



**Auditor of State  
Betty Montgomery**



ACADEMY OF CLEVELAND  
CUYAHOGA COUNTY

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## Auditor of State Betty Montgomery

### 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, 2004, 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 obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our 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, 2004, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 3, during the year ended June 30, 2004, the Academy implemented a new financial reporting model, as required by provisions of Governmental Accounting Standards Board (GASB) Statement No. 34, "*Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*", GASB Statement No. 37, "*Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments: Omnibus*", Statement No. 38, "*Certain Financial Statement Note Disclosure*", and GASB Interpretation No. 6, "*Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements*".

In accordance with *Government Auditing Standards*, we have also issued our report dated May 16, 2005 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 "Betty Montgomery". The signature is written in a cursive, flowing style.

**Betty Montgomery**  
Auditor of State

May 16, 2005

**ACADEMY OF CLEVELAND  
CUYAHOGA COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR YEAR ENDED JUNE 30, 2004  
(Unaudited)**

This section of the Academy of Cleveland's annual financial report presents our discussion and analysis of the Academy's financial performance during the year ended June 30, 2004. Please read it in conjunction with the Academy's financial statements, which immediately follow this section.

**Highlight**

The Academy's improved financial position is the result of several factors. The primary reason for this improvement was the Academy benefited from the use of funds from the federal start-up grant, while limiting actual expenditure increases.

**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 Revenues, Expenses and Changes in Net Assets - 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, 2004  
(Unaudited)**

Table 1 provides a summary of the Academy's net assets as of June 30, 2004 and June 30, 2003.

TABLE 1 NET ASSETS	2004	2003
	(in thousands)	(in thousands)
<b>Assets</b>		
Current and other assets	\$310.6	\$157.1
Capital assets, net of accumulated depreciation	<u>3.2</u>	<u>25.6</u>
Total assets	313.8	182.7
<b>Liabilities</b>		
Current liabilities	282.0	322.5
<b>Net Assets</b>		
Invested in capital assets – Net of related debt	3.2	25.6
Unrestricted	<u>28.5</u>	<u>(165.4)</u>
Total Net Assets	\$31.7	\$(139.8)

Net Assets – The Academy's net assets increased significantly over the previous year – the increase in net assets was approximately \$171,000.

The Academy's improved financial position is the result of several factors. The primary reason for this improvement was the Academy benefited from the use of funds from the federal start-up grant, while limiting actual expenditure increases. Also, the previous year experienced an adjustment in pupil count of \$144,000, which resulted in a net asset deficit. By monitoring the Academy's resource, the net assets were approximately a positive \$31,700 for the current year.

The above analysis focuses on the net assets (see Table I). The change in net assets (see Table 2) of the Academy's governmental activities is discussed below. The Academy's net assets were approximately \$31,700 at June 30, 2004. Capital assets recorded at historical cost, net of depreciation, totaled approximately \$3,200. 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 of approximately \$28,500 was unrestricted.

The approximately \$28,500 in unrestricted net assets represents the accumulated results of the past years' operations. The unrestricted net assets balance enables the Academy to meet working capital and cash flow requirements as well as to provide for future uncertainties. 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 2004 and 2003.

**ACADEMY OF CLEVELAND  
CUYAHOGA COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR YEAR ENDED JUNE 30, 2004  
(Unaudited)**

TABLE 2 CHANGE IN NET ASSETS	2004	2003
	(in thousands)	(in thousands)
Operating Revenues		
Foundation	\$687.5	\$622.8
Other	.5	.4
Non-Operating Revenues		
Grants-State	13.7	6.1
Grants-Federal	390.8	105.2
Total Revenues	1,092.5	734.5
Operating Expenses		
Salaries	321.5	282.6
Fringe Benefits	77.0	62.3
Payroll Taxes	12.4	13.2
Purchased Services	392.0	350.4
Materials and Supplies	93.1	75.9
Loss on disposal of fixed asset		.1
Depreciation	25.0	24.7
Total Expenses	921.0	809.2
Increase (decrease) in Net Assets	\$171.5	\$(74.7)

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 \$921,000. 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 approximately \$687,500 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 no significant variances between the final budget and actual amounts.

