



**ACADEMY OF CLEVELAND
CUYAHOGA COUNTY**

REGULAR AUDIT

FOR THE YEAR ENDED JUNE 30, 2006



Mary Taylor, CPA
Auditor of State

ACADEMY OF CLEVELAND
CUYAHOGA COUNTY

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Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

Academy of Cleveland
Cuyahoga County
9114 Miles Park Avenue
Cleveland, Ohio 44105

To the Board of Trustees:

We have audited the accompanying financial statements of the Academy of Cleveland, Cuyahoga County, Ohio, (the Academy) as of and for the year ended June 30, 2006, as listed in the table of contents. These financial statements are the responsibility of the Academy's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

Ohio Revised Code Section 3314.024 requires community schools to disclose the nature and cost of management company services in its financial statement notes if management company charges equal at least twenty percent of a school's annual gross revenues. The Academy's cost paid for its management company was 20.9 percent of its annual gross revenues. The Academy's financial statements do not include the disclosure Ohio Revised Code Section 3314.024 requires.

Ohio Revised Code Section 3314.024 also requires that the aforementioned disclosure be subject to audit. The management company financial statements for the year ended December 31, 2006 were audited by other auditors. However, the scope of that audit did not include procedures related to determining the nature and cost of management company services paid by the Academy to the management company.

In our opinion, except for the omission of the disclosure Ohio Revised Code Section 3314.024 requires, and except for adjustments, if any, that may have arisen had the management company's costs allocated to the Academy been subject to audit (as described in the preceding two paragraphs) the financial statements referred to above present fairly, in all material respects, the financial position of the Academy of Cleveland, as of June 30, 2006, and the changes in financial position and cash flows thereof and 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 March 30, 2007, 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.

Management's Discussion and Analysis is not a required part of the financial statements but is supplementary information the Governmental Accounting Standards Board requires. We have applied certain limited procedures, which consisted 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 cursive script that reads "Mary Taylor".

Mary Taylor, CPA
Auditor of State

March 30, 2007

**ACADEMY OF CLEVELAND
CUYAHOGA COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR YEAR ENDED JUNE 30, 2006**

(Unaudited)

This section of the Academy of Cleveland's (the Academy) annual financial report presents our discussion and analysis of the Academy's financial performance during the year ended June 30, 2006. Please read it in conjunction with the Academy's financial statements, which immediately follow this section.

Highlight

The Academy's deteriorated financial position is the result of several factors; however, the financial position did not decrease as much as originally expected. The primary reason for this deterioration is that the Academy is not at capacity.

Using this Annual Report

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand the Academy of Cleveland financially as a whole.

Management's Discussion and Analysis (MD&A)
(Required Supplemental Information)

Basic Financial Statements
Statement of Net Assets
Statement of Revenues, Expenses and Changes in Net Assets
Statement of Cash Flows

Notes to the Financial Statements

Reporting the Academy as a Whole

One of the most important questions asked about the Academy is, "As a whole, what is the Academy's financial condition as a result of the year's activities?" The Statement of Net Assets and the Statement of Revenues, Expenses and Changes in Net Assets, which appear first in the Academy's financial statements, report information on the Academy as a whole and its activities in a way that helps you answer this question. We prepared these statements to include all assets and liabilities, using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Academy's net assets - the difference between assets and liabilities, as reported in the statement of net assets - is one way to measure the Academy's financial health or financial position. Over time, increases or decreases in the Academy's net assets - as reported in the statement of activities - are indicators of whether its financial health is improving or deteriorating. The relationship between revenues and expenses is the Academy's operating results. However, the Academy's goal is to provide services to our students, not to generate profits as commercial entities do. One must consider many other non-financial factors, such as the quality of the education provided and the safety of the school, to assess the overall health of the Academy.

The Statement of Net Assets and the Statement of Revenues, Expenses and Changes in Net Assets report the activities for the Academy, which encompass all of the Academy's services, including instruction, support services, community services and food services. Unrestricted state aid and state and federal grants finance most of these activities.

**ACADEMY OF CLEVELAND
CUYAHOGA COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR YEAR ENDED JUNE 30, 2006**

(Unaudited)

Reporting the Academy as a Whole (Continued)

Table 1 provides a summary of the Academy's net assets as of June 30, 2006 and June 30, 2005.

TABLE 1 NET ASSETS	2006	2005
	(in thousands)	(in thousands)
Assets		
Current and other assets	154.3	114.3
Capital assets, net of accumulated depreciation	<u>19.6</u>	<u>25.5</u>
Total Assets	173.9	139.8
Liabilities		
Current liabilities	206.2	111.1
Net Assets		
Invested in property and equipment – Net of related debt	19.6	25.5
Unrestricted	<u>(51.9)</u>	<u>3.2</u>
Total Net Assets	(32.3)	28.7

Net Assets – The Academy's net assets decreased over the previous year – the decrease in net assets was approximately \$61,000.

