



**CLEVELAND ARTS AND SOCIAL SCIENCES ACADEMY
CUYAHOGA COUNTY**

SINGLE AUDIT

FOR THE YEAR ENDED JUNE 30, 2010



Dave Yost • Auditor of State

**CLEVELAND ARTS AND SOCIAL SCIENCES ACADEMY
CUYAHOGA COUNTY**

TABLE OF CONTENTS

TITLE	PAGE
Independent Accountants' Report.....	1
Management's Discussion and Analysis.....	3
Basic Financial Statements:	
Statement of Net Assets	7
Statement of Revenues, Expenses and Changes in Net Assets.....	8
Statement of Cash Flows	9
Notes to the Basic Financial Statements	11
Federal Awards Revenues and Expenses Schedule.....	23
Notes to the Federal Awards Revenues and Expenses Schedule	24
Independent Accountants' Report On Internal Control Over Financial Reporting and On Compliance and Other Matters Required by <i>Government Auditing Standards</i>	25
Independent Accountants' Report on Compliance with Requirements Applicable to Each Major Federal Program and on Internal Control over Compliance in Accordance with OMB Circular A-133.....	27
Schedule of Findings.....	29

THIS PAGE INTENTIONALLY LEFT BLANK



Dave Yost • Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

Cleveland Arts and Social Sciences Academy
Cuyahoga County
10701 Shaker Boulevard
Cleveland, Ohio 44115

To the Board:

We have audited the accompanying basic financial statements of the Cleveland Arts and Social Sciences Academy, Cuyahoga County, Ohio (the Academy), as of and for the year ended June 30, 2010 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 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 Cleveland Arts and Social Sciences Academy, Cuyahoga County, Ohio, as of June 30, 2010, and the changes in its financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements have been prepared assuming that the Academy will continue as a going concern. As discussed in Note 18 to the financial statements, the Academy's deficit net assets (\$562,371) and operating loss (\$390,985) raise substantial doubt about its ability to continue as a going concern. Note 18 describes management's plan regarding these issues. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 28, 2011, on our consideration of the Academy's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

88 E. Broad St. / Tenth Floor / Columbus, OH 43215-3506
Telephone: (614) 466-3402 (800) 443-9275 Fax: (614) 728-7199
www.auditor.state.oh.us

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

We conducted our audit to opine on the financial statements that collectively comprise the Academy's basic financial statements taken as a whole. The federal awards revenues and expenses schedule provides additional information required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. The federal awards revenues and expenses schedule is management's responsibility, and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. We also applied additional procedures, including comparing and reconciling this information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, in accordance with auditing standards generally accepted in the United States of America. In our opinion, this information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



Dave Yost
Auditor of State

February 28, 2011

**CLEVELAND ARTS AND SOCIAL SCIENCES ACADEMY
CUYAHOGA COUNTY**

*MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2010
UNAUDITED*

The discussion and analysis of the Cleveland Arts and Social Sciences Academy's (the "Academy") financial performance provides an overall review of the Academy's financial activities for the fiscal year ended June 30, 2010. Readers should also review the basic financial statements and notes to enhance their understanding of the Academy's financial performance.

Highlights

The Academy finished its fifth year of operations during fiscal year 2010 serving Kindergarten through eighth grade. Enrollment varied during the year but averaged 200 students.

Key highlights for fiscal year 2010 are as follows:

- Net assets increased \$161,305.
- Operating expenses accounted for \$1,886,334 of total expenses of \$1,947,675.
- Operating revenues accounted for \$1,495,349 of total revenues of \$2,108,980.
- The Academy had an operating loss of \$390,985 and all of the operating loss was alleviated by non-operating federal grants.

Overview of the Financial Statements

The financial report consists of three parts-management's discussion and analysis, the basic financial statements, and the notes to the basic financial statements. These statements are organized so the reader can understand the financial position of the Academy. Enterprise accounting uses a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities are included on the Statement of Net Assets. The Statement of Net Assets represents the statement of position of the Academy. The Statement of Revenues, Expenses, and Changes in Net Assets presents increases (e.g., revenues) and decreases (e.g. expenses) in net total assets. The Statement of Cash Flows reflects how the Academy finances and meets its cash flow needs. Finally, the notes to the basic financial statements provide additional information that is essential to full understanding of the data provided on the basic financial statements.

Financial Analysis of the Academy as a Whole

The Academy is not required to present government-wide financial statements as the Academy is engaged in only business-type activities. Therefore, no condensed financial information derived from the governmental-wide financial statements is included in the discussion and analysis.

The following tables represent a summary of the Academy's condensed financial information for 2010 derived from the Statement of Net Assets and the Statement of Revenues, Expenses, and Changes in Net Assets.

