



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

REGULAR AUDIT

FOR THE YEAR ENDED JUNE 30, 2009



Mary Taylor, CPA
Auditor of State

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

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Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

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

To the Board of Directors:

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, 2009, as listed in the table of contents. These financial statements are the responsibility of the Academy's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Cleveland Arts and Social Sciences, Cuyahoga County, Ohio, as of and for the year ended June 30, 2009, 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.

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 (\$678,615) and operating loss (\$317,544) 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 19, 2010, on our consideration of the Academy's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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

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

Mary Taylor, CPA
Auditor of State

February 19, 2010

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

*MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2009
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, 2009. 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 fourth year of operations during fiscal year 2009 serving Kindergarten through seventh grade. Enrollment varied during the year but averaged 175 students.

Key highlights for fiscal year 2009 are as follows:

- Net assets decreased \$42,530.
- Operating expenses accounted for \$1,630,932 of total expenses of \$1,732,773.
- Operating revenues accounted for \$1,313,389 of total revenues of \$1,690,244.
- Academy had an operating loss of \$317,544 and \$376,855 of the operating loss was alleviated by non-operating federal grants.
- Total assets decreased \$101,428, or 24 percent, primarily due to a \$109,918 decrease in Intergovernmental Receivables.
- Total liabilities decreased \$58,898, or 5.6 percent, primarily due to a \$46,538 decrease in Capital Leases Payable.

Overview of the Financial Statements

The financial report consists of three parts-management discussion and analysis, the basic financial statements, and the notes to the 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 present 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 a 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 2009 derived from the Statement of Net Assets and the Statement of Revenues, Expenses, and Changes in Net Assets.

**CLEVELAND ARTS AND SOCIAL SCIENCES ACADEMY
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*MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2009
UNAUDITED
(Continued)*

Table 1 provides a summary of Academy's net assets for 2009 compared to 2008:

Table 1
Net Assets

	2009	2008	Change
<u>Assets:</u>			
Current Assets	\$215,546	\$296,762	(\$81,216)
Capital Assets	107,205	127,417	(20,212)
Total Assets	<u>322,751</u>	<u>424,179</u>	<u>(101,428)</u>
<u>Liabilities:</u>			
Current Liabilities	998,296	1,056,174	(57,878)
Long-Term Liabilities	3,070	4,090	(1,020)
	<u>1,001,366</u>	<u>1,060,264</u>	<u>(58,898)</u>
<u>Net Assets:</u>			
Invested in Capital Assets, Net of Related Debt	103,115	76,789	26,326
Restricted for Other Purposes	69	485	(416)
Unrestricted	<u>(781,799)</u>	<u>(713,359)</u>	<u>(68,440)</u>
Total Net Assets	<u>(\$678,615)</u>	<u>(\$636,085)</u>	<u>(\$42,530)</u>

Total net assets decreased \$42,530. The decrease is the result of the enrollment falling short of the student capacity at the current facility. However, the amount of the fiscal year 2009 decrease is a substantial improvement over prior fiscal years. The improvement is the result of growth in enrollment. The Academy finished fiscal year 2008 with 78 students and fiscal year 2009 with 175 students. Enrollment as of November 2009 has grown to 206. Student capacity in the current facility approximates 300. Furthermore, a new permanent school facility is being renovated. The new facility is located on the current campus and will accommodate approximately 500 students. The new facility will be available for the fiscal 2011 school year. Thus, it is projected that the Academy will have a deficit for the 2010 school year. 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
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*MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2009
UNAUDITED
(Continued)*

Table 2 reflects the changes in net assets for fiscal year 2009 as compared to 2008.

Change in Net Assets			
	2009	2008	Change
<u>Operating Revenues:</u>			
Foundation	\$1,294,273	\$559,370	\$734,903
Charges for Services and Miscellaneous	19,115	6,131	12,984
<u>Non-Operating Revenues:</u>			
Federal/State Restricted Grants	376,855	382,530	(5,675)
Total Revenues	\$1,690,243	\$948,031	\$742,212
<u>Operating Expenses:</u>			
Building	94,200	168,282	(74,082)
Purchased Services	1,324,737	752,278	572,459
Depreciation	20,212	22,057	(1,845)
General Supplies	30,651	115,750	(85,099)
Other Operating Expense	161,132	54,936	106,196
<u>Non-Operating Expenses:</u>			
Interest	101,841	57,362	44,479
Total Expenses	\$1,732,773	\$1,170,665	\$562,108
Total Increase (Decrease) in Net Assets	(\$42,530)	(\$222,634)	\$180,104

The fiscal year 2009 increase in revenues and expenses is primarily due to an increase in the average number of students served by the Academy from 78 in fiscal year 2008 to 175 in fiscal year 2009.