The reduction in the Academy's financial position is the result of several factors. The primary reason is that the Academy is not at capacity. The Academy was able to reduce expenditures to minimize the reduction in net assets; a higher loss was anticipated. Another factor is that the management company did not waive a portion of its management fees this year.

The above analysis focuses on the net assets (see Table 1). The change in net assets (see Table 2) of the Academy's governmental activities is discussed below. The Academy's net assets were approximately (\$32,300) at June 30, 2006. Capital assets recorded at historical cost, net of depreciation, totaled \$19,630. No long-term debt was used to finance the acquisition of those assets. The Academy does not have any restricted net assets. The remaining amount of net assets is a deficit of approximately (\$51,900).

The approximately (\$51,900) of deficit net assets represents the accumulated results of the past years' operations. The operating results will have a significant impact on the change in unrestricted net assets from year to year.

The results of this year's operations for the Academy as a whole are reported in the statement of activities (Table 2), which shows the changes in net assets (deficit) for fiscal years 2006 and 2005.

**ACADEMY OF CLEVELAND
CUYAHOGA COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR YEAR ENDED JUNE 30, 2006**

(Unaudited)

Reporting the Academy as a Whole (Continued)

TABLE 2 CHANGE IN NET ASSETS	2006	2005
	(in thousands)	(in thousands)
Operating Revenues		
Foundation	963.8	810.1
Other	1.5	.7
Non-Operating Revenues		
Grants-State	1.9	10.0
Grants-Federal	193.6	35.1
Total Revenues	1160.8	855.9
Operating Expenses		
Salaries	408.8	353.7
Fringe Benefits	109.4	84.3
Payroll Taxes	12.7	9.7
Purchased Services	610.0	336.7
Materials and Supplies	70.0	67.8
Depreciation	10.9	6.7
Total Expenses	1221.8	858.9
Increase (Decrease) in Net Assets	(61.0)	(3.0)

As reported in the Statement of Revenues, Expenses and Changes in Net Assets, the cost of all of our governmental activities this year was approximately \$1,222,000. Certain activities were partially funded by those who benefited from the programs, or by other governments and organizations that subsidized certain programs with grants and contributions. We paid for the remaining portion of our activities with \$963,846 in state foundation allowance.

Budgetary Highlights

The Academy is not required to follow the budgetary provisions set forth in Ohio Revised Code Chapter 5705, unless specifically provided in the Sponsor's contract. However, the Academy does prepare an annual budget. Over the course of the year, the Academy may revise its budget as it attempts to deal with unexpected changes in revenues and expenditures. The final amendment to the budget was adopted just before year-end. There were significant variances between the final budget and actual amounts because state aid was less than expected and federal grant expenditures were less than the appropriation.

Capital Assets and Debt Administration

As of June 30, 2006, the Academy had \$19,630 of net capital assets, including leasehold improvements, and furniture and equipment. This amount represents a net decrease, including additions and disposals, of \$5,880.

Capital Assets (Net of Accumulated Depreciation)	2006	2005
Leasehold improvements	1,482	0
Furniture and equipment	18,148	25,510
Net capital assets	19,630	25,510

**ACADEMY OF CLEVELAND
CUYAHOGA COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR YEAR ENDED JUNE 30, 2006**

(Unaudited)

Capital Assets and Debt Administration (Continued)

This year's additions of \$5,046 included furniture and equipment and leasehold improvements. No debt was issued for these additions.

No major capital projects are planned for the 2006-07 fiscal year. We present more detailed information about our capital assets in the notes to the financial statements.

Debt

At the end of this year, the Academy did not have any outstanding debt other than normal trade payables, which are recorded on an accrual basis.

Other obligations include accrued salaries, benefits, and vacation pay, and an overpayment of the state foundation funding. We present more detailed information about our liabilities in the notes to the financial statements.

Economic Factors and Next Year's Budgets and Rates

Our administration considers many factors when setting the Academy's 2007 fiscal year budget. One of the most important factors affecting the budget is our student count. The state foundation revenue is determined based on the student count and the foundation allowance per pupil. The 2007 budget was adopted in June 2006, based on an estimate of students that will be enrolled in September 2006. Approximately 86 percent of the revenue is from the foundation allowance. As a result, Academy funding is heavily dependent on the State's ability to fund local school operations. Based on current enrollment data at the start of the 2006-07 school year, we anticipate that the fall student count will be below the estimates used in creating the 2007 budget. Once the final student count and related per pupil funding is validated, the Academy will amend the budget if actual Academy resources are not sufficient to fund the original appropriation.

