



Dave Yost • Auditor of State

PROMISE ACADEMY
CUYAHOGA COUNTY

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Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT

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

To the Board of Directors:

Report on the Financial Statements

We have audited the accompanying financial statements of the Promise Academy, Cuyahoga County, Ohio (the Academy), as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Academy's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for preparing and fairly presenting these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes designing, implementing, and maintaining internal control relevant to preparing and fairly presenting financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to opine on these financial statements based on our audit. We audited in accordance with auditing standards generally accepted in the United States of America and the financial audit standards in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require us to plan and perform the audit to reasonably assure the financial statements are free from material misstatement.

An audit requires obtaining evidence about financial statement amounts and disclosures. The procedures selected depend on our judgment, including assessing the risks of material financial statement misstatement, whether due to fraud or error. In assessing those risks, we consider internal control relevant to the Academy's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not to the extent needed to opine on the effectiveness of the Academy's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of management's accounting policies and the reasonableness of their significant accounting estimates, as well as our evaluation of overall financial statement presentation.

We believe the audit evidence we obtained is sufficient and appropriate to support our opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Promise Academy, Cuyahoga County as of June 30, 2015, and the changes in its financial position and its cash flows for the year then ended in accordance with the accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated February 24, 2016, 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. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Academy's internal control over financial reporting and compliance.



Dave Yost
Auditor of State
Columbus, Ohio

February 24, 2016

**PROMISE ACADEMY
CUYAHOGA COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION and ANALYSIS
FOR THE PERIOD ENDING JUNE 30, 2015**

The Management's Discussion and Analysis (MD&A) of Promise Academy's (the Academy) financial performance provides an overall review of the Academy's financial activities for the period ending June 30, 2015. The intent of this discussion and analysis is to look at the Academy's financial performance as a whole; readers should also review the basic financial statements and notes to the basic financial statements to enhance their understanding of the Academy's financial performance.

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

Financial Highlights

- Total net position decreased to \$459,919 for the period ended June 30, 2015, down from, \$1,215,388 for the period ended June 30, 2014.
- Total assets were \$1,025,787 for the period ended June 30, 2015, a decrease from \$1,215,779 for the period ended June 30, 2014.
- Total liabilities increased to \$565,868 from \$391. Payment for contracted services were due to the Cleveland Municipal School District of \$544,851 and were paid after the fiscal year end.

Using this Financial Report

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

Statement of Net Position

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

(Continued)

**PROMISE ACADEMY
CUYAHOGA COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION and ANALYSIS
FOR THE PERIOD ENDING JUNE 30, 2015**

Table 1 provides a summary of the Academy's Statement of Net Position for the period ending June 30, 2015, compared with its Net Position for the period ending June 30, 2014:

(Table 1)

	2015	2014
Current Assets		
Cash and Cash Equivalents	\$ 368,185	\$ 601,609
Intergovernmental Receivables	<u>271,905</u>	<u>146,323</u>
Total Current Assets	<u>\$ 640,090</u>	<u>\$ 747,932</u>
Non-Current Assets		
Capital Assets (Net of Accumulated Depreciation)	<u>385,697</u>	<u>467,847</u>
Total Non-Current Assets	<u>385,697</u>	<u>467,847</u>
Total Assets	<u><u>\$ 1,025,787</u></u>	<u><u>\$ 1,215,779</u></u>
Liabilities		
Current Liabilities		
Accounts Payable	<u>565,868</u>	<u>391</u>
Total Liabilities	<u>565,868</u>	<u>391</u>
Net Position		
Net Investment in Capital Assets	385,697	467,847
Unrestricted (Deficit)	<u>74,222</u>	<u>747,541</u>
Total Net Position	<u><u>\$ 459,919</u></u>	<u><u>\$ 1,215,388</u></u>

(Continued)

**PROMISE ACADEMY
CUYAHOGA COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION and ANALYSIS
FOR THE PERIOD ENDING JUNE 30, 2015**

Table 2 shows the Statement of Revenues, Expenses and Change in Net Position for the period ending June 30, 2015, compared with last year's period ending June 30, 2014:

(Table 2)