**CLEVELAND ARTS AND SOCIAL SCIENCES ACADEMY
CUYAHOGA COUNTY**

*MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2010
UNAUDITED
(Continued)*

Table 1 provides a summary of the Academy's net assets for 2010 compared to 2009:

Table 1
Net Assets

	2010	2009	Change
<u>Assets:</u>			
Current Assets	\$222,186	\$215,546	\$6,640
Capital Assets	27,763	62,144	(34,381)
Total Assets	<u>249,949</u>	<u>277,690</u>	<u>(27,741)</u>
<u>Liabilities:</u>			
Current Liabilities	810,360	998,296	(187,936)
Long-Term Liabilities	1,960	3,070	(1,110)
	<u>812,320</u>	<u>1,001,366</u>	<u>(189,046)</u>
<u>Net Assets:</u>			
Invested in Capital Assets, Net of Related Debt	24,693	58,054	(33,361)
Restricted for Other Purposes	416	69	347
Unrestricted	<u>(587,480)</u>	<u>(781,799)</u>	<u>194,319</u>
Total Net Assets	<u><u>(\$562,371)</u></u>	<u><u>(\$723,676)</u></u>	<u><u>\$161,305</u></u>

Total net assets increased \$161,305. The increase is the result of an increase in enrollment. The Academy finished fiscal 2009 with 175 students and fiscal 2010 with 202 students. Enrollment as of December 2010 has grown to 338. Furthermore, the new permanent school facility has been completed and was in service for the opening of classes for fiscal year 2011. Student capacity in the current facility approximates 500. To fund the prior deficits, resources for the necessary programs have been made available by delaying payment on invoices from the Academy's management company for management services, other operating expenses and employee payroll.

**CLEVELAND ARTS AND SOCIAL SCIENCES ACADEMY
CUYAHOGA COUNTY**

*MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2010
UNAUDITED
(Continued)*

Table 2 reflects the changes in net assets for fiscal year 2010 as compared to 2009.

Table 2
Change in Net Assets

	2010	2009	Change
<u>Operating Revenues:</u>			
Foundation	\$1,455,732	\$1,294,273	\$161,459
Charges for Services and Miscellaneous	39,617	19,115	20,502
<u>Non-Operating Revenues:</u>			
Federal/State Restricted Grants	613,631	376,855	236,776
 Total Revenues	 <u>\$2,108,980</u>	 <u>\$1,690,243</u>	 <u>\$418,737</u>
<u>Operating Expenses:</u>			
Building	110,700	94,200	16,500
Purchased Services	1,640,662	1,324,737	315,925
Depreciation	34,381	34,381	0
General Supplies	66,981	30,651	36,330
Other Operating Expense	33,610	161,132	(127,522)
<u>Non-Operating Expenses:</u>			
Interest	61,341	101,841	(40,500)
 Total Expenses	 <u>\$1,947,675</u>	 <u>\$1,746,942</u>	 <u>\$200,733</u>
 Total Increase (Decrease) in Deficit Net Assets	 <u>\$161,305</u>	 <u>(\$56,699)</u>	 <u>\$218,004</u>

The fiscal year 2010 increase in revenues and expenses is primarily due to an increase in the average number of students served by the Academy from 175 in fiscal year 2009 to 200 in fiscal year 2010.

Budgeting

Unlike traditional public schools located in the State of Ohio, community schools are not required to follow budgetary provisions set forth in the Ohio Revised Code Chapter 5705, unless specifically provided by the Academy's contract with its sponsor. The contract between the Academy and its sponsor, Ohio Council of Community Schools, does not prescribe a budgetary process for the Academy.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2010, the Academy had \$27,763 invested in capital assets (net of accumulated depreciation) for computer and other equipment, a decrease of \$34,381 or 55.3 percent. The following table shows fiscal year 2010 compared to 2009:

**CLEVELAND ARTS AND SOCIAL SCIENCES ACADEMY
CUYAHOGA COUNTY**

*MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2010
UNAUDITED
(Continued)*

Capital Assets at June 30 (Net of Depreciation)

	2010	2009	Change
Furniture & Equipment	\$16,672	\$36,265	(\$19,593)
Computer Equipment	11,091	25,879	(14,788)
Total Capital Assets, Net	\$27,763	\$62,144	(\$34,381)

The decrease reflects the depreciation expense for the year. For further information regarding the Academy's capital assets, refer to Note 6 of the basic financial statements.

Debt

At June 30, 2010, the Academy had \$3,070 of capital leases outstanding, of which \$1,110 is due within one year. The following table summarizes the Academy's debt outstanding as of June 30, 2010.

Outstanding Debt, at Year End

	2010	2009	Change
Capital Leases Payable	\$3,070	\$4,090	(\$1,020)

The decrease reflects the Academy's principal payments during fiscal 2010. There were no new capital lease acquisitions during the year. For further information regarding the Academy's debt, refer to Note 13 to the basic financial statements.

Economic Factors

Management is not currently aware of any facts, decisions or conditions that have occurred that are expected to have a significant effect on the financial position or results of operation.

Operations

Cleveland Arts and Social Sciences Academy is a nonprofit corporation established pursuant to Ohio Revised Code Chapter 1702. The Academy offers education for Ohio children in grades K-8. The Academy is independent of any school district and is nonsectarian in its programs, admission policies, employment practices, and all other operations. The Academy may lease or acquire facilities as needed and contract for any services necessary for the operation of the Academy.

Requests for Information

This financial report is designed to provide citizens, taxpayers, investors, and creditors 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 concerning this report, please contact Brenda Neff, Treasurer for Cleveland Arts and Social Sciences Academy, 436 N. Wiley Street, Crestline, Ohio 44827.