Since the Academy's revenue is heavily dependent on state funding and the health of the State's School Aid, the actual revenue received depends on the State's ability to collect revenues to fund its appropriation to academies. The impact on the Academy of the State's projected revenue is not known.

Contacting Academy of Cleveland's Financial Management

This financial report is designed to provide citizens, taxpayers, investors and creditors with a general overview of Academy of Cleveland's finances and to reflect the Academy's accountability for the monies it receives. Questions concerning any of the information in this report or requests for additional information should be directed to Andrew Burks, Fiscal Officer, Academy of Cleveland, C/O Charter School Administration Services, Inc., 20755 Greenfield Rd., Suite 300, Southfield, MI 48075.

ACADEMY OF CLEVELAND
CUYAHOGA COUNTY

STATEMENT OF NET ASSETS
AS OF JUNE 30, 2006

Assets:

Current Assets:

Cash and Cash Equivalents	\$ 46,799
Receivables:	
Intergovernmental	105,018
Other	1,887
Prepaid Expense	<u>583</u>
Total Current Assets	154,287

Non-Current Assets:

Fixed Assets (Net of Accumulated Depreciation and Amortization)	<u>19,630</u>
Total Assets	<u>173,917</u>

Liabilities:

Current Liabilities:

Accounts Payable	148,790
Accrued Payroll	37,815
Intergovernmental Payable	<u>19,617</u>
Total Current Liabilities	<u>206,222</u>

Net Assets:

Invested in Capital Assets	19,630
Unrestricted	<u>(51,935)</u>
Total Net Assets	<u>\$ (32,305)</u>

The notes to the financial statements are an integral part of this statement.

**ACADEMY OF CLEVELAND
CUYAHOGA COUNTY**

**STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2006**

<u>Operating Revenue:</u>	
Foundation Payments	\$ 963,846
Other Revenue	1,458
	<hr/>
Total Operating Revenues	965,304
 <u>Operating Expenses:</u>	
Salaries	408,804
Fringe Benefits	109,383
Payroll Taxes	12,736
Purchased Services	609,948
Materials and Supplies	70,018
Depreciation and Amortization	10,926
	<hr/>
Total Operating Expenses	1,221,815
	<hr/>
Operating Loss	(256,511)
 <u>Non-Operating Revenue:</u>	
Grants-State	1,946
Grants-Federal	193,562
	<hr/>
Total Non-Operating Revenue	195,508
	<hr/>
Change in Net Assets	(61,003)
Net Assets at Beginning of Year	28,698
	<hr/>
Net Assets at End of Year	<u>\$ (32,305)</u>

The notes to the financial statements are an integral part of this statement.

**ACADEMY OF CLEVELAND
CUYAHOGA COUNTY**

**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2006**

Increase/Decrease in Cash and Cash Equivalents:

Cash Flows from Operating Activities:

Cash Received from State of Ohio	\$ 983,463
Cash Received from Other Sources	1,458
Cash Payments to Suppliers for Goods and Services	(606,587)
Cash Payments to Employees for Services	(422,211)
Cash Payments for Employee Benefits	(96,007)
Cash Payments for Payroll Taxes	<u>(13,023)</u>
Net Cash Used By Operating Activities	<u>(152,907)</u>

Cash Flows from Noncapital Financing Activities:

Grants and Contributions Received	<u>157,665</u>
Net Cash Provided By Noncapital Financing Activities	<u>157,665</u>

Cash Flows from Capital and Related Financing Activities:

Payments for Capital Acquisitions	<u>(5,046)</u>
Net Cash Used for Capital and Related Financing Activities	<u>(5,046)</u>

Net Decrease in Cash and Cash Equivalents	(288)
Cash and Cash Equivalents Beginning of the Year	<u>47,087</u>
Cash and Cash Equivalents End of the Year	<u><u>\$ 46,799</u></u>

The notes to the financial statements are an integral part of this statement.

**ACADEMY OF CLEVELAND
CUYAHOGA COUNTY**

**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2006**

**RECONCILIATION OF OPERATING LOSS TO NET CASH
USED BY OPERATING ACTIVITIES:**

Operating Loss	\$ (256,511)
 Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation and Amortization	10,926
 Changes in Assets and Liabilities:	
Increase in Other Receivables	(1,813)
Increase in Prepaid	(583)
Increase in Accounts Payable	75,586
Decrease in Accrued Payroll	(129)
Increase in Intergovernmental Payable	<u>19,617</u>
 Total Adjustments	 <u>103,604</u>
 Net Cash Used by Operating Activities	 <u><u>\$ (152,907)</u></u>

The notes to the financial statements are an integral part of this statement.

