PROMISE ACADEMY
CUYAHOGA COUNTY

REGULAR AUDIT

FOR THE YEARS ENDED JUNE 30, 2010

Dave Yost • Auditor of State

PROMISE ACADEMY
CUYAHOGA COUNTY
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INDEPENDENT ACCOUNTANTS' REPORT

Promise Academy
Cuyahoga County
1701 East 13th Street
Cleveland, Ohio 44114

To the Board of Trustees:

We have audited the accompanying financial statements of the business-type activities of Promise Academy, Cuyahoga County, Ohio (the Academy), as of and for the year ended June 30, 2010, which collectively comprise the Academy's basic financial statements 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 respective financial position of the business-type activities of Promise Academy, Cuyahoga County, Ohio, as of June 30, 2010, and the respective changes in financial position and where applicable, cash flows, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 12, 2011, on our consideration of the 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.

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www. auditor.state.oh.us

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

Dave Yost

Dave Yost
Auditor of State

January 12, 2011

**MANAGEMENT'S DISCUSSION and ANALYSIS
FOR THE PERIOD ENDING JUNE 30, 2010
(Unaudited)**

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 ending June 30, 2010. 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 increased to $599,376 for the period ended June 30, 2010, up from, $330,241 for the period ended June 30, 2009.
- Total assets were $601,931 for the period ended June 30, 2010, an increase from $560,648 for the period ended June 30, 2009.
- Total liabilities decreased to $2,555, from $230,407.

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 ending June 30, 2010, comparing it with the Academy's Statement of Net assets for the period ending June 30, 2009:

(Table 1)

	2010	2009
Current Assets		
Cash and Cash Equivalents	$ 250,000	$ 169,525
Total Current Assets	250,000	169,525
Non-Current Assets		
Capital Assets (Net of Accumulated Depreciation and Amortization)	351,931	391,123
Total Non-Current Assets	391,931	391,123
Total Assets	601,931	560,648
Liabilities		
Current Liabilities		
Accounts Payable	2,555	971
Amount Payable to Cleveland Metropolitan School District	0	229,436
Total Liabilities	2,555	230,407
Net Assets		
Invested in Capital Assets	351,931	391,123
Unrestricted (Deficit)	247,445	(60,882)
Total Net Assets	$ 599,376	$ 330,241

Cash increased from $169,525 at June 30, 2009 to $250,000 at June 30, 2010 due to cash received from foundation payments and federal and state grants exceeding payments to contracted services, suppliers and purchased services during fiscal 2010. The payable to CMSD as of June 30, 2009 was paid during fiscal 2010 and no amounts were payable to CMSD as of June 30, 2010. These items accounted for most of the increase in unrestricted net assets from June 30, 2009 to June 30, 2010.

Table 2 shows Statement of Revenues, Expenses and Changes in Net Assets for the period ending June 30, 2010:

(Table 2)

	2010	2009
Operating Revenues		
Foundation Payments	$ 3,332,867	$ 2,942,900
Other Operating Revenues	13,132	2,160
Total Operating Revenues	3,345,999	2,945,060
Operating Expenses		
Contracted Services Fee	1,588,240	1,385,152
Purchased Services	544,231	467,691
Other Operating Expenses	515,789	438,148
Minor Equipment	15,812	130,173
Supplies and Materials	604,754	35,060
Depreciation and Amortization	44,591	43,869
Fringe Benefits	0	2,666
Total Operating Expenses	3,313,417	2,502,759
Operating Income (Loss)	32,582	442,301
Non-Operating Revenues		
Federal and State Grants	236,112	5,000
Other Operating Revenues	441	8,635
Total Non-Operating Revenues	236,553	13,635
Net Income (Loss)	269,135	455,936
Net Assets at Beginning of Year	330,241	(125,695)
Net Assets at End of Year	$ 599,376	$ 330,241

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 9 for more details.

Capital Assets

The Academy's asset capitalization minimum is $5,000, at June 30, 2010. See Note 4 for detailed listing of capital assets.

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 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.

