



Dave Yost • Auditor of State



BELLA ACADEMY OF EXCELLENCE  
CUYAHOGA COUNTY

TABLE OF CONTENTS

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

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# Dave Yost • Auditor of State

## INDEPENDENT ACCOUNTANTS' REPORT

Bella Academy of Excellence  
Cuyahoga County  
19114 Bella Drive  
Cleveland, Ohio 44119

To the Board of Directors:

We have audited the accompanying basic financial statements of the business-type activities of the Bella Academy of Excellence, Cuyahoga County, Ohio (the Academy), as of and for the year ended June 30, 2011, which collectively comprise the Academy's basic financial statements 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 business-type activities of the Bella Academy of Excellence, Cuyahoga County, Ohio, as of June 30, 2011, 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 27, 2012, 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.

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 Schedule of Federal Awards Receipts and Expenditures 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 Schedule of Federal Awards Receipts and Expenditures 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. This schedule was subject to the auditing procedures we applied to the basic financial statements. We also applied certain 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.

A handwritten signature in black ink that reads "Dave Yost". The signature is written in a cursive, flowing style with a large loop at the end of the last name.

**Dave Yost**  
Auditor of State

February 27, 2012

**BELLA ACADEMY OF EXCELLENCE  
CUYAHOGA COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011  
UNAUDITED

The discussion and analysis of the Bella Academy of Excellence (the "Academy") financial performance provides an overall review of the Academy's financial activities for the fiscal year ended June 30, 2011. The intent of this discussion and analysis is to look at the Academy's financial performance as a whole; readers should also review the notes to the basic financial statements and financial statements to enhance their understanding of the Academy's financial performance.

**Financial Highlights**

Key financial highlights for 2011 are as follows:

- In total, net assets were \$13,864 at June 30, 2011.
- The Academy had operating revenues of \$2,066,370, operating expenses of \$3,119,215, non-operating revenues of \$1,037,645, and a special item of \$116,951 for fiscal year 2011.

**Using these Basic Financial Statements**

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand the Academy's financial activities. The *statement of net assets* and *statement of revenues, expenses and changes in net assets* provide information about the activities of the Academy, including all short-term and long-term financial resources and obligations.

**Reporting the Academy's Financial Activities**

***Statement of Net Assets, Statement of Revenues, Expenses, and Changes in Net Assets and the Statement of Cash Flows***

These documents look at all financial transactions and ask the question, "How did we do financially during 2011?" The statement of net assets and the statement of revenues, expenses and changes in net assets answer this question. These statements include *all assets, liabilities, revenues and expenses* using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting will take into account all of the current year's revenues and expenses regardless of when cash is received or paid.

These two statements report the Academy's *net assets* and changes in those assets. This change in net assets is important because it tells the reader that, for the Academy as a whole, the *financial position* of the Academy has improved or diminished. The causes of this change may be the result of many factors, some financial, some not. These statements can be found on pages 7 and 8 of this report.

The statement of cash flows provides information about how the Academy finances and meets the cash flow needs of its operations. The statement of cash flows can be found on page 9 of this report.

**BELLA ACADEMY OF EXCELLENCE  
CUYAHOGA COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011  
UNAUDITED

The table below provides a comparative analysis of fiscal years 2011 and 2010:

|                            | <b>Net Assets</b> |                    |                   |
|----------------------------|-------------------|--------------------|-------------------|
|                            | <u>2011</u>       | <u>2010</u>        | <u>Variance</u>   |
| <b><u>Assets</u></b>       |                   |                    |                   |
| Current assets             | \$ 230,455        | \$ 74,447          | \$ 156,008        |
| Total assets               | <u>230,455</u>    | <u>74,447</u>      | <u>156,008</u>    |
| <b><u>Liabilities</u></b>  |                   |                    |                   |
| Current liabilities        | 216,591           | 41,383             | 175,208           |
| Long-term liabilities      | <u>-</u>          | <u>120,951</u>     | <u>(120,951)</u>  |
| Total liabilities          | <u>216,591</u>    | <u>162,334</u>     | <u>54,257</u>     |
| <b><u>Net Assets</u></b>   |                   |                    |                   |
| Unrestricted (deficit)     | <u>13,864</u>     | <u>(87,887)</u>    | <u>101,751</u>    |
| Total net assets (deficit) | <u>\$ 13,864</u>  | <u>\$ (87,887)</u> | <u>\$ 101,751</u> |

Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2011, the Academy's net assets totaled \$13,864.

Current assets represent cash and intergovernmental receivables. The Academy reported intergovernmental receivables for grants at June 30, 2011 and June 30, 2010 in the amount of \$215,168 and \$39,476, respectively. Grants receivable increased primarily as a result of the Academy's participation in the Education Jobs program. As a result of the full-time equivalency review by the Ohio Department of Education at June 30, 2011 and June 30, 2010, an intergovernmental receivable in the amount of \$15,103 and \$19,339, respectively, was reported (see Note 13.B to the notes to the basic financial statements for detail).

