



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 basic financial statements of the Academy of Cleveland, Cuyahoga County, Ohio, (the Academy) as of and for the year ended June 30, 2008, as listed in the table of contents. These financial statements are the responsibility of the Academy's management. Our responsibility is to express 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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Academy of Cleveland, Cuyahoga County, Ohio, as of June 30, 2008, 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.

As described in Note 17, at June 30, 2008 the Academy suspended school operations for the year ending June 30, 2009.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 17, 2009, on our consideration of the Academy's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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

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

Mary Taylor, CPA
Auditor of State

July 17, 2009

**ACADEMY OF CLEVELAND
CUYAHOGA COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR YEAR ENDED JUNE 30, 2008**

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, 2008. Please read it in conjunction with the Academy's financial statements, which immediately follow this section.

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 Change in Accumulated Deficit
Statement of Cash Flows

Notes to the Basic 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 Change in Accumulated Deficit 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 prepare 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 - as 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 revenues, expenses and change in accumulated deficit - 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 Change in Accumulated Deficit report the activities for the Academy, which encompass all of the Academy's services, including salaries and benefits, purchased services, materials and supplies and depreciation. 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, 2008**

Table 1 provides a summary of The Academy's net assets as of June 30, 2008

**TABLE 1
NET ASSETS**

| | 2008 (in thousands) | 2007 (in thousands) |
|--|--------------------------------|--------------------------------|
| Assets | | |
| Current and other assets | \$ 144.2 | \$ 205.1 |
| Capital assets, net of accumulated depreciation | 3.4 | 12.9 |
| Total assets | 147.6 | 218.0 |
| Liabilities | | |
| Current liabilities | 258.6 | 107.5 |
| Net Assets | | |
| Invested in Capital Assets – Net of related debt | 3.4 | 12.9 |
| Unrestricted | (114.4) | 97.6 |
| Total Net Assets (Deficit) | (\$ 111.0) | \$110.5 |

The Academy's net assets decreased from the prior year by approximately \$221,500 resulting in a net asset deficit of approximately \$111,000. The Academy's deficit financial position is primarily a result of low student enrollment and the incursion of costs related to the Academy's suspension of operations.

The above analysis focuses on the net assets (see Table 1). The change in net assets (see Table 2) of the Academy's activities is discussed below. The Academy's net deficit, as of June 30, 2008, was approximately \$111,000. Capital assets recorded at historical cost, net of depreciation, totaled \$3,404. 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 deficit of approximately \$114,400 was unrestricted.

The \$114,400 in unrestricted net deficit represents the accumulated results of the past years' operations. Since the unrestricted net assets balance is in a deficit, the Academy has difficulty meeting its working capital and cash flow requirements. The liabilities of the Academy are financed through a balance owed to the management company. The operating results of the Academy 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 revenues, expenses and change in accumulated deficit summarized in (Table 2), which shows the changes in net assets (accumulated deficit) for fiscal year 2008.

**ACADEMY OF CLEVELAND
CUYAHOGA COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR YEAR ENDED JUNE 30, 2008**

**TABLE 2
CHANGE IN NET ASSETS**

| | 2008 | 2007 |
|-----------------------------------|-----------------------|-----------------------|
| | (in thousands) | (in thousands) |
| Operating Revenues | | |
| Foundation | \$783.7 | \$952.0 |
| Other | 1.5 | 1.8 |
| Non-Operating Revenues | | |
| Grants-State | 7.6 | 9.3 |
| Grants-Federal | 121.0 | 155.9 |
| Total Revenues | <u>913.8</u> | <u>1,119.0</u> |
| Operating Expenses | | |
| Salaries | 433.0 | 434.0 |
| Fringe Benefits | 115.5 | 110.8 |
| Payroll Taxes | 13.5 | 14.9 |
| Purchased Services | 499.5 | 335.6 |
| Loss on Disposal | 3.1 | 0.0 |
| Materials and Supplies | 63.8 | 69.0 |
| Depreciation | 6.9 | 11.9 |
| Total Expenses | <u>1,135.3</u> | <u>976.2</u> |
| Increase (Decrease) in Net Assets | <u>(\$221.5)</u> | <u>\$142.8</u> |

As reported in table 2, the cost of all of our activities this year was approximately \$1,135,300. 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 "public benefits" portion of our activities with approximately \$783,700 in state foundation allowance.