PROMISE ACADEMY
CUYAHOGA COUNTY

STATEMENT OF NET ASSETS
AS OF JUNE 30, 2010

ASSETS		
Current Assets:		
Cash and cash equivalents		$ 250,000
Non-Current Assets:		
Capital assets (net of accumulated depreciation and amortization)		351,931
TOTAL ASSETS		601,931
LIABILITIES		
Current Liabilities:		
Accounts payable		2,555
NET ASSETS		
Invested in capital assets	351,931	
Unrestricted	247,445	
TOTAL NET ASSETS		$ 599,376

Notes to the Basic Financial Statements are integral parts of these financial statements.

PROMISE ACADEMY
CUYAHOGA COUNTY

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

OPERATING REVENUES:		
Foundation payments	$ 3,332,867	
Other operating revenues	13,132	
Total operating revenues		3,345,999
OPERATING EXPENSES:		
Contracted services fee	1,588,240	
Purchased services	544,231	
Other operating expenses	515,789	
Minor equipment	15,812	
Materials and supplies	604,754	
Depreciation and amortization	44,591	
Total operating expenses		3,313,417
OPERATING INCOME		32,582
NON-OPERATING REVENUES:		
Federal and state grants	236,112	
Other non-operating revenues	441	
Total non-operating revenues		236,553
NET INCOME		269,135
NET ASSETS BEGINNING OF YEAR		330,241
NET ASSETS END OF YEAR		$ 599,376

Notes to the Basic Financial Statements are integral parts of these financial statements.

PROMISE ACADEMY
CUYAHOGA COUNTY

STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from State of Ohio	$ 3,332,867	
Cash received from other operating revenues	13,132	
Cash payments to contracted services	(1,817,675)	
Cash payments to suppliers for goods and services	(1,134,191)	
Cash payments to purchased services	(544,812)	
Net cash used in operating activities		(150,679)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Cash received from federal and state grants	236,112	
Cash received from other sources	441	
Net cash provided by non-capital financing activities		236,553
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Payments for capital assets		(5,399)
NET INCREASE IN CASH AND CASH EQUIVALENTS		80,475
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		169,525
CASH AND CASH EQUIVALENTS AT END OF YEAR		250,000
RECONCILIATION OF OPERATING INCOME TO CASH USED IN OPERATING ACTIVITES:		
Operating income	32,582	
Adjustments to reconcile operating income to net cash used in operating activities:		
Depreciation	44,591	
Increase (decrease) in liabilities:		
Accounts payable	1,584	
Due to Cleveland Metropolitan School District	(229,436)	
NET CASH USED IN OPERATING ACTIVITIES		$ (150,679)

Notes to the Basic Financial Statements are integral parts of these financial statements.

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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, admissions policies, employment practices, and all other operations. The Academy may sue and be sued, acquire facilities as needed, and contract for any services necessary for the operation of the Academy. The Academy qualifies as a tax exempt organization under Section 501(c)(3) of the Internal Revenue Code. Management is not aware of any course of action or series of events that have occurred that may adversely affect the Academy'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. Effective July 1, 2008, a new contract was entered into with the Sponsor for a period of five years. 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 13 certificated full time teaching personnel who provide services to 601 students.

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

B. Measurement Focus

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)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Measurement Focus (Continued)

and decreases (i.e. expenses) in total net assets. The Statement of Cash Flows provides information about how the Academy finances and meets the cash flow needs of its enterprise activities.

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 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 of the fiscal year when use is first permitted; matching requirements, in which the Academy must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the Academy on a reimbursement basis. 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 the 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 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 2010, the Academy's cash equivalents were limited to a business sweep checking account. Interest revenue credited to the General Fund during fiscal year 2010 amounted to $441.

F. Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activities of the school. 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 and regulation of other governments. There were no restricted net assets.

I. Capital Assets and Depreciation

Capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. The Academy maintains a capitalization threshold of $5,000. The Academy does not possess any infrastructure. Improvements are capitalized, and the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized.

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

Assets	Years
Furniture, Fixtures and Equipment	5
Leasehold Improvements	10

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, 2010.

K. Intergovernmental Revenues

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

The Academy also participates in various federal and state grant programs through the Ohio Department of Education. The programs the School participated in during fiscal year 2010 included Fiscal Stabilization and the Management Information System program. Grants and entitlements received under these programs are recognized as non-operating revenues in the accounting period in which all eligibility requirements have been met.

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

Amounts awarded under the above named programs for the 2010 school year totaled $3,568,979.