Current liabilities of \$216,591 and \$41,383 represent accounts payable for professional and legal services at June 30, 2011 and June 30, 2010, respectively. Non-current liabilities at June 30, 2010 were comprised of a \$120,951 long-term operating lease payable for fiscal year 2010 utility and service charges related to the operating lease with Schoolhouse Finance, LLC. During fiscal year 2011, the Academy paid down \$4,000 of the liability. At June 30, 2011, the outstanding unpaid utility and service charges in the amount of \$116,951 were forgiven and reported as a special item on the basic financial statements (See Notes 2.L and 6 for detail).



**BELLA ACADEMY OF EXCELLENCE  
CUYAHOGA COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011  
UNAUDITED

The table below shows the changes in net assets for fiscal years 2011 and 2010.

| <b>Change in Net Assets</b>               |              |              |            |
|---|--------------|--------------|------------|
|   | 2011         | 2010         | Variance   |
| <b><u>Operating Revenues:</u></b>         |              |              |            |
| State foundation                          | \$ 2,066,370 | \$ 1,280,119 | \$ 786,251 |
| Total operating revenue                   | 2,066,370    | 1,280,119    | 786,251    |
| <b><u>Operating Expenses:</u></b>         |              |              |            |
| Management fees                           | 2,294,285    | 1,119,213    | 1,175,072  |
| Sponsorship fees                          | 62,033       | 37,823       | 24,210     |
| Legal                                     | 22,008       | 14,913       | 7,095      |
| Professional services                     | 138,963      | 31,122       | 107,841    |
| Operating lease payments                  | 593,580      | 624,951      | (31,371)   |
| Other                                     | 8,346        | 302          | 8,044      |
| Total operating expenses                  | 3,119,215    | 1,828,324    | 1,290,891  |
| <b><u>Non-operating Revenues:</u></b>     |              |              |            |
| Federal and state grants                  | 1,037,645    | 460,318      | 577,327    |
| Total non-operating revenues              | 1,037,645    | 460,318      | 577,327    |
| Special item                              | 116,951      | -            | 116,951    |
| Change in net assets                      | 101,751      | (87,887)     | 189,638    |
| Net assets (deficit) at beginning of year | (87,887)     | -            | (87,887)   |
| Net assets (deficit) at end of year       | \$ 13,864    | \$ (87,887)  | \$ 101,751 |

State foundation revenue and overall operating expenses increased during the Academy's second year of operations as a result of an increase in enrollment from 230 students in fiscal year 2010 to 319 students in fiscal year 2011. The Academy received Federal grants through the American Recovery and Reinvestment Act (ARRA) and the Federal Start-up, IDEA-B, Title I and Title II programs during fiscal year 2011, which resulted in an increase in federal and state grants. The forgiveness of the utility and service charges associated with the operating lease during fiscal year 2011 contributed to the positive change in net assets at June 30, 2011.

***Debt***

The Academy had no debt obligations outstanding at June 30, 2011.

***Capital Assets***

The Academy had no capital assets over the threshold to report at June 30, 2011.

**BELLA ACADEMY OF EXCELLENCE  
CUYAHOGA COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011  
UNAUDITED**

**Restrictions and Other Limitations**

The future stability of the Academy is not without challenges. The Academy does not receive any funds from taxes. The primary source of funding is the state foundation program. An economic slowdown in the state could result in budgetary cuts to education, which would have a negative impact on the Academy.

**Current Financial Related Activities**

The Academy is sponsored by St. Aloysius Orphanage. The Academy is reliant upon State Foundation monies and Federal Sub-Grants to offer quality, educational services to students.

In order to continually provide learning opportunities to the Academy's students, the Academy will apply resources to best meet the needs of its students. It is the intent of the Academy to apply for other State and Federal funds that are made available to finance its operations.

**Contacting the Academy's Financial Management**

This financial report is designed to provide our clients 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 questions about this report or need additional financial information contact Ms. Mary Markle, Treasurer, Charter School Specialists, 19114 Bella Drive, Cleveland, Ohio 44119.