**CLEVELAND ARTS AND SOCIAL SCIENCES ACADEMY
CUYAHOGA COUNTY**

**STATEMENT OF NET ASSETS
JUNE 30, 2010**

Assets:

Current assets:

Cash and Cash Equivalents	\$ 58,369
Intergovernmental Receivable	117,609
Prepaid Expense	<u>46,208</u>
Total current assets	<u>222,186</u>

Noncurrent assets:

Capital Assets, net of Accumulated Depreciation	<u>27,763</u>
Total noncurrent assets	<u>27,763</u>

Total assets	<u>\$ 249,949</u>
---------------------	--------------------------

Liabilities:

Current liabilities:

Accounts Payable, Trade	\$ 106,810
Accounts Payable, Related Party	702,440
Current Portion of Long-term Debt	<u>1,110</u>
Total current liabilities	<u>810,360</u>

Noncurrent liabilities:

Noncurrent Portion of Long-term Debt	<u>1,960</u>
Total noncurrent liabilities	<u>1,960</u>

Total liabilities	<u>812,320</u>
--------------------------	-----------------------

Net Assets

Invested in Capital Assets, Net of Related Debt	24,693
Restricted Net Assets	416
Unrestricted Net Assets	<u>(587,480)</u>
Total Net Assets	<u>\$ (562,371)</u>

See Accompanying Notes to the Basic Financial Statements

**CLEVELAND ARTS AND SOCIAL SCIENCES ACADEMY
CUYAHOGA COUNTY**

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

Operating Revenues:	
Community School Foundation	\$ 1,455,732
Charge for Services	2,063
Miscellaneous	37,554
Total Operating Revenues	<u>1,495,349</u>
Operating Expenses:	
Building	110,700
Purchased Services	1,640,662
Depreciation	34,381
General Supplies	66,981
Other Operating Expenses	33,610
Total Operating Expenses	<u>1,886,334</u>
Operating Loss	<u>(390,985)</u>
Nonoperating Revenues and Expenses:	
Federal and State Restricted Grants	613,631
Interest Expense	(61,341)
Net Nonoperating Revenues and Expenses	<u>552,290</u>
Change in Net Assets	161,305
Deficit Net Assets Beginning of Year (As restated - See Note 3)	<u>(723,676)</u>
Deficit Net Assets End of Year	<u><u>\$ (562,371)</u></u>

See Accompanying Notes to the Basic Financial Statements

**CLEVELAND ARTS AND SOCIAL SCIENCES ACADEMY
CUYAHOGA COUNTY**

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

CASH FLOWS FROM OPERATING ACTIVITIES

Foundation Receipts	\$ 1,437,045
Charge for Services	2,063
Other Operating Receipts	37,554
Cash Payments to Suppliers for Goods and Services	(2,071,143)
Net Cash Used for Operating Activities	(594,481)

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

Short-term Financing Payments	(61,151)
Federal and State Grant Receipts	675,796
Net Cash Provided by Noncapital Financing Activities	614,645

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Capital Lease Interest Payments	(219)
Capital Lease Principal Retirement	(1,020)
Net Cash Provided by Capital and Related Financing Activities	(1,239)

Net Increase in Cash and Cash Equivalents	18,925
Cash and Cash Equivalents - Beginning of the Year	39,444
Cash and Cash Equivalents - Ending of the Year	\$ 58,369

Reconciliation of Operating Loss to Net Cash Used for Operating Activities

Operating Loss	\$ (390,985)
----------------	--------------

Adjustments to Reconcile Operating Loss to Net Cash Used for Operating Activities

Depreciation	34,381
Changes in assets and liabilities:	
Increase in Receivables	(16,787)
Increase in Prepaid Expense	(33,093)
Increase in Accounts Payable, Trade	9,938
Increase in Accounts Payable, Related Party	(197,935)
Net Cash Used for Operating Activities	\$ (594,481)

See Accompanying Notes to the Basic Financial Statements

THIS PAGE INTENTIONALLY LEFT BLANK

**CLEVELAND ARTS AND SOCIAL SCIENCES ACADEMY
CUYAHOGA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2010**

Note 1 - Description of the School

The Cleveland Arts and Social Sciences Academy (the "Academy") is a nonprofit corporation established pursuant to Ohio Revised Code Chapter 1702. The Academy offers education for Ohio children in grades K-8. The Academy is independent of any school district and is nonsectarian in its programs, admission policies, employment practices, and all other operations. The Academy may lease or acquire facilities as needed and contract for any services necessary for the operation of the Academy.

The Academy was approved for operation pursuant to Ohio Revised Code Chapter 3314 under a contract with Ohio Council of Community Schools (the Sponsor) for a period of three academic years commencing April 26, 2005 and ending June 30, 2009. The contract was renewed for a one year period through June 30, 2010 and further renewed through June 30, 2011. 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.

Ohio Revised Code Section 3314.02(E) states in part that the Academy operate under the direction of a Governing Board that consists of not less than five individuals who are not owners or employees, or immediate relatives of owners or employees of any for-profit firm that operates or manages the Academy for the Governing Board. The Board is responsible for carrying out the provisions of the contract that include, but are not limited to, state-mandated provisions regarding student population, curriculum, academic goals, performance standards, admission standards, and qualification of teachers.

The Academy contracts with Mosaica Education, Inc, for management services including management of personnel and human resources, the program of instruction, marketing, data management, purchasing, strategic planning, public relations, financial reporting, recruiting, compliance issues, budgets, contracts, and equipment and facilities. (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 (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The Academy also applies Financial Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989, provided they do not conflict with or contradict GASB pronouncements. The entity has elected not to apply FASB pronouncements and interpretations issued after November 30, 1989. The more significant of the Academy's accounting policies are described below.

