Technical Services	11,650
● Garbage Removal	228
● Telephone Services	1,476
● Postage	1,519
● Other Utility Services	98
● Printing and Binding	778
● Instructional Supplies	333,392
● Office Supplies	4,054
● Equipment	82,499
● Liability Insurance	<u>\$ 10,396</u>
 Total Contracted Service Fee	 <u>\$1,653,297</u>

**NOTE 10 – MANAGEMENT PLAN**

For fiscal year 2008, the School had an operating loss of \$162,590, a net loss of \$125,695, and a net asset deficit of \$125,695. The Academy is expected to have another loss in fiscal year 2009, but the losses are expected to begin decreasing, as enrollment is increasing. The Academy is expecting to repay the Cleveland Metropolitan School District (CMSD) for its Contracted Services Fee by the middle of the 2009 fiscal year. The Academy will then start repaying CMSD for its current fiscal year's Contracted Service Fee; therefore reducing its liability at year-end.

Once enrollment increases and liabilities decrease, it should allow the Academy to reduce its operating losses and begin reducing the cumulative net deficit.

**PROMISE ACADEMY  
CUYAHOGA COUNTY**

**NOTES to the BASIC FINANCIAL STATEMENTS  
FOR THE PERIOD FROM FEBRUARY 5, 2007 THROUGH  
FISCAL YEAR ENDED JUNE 30, 2008  
(Unaudited)**

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**NOTE 11 – CHANGE IN ACCOUNTING PRINCIPLES**

For fiscal year 2008, the Cleveland Metropolitan School District has implemented Governmental Accounting Standards Board (GASB) Statement No. 45, “Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions”, GASB Statement No. 48, “Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues”, and GASB Statement No. 50, “Pension Disclosures”.

GASB Statement No. 45 improves the relevance and usefulness of financial reporting by requiring systematic, accrual-basis measurement and recognition of OPEB costs over a period that approximates employees’ years of service and providing information about actuarial accrued liabilities associated with OPEB and whether and to what extent progress is being made in funding the plan. The implementation of this statement did not result in any change to the Academy’s financial statements.

GASB Statement No. 48 addresses how to account for the exchange of an interest in expected cash flows from collecting specific receivables or specific future revenues for immediate cash payments. The statement established criteria used to determine whether the transaction should be recorded as revenue or as a liability (a sale or a collateralized borrowing). The implementation of this Statement did not result in any change to the financial statements.

GASB Statement No. 50 requires employers contributing to defined pension plans to include the legal or contractual maximum contribution rates in the notes to the financial statements. The implementation of this Statement did not result in any change to the financial statements.

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# 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*

Promise Academy  
Cuyahoga County  
1701 East 13<sup>th</sup> Street  
Cleveland, Ohio 44114

To the Board of Trustees:

We have audited the basic financial statements of the Promise Academy, Cuyahoga County, Ohio, (the Academy) as of and for the period February 5, 2007 through June 30, 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 the Academy'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 the Academy's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the Academy's internal control over financial reporting.

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

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

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

We noted certain matters that we reported to the Academy's management in a separate letter dated February 17, 2009.

### **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 noncompliance or other matter that we reported to the Academy's management in a separate letter dated February 17, 2009.

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

A handwritten signature in cursive script that reads "Mary Taylor".

**Mary Taylor, CPA**  
Auditor of State

February 17, 2009



**Mary Taylor, CPA**  
Auditor of State

**PROMISE 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  
APRIL 16, 2009**