**BELLA ACADEMY OF EXCELLENCE  
CUYAHOGA COUNTY, OHIO**

STATEMENT OF NET ASSETS  
JUNE 30, 2011

|                            |                                   |
|----------------------------|-----------------------------------|
| <b>Assets:</b>             |                                   |
| Current assets:            |                                   |
| Cash . . . . .             | \$           184                  |
| Receivables:               |                                   |
| Intergovernmental. . . . . | <u>230,271</u>                    |
| Total assets . . . . .     | <u>230,455</u>                    |
| <b>Liabilities:</b>        |                                   |
| Current liabilities:       |                                   |
| Accounts payable. . . . .  | <u>216,591</u>                    |
| Total liabilities. . . . . | <u>216,591</u>                    |
| <b>Net assets:</b>         |                                   |
| Unrestricted . . . . .     | <u>13,864</u>                     |
| Total net assets. . . . .  | <u><u>\$           13,864</u></u> |

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**BELLA ACADEMY OF EXCELLENCE  
CUYAHOGA COUNTY, OHIO**

STATEMENT OF REVENUES, EXPENSES AND  
CHANGES IN NET ASSETS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

|  |                         |
|--|-------------------------|
| <b>Operating revenues:</b>   |                         |
| State foundation . . . . .   | \$ 2,066,370            |
| Total operating revenues . . . . .                                     | <u>2,066,370</u>        |
| <b>Operating expenses:</b>   |                         |
| Purchased services - management fees . . . . .                         | 2,294,285               |
| Sponsorship fees . . . . .   | 62,033                  |
| Legal . . . . .  | 22,008                  |
| Professional services . . . . .  | 138,963                 |
| Operating lease payments. . . . .                                      | 593,580                 |
| Other . . . . .  | <u>8,346</u>            |
| Total operating expenses . . . . .                                     | <u>3,119,215</u>        |
| Operating loss . . . . .   | <u>(1,052,845)</u>      |
| <b>Non-operating revenues:</b>   |                         |
| Federal and state grants. . . . .                                      | <u>1,037,645</u>        |
| Total non-operating revenues . . . . .                                 | <u>1,037,645</u>        |
| Loss before special item. . . . .                                      | (15,200)                |
| Special item - forgiveness of utility and<br>service charges . . . . . | <u>116,951</u>          |
| Change in net assets . . . . .   | 101,751                 |
| <b>Net assets (deficit) at beginning of year . . . . .</b>             | <u>(87,887)</u>         |
| <b>Net assets at end of year. . . . .</b>                              | <u><u>\$ 13,864</u></u> |

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**BELLA ACADEMY OF EXCELLENCE  
CUYAHOGA COUNTY, OHIO**

STATEMENT OF CASH FLOWS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

|   |                            |
|---|----------------------------|
| <b>Cash flows from operating activities:</b>                                      |                            |
| Cash received from state foundation . . . . .                                     | \$ 2,070,606               |
| Cash payments for purchased services - management fees . . . . .                  | (2,221,461)                |
| Cash payments for sponsorship fees . . . . .                                      | (62,033)                   |
| Cash payments for legal fees . . . . .  | (22,492)                   |
| Cash payments for professional services . . . . .                                 | (20,645)                   |
| Cash payments for operating lease . . . . .                                       | (597,580)                  |
| Cash payments for other expenses . . . . .  | <u>(8,346)</u>             |
| Net cash used in operating activities . . . . .                                   | <u>(861,951)</u>           |
| <b>Cash flows from noncapital financing activities:</b>                           |                            |
| Cash received from grants and subsidies. . . . .                                  | <u>861,953</u>             |
| Net cash provided by noncapital financing activities. . . . .                     | <u>861,953</u>             |
| Net increase in cash . . . . .  | 2                          |
| <b>Cash at beginning of year . . . . .</b>  | <u>182</u>                 |
| <b>Cash at end of year. . . . .</b>   | <u><u>\$ 184</u></u>       |
| <b>Reconciliation of operating loss to net cash used in operating activities:</b> |                            |
| Operating loss. . . . .   | \$ (1,052,845)             |
| Changes in assets and liabilities:  |                            |
| Decrease in accounts receivable . . . . .   | 15,450                     |
| Decrease in intergovernmental receivable . . . . .                                | 4,236                      |
| Increase in accounts payable. . . . .   | 175,208                    |
| Decrease in operating lease payable . . . . .                                     | <u>(4,000)</u>             |
| Net cash used in operating activities . . . . .                                   | <u><u>\$ (861,951)</u></u> |
| <b>Non-cash transaction:</b>  |                            |
| Special item - forgiveness of utility and service charges . . . . .               | \$ 116,951                 |

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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**BELLA ACADEMY OF EXCELLENCE  
CUYAHOGA COUNTY, OHIO**

**NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

**NOTE 1 - DESCRIPTION OF THE ACADEMY**

The Bella Academy of Excellence (the “Academy”) is a nonprofit corporation established pursuant to Ohio Revised Code Chapters 3314 and 1702. The Academy provides students with an academically excellent opportunity by offering challenging curriculum richly infused with math, arts, science and technology and designed to engage all in the learning process; by maintaining a caring learning environment of affirmation; by working with parents and local communities to offer opportunities both in and out of the classroom that further develop the intellect and character of the students who choose to attend the school; and by utilizing innovative teaching techniques delivered by superior faculty in order to prepare all students for success in the ever-growing global community of the future. The Academy may sue and be sued, acquire facilities as needed, and contract for any services necessary for the operation of the Academy.