**ACADEMY OF CLEVELAND
CUYAHOGA COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
AS OF JUNE 30, 2006**

Note 1 - DESCRIPTION OF THE SCHOOL AND REPORTING ENTITY

The Academy of Cleveland (the Academy) is a nonprofit corporation established pursuant to Ohio Revised Code Chapters 3314 and 1702. The Academy's objective is to prepare all students to be successful citizens, cooperative workers and profitable entrepreneurs by developing their unique potential. This program is offered for students in kindergarten through sixth grade. The Academy, which is part of the State's education program, is independent of any school district and is nonsectarian in its programs, admission policies, employment practices, and all other operations. The Academy may acquire facilities as needed and contract for any services necessary for the operation of the school. The Academy may sue and be sued. The Academy was approved for operation under contract between the Governing Authority of the Academy of Cleveland and the Ohio Council for Community Schools, for the period ending June 30, 2006 and Ashe Culture Center, Inc. for a period of three years commencing July 1, 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 Authority. 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, teacher performance standards, admission standards, and qualifications of teachers. The Governing Board controls the Academy's one instructional/support facility with a staffing level of 3 certificated full time teaching personnel and 6 full time personnel that possess long term permits that provide services to 139 students.

The Governing Authority has entered into a management contract with Charter School Administration Services, Inc. (CSAS), to provide consulting services including teacher training, curriculum development, financial management, and State relations. (See Note 15).

Note 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Academy have been prepared in conformity with generally accepted accounting principles 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 statements and interpretations issued on or before November 30, 1989, provided they do not conflict with or contradict GASB pronouncements. The more significant of the Academy's accounting policies are described below.

A. Basis of Presentation

Academy of Cleveland's basic financial statements consist of a Statement of Net Assets; a Statement of Revenues, Expenses, and Changes in Net Assets; and a Statement of Cash Flows. The Academy uses enterprise fund accounting to maintain its operations that are financed and operated in a manner similar to private business enterprises where the intent is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges or where it has been decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

**ACADEMY OF CLEVELAND
CUYAHOGA COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
AS OF JUNE 30, 2006
(CONTINUED)**

Note 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment is determined by its 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. Operating statements present increases (e.g., revenues) and decreases (e.g., expenses) in net total assets. Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the exchange and non-exchange transactions measurements made. 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 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. Revenues are recognized when they are earned, and expenses are recognized when they are incurred.

C. Budgetary Process

Unlike other public schools located in the State of Ohio, community schools are not required to follow budgetary provisions set forth in Ohio Revised Code Chapter 5705, unless specifically provided in the Academy's contract with its Sponsor. The contract between the Academy and its Sponsor does prescribe an estimated school budget for the period of the contract.

D. Cash

All monies received by the Academy are accounted for by the Academy's management company, Charter School Administration Services, Inc. (CSAS), which serves as the Academy's fiscal agent. All cash received by the fiscal agent is maintained in a separate bank account in the Academy's name. Monies of the Academy are maintained in this account or temporarily used to purchase short term investments. For purposes of the statement of cash flows and for presentation on the statement of net assets, investments with a maturity date of three months or less at the time they are purchased by the Academy are considered to be cash equivalents.

E. Capital Assets and Depreciation

Capital assets are capitalized at cost and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the dates received. The Academy does not possess any infrastructure. The Academy maintains a capitalization threshold of \$500. 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. Depreciation of furniture and equipment and leasehold improvements is computed using the straight-line method over an estimated useful life of three to five years.

**ACADEMY OF CLEVELAND
CUYAHOGA COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
AS OF JUNE 30, 2006
(CONTINUED)**

Note 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. Intergovernmental Revenues

The Academy currently participates in the State Foundation Program and the State Poverty Based Assistance (PBA) Program. Revenues from these programs are recognized as operating revenues in the accounting period in which all eligibility requirements have been met. Grants and entitlements are recognized as non-operating revenues in the accounting period in which all eligibility requirements have been met. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is 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. Grants and entitlements are recognized as non-operating revenues in the accounting period in which they are earned and become measurable.

G. Use of 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.

H. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balance of any borrowing used for the acquisition, construction, or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Academy or through external restrictions imposed by the creditors, grantors, or laws or regulations of other governments. The Academy first applies restricted resources when an expense is incurred for which both restricted and unrestricted net assets are available. The Academy did not have any restricted net assets at fiscal year end.

Note 3 - DEPOSITS

The Academy has designated one bank for the deposit of its funds. The Academy's cash is subject to custodial credit risk. Custodial credit risk is the risk that in the event of bank failure, the Academy's deposits may not be returned to it. The Academy's investment policy requires that financial institutions be evaluated and only those with an acceptable risk level are used for the Academy's deposits for custodial credit risk. On June 30, 2006, the carrying amount of the Academy's deposits was \$46,799 and the bank balance was \$56,167, all of which was covered by federal depository insurance.