	2015	2014
Operating Revenues		
Foundation and Poverty Based Assistance Revenues	\$ 2,462,825	\$ 3,033,092
Other Operating Revenues	<u>42,626</u>	<u>20,931</u>
Total Operating Revenues	<u>2,505,451</u>	<u>3,054,023</u>
Operating Expenses		
Contracted Service Fee	2,563,918	2,513,124
Purchased Services	789,090	743,414
Other Operating Expenses	89,431	131,912
Minor Equipment	-	9,051
Material and Supplies	55,352	195,566
Depreciation	<u>82,151</u>	<u>117,771</u>
Total Operating Expenses	<u>3,579,942</u>	<u>3,710,838</u>
Operating Income (Loss)	(1,074,491)	(656,815)
Non-Operating Revenues		
Intergovernmental Revenue	318,022	351,643
Other Non-Operating Revenues	<u>1,000</u>	<u>932</u>
Total Non-Operating Revenues	<u>319,022</u>	<u>352,575</u>
Net Income (Loss)	(755,469)	(304,240)
Net Position at Beginning of Year	<u>1,215,388</u>	<u>1,519,628</u>
Net Position at Year End	<u>\$ 459,919</u>	<u>\$ 1,215,388</u>

**PROMISE ACADEMY
CUYAHOGA COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION and ANALYSIS
FOR THE PERIOD ENDING JUNE 30, 2015**

Most Expenses are in Contracted Services as the Academy remits most of its revenue to the Cleveland Metropolitan School District, which incurs costs on behalf of the Academy to provide instruction and other costs. See Note 7 for more details.

Capital Assets

The Academy's investment in capital assets as of June 30, 2015 was \$385,697. This investment in capital assets includes improvements to the building, furniture, and equipment. Capital Assets decreased as a result of additions being less than depreciation expense. The capitalization threshold is \$5,000. Improvements are capitalized, and the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized.

Current Financial Issues

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

The Academy officially opened on February 5, 2007. The governing board of the Academy is composed of seven members, each appointed, one seat was vacant at year end. The Academy receives its finances primarily from state aid. The average number of years' experience for teachers was 16 years.

The Academy completed a 12,697 square feet expansion of its East Wing on its second floor by June 30, 2012. The cost of the expansion was \$352,502. Additional 10 offices were added, an exercise room, conference room, as well as testing and instructional areas. The Academy also added two offices on the first floor, for a total cost of \$9,697. Total square footage of the Academy is now 31,294.

Contacting the Academy's Financial Management

This financial report is designed to provide our citizens with a general overview of the Academy's finances and to show the Academy's accountability for the money it receives. If you have any questions about this report or need additional information contact James Vokac, CPA, Treasurer at 216-551-4367 or at Promise Academy, 1701 East 13th Street, Cleveland, Ohio 44114 or via e-mail at vokaccpa@sbcglobal.net.

**PROMISE ACADEMY
CUYAHOGA COUNTY, OHIO**

**STATEMENT OF NET POSITION
AS OF JUNE 30, 2015**

ASSETS

Current Assets

Cash and Cash Equivalents	\$ 368,185
Intergovernmental Receivables	<u>271,905</u>

Total Current Assets 640,090

Non-Current Assets

Capital Assets (Net of Accumulated Depreciation)	<u>385,697</u>
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Total Non-Current Assets 385,697

Total Assets **\$ 1,025,787**

LIABILITIES

Current Liabilities

Accounts Payable	<u>565,868</u>
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Total Liabilities 565,868

NET POSITION

Net Investment in Capital Assets	385,697
Unrestricted (Deficit)	<u>74,222</u>

Total Net Position **\$ 459,919**

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

**PROMISE ACADEMY
CUYAHOGA COUNTY, OHIO**

**STATEMENT OF REVENUES, EXPENSES, AND
CHANGE IN NET POSITION
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

Operating Revenues	
Foundation and Poverty Based Assistance Revenues	\$ 2,462,825
Other Operating Revenues	<u>42,626</u>
Total Operating Revenues	<u>2,505,451</u>
Operating Expenses	
Contracted Service Fee	2,563,918
Purchased Services	789,090
Other Operating Expenses	89,431
Material and Supplies	55,352
Depreciation	<u>82,151</u>
Total Operating Expenses	<u>3,579,942</u>
Operating Income (Loss)	(1,074,491)
Non-Operating Revenues	
Intergovernmental Revenue	318,022
Other Non-Operating Revenues	<u>1,000</u>
Total Non-Operating Revenues	<u>319,022</u>
Net Income (Loss)	(755,469)
Net Position at Beginning of Year	<u>1,215,388</u>
Net Position at Year End	<u><u>\$ 459,919</u></u>