Budgeting

Unlike other 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.

**CLEVELAND ARTS AND SOCIAL SCIENCES ACADEMY
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*MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2009
UNAUDITED
(Continued)*

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2009, the Academy had \$107,205 invested in capital assets (net of accumulated depreciation) for computer and other equipment, a decrease of \$20,212 or 15.9 percent. The following table shows fiscal year 2009 compared to 2008:

Capital Assets at June 30 (Net of Depreciation)

	<u>2009</u>	<u>2008</u>	<u>Change</u>
Furniture & Equipment	\$81,326	\$86,749	(\$5,423)
Computer Equipment	25,879	40,668	(14,789)
Total Capital Assets, Net	<u>\$107,205</u>	<u>\$127,417</u>	<u>(\$20,212)</u>

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, 2009, the Academy had \$4,090 of capital leases outstanding, of which \$1,020 is due within one year. The following outstanding table summarizes the Academy's debt outstanding as of June 30, 2009.

Outstanding Debt, at Year End

	<u>2009</u>	<u>2008</u>	<u>Change</u>
Capital Leases Payable	\$4,090	\$50,628	(\$46,538)

The decrease reflects the Academy's principal payments during fiscal year 2009. 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 operations.

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-7. 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.

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

*MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2009
UNAUDITED
(Continued)*

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 question concerning this report, please contact Robert Lotz, Treasurer for Cleveland Arts and Social Sciences Academy, 3333 Chippewa Street, Columbus, Ohio 43204.

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

**STATEMENT OF NET ASSETS
JUNE 30, 2009**

Assets:

Current assets:

Cash and Cash Equivalents	\$	39,443
Intergovernmental Receivable		162,988
Prepaid Expense		13,115
Total current assets		215,546

Noncurrent assets:

Capital Assets, net of Accumulated Depreciation		107,205
Total noncurrent assets		107,205

Total assets		322,751
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Liabilities:

Current liabilities:

Accounts Payable, Trade		96,872
Accounts Payable, Related Party		900,375
Accrued Interest		29
Current Portion of Long-term Debt		1,020
Total current liabilities		998,296

Noncurrent liabilities:

Noncurrent Portion of Long-term Debt		3,070
Total noncurrent liabilities		3,070

Total liabilities		1,001,366
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Net Assets

Invested in Capital Assets, Net of Related Debt		103,115
Restricted Net Assets		69
Unrestricted Net Assets		(781,799)
Total Net Assets		\$ (678,615)

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 FISCAL YEAR ENDED JUNE 30, 2009**

Operating Revenues:	
Community School Foundation	\$ 1,294,273
Charge for Services	9,115
Miscellaneous	10,000
Total Operating Revenues	<u>1,313,388</u>
Operating Expenses:	
Building	94,200
Purchased Services	1,324,737
Depreciation	20,212
General Supplies	30,651
Other Operating Expenses	161,132
Total Operating Expenses	<u>1,630,932</u>
Operating Loss	<u>(317,544)</u>
Nonoperating Revenues and Expenses:	
Federal and State Restricted Grants	376,855
Interest Expense	(101,841)
Net Nonoperating Revenues and Expenses	<u>275,014</u>
Change in Net Assets	(42,530)
Net Assets Beginning of Year	<u>(636,085)</u>
Net Assets End of Year	<u><u>\$ (678,615)</u></u>

See Accompanying Notes to the Basic Financial Statements

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

**STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

CASH FLOWS FROM OPERATING ACTIVITIES

Community School Foundation Receipts	\$ 1,294,273
Charge for Services Receipts	9,115
Other Operating Receipts	10,000
Cash Payments to Suppliers for Goods and Services	(1,619,713)
	<u>(306,325)</u>

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

Short-term Financing Payments	(99,458)
Federal and State Grant Receipts	486,773
Net Cash Provided by Noncapital Financing Activities	<u>387,315</u>