The Academy experienced a decrease in net assets of approximately \$221,500 this school year. The key reasons for the change in net assets were insufficient student enrollment to support the Academy's operations and the incursion of additional costs related to the suspension of operations.

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, 2008, the Academy had \$3,404 invested in capital assets for furniture and equipment. This amount represents a net decrease, including additions and disposals, of \$9,428. The net decrease to the fixed assets stems from the Academy's decision to terminate its lease, thereby, impairing the leasehold improvements made to the leased premises. Accordingly, all leasehold improvements were written off as of June 30, 2008.

**ACADEMY OF CLEVELAND
CUYAHOGA COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR YEAR ENDED JUNE 30, 2008**

| <u>Capital Assets (Net of Accumulated Depreciation)</u> | <u>2008</u> | <u>2007</u> |
|---|----------------|-----------------|
| Leasehold improvements | \$0 | \$4,263 |
| Furniture and equipment | 3,404 | 8,569 |
| Capital Assets, net | <u>\$3,404</u> | <u>\$12,832</u> |

This year's addition of \$506 to furniture and equipment consisted of a new storage cabinet. No debt was issued for these additions.

No major capital projects are planned for the near future. 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 an overpayment of the state foundation funding. We present more detailed information about our liabilities in the notes to the financial statements.

Contacting the Academy's Financial Management

This financial report is designed to provide citizens, taxpayers, investors and creditors with a general overview of the Academy's finances and to reflect the Academy's accountability for the funds it receives. Questions concerning any of the information in this report should be directed to:

Andrew Burks, Fiscal Officer
Academy of Cleveland
c/o Charter School Administration Services, Inc.
20820 Greenfield Road
Oak Park, Michigan 48237

ACADEMY OF CLEVELAND
CUYAHOGA COUNTY

STATEMENT OF NET ASSETS
AS OF JUNE 30, 2008

Assets:

Current Assets:

| | |
|---------------------------|--------------|
| Cash and Cash Equivalents | \$ 3,313 |
| Receivables: | |
| Intergovernmental | 101,561 |
| Other | 29,983 |
| Prepaid Expense | <u>9,303</u> |
| Total Current Assets | 144,159 |

Non-Current Assets:

| | |
|--|----------------|
| Fixed Assets (Net of Accumulated Depreciation and Amortization) | <u>3,404</u> |
| Total Assets | <u>147,563</u> |

Liabilities:

Current Liabilities:

| | |
|---------------------------|----------------|
| Accounts Payable | 142,180 |
| Intergovernmental Payable | <u>116,417</u> |
| Total Current Liabilities | <u>258,597</u> |

Net Assets:

| | |
|----------------------------|---------------------|
| Invested in Capital Assets | 3,404 |
| Unrestricted | <u>(114,438)</u> |
| Total Net Assets | <u>\$ (111,034)</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, 2008**

Operating Revenue:

| | |
|--------------------------|------------|
| Foundation Payments | \$ 783,667 |
| Other Revenue | 1,513 |
| | <hr/> |
| Total Operating Revenues | 785,180 |

Operating Expenses:

| | |
|-------------------------------|-----------|
| Salaries | 433,060 |
| Fringe Benefits | 115,545 |
| Payroll Taxes | 13,485 |
| Purchased Services | 499,508 |
| Materials and Supplies | 63,771 |
| Loss on Disposal | 3,130 |
| Depreciation and Amortization | 6,805 |
| | <hr/> |
| Total Operating Expenses | 1,135,304 |
| | <hr/> |
| Operating Loss | (350,124) |

Non-Operating Revenue:

| | |
|-----------------------------|---------|
| Grants-State | 7,560 |
| Grants-Federal | 121,035 |
| | <hr/> |
| Total Non-Operating Revenue | 128,595 |

| | |
|---------------------------------|---------------------|
| Change in Net Assets | (221,529) |
| Net Assets at Beginning of Year | 110,495 |
| | <hr/> |
| Net Assets at End of Year | <u>\$ (111,034)</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, 2008

Increase/Decrease in Cash and Cash Equivalents:

Cash Flows from Operating Activities:

| | |
|---|-----------------|
| Cash Received from State of Ohio | \$ 900,612 |
| Cash Received from Other Sources | 1,513 |
| Cash Payments to Suppliers for Goods and Services | (518,993) |
| Cash Payments to Employees for Services | (469,437) |
| Cash Payments for Employee Benefits | (122,009) |
| Cash Payments for Payroll Taxes | <u>(14,006)</u> |