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

**PROMISE ACADEMY
CUYAHOGA COUNTY, OHIO**

**STATEMENT OF CASH FLOWS
AS OF JUNE 30, 2015**

CASH FLOWS FROM OPERATING ACTIVITIES:

Cash received from State of Ohio	\$ 2,462,825	
Cash received from other operating revenues	42,626	
Cash payments to contracted services	(2,000,000)	
Cash payments to suppliers for goods and services	(144,750)	
Cash payments to purchased services	(787,565)	
Net cash used in operating activities		\$ (426,864)

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:

Cash Received from other non-operating sources	1,000	
Cash Received from intergovernmental revenue	192,440	
Net cash provided by non-capital financing activities		193,440

NET DECREASE IN CASH AND CASH EQUIVALENTS (233,424)

CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR 601,609

CASH AND CASH EQUIVALENTS AT END OF YEAR \$ 368,185

RECONCILIATION OF OPERATING INCOME (LOSS) TO

CASH USED IN ACTIVITIES:

Operating loss		(1,074,491)
Adjustments to reconcile operating income to net cash used in operating activities:		
Depreciation and amortization	82,150	
Increase in accounts payable	565,477	
Total Adjustments		647,627

NET CASH PROVIDED (USED) IN OPERATING ACTIVITIES \$ (426,864)

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

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**PROMISE ACADEMY
CUYAHOGA COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

1. DESCRIPTION OF THE SCHOOL AND REPORTING ENTITY

Promise Academy (the Academy) is a nonprofit corporation established pursuant to Ohio Revised Code Chapters 3314 and 1702 to address the needs of students in grades nine through twelve. The Academy, which is part of the State's education program, is independent of any school district and is non-sectarian in its programs, admissions policies employment practices and all other operations. The Academy may sue and be sued, acquire facilities as needed, and contract for any services necessary for the operation of the Academy. The Academy qualifies as a tax exempt organization under Section 501(c) (3) of the Internal Revenue Code. Management is not aware of any course of action or series of events that have occurred that may adversely affect the Academy's tax exempt status.

The Academy was approved for operation under a contract with the Cleveland Municipal School District (the Sponsor). For the year ended June 30, 2015, the Academy was operating under a contract with the Sponsor that was entered into July 1, 2013 for a period of five years. The Sponsor is responsible for evaluating the performance of the Academy and has the authority to deny renewal of the contract at its expiration or terminate the contract prior to its expiration.

The Academy operates under the direction of a seven member Governing Board. The Governing Board is responsible for carrying out the provisions of the contract which include, but are not limited to, state mandated provisions regarding student population, curriculum, academic goals, performance standards, admission standards, and qualification of teachers. The Governing Board controls the Academy's one instructional facility staffed by 19 certified full time teaching personnel who provide services to 255 students.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Academy have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental nonprofit organizations. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the Academy's accounting policies are described below.

A. Basis of Presentation

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

B. Measurement Focus

Enterprise accounting uses a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities are included on the Statement of Net Position. The Statement of Revenues, Expenses and Changes in Net Position presents increases (i.e. revenues) and decreases (i.e. expenses) in total net assets. The Statement of Cash Flows provides information about how the Academy finances and meets the cash flow needs of its enterprise activities.

**PROMISE ACADEMY
CUYAHOGA COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Basis of Accounting

The basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. The Academy's financial statements are prepared using the accrual basis of accounting. Revenues resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded when the exchange takes place. Revenues resulting from non-exchange transactions, in which the Academy receives value without directly giving equal value in return, such as grants and entitlements, are recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used of the fiscal year when use is first permitted; matching requirements, in which the Academy must provide local resources to be used for a specific purpose; and expenditure requirements, in which the resources are provided to the Academy on a reimbursement basis. Expenses are recognized at the time they are incurred.