The Academy was approved under contract with The St. Aloysius Orphanage (the “Sponsor”) commencing on May 15, 2009 and ending on June 30, 2010. On June 28, 2010 the contract was renewed commencing on July 1, 2010 and ending on June 30, 2014. The Sponsor is responsible for evaluating the performance of the Academy and has the authority to deny renewal of the contract at its expiration.

The Academy operates under the direction of a Governing Board which must contain at least five Directors who are not owners or employees, or relatives of owners or employees, of any for-profit company that operates or manages the Academy. The Governing Board is responsible for carrying out the provisions of the contract, which include, but are not limited to, State-mandated provisions regarding student population, curriculum, academic goals, performance standards, admission standards and qualification of teachers. The Governing Board controls the Academy’s instructional/support facility staffed by employees of the management company who provide services to 319 students.

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The basic financial statements (BFS) of the Academy have been prepared in conformity with accounting principles generally accepted in the United States of America (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 prior to November 30, 1989, provided those pronouncements do not conflict with or contradict GASB pronouncements. The Academy has elected not to apply FASB Statements and Interpretations issued after November 30, 1989. The Academy’s significant 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. Enterprise reporting focuses on the determination of operating income, changes in net assets, financial position, and cash flows.

**BELLA ACADEMY OF EXCELLENCE  
CUYAHOGA COUNTY, OHIO**

NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

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

**B. Measurement Focus**

Enterprise activity is accounted for using a flow of economic resources measurement focus. All assets and all 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.

**C. Basis of Accounting**

Basis of accounting determines when transactions are recognized 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 non-exchange transactions, in which the Academy receives value without directly giving equal value in return, such as grants and entitlements, are recognized in the 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 specific purpose, and expenditure requirements, in which the resources are provided to the Academy on a reimbursement basis. Expenses are recognized at the time they are incurred.

**D. Budgetary Process**

The contract between the Academy and its Sponsor prescribes an annual budget requirement in addition to preparing a 5-year forecast, which is to be updated on an annual basis. Chapter 5705.391 of the Ohio Revised Code also requires the Academy to prepare a 5-year forecast, update it annually and submit it to the Superintendent of Public Instruction at the Ohio Department of Education.

**E. Cash**

Cash received by the Academy is reflected as "cash" on the statement of net assets. Unless otherwise noted, all monies received by the Academy are pooled and deposited in a central bank account as demand deposits. The Academy did not have any investments during fiscal year 2011.

**F. Capital Assets**

Capital assets are capitalized at cost or estimated historical cost and updated for additions and deletions during the year. The Academy has established a capitalization threshold of \$5,000. The Academy does not have any infrastructure. 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.

The Academy had no capital assets over the threshold to report at June 30, 2011.



**BELLA ACADEMY OF EXCELLENCE  
CUYAHOGA COUNTY, OHIO**

NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

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

**G. 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 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.

**H. Intergovernmental Revenues**

The Academy currently participates in the State Foundation Program, Special Education, and the Parity Aid Program. Revenue received from these programs is recognized as operating revenues. Amounts awarded under these programs for the 2011 school year totaled \$2,066,370.

Grants and entitlements are recognized as non-operating revenues in the accounting period in which all eligibility requirements have been met. Eligibility includes timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted; matching requirements, in which the Academy must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the Academy on a reimbursement basis. Federal and State grant revenue received during fiscal year 2011 was \$1,037,645.

**I. Accrued Liabilities and Long-Term Obligations**

All payables and other accrued liabilities are reported on the statement of net assets.

**J. 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.

**K. Estimates**

The preparation of financial statements in conformity with GAAP 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.

**L. Extraordinary and Special Items**

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Education and that are either unusual in nature or infrequent in occurrence. The Academy reported a special item in the amount of \$116,951 for the balance of the unpaid utility and service charges related to the Schoolhouse Finance, LLC operating lease that was forgiven at June 30, 2011. See Notes 6 and 12 to the basic financial statements for detail.

**BELLA ACADEMY OF EXCELLENCE  
CUYAHOGA COUNTY, OHIO**

NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

**NOTE 3 - ACCOUNTABILITY AND COMPLIANCE**

**Change in Accounting Principles**

For fiscal year 2011, the Academy has implemented GASB Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions", and GASB Statement No. 59, "Financial Instruments Omnibus".

GASB Statement No. 54 establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. GASB Statement No. 54 also clarifies the definitions of governmental fund types. The implementation of GASB Statement No. 54 did not have an effect on the financial statements of the Academy.