**Capital Assets and Debt Administration**

As of June 30, 2004, the Academy had \$3,153 of net capital assets, including leasehold improvements, furniture and equipment. This amount represents a net decrease, including additions and disposals, of \$22,457.

Capital Assets (Net of Accumulated Depreciation)		
	2004	2003
Leasehold improvements	\$	\$24,331
Furniture and equipment	3,153	1,279
Net capital assets	\$3,153	\$25,610

**ACADEMY OF CLEVELAND  
CUYAHOGA COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR YEAR ENDED JUNE 30, 2004  
(Unaudited)**

This year's additions of \$2,544 included furniture and equipment. No debt was issued for these additions.

No major capital projects are planned for the 2004-05 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. We present more detailed information about our long-term 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 2005 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 2005 budget was adopted in June 2004, based on an estimate of students that will be enrolled in September 2004. Approximately 63 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 2004-05 school year, the fall student count will be below the original estimate used in creating the 2005 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 funds 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, 2004**

**Assets:**

**Current Assets:**

Cash and Cash Equivalents	\$87,382
Receivables:	
Intergovernmental	222,581
Other	<u>653</u>
Total Current Assets	310,616

**Non-Current Assets:**

Fixed Assets (Net of Accumulated Depreciation and Amortization)	<u>3,153</u>
Total Assets	313,769

**Liabilities:**

**Current Liabilities:**

Accounts Payable	215,463
Due to Other Governments	29,717
Accrued Payroll	<u>36,899</u>
Total Current Liabilities	<u>282,079</u>

**Net Assets:**

Invested in Capital Assets	3,154
Unrestricted	<u>28,536</u>
Total Net Assets	<u><u>\$ 31,690</u></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, 2004**

**Operating Revenue:**

Foundation Payments	\$687,470
Other Revenue	500
Total Operating Revenues	<u>687,970</u>

**Operating Expenses:**

Salaries	321,477
Fringe Benefits	77,001
Payroll Taxes	12,398
Purchased Services	391,984
Materials and Supplies	93,123
Depreciation and Amortization	<u>25,001</u>
Total Operating Expenses	<u>920,984</u>
Operating Loss	<u>(233,014)</u>

**Non-Operating Revenue:**

Grants-State	13,652
Grants-Federal	<u>390,827</u>
Total Non-Operating Revenue	<u>404,479</u>

Change in Net Assets	171,465
Net Assets at Beginning of Year	<u>(139,775)</u>
Net Assets at End of Year	<u><u>\$31,690</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, 2004**

**Increase/Decrease in Cash and Cash Equivalents:**

**Cash Flows from Operating Activities:**

Cash Received from State of Ohio	\$ 550,346
Cash Received from Other Sources	500
Cash Payments to Suppliers for Goods and Services	(409,439)
Cash Payments to Employees for Services	(304,286)
Cash Payment Employee Benefit	(91,648)
Cash Payment Payroll Taxes	<u>(12,153)</u>
Net Cash Uses for Operating Activities	<u>(266,680)</u>

**Cash Flows from Noncapital Financing Activities:**

Grants and Contributions Received	<u>293,766</u>
Net Cash Provided By Noncapital Financing Activities	<u>293,766</u>

**Cash Flows from Capital and Related Financing Activities:**

Payments for Capital Acquisitions	<u>(2,544)</u>
Net Cash Used for Capital and Related Financing Activities	<u>(2,544)</u>
Net Increase in Cash and Cash Equivalents	24,542
Cash and Cash Equivalents Beginning of the Year	<u>62,840</u>
Cash and Cash Equivalents End of the Year	<u><u>\$ 87,382</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, 2004**