**ACADEMY OF CLEVELAND
CUYAHOGA COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
AS OF JUNE 30, 2006
(CONTINUED)**

Note 4 - CAPITAL ASSETS

A summary of the Academy's capital assets at June 30, 2006 is as follows:

	Balance <u>July 1, 2005</u>	<u>Additions</u>	<u>Disposals</u>	Balance <u>June 30, 2006</u>
Capital assets being depreciated:				
Leasehold improvements	\$ 72,994	\$ 1,815	\$ -	\$ 74,809
Furniture and equipment	<u>33,028</u>	<u>3,231</u>	<u>-</u>	<u>36,259</u>
Subtotal	<u>106,022</u>	<u>5,046</u>	<u>-</u>	<u>111,068</u>
Accumulated depreciation:				
Leasehold improvements	72,994	333	-	73,327
Furniture and equipment	<u>7,518</u>	<u>10,593</u>	<u>-</u>	<u>18,111</u>
Subtotal	<u>80,512</u>	<u>10,926</u>	<u>-</u>	<u>91,438</u>
Net capital assets being depreciated	<u>\$ 25,510</u>	<u>\$ (5,880)</u>	<u>\$ -</u>	<u>\$ 19,630</u>
Net governmental capital assets	<u>\$ 25,510</u>	<u>\$ (5,880)</u>	<u>\$ -</u>	<u>\$ 19,630</u>

Note 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. For the period July 1, 2005 through June 30, 2006 the Academy contracted with Employers Mutual Casualty Company for property and general liability insurance. Professional liability is protected by Employers Mutual Casualty Company with a \$1,000,000 single occurrence limit and \$2,000,000 aggregate and no deductible. The claims have not exceeded the amount of liability insurance in any of the last three years.

B. Workers' Compensation

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

C. Employee Medical, Dental, Vision, Prescription, and Life Benefits

The Academy has contracted with private carriers to provide employee medical, dental, vision, prescription, life insurance, and long term disability insurance to its full time employees who work 40 or more hours per week.

**ACADEMY OF CLEVELAND
CUYAHOGA COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
AS OF JUNE 30, 2006
(CONTINUED)**

Note 6 - DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

The Academy contributes to the School Employees Retirement System of Ohio (SERS), 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 established 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. The report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3476, by calling (800) 878-5853, or by visiting SERS website at www.ohsers.org.

Plan members are required to contribute 10 percent of their annual covered salary and the Academy is required to contribute at an actuarially determined rate. The current Academy rate is 14 percent of annual covered payroll. A portion of the Academy's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2006 10.58 percent of annual covered salary was the portion to fund pension obligations. For fiscal year 2005, 10.57 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 a statutory maximum amount, by the SERS' Retirement Board. The Academy's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2006, 2005 and 2004 were \$11,002 \$7,929, and \$5,512, respectively; 100 percent has been contributed for fiscal years 2006, 2005, and 2004.

B. State Teachers Retirement System

The Academy participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost sharing multiple employer public employee retirement system. STRS Ohio provides retirement and disability benefits to members, and death and survivor benefits to members and beneficiaries. STRS Ohio issues a stand alone financial report that may be obtained by writing to STRS Ohio, 275 East Broad Street, Columbus, Ohio 43215-3771, by calling (614) 227-4090, or by visiting the STRS website at www.strsoh.org.

New members have a choice of three retirement plans, a Defined Benefits (DB) Plan, a Defined Contribution (DC) Plan, and a Combined Plan. The DP Plan offers an annual retirement allowance based on final average salary times a percentage that varies based on the years of service or an allowance based on the members contributions and earned interest matched by STRS Ohio funds divided by an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined plan, the 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. 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.

**ACADEMY OF CLEVELAND
CUYAHOGA COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
AS OF JUNE 30, 2006
(CONTINUED)**

Note 6 - DEFINED BENEFIT PENSION PLANS (Continued)

B. State Teachers Retirement System (continued)

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 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 of credited service who becomes disabled may qualify for disability benefits. Eligible spouses and dependents of these active members who die before retirement may qualify for survivor benefits. Members of the DC Plan who become disabled are entitled only to their account balance. If a member dies before retirement benefits begin, the members designated beneficiary is entitled to receive the members account balance.

For the fiscal year ended June 30, 2006, plan members were required to contribute 10 percent of their annual covered salary. The Academy was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Chapter 3307 of the Ohio Revised Code provides the statutory authority for member and employer contributions.

The Academy's required contribution for pension obligations to STRS for the fiscal years ended 2006, 2005 and 2004 were \$39,623, \$36,028, and \$33,905, respectively; 100 percent has been contributed for fiscal years 2006, 2005, and 2004.