GASB Statement No. 59 updates and improves guidance for financial reporting and disclosure requirements of certain financial instruments and external investment pools. The implementation of GASB Statement No. 59 did not have an effect on the financial statements of the Academy.

**NOTE 4 - DEPOSITS**

Custodial credit risk is the risk that, in the event of 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, 2011, the carrying amount of the Academy's deposits and the bank balance was \$184. The entire bank balance was covered by the Federal Deposit Insurance Corporation (FDIC). There are no significant statutory restrictions regarding the deposit and investment of funds by the non-profit corporation.

**NOTE 5 - RECEIVABLES**

Receivables at June 30, 2011, consisted of accounts receivable and intergovernmental receivables arising from grants and entitlements receivable. All receivables are considered collectible in full. A summary of the intergovernmental receivables follows:

| <b>Intergovernmental receivable:</b>  | <u>Amount</u>     |
|---|-------------------|
| Federal lunch reimbursement   | \$ 31,982         |
| IDEA-B  | 7,920             |
| Title I   | 55,953            |
| Title II-A  | 995               |
| Education jobs  | 118,318           |
| Ohio Department of Education - FY11 enrollment and full-time equivalency adjustment | <u>15,103</u>     |
| Total intergovernmental receivables   | <u>\$ 230,271</u> |

**BELLA ACADEMY OF EXCELLENCE  
CUYAHOGA COUNTY, OHIO**

NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

**NOTE 6 - LONG-TERM LIABILITIES**

At June 30, 2010, a long-term liability in the amount of \$120,951 was reported for utility and service charges in which the Board was responsible for paying in conjunction with the operating lease the Academy has entered into with Schoolhouse Finance, LLC (See Note 12 for detail). The Academy began making payments of \$500 per month beginning in December 2010, with an option to make additional payments at the end of each fiscal year, until the amount is paid down. There was no interest associated with the liability. At June 30, 2011, the outstanding unpaid utility and service charges in the amount of \$116,951 were forgiven and reported as a special item on the basic financial statements (See Note 2.L for detail).

A summary of the liability activity for fiscal year 2011 follows:

|                            | <u>Balance</u><br><u>June 30, 2010</u> | <u>Additions</u> | <u>Reductions</u>   | <u>Balance</u><br><u>June 30, 2011</u> | <u>Due Within</u><br><u>One Year</u> |
|----------------------------|--|------------------|---------------------|--|--------------------------------------|
| Operating<br>lease payable | \$ <u>120,951</u>                      | \$ <u>-</u>      | \$ <u>(120,951)</u> | \$ <u>-</u>                            | \$ <u>-</u>                          |

**NOTE 7 - PENSION PLANS**

The Academy has contracted with Imagine Schools, Inc. to provide employee services and to pay those employees (see Note 10.B). However, these contract 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 ultimately responsible for remitting retirement contributions to the systems noted below:

**A. School Employees Retirement System**

Plan Description - Imagine Schools, Inc., on behalf of the Academy, contributes to the School Employees Retirement System (SERS), a cost-sharing, multiple-employer defined benefit pension plan. SERS provides retirement, disability, survivor 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. It is also posted on the SERS' Ohio website, [www.ohsers.org](http://www.ohsers.org), under "Media/Financial Reports".

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 2011, 11.77 percent and 0.04 percent of annual covered salary was the portion used to fund pension obligations and death benefits, respectively. 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 and death benefits to SERS for the fiscal years ended June 30, 2011 and 2010 were \$28,484 and \$27,112, respectively; 100 percent has been contributed for fiscal years 2011 and 2010.

**BELLA ACADEMY OF EXCELLENCE  
CUYAHOGA COUNTY, OHIO**

NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

**NOTE 7 - PENSION PLANS - (Continued)**

**B. State Teachers Retirement System of Ohio**

Plan Description - Imagine Schools, Inc., on behalf of 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 website at [www.strsoh.org](http://www.strsoh.org), under "Publications".

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 fiscal year 2011, 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, 2011 and 2010 were \$86,714 and \$42,930, respectively; 100 percent has been contributed for fiscal years 2011 and 2010. Contributions to the DC and Combined Plans for fiscal year 2011 were \$13,001 made by the Academy and \$9,287 made by the plan members.