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

Operating Loss	\$ (233,014)
<b>Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:</b>	
Depreciation and Amortization	25,001
<b>Changes in Assets and Liabilities:</b>	
Increase in Receivables	(22,807)
Increase in Accounts Payable	78,260
Decrease in Due to Other Governments	(122,715)
Increase in Accrued Payroll	8,595
Total Adjustments	(33,666)
<b>Net Cash Used by Operating Activities</b>	<b>\$ (266,680)</b>

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, 2004**

**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, and acquire facilities as needed.

The Academy was approved for operation under contract between the Governing Authority of the Academy of Cleveland (Governing Authority) and the Ohio State Board of Education (the Sponsor) for a period of five years commencing July 1, 1999, which terminates on June 30, 2004. 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 was approved for a new contract between the Governing Authority of the Academy of Cleveland (Governing Authority) and the Ohio Council of Community Schools (the Sponsor) for a period of two years commencing July 1, 2004, which terminates on June 30, 2006.

The Academy operates under the direction of a five-member Governing Board. The Governing Board is responsible for carrying out the provisions of the contract, which include, but are not limited to, state-mandated provisions regarding student population, curriculum, academic goals, 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 2 certificated full time teaching personnel and six non certificated full time teaching personnel who provide services to 107 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 16).

**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 statement of cash flows.

The Academy uses enterprise 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, 2004  
(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. Expenses are recognized at the time 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 annual budget requirement in addition to preparing a 5-year forecast, which is to be updated on an annual basis.

**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. Fixed Assets and Depreciation**

Fixed assets are capitalized at cost and updated for additions and retirements during the year. Donated fixed 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 five years.

**ACADEMY OF CLEVELAND  
CUYAHOGA COUNTY  
NOTES TO THE FINANCIAL STATEMENTS  
AS OF JUNE 30, 2004  
(Continued)**

**Note 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**F. Intergovernmental Revenues**

The Academy currently participates in the State Foundation Program and the State Disadvantaged Pupil Impact Aid (DPIA) 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.

The Academy also participates in the Federal Charter School Grant Program through the Ohio Department of Education. During 2004, the Academy received \$264,597 to offset start-up costs of the Academy. Revenue received from this program is recognized as non-operating revenue in the accompanying financial statements.

**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. Academy of Cleveland first applies restricted resources when an expense is incurred for which both restricted and unrestricted net assets are available. Academy of Cleveland did not have any restricted net assets at fiscal year end.

**Note 3- CHANGES IN ACCOUNTING PRINCIPLES**

For fiscal year 2004, the Academy has implemented Governmental Accounting Standards Board (GASB) Statement No. 34, "Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments," GASB Statement No. 37, "Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments: Omnibus," Statement No. 38, "Certain Financial Statement Note Disclosure," and GASB Interpretation No. 6, "Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements." GASB 34 creates new basic financial statements for reporting on the Academy's financial activities. The financial statements now include a Statement of Net Assets, Statement of Revenues, Expenses, and Changes in Net Assets, and a Statement of Cash Flows all prepared on an accrual basis of accounting. As a result of this change, certain financial statement amounts presented for the prior year have been reclassified in order to be consistent with the current year's presentation.

**ACADEMY OF CLEVELAND  
CUYAHOGA COUNTY  
NOTES TO THE FINANCIAL STATEMENTS  
AS OF JUNE 30, 2004  
(Continued)**

**Note 4 - DEPOSITS**

On June 30, 2004, the carrying amount of the Academy's deposits was \$87,382 and the bank balance was \$94,069. All of which was covered by federal depository insurance.