A. Basis of Presentation

The Academy's basic financial statements consist of a Statement of Net Assets; a Statement of Revenues, Expenses, and Changes in Net Assets; and a Statement of Cash Flows. The Academy uses a single enterprise presentation for its financial records. Enterprise reporting focuses on the determination of operating income, changes in net assets, financial position, and cash flows.

B. Measurement Focus

The enterprise activity is accounted for using a flow of economic resources measurement focus. All assets and liabilities associated with the operation of the Academy are included on the Statement of Net Assets. The Statement of Revenues, Expenses, and Changes in Net Assets presents increases (e.g. revenues) and decreases (e.g. expenses) in total net assets. The Statement of Cash Flows reflects how the Academy finances meet its cash flow needs.

**CLEVELAND ARTS AND SOCIAL SCIENCES ACADEMY
CUYAHOGA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2010
(Continued)**

Note 2 - Summary of Significant Accounting Policies (Continued)

C. Basis of Accounting

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

D. Budgetary Process

Unlike traditional public schools located in the State of Ohio, community schools are not required to follow budgetary provisions set forth in the Ohio Revised Code Chapter 5705, unless specifically provided by the Academy's contract with its sponsor. The contract between the Academy and its sponsor, the Ohio Council of Community Schools, does not prescribe a budgetary process for the Academy.

E. Cash and Cash Equivalents

Cash received by the Academy is reflected as "Cash and Cash Equivalents" on the Statement of Net Assets. The Academy had no investments during the fiscal year ended June 30, 2010.

F. Prepaid Items

The Academy records payments made to vendors for services that will benefit periods beyond June 30, 2010, as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expense is reported in the year in which services are consumed.

G. Capital Assets

The Academy's capital assets during fiscal year 2010 consisted of computers and other equipment. All capital assets are capitalized at cost and updated for additions and retirements during the fiscal year. Donated capital assets are recorded at their fair market values as of the date received. The Academy maintains a capitalization threshold of one thousand five hundred dollars; however, all assets purchased through debt financing (i.e. leases) are capitalized. The Academy does not have any infrastructure. 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.

**CLEVELAND ARTS AND SOCIAL SCIENCES ACADEMY
CUYAHOGA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2010
(Continued)**

Note 2 - Summary of Significant Accounting Policies (Continued)

G. Capital Assets (Continued)

All capital assets are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

<u>Description</u>	<u>Useful Lives</u>
Computers	5 years
Furniture, Fixtures, and Equipment	5-20 years

H. Net Assets

Net assets represent the difference between assets and liabilities. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Academy or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. The Academy applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net assets are available. As of June 30, 2010, there were no net assets restricted by enabling legislation.

The Statement of Net Assets reports \$416 in restricted net assets related to certain unspent federal grant receipts and \$24,693 invested in capital assets net of related debt.

I. Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the Academy. Operating expenses are necessary costs incurred to provide the service that is the primary activity of the Academy. All revenues and expenses not meeting this definition are reported as non-operating.

J. 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.

K. Economic Dependency

The Academy receives approximately 97% of its operating revenue from the Ohio Department of Education. Due to the significance of this revenue source, the Academy is considered to be economically dependent on the State of Ohio Department of Education.

Note 3 – Changes in Accounting Principles

A. New Accounting Principles

For fiscal year 2010, the Academy has implemented Governmental Accounting Standards Board (GASB) *Statement No. 55, "The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments"* and *Statement No. 56, "Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards"*

**CLEVELAND ARTS AND SOCIAL SCIENCES ACADEMY
CUYAHOGA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2010
(Continued)**

Note 3 – Changes in Accounting Principles (Continued)

GASB Statement No. 55 incorporates the hierarchy of generally accepted accounting principles (GAAP) for state and local governments into the GASB authoritative literature. The GAAP hierarchy consists of the sources of accounting principles used in the preparation of financial statements of state and local governmental entities that are presented in conformity with GAAP, and the framework for selecting those principles. The implementation of this statement did not result in any change in the Academy's financial statements.

GASB Statement No. 56 incorporates accounting and financial reporting guidance previously only contained in the American Institute of Certified Public Accountants' and auditing literature into the GASB's accounting and financial reporting literature for state and local governments. The statement's guidance addresses related party transactions, going concern considerations, and subsequent events from the AICPA literature. The implementation of this statement did not result in any change in the Academy's financial statements.

B. Restatement of Net Assets

Useful lives of capital assets were evaluated in fiscal year 2010 to better represent actual expected useful lives of the Academy's assets. As a result, the following restatement was made to the Academy's net assets:

Beginning Net Assets, June 30, 2010	\$(678,615)
Restatement of Capital Assets, net of Accumulated Depreciation	<u>(45,061)</u>
Beginning Net Assets, June 30, 2010, restated	\$(723,676)

Note 4 - Deposits

Custodial credit risk is the risk that, in the event of a bank failure, the Academy's deposits may not be returned. The Academy does not have a deposit policy for custodial credit risk. At June 30, 2010, the bank balance of the Academy's deposits was \$67,448, and the carrying value was \$58,369. The bank balance was covered by federal depository insurance, which covers deposits up to \$250,000. There are no significant statutory restrictions regarding the deposit and investment of funds by the nonprofit corporation.

Note 5 – Receivables

At June 30, 2010, the Academy had intergovernmental receivables, in the amount of \$117,609. The receivables are expected to be collected within one year.