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Capital Lease Interest Payments	(2,885)
Capital Lease Principal Retirement	(46,538)
Net Cash Used for Capital and Related Financing Activities	<u>(49,423)</u>

Net Increase in Cash and Cash Equivalents	31,567
Cash and Cash Equivalents - Beginning of the Year	7,876
Cash and Cash Equivalents - Ending of the Year	<u>\$ 39,443</u>

Reconciliation of Operating Loss to Net Cash Used for Operating Activities

Operating Loss	<u>\$ (317,544)</u>
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Adjustments to Reconcile Operating Loss to Net Cash Used for Operating Activities

Depreciation	20,212
Changes in assets and liabilities:	
Decrease in Prepaid Expense	2,865
Decrease in Accounts Payable, Trade	(55,147)
Increase in Accounts Payable, Related Party	47,787
Decrease in Deferred Revenue	(4,498)
Net Cash Used for Operating Activities	<u>\$ (306,325)</u>

See Accompanying Notes to the Basic Financial Statements

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2009**

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-7. 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, with an additional 1 year extension through June 30, 2010. 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, 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, 2009
(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 other 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, 2009.

F. Prepaid Items

The Academy records payments made to vendors for services that will benefit periods beyond June 30, 2009, 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 2009 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, 2009
(Continued)**

Note 2 - Summary of Significant Accounting Policies (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, 2009, there were no net assets restricted by enabling legislation.

The Statement of Net Assets reports \$69 in restricted net assets related to certain unspent federal grant receipts and \$103,115 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 99% 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

There were no changes in accounting principals implemented during 2009 that would have a material effect on the financial statements.

**CLEVELAND ARTS AND SOCIAL SCIENCES ACADEMY
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2009
(Continued)**

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, 2009, the bank balance of the Academy's deposits was \$46,963 and the carrying amount was \$39,443. The bank balance was covered by federal depository insurance. There are no significant statutory restrictions regarding the deposit and investment of funds by the nonprofit corporation.

Note 5 – Receivables

At June 30, 2009, the Academy had intergovernmental receivables, in the amount of \$162,988. The receivables are expected to be collected within one year.

	Amount
Title I	\$127,413
IDEA	29,446
National School Lunch Programs	5,373
Title II D	345
Title II A	284
Title V	127
Total Intergovernmental Receivables	\$162,988

Note 6 - Capital Assets

Capital asset activity for the fiscal year ended June 30, 2009, was as follows:

	Balance June 30, 2008	Additions	Deletions	Balance June 30, 2009
Furniture & Equipment	\$97,963	\$0	\$0	\$97,963
Computer Equipment	73,940	0	0	73,940
Less Accumulated Depreciation	(44,486)	(20,212)	0	(64,698)
Capital Assets, Net	\$127,417	(\$20,212)	\$0	\$107,205

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 2009, 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:

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2009
(Continued)**

Note 7 - Risk Management (Continued)

General Liability:	
Each Occurrence	\$1,000,000
Aggregate Limit	2,000,000
Products - Completed Operations Aggregate Limit	2,000,000
Medical Expense Limit - Any One Person/Occurrence	10,000
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	10,000,000
Aggregate Limit	10,000,000

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.

Note 8 – Purchased Services

For the fiscal year ended June 30, 2009, purchased service expenses were as follows:

Service	Amount
Personnel	\$833,195
Staff and Administrative Services	240,647
Food Service	84,197
Building/Custodial	82,153
Student Services	18,303
Professional Fees	16,094
Sponsor Fee	25,863
Advertising	24,285
Total	<u>\$1,324,737</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.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2009
(Continued)**

Note 9 – Defined Benefit Pension Plans (Continued)

A. School Employees 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 2009, 9.16 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended 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, 2009, 2008 and 2007 were \$9,748, \$5,042 and \$8,080 respectively; 77 percent has been contributed for fiscal year 2009 and 100 percent for fiscal years 2008 and 2007.

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 system. 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 43215-3371, by calling (888) 227-7877, or by visiting the STRS Ohio web site at www.strsoh.org.

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 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.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2009
(Continued)**

Note 9 – Defined Benefit Pension Plans (Continued)

B. State Teachers Retirement System (Continued)

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, 2009, 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. For fiscal year 2009, the portion used to fund pension obligations was also 13 percent. 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, 2009, 2008, and 2007 were \$64,133, \$37,757 and \$47,738 respectively; 78 percent has been contributed for the fiscal year 2009, and 100 percent for fiscal years 2008 and 2007. Contributions to the DC and Combined Plans for the fiscal year 2009 were \$0 made by the Academy and \$0 made by the plan members.