**Note 5 - FIXED ASSETS**

A summary of the Academy's fixed assets at June 30, 2004 is as follows:

	Balance July 1, 2003	Additions	Disposals	Balance June 30, 2004
Capital assets being depreciated:				
Leasehold improvements	\$ 72,994	\$ -	\$ -	\$ 72,994
Furniture and equipment	<u>1,791</u>	<u>2,544</u>	<u>-</u>	<u>4,335</u>
Subtotal	<u>74,785</u>	<u>2,544</u>	<u>-</u>	<u>77,329</u>
Accumulated depreciation:				
Leasehold improvements	48,663	24,331	-	72,994
Furniture and equipment	<u>512</u>	<u>670</u>	<u>-</u>	<u>1,182</u>
Subtotal	<u>49,175</u>	<u>25,001</u>	<u>-</u>	<u>74,176</u>
Capital assets net of depreciation	\$ <u>25,610</u>	\$ <u>(22,457)</u>	\$ <u>-</u>	\$ <u>3,153</u>

**Note 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 August 1, 2003 through August 1, 2004, 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.

**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, 2004  
(Continued)**

**7. 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 members and beneficiaries. Authority to establish and amend benefits is established by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available 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, Columbus, Ohio 43215- 3746.

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 School District 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 2004, 9.09 percent of annual covered salary was the portion to fund pension obligations. For fiscal year 2003, 8.17 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, 2004, 2003 and 2002 were \$5,512, \$4,965, and \$2,774, respectively; 100 percent has been contributed for fiscal years 2004, 2003, and 2002.

**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, annual cost-of-living adjustments, and death 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 or calling (614) 227-4090.

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan, and a Combined Plan. The DP Plan offers an annual retirement allowance based on the 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 times an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined plan, 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 BD Plan. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan. Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one time irrevocable decision to transfer their account balances from the existing DB Plan into the DC Plan or the Combined Plan. This option expired 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

**ACADEMY OF CLEVELAND  
CUYAHOGA COUNTY  
NOTES TO THE FINANCIAL STATEMENTS  
AS OF JUNE 30, 2004  
(Continued)**

**Note 7 - DEFINED BENEFIT PENSION PLANS (Continued)**

**B. State Teachers Retirement System (continued)**

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, 2004, plan members were required to contribute 10.0 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 members and employers contributions.

The Academy's required contribution for pension obligations to STRS for fiscal year 2004, 2003 and 2002 were \$ 33,905 and \$29,062, and \$11,815, 100 percent has been contributed for fiscal years 2004, 2003, and 2002.

**Note 8 - POSTEMPLOYMENT BENEFITS**

The Academy provides comprehensive health care benefits to retired teachers who participated in the defined benefit or combined plans 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 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 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. Most 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, 2004, 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 \$ 2,611 during fiscal year 2004, of which, all was paid at June 30, 2004.

STRS pays health care benefits from the Health Care Reserve Fund. At June 30, 2004, the balance in the Fund was \$ 3.1 billion. For the fiscal year ended June 30, 2004, net health care costs paid by STRS were \$ 268,739,000, and STRS Ohio had 111,853 eligible benefit recipients.

**ACADEMY OF CLEVELAND  
CUYAHOGA COUNTY  
NOTES TO THE FINANCIAL STATEMENTS  
AS OF JUNE 30, 2004  
(Continued)**

**Note 8 - 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. Members retiring on or after August 1, 1989, with less than twenty-five years of service credit must pay a portion of their premium for health care. The portion is based on years of service up to a maximum of 75 percent of the premium.

After allocation of benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2004, the employer contributions to fund health care benefits was 4.91 percent of covered payroll a decrease of .92% percent from fiscal year 2003. 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 2004, the minimum pay was established at \$25,400. For the Academy, the amount contributed to fund health care benefits, including the surcharge, during the 2004 fiscal year was \$2,979. Of which, all was paid as of June 30, 2004.

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 at June 30, 2004, were \$223,443,805, and the target level was \$335.2 million. At June 30, 2004, SERS had net assets available for payment of health care benefits of \$300.8 million. SERS has approximately 62,000 participants currently receiving health care benefits.

**Note 9 - 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 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 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, 2004.