	Amount
Title I	\$81,778
State Foundation Adjustment	16,787
School Counselor Grant	13,358
National School Lunch Programs	3,900
Title II A	1,538
SERS Overfunding	<u>248</u>
Total Intergovernmental Receivables	<u><u>\$117,609</u></u>

**CLEVELAND ARTS AND SOCIAL SCIENCES ACADEMY
CUYAHOGA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2010
(Continued)**

Note 6 - Capital Assets

Capital asset activity for the fiscal year ended June 30, 2010, was as follows:

	Balance June 30, 2009	Additions	Deletions	Balance June 30, 2010
Furniture & Equipment	\$97,963	\$0	\$0	\$97,963
Computer Equipment	73,940	0	0	73,940
Less Accumulated Depreciation	(109,759) *	(34,381)	0	(144,140)
Capital Assets, Net	<u>\$62,144</u>	<u>(\$34,381)</u>	<u>\$0</u>	<u>\$27,763</u>

* - Balance restated, see Note 3B.

Note 7 - Risk Management

The Academy is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2010, the Academy contracted with Pashley Insurance Agency to provide insurance coverage with the Hartford Casualty Insurance Company. The types and amounts of coverage provided are as follows:

Aggregate Limit	2,000,000
Products - Completed Operations Aggregate Limit	2,000,000
Medical Expense Limit - Any One Person/Occurrence	15,000
Damage to Rented Premises - Each Occurrence	300,000
Personal and Advertising Injury	1,000,000
Automobile Liability:	
Combined Single Limit	1,000,000
Business Personal Property	500,000
Excess/Umbrella Liability:	
Each Occurrence	5,000,000
Aggregate Limit	5,000,000

Settled claims have not exceeded this commercial coverage in any prior years and there have been no significant reductions in insurance coverage from the prior year.

**CLEVELAND ARTS AND SOCIAL SCIENCES ACADEMY
CUYAHOGA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2010
(Continued)**

Note 8 – Purchased Services

For the fiscal year ended June 30, 2010, purchased service expenses were as follows:

Service	Amount
Personnel	\$955,466
Staff and Administrative Services	411,619
Food Service	95,773
Building/Custodial	46,994
Student Services	58,353
Professional Fees	12,525
Sponsor Fee	43,149
Advertising	16,783
Total	<u>\$1,640,662</u>

Note 9 - Defined Benefit Pension Plans

The Academy has contracted with Mosaica Education, Inc. to provide employee services. However, these contracted services do not relieve the Academy of the obligation for remitting pension contributions. The retirement systems consider the Academy as the Employer-of-Record and the Academy is ultimately responsible for remitting retirement contributions to each of the systems noted below.

A. School Employee Retirement System

Plan Description - The Academy contributes to the School Employees Retirement System (SERS), a cost-sharing multiple employer 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 Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746.

Funding Policy - Plan members are required to contribute 10 percent of their annual covered salary and the Academy is required to contribute at an actuarially determined rate. The current Academy rate is 14 percent of annual covered payroll. A portion of the Academy's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2010, 12.74 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 by the SERS' Retirement Board up to a statutory maximum amount of 10 percent for plan members and 14 percent for employers. Chapter 3309 of the Ohio Revised Code provides statutory authority for member and employer contributions. The Academy's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2010, 2009, and 2008 were \$15,711, \$9,748, and \$5,042 respectively; 100 percent has been contributed for fiscal year 2010 and 100 percent for fiscal years 2009 and 2008.

B. State Teachers Retirement System

Plan Description - The Academy participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple employer public employee retirement plan. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3771, by calling (888) 227-7877, or by visiting the STRS Ohio Web site at www.strsoh.org.

**CLEVELAND ARTS AND SOCIAL SCIENCES ACADEMY
CUYAHOGA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2010
(Continued)**

Note 9 - Defined Benefit Pension Plans (Continued)

B. State Teachers Retirement System (Continued)

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

The DB portion of the Combined Plan payment is payable to a member on or after age 60; the DC portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50. Benefits are established by Chapter 3307 of the Ohio Revised Code. A DB or Combined Plan member with five or more years credited service who becomes disabled may qualify for a disability benefit. Eligible spouses and dependents of these active members who die before retirement may qualify for survivor benefits. Members in the DC Plan who become disabled are entitled only to their account balance. If a member of the DC Plan dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

Funding Policy - For the fiscal year ended June 30, 2010, plan members were required to contribute 10 percent of their annual covered salaries. The Academy was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The Academy's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2010, 2009, and 2008 were \$78,124, \$64,133, and \$37,757 respectively; 54 percent has been contributed for fiscal year 2010 and 100 percent for fiscal years 2009 and 2008. Contributions to the DC and Combined Plans for fiscal year 2010 were \$0 made by the Academy.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System of Ohio have an option to choose Social Security or the School Retirement System. As of June 30, 2010, none of the Academy staff have elected Social Security. The contribution rate is 6.2 percent of wages.

**CLEVELAND ARTS AND SOCIAL SCIENCES ACADEMY
CUYAHOGA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2010
(Continued)**

Note 10 - 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 2010, 0.5 percent of covered payroll was allocated to health care.

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, 2010, 2009, and 2008 were \$617, \$4,448, and \$2,301 respectively; 100 percent has been contributed for fiscal year 2010 and 100 percent for fiscal years 2009 and 2008.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For 2010, this actuarially required allocation was 0.76 percent of covered payroll. The Academy's contributions for Medicare Part B for the fiscal years ended June 30, 2010, 2009, and 2008 were \$937, \$702, and \$363 respectively; 100 percent has been contributed for fiscal year 2010 and 100 percent for fiscal years 2009 and 2008.