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. The contribution rate is 6.2 percent of wages. As of June 30, 2009, none of the Academy staff have elected Social Security.

Note 10 – Postemployment Benefits

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 2009, 4.18 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.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2009
(Continued)**

Note 10 – Postemployment Benefits (Continued)

The Academy's contributions for health care for the fiscal years ended June 30, 2009, 2008, and 2007 were \$4,448, \$2,301 and \$2,511 respectively; 77 percent has been contributed for fiscal year 2009 and 100 percent for fiscal years 2008 and 2007.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For 2009 and 2008, this actuarially required allocation was 0.66 percent of covered payroll. The Academy's contributions for Medicare Part B for both fiscal years ended June 30, 2009 and 2008 were \$702 and \$363, respectively; 77 percent has been contributed for fiscal year 2009 and 100 percent has been contributed for fiscal year 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 2009, 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, 2009, 2008, and 2007 were \$4,933, \$2,904 and \$3,671 respectively; 78 percent has been contributed for fiscal year 2009 and 100 percent for fiscal years 2008 and 2007.

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, 2009.

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. The conclusion of this review could result in state funding being adjusted.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2009
(Continued)**

Note 12 – Building Leases

Effective July 2008, the Academy entered into a lease agreement with Mosaica Education, Inc. for the use of modular building units. The lease extends through June 2015. Monthly rent payments are \$7,850 through December 2010 and \$8,635 thereafter. The Academy has 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 fiscal year 2009. In October 2008, the Academy entered into a lease agreement with Springfield Investment Properties, LLC, a wholly owned subsidiary of Mosaica Education, Inc., for use of a school facility. This new facility is being renovated. The commencement date of the lease will be upon completion of the renovation. The new facility is expected to be available for use for the opening of classes of the 2010 - 2011 school year. The lease term is the commencement date through June 2019. The annual base rent 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 2009 were as follows:

	<u>Balance 6/30/2008</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance 6/30/2009</u>	<u>Amount Due Within One Year</u>
Capital Leases Payable	\$50,628	\$0	(\$46,538)	\$4,090	\$1,020

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 2009 were \$46,538.

	<u>Amount</u>
Property under Capital Lease	\$171,903
Less Accumulated Depreciation	(64,698)
Total June 30, 2009	<u>\$107,205</u>

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2009
(Continued)**

Note 14 – Capital Lease-Lessee Disclosure (Continued)

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, 2009.

Fiscal Year Ending June 30	Computer Equipment
2010	\$1,328
2011	1,328
2012	1,328
2013	775
Total future minimum lease payments:	<u>\$4,759</u>
Less Amount representing interest:	<u>669</u>
	<u><u>\$4,090</u></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 contracts with Mosaica Education, Inc. for 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 2009 was \$210,030.

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 2009 was \$1,012,882.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2009
(Continued)**

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

At June 30, 2009, the Academy had payables to Mosaica Education, Inc. in the amount of \$900,375. The following is a schedule of amounts owed to Mosaica Education, Inc. at June 30, 2009.

	<u>Amount</u>
Payroll	\$528,784
Management Fee	169,671
Rent	97,383
Interest/Finance Charges	73,705
Miscellaneous	<u>30,832</u>
Total through June 30, 2009	<u>\$900,375</u>

Note 17 – Sponsor

The Academy was approved for operation under a contract with the Ohio Council of Community Schools Council (the Sponsor) for a period of three academic years commencing April 26, 2005 and ending on June 30, 2009. 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. reached certain benchmarks. Total amount due and paid for fiscal year 2009 was \$25,863.

Note 18 – Management’s Plan

For fiscal year 2009, the Academy had an operating loss of \$317,544, a net loss of \$42,530, and net asset deficit of \$678,615. Projected revenues and expenses for fiscal year 2010 indicate that a deficit is likely. As of January 31, 2010, the Academy had a positive cash fund balance of \$104,602.

The Academy’s net loss in fiscal year 2009 of \$42,530 was less than the net loss in fiscal year 2008 of \$222,634 primarily due to an increase in enrollment. Final full-time equivalents student enrollment was 175 and 78 students for the fiscal years ending June 30, 2009 and 2008, respectively. Current full-time equivalent student enrollment as of February 2010 is 202 students.