**BELLA ACADEMY OF EXCELLENCE  
CUYAHOGA COUNTY, OHIO**

NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

**NOTE 8 - POSTEMPLOYMENT BENEFITS**

**A. School Employees Retirement System**

Plan Description - Imagine Schools, Inc., on behalf of the Academy, participates in two cost-sharing, multiple employer postemployment benefit plans administered by the School Employees Retirement System (SERS) 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, Medicare Advantage, and traditional indemnity plans. A prescription drug program is also available to those who elect health coverage. SERS employs two third-party administrators and a pharmacy benefit manager to manage the self-insurance and prescription drug plans, respectively. The Medicare Part B Plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries as set forth in Chapter 3309.69 of the Ohio Revised Code. Qualified benefit recipients who pay Medicare Part B premiums may apply for and receive a monthly reimbursement from SERS. The reimbursement amount is limited by statute to the lesser of the January 1, 1999 Medicare Part B premium or the current premium. The Medicare Part B premium for calendar year 2011 was \$96.40 and SERS' reimbursement to retirees was \$45.50. 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. It is also posted on the SERS' Ohio website, [www.ohsers.org](http://www.ohsers.org), under "*Media/Financial Reports*".

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 105(e). For 2011, 1.43 percent of covered payroll was allocated to health care. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. Statutes provide that no employer shall pay a health care surcharge greater than 2.0 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the statewide SERS-covered payroll for the health care surcharge. For fiscal year 2011, the actuarially determined amount was \$35,800.

Active members do not contribute to the postemployment benefit plans. The Retirement Board establishes the rules for the premiums paid by the retirees for health care coverage for themselves and their dependents or for their surviving beneficiaries. Premiums vary depending on the plan selected, qualified years of service, Medicare eligibility and retirement status.

The Academy's contributions for health care for the fiscal years ended June 30, 2011 and 2010 were \$3,449 and \$976, respectively; 100 percent has been contributed for fiscal years 2011 and 2010.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For fiscal year 2011, 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, 2011 and 2010 were \$1,833 and \$1,612, respectively; 100 percent has been contributed for fiscal years 2011 and 2010.

**BELLA ACADEMY OF EXCELLENCE  
CUYAHOGA COUNTY, OHIO**

NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

**NOTE 8 - POSTEMPLOYMENT BENEFITS - (Continued)**

**B. State Teachers Retirement System of Ohio**

Plan Description - Imagine Schools, Inc., on behalf of the Academy, contributes to the cost sharing, multiple employer defined benefit Health Plan (the "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](http://www.strsoh.org), under "Publications" 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 2011, 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, 2011 and 2010 were \$6,670 and \$3,302, respectively; 100 percent has been contributed for fiscal years 2011 and 2010.

**NOTE 9 - 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 2011, the Academy maintained the following coverage: general liability, automobile liability, excess/umbrella liability and crime through Philadelphia Indemnity Insurance Co.; workers compensation and employers' liability through the Insurance Co. of the State of Pennsylvania; and school leader's liability through the Illinois National Insurance Co.

| <u>Coverage</u>                            | <u>Limits of Coverage</u> |
|--|---------------------------|
| General liability:                         |                           |
| Each occurrence                            | \$ 1,000,000              |
| General aggregate                          | 3,000,000                 |
| Medical expenses                           | 10,000                    |
| Personal & advertising injury              | 1,000,000                 |
| Damages to rented premises, per occurrence | 100,000                   |
| Products - aggregate                       | 3,000,000                 |
| Automobile liability:                      |                           |
| Combined single limit - each accident      | 1,000,000                 |
| Excess/umbrella liability:                 |                           |
| Each occurrence                            | 15,000,000                |
| Aggregate                                  | 15,000,000                |
| Retention                                  | 10,000                    |
| Crime                                      | 1,000,000                 |

**BELLA ACADEMY OF EXCELLENCE  
CUYAHOGA COUNTY, OHIO**

NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

**NOTE 9 - RISK MANAGEMENT - (Continued)**

| <u>Coverage</u>                               | <u>Limits of Coverage</u> |
|---|---------------------------|
| Workers compensation and employers liability: |                           |
| Each accident                                 | \$1,000,000               |
| Disease - each employee                       | 1,000,000                 |
| Disease - policy limit                        | 1,000,000                 |
| School leader's liability:                    |                           |
| Directors and officers/errors and omissions   | 3,000,000                 |
| Retention                                     | 25,000                    |

**NOTE 10 - CONTRACTS**

**A. Sponsor Contract**

The Academy entered into a sponsorship contract commencing on May 15, 2009 and ending on June 30, 2010 with St. Aloysius Orphanage (the "Sponsor") for its establishment. On June 28, 2010 the contract was renewed commencing on July 1, 2010 and ending on June 30, 2014. The Sponsor shall carry out the responsibilities established by law, including:

- Monitor the Academy's compliance with the laws applicable to the Academy and with the terms of this contract;
- Monitor and evaluate the academic and fiscal performance and the organization of the Academy on at least an annual basis;
- Provide reasonable technical assistance to the Academy in complying with this contract and with applicable laws (provided, however, the Sponsor shall not be obligated to give legal advice to the Academy);
- Take steps to intervene in the Academy's operation to correct problems in the Academy's overall performance, declare the Academy to be on probationary status under Ohio Revised Code Section 3314.073, suspend operation of the Academy pursuant to Ohio Revised Code Section 3314.072, or terminate or non-renew this contract pursuant to Ohio Revised Code Section 3314.07, as determined necessary by the Sponsor;
- Establish and/or require a plan of action to be undertaken if the Academy experiences financial difficulties or losses before the end of the school year; and
- Abide by the requirements of its contract with the Ohio Department of Education, even should those requirements affect the Academy.