Note 7 - POSTEMPLOYMENT BENEFITS

The Academy provides comprehensive health care benefits to retired teachers and their dependents through the State Teachers Retirement System (STRS Ohio), and to retired non-certified employees and their dependents through the School Employees Retirement System (SERS). Benefits include hospitalization, physicians' fees, prescription drugs and partial reimbursement of monthly Medicare premiums. Benefit provisions and the obligations to contribute are established by the Systems based on authority granted by State statute. Both systems are funded on a pay-as-you-go basis. All STRS benefit recipients and sponsored dependents who participated in the DB or combined plans are eligible for health care coverage. The STRS Ohio Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. All benefit recipients pay a portion of health care costs in the form of a monthly premium. By law, the cost of coverage paid from STRS Ohio funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2006, the STRS Ohio Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Reserve Fund. For the Academy, this amount equaled \$3,951 during fiscal year 2006, of which all was paid at June 30, 2006.

STRS pays health care benefits from the Health Care Stabilization Fund. At June 30, 2006, the balance in the Fund was \$ 3.5 billion. For the fiscal year ended June 30, 2006, net health care costs paid by STRS were \$ 282,743,000, and STRS Ohio had 119,184 eligible benefit recipients.

**ACADEMY OF CLEVELAND
CUYAHOGA COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
AS OF JUNE 30, 2006
(CONTINUED)**

Note 7 - POSTEMPLOYMENT BENEFITS (Continued)

For SERS, coverage is made available to service retirees with ten or more years of qualifying service credit, disability and survivor benefit recipients. Effective January 1, 2004, all retirees and beneficiaries are required to pay a portion of their health care premium. The portion is based on years of service, Medicare eligibility and retirement status. After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2006, the employer contributions to fund health care benefits was 3.42 percent of covered payroll, a decrease of .01 percent from fiscal year 2005. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2006, the minimum pay was established at \$35,800. For the Academy, the amount contributed to fund health care benefits, including the surcharge, during the 2006 fiscal year was \$5,636, of which, all was paid as of June 30, 2006.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of annual health care expenses. Expenses for health care for the fiscal year ended June 30, 2006, were \$158,751,207. At June 30, 2006, SERS had net assets available for payment of health care benefits of \$295.6 million. SERS has approximately 59,492 participants currently receiving health care benefits.

Note 8 - STATE SCHOOL FUNDING DECISION

On December 11, 2002, the Ohio Supreme Court issued its latest opinion regarding the State's school funding plan. The decision reaffirmed earlier decisions that Ohio's current school-funding plan is unconstitutional. The Supreme Court relinquished jurisdiction over the case and directed "...the Ohio General Assembly to enact a school-funding scheme that is thorough and efficient..." The Academy is currently unable to determine what effect, if any, this decision will have on its future State funding and its financial operations.

Note 9 - CONTINGENCIES

A. Grants

The Academy received financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions, specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the Academy. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the Academy at June 30, 2006.

**ACADEMY OF CLEVELAND
CUYAHOGA COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
AS OF JUNE 30, 2006
(CONTINUED)**

Note 9 – CONTINGENCIES (Continued)

B. Ohio Community School Program

A suit was filed in the U.S. District Court, Southern District of Ohio, Western Division on October 6, 2004 which challenges the funding of Charter Schools under Equal Protection, Due Process and claims violation of a right to vote on the bodies administering public schools. This case is still pending. The effect of this suit, if any, on the Academy of Cleveland is not presently known.

Note 10 - SCHOOL FUNDING

The Ohio Department of Education conducts reviews of enrollment data and full time equivalency (FTE) calculations made by the schools. These reviews are conducted to ensure the schools are reporting accurate student enrollment data to the State, upon which state foundation funding is calculated. The Academy reported an intergovernmental payable in the amount of \$19,617 on its statement of net assets based on the Ohio Department of Education's review.

Note 11 - OPERATING LEASES

The Academy has entered into a sublease for the period August 1, 2005 through June 30, 2009 with "Academy of America, a Michigan non-profit corporation", which leases from the "Presbytery of the Western Reserve", space to house the Academy. Payments made totaled \$64,680 for the fiscal year 2006.

The Academy has also entered into a lease commencing April 4, 2004 for a term of 36 months for a copier. Payments made during the year 2006 totaled \$7,832.

The following is a schedule of the future minimum payments required under the operating leases as of June 30, 2006.