**B. Ohio Community School Program**

A suit was filed in Franklin County Common Pleas Court on May 14, 2001, alleging that Ohio's Community (i.e., Charter) Schools program violates the state Constitution and state laws. On April 21, 2003 the court dismissed the counts containing constitutional claims and stayed the other counts pending appeal of the constitutional issues. The plaintiffs appealed to the Court of Appeals, the issues have been briefed, and arguments were heard on November 18, 2003.

**ACADEMY OF CLEVELAND  
CUYAHOGA COUNTY  
NOTES TO THE FINANCIAL STATEMENTS  
AS OF JUNE 30, 2004  
(Continued)**

**Note 11 - 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.

**Note 12 - OPERATING LEASES**

The Academy has entered into a sublease for the period August 1, 2001 through July 31, 2004 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 \$33,600 for the fiscal year. The Academy has entered into a first amendment to the lease extending the term of the lease through June 30, 2005.

The Academy has also entered into a lease commencing August 1, 2001 for a term of 36 months for a copier. Payments made during the year 2004 totaled \$7,543.

The following is a schedule of the future minimum payments required under the operating leases as of June 30, 2004.

Fiscal Year Ending June 30,	<u>Facility Rental</u>	<u>Copiers</u>
2005	\$ <u>2,800</u>	\$ <u>327</u>
Total minimum payments	\$ 2,800	\$ 327

**Note 13 - PURCHASED SERVICE EXPENSES**

For the period ended June 30, 2004, purchased service expenses were payments for services rendered, as follows:

***PURCHASED SERVICES***

Advertising	\$8,112
Insurance	11,183
Leased Equipment	9,175
Maintenance and Repairs	4,432
Management Company Fees (See Note 16)	101,199
Overhead Fees to Management Company (See Note 17)	108,674
Professional Fees	89,552
Rent	33,600
Telephone	15,483
Meeting Expenses	3,606
Utilities	<u>6,968</u>
Total Purchased Services	\$391,984

**ACADEMY OF CLEVELAND  
CUYAHOGA COUNTY  
NOTES TO THE FINANCIAL STATEMENTS  
AS OF JUNE 30, 2004  
(Continued)**

**Note 14 - TAX EXEMPT STATUS**

As of June 30, 2004, 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 15 - RELATED PARTY**

Two of the board members of the Academy of Cleveland are also directors of the Academy of America in Michigan. They 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 the Charter School Administration Services, Inc. the management company of the Academy of Cleveland.

Total rent payments to Academy of America (Michigan) were \$33,600. Total payments to Charter School Administration Services, Inc. were \$209,873, which includes management fees and overhead fees.

**Note 16 - 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 \$ 79,044 of which \$29,969 is still due for the fiscal year ended June 30, 2004. 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, which was not collected by CSAS for the year ended June 30, 2004. 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;
- 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 off-site, 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.

**ACADEMY OF CLEVELAND  
CUYAHOGA COUNTY  
NOTES TO THE FINANCIAL STATEMENTS  
AS OF JUNE 30, 2004  
(Continued)**

**Note 17 - CONSORTIUM AGREEMENT**

On July 1, 2001 the Governing Board approved joining a consortium with eighteen 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:

<b>Academy</b>	<b>State of Operation</b>
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

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 2003-2004 school year in an amount equal to \$67 per month per student enrolled at the Academy, totaling \$ 108,674 for the school year of which \$ 21,105 is still due as of June 30, 2004.

**Note 18 - ACCOUNTS PAYABLE**

On June 30, 2004 the accounts payable totaled \$215,463 and consisted of \$115,032 due CSAS for monies advanced for payroll purposes, \$51,074 for overhead and management fees due CSAS based on the provisions of the management agreement, and \$ 49,357 due to vendors for various purposes.

**Note 19 - DUE TO OTHER GOVERNMENTS**

The Academy reported an intergovernmental payable in the amount of \$29,717 on its balance sheet. The \$29,717 represents a payable by the Academy to the Ohio Department of Education for differences in active full time equivalent (FTE) enrollment and the level of foundation funding for fiscal year 2003 as determined by the Ohio Department of Education. The Academy of Cleveland has met with the Ohio Department of Education about this overpayment.