The Academy paid the Sponsor \$62,033 for services during fiscal year 2011.

**BELLA ACADEMY OF EXCELLENCE  
CUYAHOGA COUNTY, OHIO**

NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

**NOTE 10 - CONTRACTS - (Continued)**

**B. Management Contract**

The Academy entered into a management contract with Imagine Schools, Inc. for management consulting services. Imagine Schools, Inc. is required to provide the following services:

- Personnel & human resources administration
- Program of instruction
- Purchasing & contracts
- Budgeting, financial reporting and audit preparation
- Compliance issues
- Curriculum research and development
- Marketing and publicity
- Equipment and facilities
- Grant preparation and management

For the services listed above, the Academy is required to pay a fee to Imagine Schools, Inc. The fee is equal to approximately 90% of the total per pupil allowance received from the State of Ohio and of state and/or federal grant funds received by the Academy for the creation and operation of its school. Payments to Imagine Schools, Inc. amounted to \$2,294,285 during fiscal year 2011.

**C. Service Contract**

The Academy entered into a service contract for a period of twenty-four months, commencing on July 1, 2010 and ending on June 30, 2012, with Charter School Specialists, LLC (CSS), to provide fiscal and Comprehensive Continuous Planning consulting services. The Academy paid CSS \$20,645 during fiscal year 2011 for these services.

**NOTE 11 - MANAGEMENT COMPANY EXPENSES**

For the fiscal year ended June 30, 2011, Imagine Schools, Inc. incurred the following expenses (reported on cash-basis) on behalf of the Academy:

|                        |                     |
|------------------------|---------------------|
| Direct Expenses:       |                     |
| Salaries and wages     | \$ 1,073,235        |
| Employees' benefits    | 263,935             |
| Purchased services     | 458,092             |
| Supplies and materials | 148,211             |
| Capital outlay         | 86,019              |
| Indirect Expenses      | <u>215,078</u>      |
| Total expenses         | <u>\$ 2,244,570</u> |



**BELLA ACADEMY OF EXCELLENCE  
CUYAHOGA COUNTY, OHIO**

**NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

**NOTE 11 - MANAGEMENT COMPANY EXPENSES - (Continued)**

Overhead charges included in other direct costs are assigned to the Academy based on a percentage of revenue. These charges represent the indirect cost of services in the operation of the Academy. Such services include, but are not limited to, facilities management, equipment, operational support services, management and management consulting, board relations, human resources management, training and orientation, financial reporting and compliance, purchasing and procurement, education services, technology support and marketing and communications.

**NOTE 12 - OPERATING LEASE**

The Academy entered into a sublease agreement on June 22, 2009, with Schoolhouse Finance, LLC ("SHF") to lease classroom space for the Academy. SHF is a subsidiary of Imagine Schools, Inc. The term of the sublease commenced July 1, 2009, and shall continue through June 30, 2014. Notwithstanding any provision to the contrary, the sublease shall automatically terminate upon the expiration or termination of the lease for any reason. The Academy shall pay to Schoolhouse Finance, LLC \$504,000 in annual base rent payable in advance in monthly installments of one-twelfth each on the fifteenth day of each month of the term. The base rent shall escalate annually on July 1, 2010, and on July 1 each year thereafter, at a rate of 2 percent. The Academy shall also reimburse SHF for any utility or service charges assessed by the prime landlord pursuant to the lease. During fiscal year 2011, the Academy paid down \$4,000 of \$120,951 in unpaid utility and service charges outstanding from fiscal year 2010. At June 30, 2011, the outstanding unpaid utility and service charges in the amount of \$116,951 were forgiven and reported as a special item on the basic financial statements (See Note 2.L for detail).

**NOTE 13 - CONTINGENCIES**

**A. Grants**

The Academy received financial assistance from federal and state agencies in the form of grants. The expenditure 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. 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, 2011.

**B. Ohio Department of Education Enrollment Review**

The Ohio Department of Education conducts reviews of enrollment data and full-time equivalency (FTE) calculations made by the schools. These reviews are conducted to ensure the schools are reporting accurate student enrollment data to the State, upon which state foundation funding is calculated. As a result of the fiscal year 2011 reviews, the Academy is due \$15,103 from ODE. This amount has been reported as an intergovernmental receivable on the statement of net assets.