Fiscal Year Ending June 30,	Facility Rental	Copier
2007	\$ 64,680	\$ 3,500
2008	\$ 64,680	\$ -
2009	<u>\$ 64,680</u>	<u>\$ -</u>
Total minimum payments	\$ 194,040	\$ 3,500

**ACADEMY OF CLEVELAND
CUYAHOGA COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
AS OF JUNE 30, 2006
(CONTINUED)**

Note 12 - PURCHASED SERVICE EXPENSES

For the fiscal year ended June 30, 2006, purchased service expenses were payments for services rendered, as follows:

PURCHASED SERVICES

Advertising	\$ 8,260
Insurance	15,349
Leased Equipment	8,946
Maintenance and Repairs	7,828
Management Company Fees (See Note 15)	132,176
Sponsor Fees	29,593
Overhead Fees to Management Company (See Note16)	110,416
Professional Fees	177,261
Rent	64,680
Telephone	14,254
Meetings, Conferences, Training Expenses	17,001
Utilities	<u>24,184</u>
Total Purchased Services	<u>\$ 609,948</u>

Note 13 - TAX EXEMPT STATUS

As of June 30, 2006, the Academy had not filed for tax-exempt status under § 501(c)(3) of the Internal Revenue Code. The Academy has made no provision for any potential future tax liability, which could result from not obtaining the § 501(c)(3) tax-exempt status.

Note 14 - RELATED PARTY

Two of the board members of the Academy of Cleveland are also members of the boards of the Academy of Dayton Community School, and the Academy of Business and Technology, as well as shareholders in Charter School Administration Services, Inc., the management company of the Academy of Cleveland. Total payments to Charter School Administration Services, Inc. were \$242,592 for the fiscal year 2006, which includes management fees and overhead fees.

Note 15 - MANAGEMENT AGREEMENT

The Academy entered into a ten-year contract, effective July 1, 2001 through June 30, 2011, with Charter School Administration Services, Inc. (CSAS) for educational management services; total payments to CSAS were \$132,176 for the fiscal year ended June 30, 2006. In exchange for its services, CSAS receives a management fee equal to 12% of all revenue sources and is reimbursed for all cost incurred on behalf of the Academy. In addition, the Academy pays CSAS an annual incentive fee in an amount equal to fifty (50%) percent of the excess of revenue over expenditures. Terms of the contract require CSAS to provide the following:

- A. All labor, materials, and supervision necessary for the provision of educational services to students, and the management, operation, and maintenance of the Academy;
- B. Implementation and administration of the Educational Program, including the selection and acquisition of instructional materials, equipment and supplies, and the administration of any and all extracurricular and co-curricular activities and programs;

**ACADEMY OF CLEVELAND
CUYAHOGA COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
AS OF JUNE 30, 2006
(CONTINUED)**

Note 15 - MANAGEMENT AGREEMENT (Continued)

- C. All personnel functions including the professional development of the School administrator and all instructional personnel and support staff;
- D. Control, maintenance, and operation of the school building, and the installation of technology integral to the school design;
- E. All aspects of the business administration of the Academy;
- F. Transportation and food service for the Academy;
- G. A projected annual budget prior to each school year;
- H. Detailed statements of all revenues received, from whatever source, and detailed statements of all direct expenditures for services rendered to, or on behalf of, the Academy, whether incurred on-site or offsite, upon request;
- I. Annual audits in compliance with state law and regulations, showing the manner in which funds are spent at the Academy;
- J. Reports on Academy operations, finances, and students' performance, upon request, but not less frequently than four (4) times per year; and,
- K. Any other function necessary or expedient for the administration of the Academy.

Note 16 - CONSORTIUM AGREEMENT

On July 1, 2001, the Governing Board approved joining a consortium with sixteen other charter schools and public school academies, each of which is managed by Charter School Administration Services, Inc. under management agreements comparable to the Management Agreement between the Academy and CSAS. The members of the consortium including the Academy are:

Academy	State of Operation
Academy of Beaumont	Texas
Academy of Dallas	Texas
Bexar County Academy	Texas
Academy of Dayton	Ohio
Academy of Cleveland	Ohio
Academy of Business & Technology	Ohio
Academy of Detroit West	Michigan
Academy of Flint	Michigan
Academy of Inkster	Michigan
Academy of Kansas City	Missouri
Academy of Waterford	Michigan
Academy of Lathrup Village	Michigan
Academy of Michigan	Michigan
Academy of Oak Park	Michigan
Academy of Southfield	Michigan
Academy of Westland	Michigan
Cherry Hill School of Performing Arts	Michigan

**ACADEMY OF CLEVELAND
CUYAHOGA COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
AS OF JUNE 30, 2006
(CONTINUED)**

Note 16 - CONSORTIUM AGREEMENT (Continued)

The Management Agreement between the Academy and CSAS provides for the allocation of indirect costs incurred by CSAS on behalf of the Academy and the other members of the consortium. Based upon the count of students at the Academy and the other members of the consortium as of September 2001, and the experiences of CSAS in both incurring costs for consortium members and allocation of such costs to consortium members, the Academy and CSAS have agreed upon an equitable method of such allocation. Based upon the above count, the Academy shall pay CSAS, for all indirect reimbursable expenses incurred by CSAS on behalf of the Academy and other members of the consortium, for the 2005-2006 school year in an amount equal to \$67 per month per student enrolled at the Academy, totaling \$110,416.