B. State Teachers Retirement System

Plan Description – The 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 employer contributions. For 2010, 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, 2010, 2009, and 2008 were \$6,010, \$4,933, and \$2,904 respectively; 54 percent has been contributed for fiscal year 2010 and 100 percent for fiscal years 2009 and 2008 depending on the plan selected, the number of qualified years of service, Medicare eligibility and retirement status.

**CLEVELAND ARTS AND SOCIAL SCIENCES ACADEMY
CUYAHOGA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2010
(Continued)**

Note 11 - 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 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 claims will not have a material adverse effect on the overall financial position of the Academy at June 30, 2010.

B. Ohio Department of Education Enrollment Review

The Ohio Department of Education (ODE) conducts reviews of enrollment data and full-time equivalency (FTE) calculations made by community schools. These reviews are conducted to ensure the Academy is reporting accurate student enrollment data to the State, upon which state foundation funding is calculated. As a result of a recent review, it was determined that the Academy was under funded during fiscal 2010 by \$16,787. This amount was recognized at June 30, 2010 as an intergovernmental receivable (see Note 5).

Note 12 – Building Leases

Effective July 2008, the Academy entered into a lease agreement with Mosaica Education, Inc., a related party (see Note 16), for the use of modular building units while the Academy’s permanent facility was being renovated. The lease extended through the earlier of: 1) June 2015 or 2) the new permanent facility was available for use. Monthly rent payments for the modulars were \$7,850 through December 2010 and \$8,635 thereafter. The Academy had the option to purchase the modulars at fair market value at any time during the lease. There was no land lease or required rent payments for use of the land. In addition to the modulars, the Academy leased additional classroom space from a local Church for \$1,500 per month for the period August 2009 through July 2010. Rent expense for the modulars and the additional classroom space for 2010 was \$110,700.

In October 2008, the Academy entered into a new lease agreement with Springfield Investment Properties, LLC, a wholly owned subsidiary of Mosaica Education, Inc., for use of a school facility. This new facility was put into service in August 2010, the commencement date of the lease. The lease term is the commencement date through June 2019. The annual base rent for the new facility will be \$415,000 subject to adjustment for investments made by the landlord for site improvements. Monthly rental payments begin on the commencement date.

Note 13 – Long-Term Obligations

Changes in the Academy’s long-term obligations during fiscal year 2010 were as follows:

	<u>Balance 6/30/2009</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance 6/30/2010</u>	<u>Amount Due Within One Year</u>
Capital Leases Payable	\$4,090	\$0	(\$1,020)	\$3,070	\$1,110

**CLEVELAND ARTS AND SOCIAL SCIENCES ACADEMY
CUYAHOGA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2010
(Continued)**

Note 14 – Capital Lease-Lessee Disclosure

The Academy has entered into capitalized leases for the use of computer equipment and furniture. Each lease meets the criteria of capital lease as defined by Statement of Financial Accounting Standards No. 13, "Accounting for Leases", which defines a capital lease generally as one which transfers benefits and risk of ownership to the lessee. Principal payments in 2010 were \$1,020.

	Amount
Furniture and Equipment	\$97,963
Computer Equipment	\$73,940
Less Accumulated Depreciation	(144,140)
Total June 30, 2010	<u>\$27,763</u>

The following is a schedule of the future long-term minimum lease payments required under the capital lease and the present value of the minimum lease payments as of June 30, 2010.

Fiscal Year Ending June 30	Computer Equipment
2011	\$1,328
2012	\$1,328
2012	<u>\$775</u>
Total Future Minimum Lease Payments	\$3,431
Less Amount Representing Interest	<u>361</u>
	<u>\$3,070</u>

Note 15 –Tax Exempt Status.

The Academy has filed for its tax-exempt status under Section 501(c)(3) of the Internal Revenue Code.

Note 16 – Related Party Transactions/Management Company

The Academy shares a common Governing Board with Arts and Sciences Preparatory Academy.

The Academy contracts with Mosaica Education, Inc. for a variety of services including management of personnel and human resources, board relations, financial management, marketing, technology services, the program of instruction, purchasing, strategic planning, public relations, financial reporting, recruiting, compliance issues, budgets, contracts, and equipment and facilities. Financial management services include, but are not limited to, financial statement, budget preparation, accounts payable, and payroll preparation.

Per the management agreement with the Academy, Mosaica Education, Inc. is entitled to a management fee that is equivalent to 12.5% of Academy revenue. The management fee for fiscal year 2010 was \$258,928.

Mosaica Education Inc. pays for certain operating expenses of the Academy and subsequently invoices the Academy for reimbursement. Such expenses include payroll, rent and insurance. The amount invoiced for reimbursement in fiscal 2010 was \$1,114,651.

**CLEVELAND ARTS AND SOCIAL SCIENCES ACADEMY
CUYAHOGA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2010
(Continued)**

Note 16 – Related Party Transactions/Management Company (Continued)

At June 30, 2010, the Academy had payables to Mosaica Education, Inc. in the amount of \$702,440.

The following is a schedule of amounts owed to Mosaica Education, Inc. at June 30, 2010.