D. Budgetary Process

Unlike other public schools located in the State of Ohio, community schools are not required to follow the budgetary provisions set forth in Ohio Revised Code Chapter 5705, except under Ohio Revised Code Section 5705.391, the Academy must prepare a five year spending plan and submit it to the Office of Community Schools at the Ohio Department of Education.

E. Cash and Cash Equivalents

For purposes of the Statement of Cash Flows and for presentation on the Statement of Net Position, investments with original maturities of three months or less at the time they are purchased by the Academy are considered to be cash equivalents. Investments with an initial maturity of more than three months that are not purchased from the pool are reported as investments. During fiscal 2015 the Academy's cash equivalents were limited to a business sweep checking account. Interest revenue during fiscal year 2015 amounted to \$898.

F. Operating Revenues and Expenses

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

G. Estimates

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

**PROMISE ACADEMY
CUYAHOGA COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

H. Net Position

Net position represent the difference between assets and liabilities. Net position are reported as restricted when there are limitations imposed on their use either through the enabling legislation or through external restrictions imposed by creditors, grantors, or laws and regulation of other governments. There was no restricted net position.

I. Capital Assets and Depreciation

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

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

<u>Assets</u>	<u>Years</u>
Furniture, Fixtures and Equipment	5
Leasehold Improvements	10

J. Current Liabilities

The Academy has recognized certain liabilities on its Statement of Net Position relating to expenses which are due but unpaid as of June 30, 2015.

K. Intergovernmental Revenues

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

The Academy may participate in various federal and state grant programs through the Ohio Department of Education. Grants and entitlements received under these programs are recognized as non-operating revenues in the accounting period in which all eligibility requirements have been met.

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

Amounts awarded under the above named program for the 2015 school year totaled \$ 2,462,825.

**PROMISE ACADEMY
CUYAHOGA COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015
(Continued)**

3. DEPOSITS

At fiscal year end June 30, 2015, the carrying amount of the Academy's deposits was \$368,185. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2015, \$118,185 of the Academy's bank balance was exposed to custodial risk as discussed below.

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

The Academy has no deposit policy for custodial credit risk beyond the requirements of State statute. Ohio law requires that deposits be either insured or be protected by eligible securities pledged to and deposited either with the Academy of a qualified trustee by the financial institution as security for repayments, or by a collateral pool of eligible securities deposited with a qualified trustee and pledged to secure the repayment of all public monies deposited in the financial institution whose market value at all times shall be at least one hundred five percent of the deposits being pledged.

4. CAPITAL ASSETS

A summary of the Academy's capital assets at June 30, 2015 follows:

	Balance at <u>6/30/14</u>	<u>Additions</u>	<u>Disposals</u>	Balance at <u>6/30/15</u>
Capital Assets:				
Leasehold Improvements	\$ 798,514	-		\$ 798,514
Furniture & Equipment	11,495	-		11,495
Total	<u>810,010</u>	<u>-</u>		<u>810,010</u>
Accumulated Depreciation:				
Leasehold Improvements	331,387	79,851		411,238
	-			-
Furniture & Equipment	10,775	2,299		13,074
Total	<u>342,162</u>	<u>82,150</u>		<u>424,312</u>
Net Book Value	<u>\$ 467,848</u>	<u>(82,150)</u>		<u>\$ 385,697</u>

**PROMISE ACADEMY
CUYAHOGA COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015
(Continued)**

5. RISK MANAGEMENT

A. Property and Liability

The Academy is exposed to various risks of loss related to torts: theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the fiscal year 2015, the Academy contracted with commercial insurance companies for the following:

Commercial General Liability:

Per Occurrence	\$3,000,000
General Aggregate	3,000,000
Products/Completed Ops	3,000,000
Personal & Advertising Injury	3,000,000

Education Legal/Employment Practice Liability:

Per Occurrence	2,000,000
Aggregate	2,000,000

There have been no claims filed during current audit period or in the previous two years.