3. DEPOSITS

At fiscal year end June 30, 2010, the carrying amount of the Academy's deposits was $250,000 and the bank balance was $455,038. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2010, $205,038 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 percent of the carrying value of the deposits. Such collateral, as permitted by the Ohio Revised Code, is held in single financial institution collateral pools at Federal Reserve Banks, or at member banks of the Federal Reserve System, in the name of the respective depository bank and pledged as a pool of collateral against all of the public deposits it holds or as specific collateral held at the Federal Reserve Bank in the name of the Academy.

The Academy has no deposit policy for custodial credit risk beyond the requirements of State statute. Oho 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.

4. CAPITAL ASSETS

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

	Balance 6/30/09	Additions	Deductions	Balance 6/30/10
Capital Assets Being Depreciated:				
Leasehold Improvements	$ 430,115	$ -	$ -	$ 430,115
Furniture, Fixtures, and Equipment	6,096	5,399	-	11,495
Total Capital Assets	436,211	5,399	-	441,610
Less Accumulated Depreciation:				
Leasehold Improvements	(42,650)	(43,012)	-	(85,662)
Furniture, Fixtures, and Equipment	(2,438)	(1,579)	-	(4,017)
Total Accumulated Depreciation	(45,088)	(44,591)	-	(89,679)
Capital Assets, Net of Accumulated Depreciation	$ 391,123	$ (39,192)	$ -	$ 351,931

5. 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 2010, the Academy contracted with commercial insurance companies for the following:

5. RISK MANAGEMENT (CONTINUED)

A. Property and Liability (Continued)

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

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 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.

6. DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

Plan Description - The Cleveland Metropolitan School District ("CMSD") contributes to the School Employees Retirement System of Ohio (SERS) on behalf of the Academy. SERS is a cost-sharing multiple-employer defined benefit pension plan. SERS provides retirement, disability and survivor benefits: annual cost-of-living adjustments; and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by state statute per 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 the School Employees Retirement System of Ohio, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746 or by calling toll free (800) 878-5853. It is also posted on SERS' website at www.ohsers.org under **Employers/Audit Resources.**

Funding Policy - 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. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS' Retirement Board. The Retirement Board acting with the advice of the actuary, allocates the employer contribution rate among four of the funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund and Health Care Fund) of the System. For fiscal year ending June 30, 2010, the allocation to pension and death benefits is 12.78 percent. The remaining 1.22 percent of the 14 percent employer contribution rate is allocated to the Health Care and Medicare B Funds. CMSD's contributions to

6. DEFINED BENEFIT PENSION PLANS (CONTINUED)

A. School Employees Retirement System (Continued)

SERS for the fiscal years ended June 30, 2010, 2009 and 2008 were $13,056,233, $9,318,314, and $8,899,797, respectively; 36.05 percent has been contributed for fiscal year 2010 and 100 percent for fiscal years 2009 and 2008.

B. State Teachers Retirement System

Plan Description - The Cleveland Metropolitan School District participates in 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 STRS Ohio, 275 East Broad Street, Columbus, Ohio 43215-3371 or by calling (888) 227-7877, or by visiting the STRS Ohio website at www.strsoh.org.

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

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

Funding Policy - For the fiscal year ended June 30, 2009, 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. For fiscal year 2008, the portion used to fund pension obligations was also 13 percent. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

CMSD's required contributions for pension obligations to the STRS Ohio for the fiscal years ended June 30, 2010, 2009, and 2008 were $43,998,101, $43,387,816, and $42,851,450, respectively; 4.19

6. DEFINED BENEFIT PENSION PLANS (CONTINUED)

B. State Teachers Retirement System (Continued)

percent has been contributed for fiscal year 2010 and 100 percent for fiscal years 2009 and 2008. Contributions to the DC and Combined Plans for fiscal year 2010 were $1,529,257 made by the School District and $1,092,327 made by the plan members.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the Teachers Retirement System of Ohio have an option to choose Social Security or the School Retirement System. As June 30, 2010, no members of the Board of Education have elected Social Security.

7. POSTEMPLOYMENT BENEFITS

A. School Employees Retirement System

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 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 contracting SERS at 300 East Broad Street, 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 2010, .46 percent of covered payroll was allocated to health care. In addition, employers pay a surcharge for employees earning less than an actuarially determined amount; for 2010 this amount was $2,013,934.

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.