	<u>Amount</u>
Payroll	\$425,677
Management Fee	172,293
Rent	73,833
Interest/Finance Charges	21,359
Miscellaneous	<u>9,278</u>
Total through June 30, 2010	<u>\$702,440</u>

Note 17 – Sponsor

The Academy was approved for operation under a contract with the Ohio Council of Community Schools (the Sponsor) for a period of three academic years commencing April 26, 2005 and ending on June 30, 2009. Contract extensions were executed extending the contract period to June 30, 2011. As part of this contract, the Sponsor is entitled to a maximum of three percent of all revenues. There is a reduction in the fee as enrollment among all schools sponsored by the Ohio Council of Community Schools and managed by Mosaica Education, Inc. reaches certain benchmarks. Total Sponsor Fees incurred during fiscal year 2010 was \$43,149.

Note 18 – Management’s Plan

For fiscal year 2010, the Academy had an operating loss of \$390,985, a change in net assets of \$161,305, and a net asset deficit of \$562,371. Cash fund balance at February 2011 is \$3,935.

The Academy’s change in net assets in fiscal year 2010 of \$161,305 was an improvement from the net loss in fiscal year 2009 of \$42,530. The improvement was primarily due to an increase in enrollment. Final full-time equivalents student enrollment was 202 and 175 students for the fiscal years ending June 30, 2010 and 2009, respectively.

Furthermore, in August 2010, the Academy moved into a newly renovated facility located on its current site and will be in service for the 2010-2011 school year. This new facility will allow the Academy to greatly expand its enrollment. Stabilization at a permanent site along with active advertising via print, radio, mailings and through referrals of current parents is anticipated to help produce the likelihood of future surpluses and provide an opportunity for the school to recover from its prior deficits. The enrollment of the Academy as of December 2010 was 338.

THIS PAGE INTENTIONALLY LEFT BLANK

**CLEVELAND ARTS AND SOCIAL SCIENCES ACADEMY
CUYAHOGA COUNTY**

**FEDERAL AWARDS REVENUES AND EXPENSES SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2010**

Federal Grantor/ Pass Through Grantor Program Title	Grant Award Year	Federal CFDA Number	Revenues	Expenses
<u>U.S. DEPARTMENT OF AGRICULTURE</u>				
<i>Passed Through Ohio Department of Education:</i>				
Nutrition Cluster:				
National School Breakfast	2010	10.553	\$ 22,398	\$ 22,398
National School Lunch Program	2010	10.555	<u>86,910</u>	<u>86,910</u>
Total U.S. Department of Agriculture			<u>109,308</u>	<u>109,308</u>
<u>U.S. DEPARTMENT OF EDUCATION</u>				
<i>Passed Through Ohio Department of Education:</i>				
Special Education Grants to States	2010	84.027	35,492	35,492
Special Education Grants to States - ARRA	2010	84.391	<u>20,929</u>	<u>20,929</u>
Total Special Education Grants to States			56,421	56,421
State Fiscal Stabilization Fund - Education State Grants- ARRA	2010	84.394	98,138	98,138
Title I Grants to Local Educational Agencies	2010	84.010	223,508	223,508
Title I Grants to Local Educational Agencies - ARRA	2010	84.389	<u>35,155</u>	<u>35,155</u>
Total Title I Grants to Local Educational Agencies			258,663	258,663
Safe and Drug Free Schools and Communities - State Grants	2010	84.186	202	-
School Improvement Grant	2010	84.377	6,306	6,306
Improving Teacher Quality State Grants	2010	84.367	13,599	13,599
Educational Technology State Grants	2010	84.318	<u>1,863</u>	<u>1,719</u>
Total U.S. Department of Education			<u>435,192</u>	<u>434,846</u>
Totals			<u>\$ 544,500</u>	<u>\$ 544,154</u>

The accompanying notes are an integral part of this schedule.

**CLEVELAND ARTS AND SOCIAL SCIENCES ACADEMY
CUYAHOGA COUNTY**

**NOTES TO THE FEDERAL AWARDS REVENUES AND EXPENSES SCHEDULE
FISCAL YEAR ENDED JUNE 30, 2010**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

The accompanying Federal Awards Revenues and Expenses Schedule (the Schedule) reports the Cleveland Arts and Social Sciences Academy (the Academy's) federal award programs' revenues and expenses. The schedule has been prepared on the accrual basis of accounting.

NOTE B - CHILD NUTRITION CLUSTER

The Academy commingles revenues from the U.S. Department of Agriculture with similar State grants. When reporting expenses on this Schedule, the Academy assumes it expends federal monies first.



Dave Yost • Auditor of State

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

Cleveland Arts and Social Sciences Academy
Cuyahoga County
10701 Shaker Boulevard
Cleveland, Ohio 44115

To the Board:

We have audited the basic financial statements of the Cleveland Arts and Social Sciences Academy, Cuyahoga County, Ohio (the Academy) as of and for the year ended June 30, 2010, and have issued our report thereon dated February 28, 2011, wherein we noted matters which raise substantial doubt about the Academy's ability to continue as a going concern. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as described in the accompanying schedule of findings, we identified a certain deficiency in internal control over financial reporting, that we consider a material weakness.

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 deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Academy's financial statements will not be prevented, or detected and timely corrected. We consider finding 2010-001 described in the accompanying schedule of findings to be a material weakness.

Compliance and Other Matters

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

We did note certain matters not requiring inclusion in this report that we reported to the Academy's management in a separate letter dated February 28, 2011.