Net Cash Used By Operating Activities (222,320)

Cash Flows from Noncapital Financing Activities:

Grants and Contributions Received 201,429

Net Cash Provided By Noncapital
Financing Activities 201,429

Cash Flows from Capital and Related Financing Activities:

Payments for Capital Acquisitions (506)

Net Cash Used for Capital
and Related Financing Activities (506)

Net Decrease in Cash and Cash Equivalents (21,397)

Cash and Cash Equivalents Beginning of the Year 24,710

Cash and Cash Equivalents End of the Year \$ 3,313

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, 2008**

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

| | |
|--|---------------------------------------|
| Operating Loss | \$ (350,124) |
| Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities: | |
| Depreciation and Amortization | 6,805 |
| Loss on Disposal of Fixed Assets | 3,130 |
| Changes in Assets and Liabilities: | |
| Increase in Other Receivables | (29,983) |
| Decrease in Intergovernmental Receivable | 1,562 |
| Increase in Prepaid | (3,817) |
| Increase in Accounts Payable | 78,086 |
| Decrease in Accrued Payroll | (43,361) |
| Increase in Intergovernmental Payable | <u>115,382</u> |
| Total Adjustments | <u>127,804</u> |
| Net Cash Used by Operating Activities | <u><u>\$ (222,320)</u></u> |

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

**ACADEMY OF CLEVELAND
CUYAHOGA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2008**

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 a period beginning June 30, 2006 and ending April 14, 2009 and Ashe Culture Center, Inc. for the same period of time. 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 8 certificated full time teaching personnel and 7 full time personnel that possess long term permits that provide services to 125 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 9).

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

Enterprise accounting is used to account for 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 BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2008**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Measurement Focus and Basis of Accounting

Enterprise accounting uses a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities are included on the balance sheet. In accordance with GASB Statement No. 33, after fiscal year 2000, capital contributions from other governments and private sources are recorded as non-operating revenues and reported as retained earnings. The operating statements present increases (i.e., revenues) and decreases (i.e., 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 measurements made.

The accrual basis of accounting is utilized for reporting purposes. 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.

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

**ACADEMY OF CLEVELAND
CUYAHOGA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2008**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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. Accrued Liabilities Payable

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

Intergovernmental Payable – the Academy received payments from the state in excess of what it should have received based on student enrollment. Therefore, a liability has been recognized at June 30, 2008 for the amount of state funding to be repaid.

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.

I. Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activities. For the Academy, these revenues are payments from the State Foundation Program and miscellaneous operating revenues. Operating expenses are necessary costs incurred to provide the goods or services that are the primary activities of the Institute. All revenues and expenses not meeting these definitions are reported as non-operating.

J. Estimates

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

**ACADEMY OF CLEVELAND
CUYAHOGA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2008**

3. DEPOSITS AND INVESTMENTS

A. 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, 2008, the carrying amounts of the Academy's deposits were \$3,313 and the bank balance was \$56,951, all of which was covered by federal depository insurance.

All deposits are collateralized with Eligible securities in amounts equal to at least 105% of the carrying value of the deposits. Such collateral, as permitted by the Ohio Revised Code, is held in single financial institution collateral pools at 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 in the name of the Academy.

B. Investments

During the fiscal year ended June 30, 2008, the Academy had no investments.

4. INTERGOVERNMENTAL RECEIVABLES

All receivables are considered collectible in full due to the stable condition of State programs, and the fiscal year guarantee of federal funds. Intergovernmental receivables of the Academy at June 30, 2008 consist of Federal and State grant programs:

| Grant | Amount |
|------------------------------------|-----------|
| Title I | \$ 61,499 |
| Title II part D | 1,345 |
| Title IV | 1,095 |
| Title V | 450 |
| Idea B | 37,172 |
| Total Intergovernmental Receivable | \$101,561 |

5. CAPITAL ASSETS

A summary of the Academy's capital assets at June 30, 2008, follows:

| Capital Assets, being depreciated: | Balance 07/01/07 | Additions | Deletions | Balance 06/30/08 |
|---|-----------------------------|------------------|------------------|-----------------------------|
| Leasehold Improvements | \$78,659 | \$0 | \$78,659 | \$0 |
| Furniture and Equipment | 37,507 | 506 | 0 | 38,014 |
| Sub-Total | 116,166 | 506 | 78,659 | 38,014 |
| Less: Accumulated Depreciation | (103,334) | (6,805) | (75,529) | (34,610) |
| Capital Assets, Net | \$12,832 | (\$6,299) | \$3,130 | \$3,404 |

**ACADEMY OF CLEVELAND
CUYAHOGA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2008**

6. 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, 2007 through June 30, 2008 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. Worker's 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, and life benefits to its full time employees who work 40 or more hours per week.

7. DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

Plan Description - The Academy contributes to the School Employees Retirement System (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 provided by state statute per Chapter 3309 of the Ohio Revised Code. The School Employees Retirement System issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to SERS, 300 East Broad St., Suite 100, Columbus, Ohio 43215-3746 or by calling (614) 222-5853.

Funding Policy - Plan members are required to contribute 10% of their annual covered salary and the Academy is required to contribute at an actuarially determined rate. The current rate is 14% 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 2008, 9.16 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. Chapter 3309 of the Ohio Revised Code provides statutory authority for member and employer contributions. The Academy's contributions for pension obligations to SERS for the years ended June 30, 2008, 2007, and 2006 were \$13,384, \$10,993, and \$11,002, respectively, equal to the required contributions for each year, of which 100 percent has been contributed.

**ACADEMY OF CLEVELAND
CUYAHOGA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2008**

7. DEFINED BENEFIT PENSION PLANS (Continued)

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 beneficiaries.

Plan Options – New members have a choice of three retirement plan options. In addition to the Defined Benefit (DB) Plan, new members are offered a Defined Contribution (DC) Plan and a Combined Plan. The DC Plan allows members to allocate all their member contributions and employer contributions equal to 10.5% of earned compensation. The Combined Plan offers features of the DC Plan and the DB Plan. In the Combined Plan, member contributions are allocated by the member, and employer contributions are used to fund a defined benefit payment at a reduced level from the regular DB Plan. Contributions into the DC Plan and the Combined Plan are credited to member accounts as employers submit their payroll information to STRS Ohio, generally on a biweekly basis. 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.

DB Plan Benefits – Plan benefits are established under Chapter 3307 of the Revised Code. Any member may retire who has (i) five years of service credit and attained age 60; (ii) 25 years of service credit and attained age 55; or (iii) 30 years of service credit regardless of age. The annual retirement allowance, payable for life, is the greater of the “formula benefit” or the “money-purchase benefit” calculation. Under the “formula benefit,” the retirement allowance is based on years of credited service and final average salary, which is the average of the member’s three highest salary years. The annual allowance is calculated by using a base percentage of 2.2% multiplied by the total number of years of service credit (including Ohio-valued purchased credit) times the final average salary. The 31st year of earned Ohio Service credit is calculated at 2.5%. An additional one-tenth of a percent is added to the calculation for every year of earned Ohio service over 31 years (2.6% for 32 years, 2.7% for 33 years and so on) until 100% of final average salary is reached. For members with 35 or more years of Ohio contributing service, the first 30 years will be calculated at 2.5% instead of 2.2%. Under the “money-purchase benefit” calculation, a member’s lifetime contributions plus interest at specified rates are matched by an equal amount from other STRS Ohio funds. This total is then divided by an actuarially determined annuity factor to determine the maximum annual retirement allowance.

DC Plan Benefits – Benefits are established under Sections 3307.80 to 3307.89 of the Revised Code. For members who select the DC Plan, all member contributions and employer contributions at a rate of 10.5% are placed in an investment account. The member determines how to allocate the member and employer money among various investment choices. 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. Employer contributions into members’ accounts are vested after the first anniversary of the first day of paid service. 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.

Combined Plan Benefits – Member contributions are allocated by the member, and employer contributions are used to fund a defined benefit payment. A member’s defined benefit is determined by multiplying 1% of the member’s final average salary by the member’s years of service credit. The defined benefit portion of the Combined Plan payment is payable to a

**ACADEMY OF CLEVELAND
CUYAHOGA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2008**

7. DEFINED BENEFIT PENSION PLANS (Continued)

member on or after age 60. The defined contribution portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50.

A retiree of STRS Ohio or another Ohio public retirement system is eligible for reemployment as a teacher following the elapse of two months from the date of retirement. Contributions are made by the reemployed member and employer during the reemployment. Upon termination of reemployment or age 65, whichever comes later, the retiree is eligible for a money-purchase benefit or a lump-sum payment in addition to the original retirement allowance.

Benefits are increased annually by 3% of the original base amount for Defined Benefit Plan participants.