Management has plans to move the Academy into a newly renovated facility located on its current site beginning in 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.

Note 19 – Subsequent Event

On September 1, 2009, the Academy entered into an agreement with Preparing Academic Leaders Academy (a Mosaica School) for the use or storage of certain equipment during the period of Preparing Academic Leaders Academy’s suspension of school activities.

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Mary Taylor, CPA

Auditor of State

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

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

To the Board of Directors:

We have audited the financial statements of the Cleveland Arts and Social Sciences Academy, Cuyahoga County, Ohio (the Academy), as of and for the year ended June 30, 2009, and have issued our report thereon dated February 19, 2010, 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 expressing our opinion on the financial statements, but not to opine on the effectiveness of the Academy's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the Academy's internal control over financial reporting.

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

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

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

We did note certain internal control matters that we reported to the Academy's management in a separate letter dated February 19, 2010.

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 intend this report solely for the information and use of management, Board of Directors, and the Academy's sponsor Ohio Council of Community Schools. We intend it for no one other than these specified parties.

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

Mary Taylor, CPA
Auditor of State

February 19, 2010

CLEVELAND ARTS AND SOCIAL SCIENCES ACADEMY
CUYAHOGA COUNTY

SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2009

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2008-001	Financial Reporting	No	Partially Corrected; Reissued as Management Letter Comment

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Mary Taylor, CPA

Auditor of State

Independent Accountant's Report on Applying Agreed-Upon Procedures

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

To the Board of Directors:

Ohio Rev. Code Section 117.53 states "the auditor of state shall identify whether the school district or community school has adopted an anti-harassment policy in accordance with Section 3313.666 of the Revised Code. This determination shall be recorded in the audit report. The auditor of state shall not prescribe the content or operation of any anti-harassment policy adopted by a school district or community school."

Accordingly, we have performed the procedures enumerated below, which were agreed to by to by the Board, solely to assist the Board in evaluating whether the Cleveland Arts and Social Sciences Academy (the Academy) has adopted an anti-harassment policy in accordance with Ohio Rev. Code Section 3313.666. Management is responsible for complying with this requirement. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of the Board. Consequently; we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

1. We noted the Board adopted an anti-harassment policy at its meeting on January 17, 2008.
2. We read the policy, noting it included the following requirements from Ohio Rev. Code Section 3313.666(B):
 - (1) A statement prohibiting harassment, intimidation, or bullying of any student on school property or at school-sponsored events;
 - (2) A definition of harassment, intimidation, or bullying that includes the definition in division (A) of Ohio Rev. Code Section 3313.666;
 - (3) A procedure for reporting prohibited incidents;
 - (4) A requirement that school personnel report prohibited incidents of which they are aware to the school principal or other administrator designated by the principal;
 - (5) A requirement that parents or guardians of any student involved in a prohibited incident be notified and, to the extent permitted by section 3319.321 of the Revised Code and the "Family Educational Rights and Privacy Act of 1974," 88 Stat. 571, 20 U.S.C. 1232q, as amended, have access to any written reports pertaining to the prohibited incident;

- (6) A procedure for documenting any prohibited incident that is reported;
- (7) A procedure for responding to and investigating any reported incident;
- (8) A strategy for protecting a victim from additional harassment, intimidation, or bullying, and from retaliation following a report;
- (9) A disciplinary procedure for any student guilty of harassment, intimidation, or bullying, which shall not infringe on any student's rights under the first amendment to the Constitution of the United States;
- (10) A requirement that the district administration semiannually provide the president of the district board a written summary of all reported incidents and post the summary on its web site, if the district has a web site, to the extent permitted by section 3319.321 of the Revised Code and the "Family Educational Rights and Privacy Act of 1974," 88 Stat. 571, 20 U.S.C. 1232q, as amended.

We were not engaged to and did not conduct an examination, the objective of which would be the expression of an opinion on compliance with the anti-harassment policy. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the Board of Directors and the Academy's sponsor Ohio Council of Community Schools and is not intended to be and should not be used by anyone other than these specified parties.



Mary Taylor, CPA
Auditor of State

February 19, 2010



Mary Taylor, CPA
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
APRIL 6, 2010**