## **Auditor of State Betty Montgomery**

### **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 basic financial statements of the Academy of Cleveland, Cuyahoga County, Ohio, (the Academy) as of and for the year ended June 30, 2004, and have issued our report thereon dated May 16, 2005, wherein we noted the Academy adopted Governmental Accounting Standards Board (GASB) Statements No. 34, 37, 38, and GASB Interpretation No. 6. 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 in order 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. In a separate letter to the Academy's management dated May 16, 2005, we reported other matters involving internal control over financial reporting we did not deem reportable conditions.

#### **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 we must report under *Government Auditing Standards* which are disclosed in the accompanying schedule of findings as items 2004-001 and 2004-002

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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 "Betty Montgomery". The signature is written in a cursive, flowing style.

**Betty Montgomery**  
Auditor of State

May 16, 2005

ACADEMY OF CLEVELAND  
CUYAHOGA COUNTY

SCHEDULE OF FINDINGS  
JUNE 30, 2004

**FINDINGS RELATED TO THE FINANCIAL STATEMENTS  
REQUIRED TO BE REPORTED ACCORDING TO GAGAS**

The comment denoted with an asterisk (\*) was previously brought to management's attention for the fiscal year ended June 30, 2003, for which no corrective action has been taken.

<b>FINDING NUMBER</b>	<b>2004-001</b>
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**Fiscal Officer Designation Bonding Requirement**

Ohio Revised Code (ORC) Section 3314.011 provides that every community school established under this Chapter shall designate an individual as the fiscal officer. The Ohio Administrative Code (OAC) Section 117-6-07(B) requires the fiscal officer execute a bond prior to entering upon the duties of the fiscal officer. ORC Section 3314.011(B)(1) provides that the bond amount and surety is to be established by resolution of the governing authority. ORC Section 3314.011(B)(3) provides that bonding is conditioned on the faithful performance of the employee's official duties.

In addition, ORC Section 3314.011 provides, prior to assuming the duties of fiscal officer, the fiscal officer designee shall be licensed as prescribed by Section 3301.074 of the Revised Code or shall complete not less than sixteen hours of continuing education classes in the area of school accounting as approved by the sponsor of the community school. Any fiscal officer who is not licensed under this section shall complete an additional twenty-four hours of continuing education within one year after assuming the duties of fiscal officer of the school.

Although the Board designated an individual as a fiscal officer, the Board did not execute a bond for the position of fiscal officer (treasurer), nor did the Board set the amount of the surety. Also, the individual designated as fiscal officer failed to obtain the necessary license or training prior to assuming the position of fiscal officer.

We recommend the School review the provisions of ORC Sections 3314.011 and 3301.074 and OAC Section 117-6-07 and take the necessary steps to ensure that the fiscal officer is designated by the Board, and that the individual is adequately bonded and licensed or has completed the required continuing education training.

<b>FINDING NUMBER</b>	<b>2004-002</b>
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**\*Community School Contract**

The contract signed in 2004 between the University of Toledo (the sponsor) and the Academy required in part that "The School is required to apply and qualify as a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code". The 2003 schedule of findings also contained a reportable condition that the Academy had not applied for tax exempt status with the Internal Revenue Service.

No evidence could be located to indicate that the Academy had filed for tax exempt status under Section 501(c)(3) of the Internal Revenue Code. Without this tax exemption, the Academy could be exposed to a tax liability. Additionally, no evidence could be located that the Academy had filed the required tax returns as mandated by the various tax codes.

We recommend the Academy consult with qualified tax counsel to determine if a tax liability exists and submit an application to the Internal Revenue Service for tax exempt status under Section 501(c)(3) of the Internal Revenue Code.





**Auditor of State  
Betty Montgomery**

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**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 28, 2005**