The Defined Benefit and Combined Plans offer access to health care coverage to eligible retirees who participated in the plans and their eligible dependents. Coverage under the current program includes hospitalization, physicians' fees, prescription drugs and partial reimbursement of monthly Medicare Part B premiums. By Ohio law, health care benefits are not guaranteed.

A Defined Benefit 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 members who die before retirement may qualify for survivor benefits. A death benefit of \$1,000 is payable to the beneficiary of each deceased retired member who participated in the Defined Benefit Plan. Death benefit coverage up to \$2,000 can be purchased by participants in the DB, DC or Combined Plans. Various other benefits are available to members' beneficiaries.

Chapter 3307 of the Revised Code provides statutory authority for member and employer contributions. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers.

Contribution requirements and the contributions actually made for the fiscal year ended June 30, 2008, were 10% of covered payroll for members and 14% for employers. 13% was the portion used to fund pension obligations. For fiscal years 2007 and 2006, the portion used to fund pension obligations was also 13%. The Academy's required contributions for pension obligations to STRS for the fiscal years ended June 30, 2008, 2007 and 2006 were \$52,373, \$44,633, and \$39,623 respectively; equal to the required contributions for each year, of which 100 percent has been contributed for each fiscal year.

STRS Ohio issues a stand-alone financial report. Additional information or copies of STRS Ohio's *Comprehensive Annual Financial Report* can be requested by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3371, by calling (888) 227-7877, or by visiting the STRS Ohio Web site at www.strsoh.org.

**ACADEMY OF CLEVELAND
CUYAHOGA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2008**

8. POSTEMPLOYMENT BENEFITS

A. School Employee Retirement System

Plan Description – 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 contacting SERS at 300 East Broad St., Suite 100, Columbus, Ohio 43215-3746.

Funding Policy – State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 401h. For 2008, 4.18 percent of covered payroll was allocated to health care. In addition, employers pay a surcharge for employees earning less than an actuarially determined amount; for 2008, this amount was \$35,800.

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

The Academy's contributions for health care for the fiscal years ended June 30, 2008, 2007, and 2006 were \$6,108, \$2,738, and \$2,870 respectively; 100 percent has been contributed for each fiscal year.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For 2008, this actuarially required allocation was 0.66 percent of covered payroll. The Academy's contributions for Medicare Part B for the fiscal years ended June 30, 2008, 2007, and 2006 were \$969, \$679, and \$686 respectively; 100 percent has been contributed for each fiscal year.

B. State Teachers Retirement System

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

**ACADEMY OF CLEVELAND
CUYAHOGA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2008**

8. POSTEMPLOYMENT BENEFITS (Continued)

employer contributions. For 2008, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. The Academy's contributions for health care for the fiscal years ended June 30, 2008, 2007, and 2006 were \$4,029, \$3,433, and \$3,047 respectively; 100 percent has been contributed for each fiscal year.

9. AGREEMENTS WITH CHARTER SCHOOL ADMINISTRATION SERVICES, INC.

The Academy originally entered into a two-year contract, effective July 1, 2004 through June 30, 2006, with Charter School Administration Services, Inc. (CSAS) for educational management services. The contract was extended through April 14, 2009. This agreement automatically renews for an additional term of one year and from year to year thereafter unless written notice of intent to terminate or renegotiate is given by either party. In exchange for its services, CSAS receives a management fee equal to 12% of all revenue sources and is reimbursed for all costs incurred on behalf of the Academy. Terms of the contract require CSAS to provide the following:

- a. Providing the support 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.
- c. All personnel functions, including professional development for the Academy Administrator, 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 off-site, upon request.
- i. Provide support for 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 student performance, upon request, but not less frequently than four times per year.
- k. Any other function necessary or expedient for the administration of the Academy.

For the year ended June 30, 2008, the management company fees in the amount of \$90,563.

**ACADEMY OF CLEVELAND
CUYAHOGA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2008**

10. 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 agreement and are 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 claim will not have a material adverse effect on the overall financial position of the Academy at June 30, 2008.

B. State 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 fiscal year 2008 FTE adjustment resulted in a payable of \$116,417 for the Academy as a result of the enrollment data review.

11. OPERATING LEASE

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 2008.

Due to the poor condition of the leased space and the danger that it presented to the students, the Academy terminated the lease effective June 30, 2008. No future lease obligations exist.