Note 17 - ACCOUNTS PAYABLE

On June 30, 2006, the accounts payable totaled \$148,790 and consisted of \$139,740 due to CSAS for monies advanced for payroll and other purposes, and \$9,050 due to vendors for various purposes.

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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*

Academy of Cleveland
Cuyahoga County
9114 Miles Park Avenue
Cleveland, Ohio 44105

To the Board of Trustees:

We have audited the financial statements of the Academy of Cleveland, Cuyahoga County, Ohio, (the Academy) as of and for the year ended June 30, 2006 and have issued our report thereon dated March 30, 2007. We qualified the report because the statements did not disclose management company service costs, contrary to Ohio Revised Code Section 3314.024 and the scope of that management company's audit did not include procedures related to determining the nature and cost of management company services paid on behalf of the Academy. 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 to determine our auditing procedures to express our opinion on the financial statements and not to opine on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider material weaknesses.

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 instances of noncompliance or other matters that we must report under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 2006-001 through 2006-003.

Academy of Cleveland
Cuyahoga County
Independent Accountants' Report on Internal Control Over Financial
Reporting and on Compliance and Other Matters Required by
Government Auditing Standards
Page 2

We intend this report solely for the information and use of the audit committee, management, and the Board of Trustees. It is not intended for anyone 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

March 30, 2007

**ACADEMY OF CLEVELAND
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS
FOR THE YEAR ENDED JUNE 30, 2006**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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FINDING NUMBER	2006-001
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Management Company Footnote Disclosure

Ohio Rev. Code §3314.024 requires that a management company providing services to a community school amounting to more than twenty per cent of the annual gross revenues of the school shall provide a detailed accounting including the nature and costs of the services it provides to the community school. This information shall be included in the footnotes of the financial statements of the school and be subject to audit during the course of the regular financial audit of the community school.

Purchased service expenses reported in the Academy's audited financial statements include costs paid to Charter School Administration Services, Inc. (the Academy's management company) equaling 20.9% of gross revenue. The Academy's financial statements should have disclosed management company costs as Ohio Rev. Code §3314.024 requires.

Ohio Rev. Code §3314.024 also requires that this disclosure be subject to audit. Charter School Administration Services, Inc. did not request its independent auditors to subject its costs paid on behalf of the Academy to audit.

The Auditor of State issued Audit Bulletin 2004-09, which suggests several options management companies might use to meet this audit requirement. Because the Company did not request this, the Academy and Charter School Administration Services, Inc. did not comply with the audit requirement of Ohio Rev. Code §3314.024.

Management's Response:

The Academy will review this finding and put processes in place to avoid this finding for future years.

FINDING NUMBER	2006-002
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Governing Board Membership

Ohio Rev. Code §3314.02(E) requires, in part, that a community school's governing board include at least five members.

The Governing Authority of the Academy was comprised of three members.

We recommend the Academy take the necessary steps to increase the membership of the Academy's Governing Authority to the required number of members.

Management's Response:

The Academy is in the process of adding additional board members to the Governing Authority.

**ACADEMY OF CLEVELAND
CUYAHOGA COUNTY**
**SCHEDULE OF FINDINGS
FOR THE YEAR ENDED JUNE 30, 2006
(Continued)**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)
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FINDING NUMBER	2006-003
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Tax Exempt Status

Section D Point J of the Start Up Community School Contract between the Academy's Governing Authority and the Board of Trustees of the University of Toledo provides, in part, that "The Governing Authority must hold all rights in the name of the School and must apply for any Internal Revenue Code tax exempt status (501(c)(3)) in the name of the School."

The Academy has not applied for tax exempt status under Section 501(c)(3) of the Internal Revenue Code.

The Academy should apply for Internal Revenue Code tax exempt status 501(c)(3). Additionally, the Academy should consult with qualified tax counsel to determine what tax filings, if any, are due now and in the future.

Management's Response:

The Academy is in the process of filing an application for a 501(c)(3) tax exempt status.

The Academy has not filed a corporate income tax return since it would be inconsistent with the Academy's non-profit status. Nor has the Academy filed a non-profit return (Form 990) since the Internal Revenue Service does not accept such returns until it has issued a ruling on a 501(c)(3) exemption application.



Mary Taylor, CPA
Auditor of State

ACADEMY OF CLEVELAND

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
JUNE 7, 2007**