B. Workers' Compensation

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

6. STAFF AND BENEFIT PLANS

A. School Staff

For fiscal year ended June 30, 2015, all staff working at Promise Academy are employees of The Cleveland Metropolitan School District ("CMSD") and are contracted as a purchased service through CMSD. CMSD is reimbursed by the Academy for those purchased services. CMSD is responsible for its employees' contributions to the School Teachers Retirement System (STRS) and the School Employees Retirement System of Ohio (SERS).

More information may be obtained by contacting Mr. Dennis Kubick, Deputy CFO of the Cleveland Metropolitan School District at Cleveland Metropolitan School District Finance Department, 1111 Superior Avenue, Cleveland, Ohio 44114.

**PROMISE ACADEMY
CUYAHOGA COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015
(Continued)**

7. MANAGEMENT AGREEMENT

The Academy has a sponsorship contract with Cleveland Metropolitan School District (“CMSD”), effective July 1, 2013 through June 30, 2018, for educational and financial management services. In exchange for its time, organization, oversight, monitoring, fees, costs and other services, CMSD receives three percent of the total amount of payments for operating expenses that the Academy receives from the State of Ohio. For the year ended June 30, 2015 this amounted to \$74,650.

The Cleveland Municipal School District has informed the Academy that the Contracted Service Fee of \$2,563,918 consists of payment for salaries, wages, and benefits.

8. PURCHASED SERVICES EXPENSES

For the year ended June 30, 2015, purchased service expenses were payments for services rendered by various vendors as follows:

For the year ended June 30, 2015, purchased service expenses were payments for services rendered by various vendors as follows:

Rentals	\$ 338,451
Utilities	108,019
Tuition Paid - Student Gateway	145,725
Professional Technical Services	51,422
Other purchased Services	23,178
Communications	26,905
Instructional Improvements	7,340
Data Processing Services	62,725
Craft & Trade Services	6,157
Transportation	829
Postage	5,278
Repairs & Maintenance	7,137
Travel	4,461
Legal Services	<u>1,463</u>
Total Purchased Services	<u>\$ 789,090</u>

**PROMISE ACADEMY
CUYAHOGA COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015
(Continued)**

9. OPERATING LEASE

On August 1, 2008, the Academy entered into a lease for the current school premises under a non-cancelable agreement that expires on July 31, 2023. The Academy has the option to terminate the lease in the tenth lease year for a terminations fee of \$100,000. Lease terms also include a renewal option for an additional five year term at a rental rate equal to 90% of the then market rate for a comparable office buildings. Rental expense under operating lease was \$338,451 in fiscal 2015.

Building improvements totaling \$368,399 and \$430,115 were paid by the Academy during fiscal 2012 and fiscal 2009, respectively, no capital improvements occurred since then. These improvements are being depreciated over a ten year period.

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

2016	\$ 356,191
2017	387,358
2018	438,116
2019	469,410
2020	469,410

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Dave Yost • Auditor of State

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

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

To the Board of Directors:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the Promise Academy, Cuyahoga County, (the Academy) as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Academy's basic financial statements and have issued our report thereon dated February 24, 2016.

Internal Control Over Financial Reporting

As part of our financial statement audit, we considered the Academy's internal control over financial reporting (internal control) to determine the audit procedures appropriate in the circumstances to the extent necessary to support our opinion on the financial statements, but not to the extent necessary to opine on the effectiveness of the Academy's internal control. Accordingly, we have not opined on it.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or combination of internal control deficiencies resulting in a reasonable possibility that internal control will not prevent or detect and timely correct a material misstatement of the Academy's financial statements. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all internal control deficiencies that might be material weaknesses or significant deficiencies. Given these limitations, we did not identify any deficiencies in internal control that we consider material weaknesses. However, unidentified material weaknesses may exist.

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, opining on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

Purpose of this Report

This report only describes the scope of our internal control and compliance testing and our testing results, and does not opine on the effectiveness of the Academy's internal control or on compliance. This report is an integral part of an audit performed under *Government Auditing Standards* in considering the Academy's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "Dave Yost". The signature is written in a cursive style with a large, looping "D" and "Y".

Dave Yost
Auditor of State
Columbus, Ohio

February 24, 2016



Dave Yost • Auditor of State

PROMISE ACADEMY

CUYAHOGA COUNTY

CLERK'S CERTIFICATION

This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
MARCH 17, 2016**