CMSD's contributions for health care for the fiscal years ended June 30, 2010, 2009, and 2008 were $469,943, $4,264,487 and $4,061,261 respectively; 36.05 percent has been contributed for fiscal year 2010 and 100 percent for fiscal years 2009 and 2008.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For 2010, this actuarially required allocation was 0.76 percent of covered payroll. CMSD's contributions for Medicare Part B for the fiscal years ended June 30,

7. POSTEMPLOYMENT BENEFITS (CONTINUED)

B. State Teachers Retirement System

2010, 2009 and 2008 were $776,427, $768,838, and $641,252 respectively; 43.80 percent has been contributed for fiscal year 2010 and 100 percent for fiscal years 2009 and 2008.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 participate in the defined benefit or combined pension plans offered by STRS Ohio. Benefits include hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare Part B premiums. The plan is included in the report of STRS Ohio which may be obtained by visiting www.strsoh.org or by calling (888) 227-7877.

Funding Policy – Ohio law authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Plan. All benefit recipients pay a monthly premium. Under Ohio Law, funding for post-employment health care may be deducted from employer contributions. For 2010, STRS Ohio allocated employer contributions equal to one percent of covered payroll to the Health Care Stabilization Fund. CMSD's contributions for health care for the fiscal years ended June 30, 2010, 2009, and 2008 were $3,384,469, $3,337,524 and $3,296,265 respectively; 84.19 percent has been contributed for fiscal year 2010 and 100 percent for fiscal years 2009 and 2008.

8. OTHER EMPLOYEE BENEFITS

For fiscal year ended June 30, 2010, 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.

9. MANAGEMENT AGREEMENT

The Academy entered into a contract, effective July 1, 2008 and continuing through June 30, 2013, 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. For the year ended June 30, 2010 this amounted to $99,986. In addition, the Academy paid $361,218 in management fees for the year ended June 30, 2010.

The Academy, upon completion of the annual audit, pays CMSD an annual fee in the subsequent year totaling 100 percent of the cash balance above $500,000 for all funds paid to the Academy by the State of Ohio. Terms of the 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 activities and programs;

9. MANAGEMENT AGREEMENT (CONTINUED)

- 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 to 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 on-site of off-site, upon request;
- Annual audits in compliance with state laws 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.

The Cleveland Metropolitan School District has informed the Academy that the Contracted Service Fee of $1,588,240 consists of payment for salaries, wages, and benefits.

10. PURCHASED SERVICES EXPENSES

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

Rentals	$ 209,588
Utilities	93,592
Professional/Technical Services	32,542
Pupil Transportation	45,900
Data Processing Services	88,547
Communications	20,393
Other Purchased Services	33,565
Postage	2,454
Travel	1,185
Repairs & Maintenance	16,465
Total Purchased Services	$ 544,231

11. OPERATING LEASE

On August 1, 2008, the Academy entered into a lease for the current school premises under a non-cancelable agreement that expires on July 31, 2023. The Academy has the option to terminate the lease at the end of the fifth lease year for a termination fee of $100,000. The Academy also has the option to terminate the lease at the end of the tenth lease year without a termination fee. Lease terms also include a renewal option for an additional five year term at a rental rate equal to 90% of the then market rate for comparable office buildings. Rental expense under operating leases was $209,588 in fiscal 2010.

11. OPERATING LEASE (CONTINUED)

During fiscal 2009, building improvements totaling $430,115 were paid by the Academy. These improvements are being amortized over a ten year period.

Future minimum rental payments due in each of the next five years are:

2011	$210,000
2012	210,000
2013	210,000
2014	210,000
2015	210,000

Dave Yost • Auditor of State

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

Promise Academy
Cuyahoga County
1701 East 13th Street
Cleveland, OH 44114

To the Board of Trustees:

We have audited the financial statements of the business-type activities of the Promise Academy, Cuyahoga County, (the Academy) as of and for the year ended June 30, 2010, which collectively comprise the Academy's basic financial statements and have issued our report thereon dated January 12, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Lausche Building, 615 Superior Ave., NW, Twelfth Floor, Cleveland, Ohio 44113-1801
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We did note a certain matter not requiring inclusion in this report that we reported to the Academy's management in a separate letter dated January 12, 2011.

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

Dave Yost

Dave Yost
Auditor of State

January 12, 2011

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
MARCH 3, 2011