We intend this report solely for the information and use of the audit committee, management, the Board, the Academy's sponsor (the Ohio Council of Community Schools), federal awarding agencies, pass-through entities, and others within the Academy. We intend it for no one other than these specified parties.

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

February 28, 2011



Dave Yost • Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

Cleveland Arts and Social Sciences Academy
Cuyahoga County
10701 Shaker Boulevard
Cleveland, Ohio 44115

To the Board:

Compliance

We have audited the compliance of the Cleveland Arts and Social Sciences Academy, Cuyahoga County, Ohio (the Academy) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133, Compliance Supplement* that could directly and materially affect each of the Academy's major federal programs for the year ended June 30, 2010. The summary of auditor's results section of the accompanying schedule of findings identifies the Academy's major federal programs. The Academy's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to each major federal program. Our responsibility is to express an opinion on the Academy's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits included in the Comptroller General of the United States' *Government Auditing Standards*; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to reasonably assure whether noncompliance occurred with the compliance requirements referred to above that could directly and materially affect a major federal program. An audit includes examining, on a test basis, evidence about the Academy's compliance with those requirements and performing other procedures we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Academy's compliance with those requirements.

In our opinion, the Cleveland Arts and Social Sciences Academy, Cuyahoga County, Ohio complied, in all material respects, with the requirements referred to above that that could directly and materially affect each of its major federal programs for the year ended June 30, 2010.

Internal Control Over Compliance

The Academy's management is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Academy's internal control over compliance with requirements that could directly and materially affect the major federal programs, to determine our auditing procedures for the purpose of opining on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of opining on the effectiveness of internal control over compliance. Accordingly, we have not opined on the effectiveness of the Academy's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, when performing their assigned functions, to prevent, or to timely detect and correct, noncompliance with a federal program compliance requirement. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a federal program compliance requirement will not be prevented, or timely detected and corrected.

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

However, we noted matters involving the internal control over federal compliance not requiring inclusion in this report, that we reported to the Academy's management in a separate letter dated February 28, 2011.

We intend this report solely for the information and use of the audit committee, management, the Board, the Academy's sponsor (the Ohio Council of Community Schools), federal awarding agencies, and pass-through entities. It is not intended for anyone other than these specified parties.



Dave Yost
Auditor of State

February 28, 2011

**CLEVELAND ARTS AND SOCIAL SCIENCES ACADEMY
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS
JUNE 30, 2010**

1. SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	Type of Financial Statement Opinion	Unqualified
(d)(1)(ii)	Were there any material control weaknesses reported at the financial statement level (GAGAS)?	Yes
(d)(1)(ii)	Were there any significant deficiencies in internal control reported at the financial statement level (GAGAS)?	No
(d)(1)(iii)	Was there any reported material noncompliance at the financial statement level (GAGAS)?	No
(d)(1)(iv)	Were there any material internal control weaknesses reported for major federal programs?	No
(d)(1)(iv)	Were there any significant deficiencies in internal control reported for major federal programs?	No
(d)(1)(v)	Type of Major Programs' Compliance Opinion	Unqualified
(d)(1)(vi)	Are there any reportable findings under § .510(a)?	No
(d)(1)(vii)	Major Programs (list):	Title I, CFDA # 84.010 Title I ARRA, CFDA #84.389 <u>Nutrition Cluster:</u> School Breakfast Program CFDA # 10.553; National School Lunch Program CFDA #10.555
(d)(1)(viii)	Dollar Threshold: Type A/B Programs	Type A: > \$ 300,000 Type B: all others
(d)(1)(ix)	Low Risk Auditee?	No

**CLEVELAND ARTS AND SOCIAL SCIENCES ACADEMY
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS
JUNE 30, 2010
(Continued)**

2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS

Finding Number	2010-001
-----------------------	-----------------

Financial Reporting – Material Weakness

Section 1.02 (a) (vii) (A) of the management agreement between the Academy and Mosaica Education, Inc (MEI) states that MEI will maintain accurate financial records pertaining to its operation of the Academy. Sound financial reporting is essential to ensure the information provided to the readers of the financial statements is complete and accurate.

The following adjustments were material to the overall June 30, 2010 financial statements of the Academy and were posted to the financial statements and ledgers where applicable:

- Adjustment to restate beginning net assets to record understated accumulated depreciation in the amount of \$45,061.
- Adjustment to reduce capital assets, net of related debt and record understated depreciation expense of \$14,169.

The following aggregated differences/reclassifications were immaterial to the overall June 30, 2010 financial statements of the Academy and were not posted:

- Reclassification of \$35,722 of related party payables to trade accounts payable.
- Reclassification of \$61,151 of Interest expense (non-operating) to Purchased Services (operating).

Lack or failure of controls over the posting of financial transactions and financial reporting can result in errors and irregularities that may go undetected and decreases the reliability of financial data throughout the year.

The fiscal department of Mosaica Education, Inc. should review the adjustments identified above to ensure that similar errors are not reported on the financial statements in subsequent years. In addition, policies and procedures should be adopted that include a final review of the financial statements and note disclosure to identify and correct errors and omissions. The Board should review the draft financial report compiled by Mosaica Education Inc. before it is submitted to the Auditor of State Office.

Officials' Response:

We did not receive an Official response for the finding above.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None



Dave Yost • Auditor of State

CLEVELAND ARTS AND SOCIAL SCIENCES 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 29, 2011**