12. RELATED PARTIES

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. totaled \$477,895 which includes management fees and overhead fees. All of the fees paid represent payment of the Academy's prior year obligations.

**ACADEMY OF CLEVELAND
CUYAHOGA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2008**

13. CONSORTIUM AGREEMENT

On August 23, 2000, the Board of Trustees approved joining a consortium with eighteen other charter schools and public school academies, each of which is managed by Charter School Administration Services, Inc. (CSAS) under management agreements comparable to the management agreement between the Academy and CSAS (See Note 9). The Members of the consortium including the Academy are:

| Academy | State of Operation |
|---------------------------------------|---------------------------|
| Academy of Business and Technology | Ohio |
| Academy of Cleveland | Ohio |
| Academy of Kansas City Charter School | Missouri |
| Academy of Arizona | Arizona |
| Beaumont Charter Academy | Texas |
| Academy of Dallas | Texas |
| Bexar County Academy | Texas |
| Academy of Lithonia | Georgia |
| Academy of Detroit West | Michigan |
| Academy of Oak Park | Michigan |
| Academy of Southfield | Michigan |
| Academy of Lathrup Village | Michigan |
| Academy of Flint | Michigan |
| Academy of Inkster | Michigan |
| Academy of Warren | Michigan |
| Academy of Waterford | Michigan |
| Academy of Westland | Michigan |
| Cherry Hill School of Performing Arts | Michigan |

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 2000, and the experiences of CSAS in both incurring costs for the consortium members and allocation of such costs to consortium members, the Academy and CSAS has agreed upon an equitable method of such allocation. Based upon the student 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 2007-2008 school year, in an amount equal to \$67 per month per student enrolled at the Academy. All fees in the amount of \$81,070 were waived for the 2008 school year. (See Notes 9 and 12)

**ACADEMY OF CLEVELAND
CUYAHOGA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2008**

14. OTHER PURCHASED SERVICES

During the year ended June 30, 2008, other purchased service expenses for services rendered by various vendors were as follows:

| | |
|--|------------------|
| Advertising | \$ 10,353 |
| Audit Fees | 15,366 |
| Equipment Leases | 8,428 |
| Overhead Fees paid to Management Company | 46,063 |
| Food Service | 54,428 |
| Insurance | 16,154 |
| Legal | 738 |
| Maintenance and Repairs | 33,866 |
| Management Company Fees | 90,563 |
| Sponsorship Fees | 27,018 |
| Meetings and Conferences | 1,154 |
| Rent | 64,680 |
| Professional and Technical Services | 96,299 |
| Telephone | 8,053 |
| Utilities | 24,186 |
| Other | 2,159 |
| | <u>\$499,508</u> |

15. Accounts Payable

On June 30, 2008, the accounts payable totaled \$142,180 and consisted of \$142,180 due to CSAS for monies advanced for payroll and other purposes.

16. Tax Exempt Status

As of June 30, 2008, 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.

17. Subsequent Events

As of June 30, 2008, the Academy, in agreement with its Sponsor, suspended school operations while it works to secure a new facility that will allow the Academy to provide a safe and healthy environment for its students. The Academy intends to reconvene operations for the 2009-2010 school year. The Academy has received no state or federal funding for the 2008-2009 school year.

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 a period beginning April 15, 2009 and ending June 30, 2010.



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, 2008 and have issued our report thereon dated July 17, 2009, wherein we noted at June 30, 2008 the Academy suspended school operations for the year ending June 30, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

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

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

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

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

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 an instance of noncompliance or other matter that we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2008-001.

The Academy's response to the finding identified in our audit is described in the accompanying schedule of findings. We did not audit the Academy's response and, accordingly, we express no opinion on it.

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

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

Mary Taylor, CPA
Auditor of State

July 17, 2009

**ACADEMY OF CLEVELAND
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS
FOR THE YEAR ENDED JUNE 30, 2008**

| |
|--|
| FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS |
|--|

| | |
|-----------------------|-----------------|
| FINDING NUMBER | 2008-001 |
|-----------------------|-----------------|

Governing Board Membership

Ohio Rev. Code §3314.02(E) requires, in part, that each new start-up 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 PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2008**

| Finding Number | Finding Summary | Fully Corrected? | Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i> |
|----------------|--|------------------|--|
| 2007-001 | Ohio Rev. Code §3314.02(E)- Five board members required | No | Refer to Schedule of Findings number 2008-001. |
| | | | |



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
AUGUST 25, 2009**