**NOTE 14 - FEDERAL TAX STATUS**

The Academy was approved under § 501(c)(3) of the Internal Revenue Code as a tax exempt organization on November 3, 2010. Management is not aware of any course of action or series of events that might adversely affect the Academy's tax exempt status.

**BELLA ACADEMY OF EXCELLENCE  
CUYAHOGA COUNTY, OHIO**

**NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

**NOTE 15 - SIGNIFICANT SUBSEQUENT EVENT**

The Academy entered into an Employee Lease Agreement with Great Western Academy on August 1, 2011, to lease employees qualified to perform on-site school services for the 2011-2012 school year. The Academy agreed to pay Great Western Academy an amount not to exceed the Education Jobs program funding allocation of \$118,318 for the services provided under the agreement. Great Western Academy is a community school that is managed by Imagine Schools, Inc.

**BELLA ACADEMY OF EXCELLENCE  
CUYAHOGA COUNTY**

**SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES  
FOR THE YEAR ENDED JUNE 30, 2011**

| <b>FEDERAL GRANTOR</b><br><i>Pass Through Grantor</i><br>Program Title                      | Federal<br>CFDA<br>Number | Receipts                | Expenditures            |
|---|---------------------------|-------------------------|-------------------------|
| <b>U.S. DEPARTMENT OF AGRICULTURE</b><br><i>Passed Through Ohio Department of Education</i> |                           |                         |                         |
| Child Nutrition Cluster:  |                           |                         |                         |
| School Breakfast Program - FY 2011  | 10.553                    | \$22,154                | \$22,154                |
| National School Lunch Program - FY 2011   | 10.555                    | 90,484                  | 90,484                  |
| Total Child Nutrition Cluster   |                           | <u>112,638</u>          | <u>112,638</u>          |
| School Lunch Equipment - FY 2011 - ARRA   | 10.579                    | 9,925                   | 9,925                   |
| Fresh Fruit and Vegetable Program - FY 2011   | 10.582                    | 10,964                  | 10,964                  |
| <b>Total U.S. Department of Agriculture</b>   |                           | <u>133,527</u>          | <u>133,527</u>          |
| <b>U.S. DEPARTMENT OF EDUCATION</b><br><i>Passed Through Ohio Department of Education</i>   |                           |                         |                         |
| Special Education Grants - FY 2010  | 84.027                    | 3,892                   | 3,892                   |
| Special Education Grants - FY 2011  | 84.027                    | 36,437                  | 36,437                  |
| Total Special Education Grants  |                           | <u>40,329</u>           | <u>40,329</u>           |
| Title I Cluster:  |                           |                         |                         |
| Title I - FY 2010   | 84.010                    | 31,599                  | 31,599                  |
| Title I - FY 2011   | 84.010                    | 212,290                 | 212,290                 |
| Title I - FY 2011 - ARRA  | 84.389                    | 70,556                  | 70,556                  |
| Total Title I Cluster   |                           | <u>314,445</u>          | <u>314,445</u>          |
| Charter Schools - FY 2010   | 84.282                    | 17,577                  | 17,577                  |
| Charter Schools - FY 2011   | 84.282                    | 159,192                 | 159,192                 |
| Total Charter Schools   |                           | <u>176,769</u>          | <u>176,769</u>          |
| Technology Literacy Fund Grants - FY 2011   | 84.318                    | 2,016                   | 2,016                   |
| Improving Teacher Quality - FY 2011   | 84.367                    | 10,571                  | 10,571                  |
| Education Stabilization Fund - FY 2011 - ARRA   | 84.394                    | 174,729                 | 174,729                 |
| <b>Total U.S. Department of Education</b>   |                           | <u>718,859</u>          | <u>718,859</u>          |
| <b>TOTAL FEDERAL AWARDS RECEIPTS AND EXPENDITURES</b>                                       |                           | <u><u>\$852,386</u></u> | <u><u>\$852,386</u></u> |

*The accompanying notes to this schedule are an integral part of this schedule.*

**BELLA ACADEMY OF EXCELLENCE  
CUYAHOGA COUNTY**

**NOTES TO THE SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES  
FISCAL YEAR ENDED JUNE 30, 2011**

**NOTE A - SIGNIFICANT ACCOUNTING POLICIES**

The accompanying Schedule of Federal Awards Receipts and Expenditures (the Schedule) reports the Bella Academy of Excellence's (the Academy's) federal award programs' receipts and disbursements. The Schedule has been prepared on the cash basis of accounting.

**NOTE B - CHILD NUTRITION CLUSTER**

The Academy commingles cash receipts from the U.S. Department of Agriculture with similar State grants. When reporting expenditures 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*

Bella Academy of Excellence  
Cuyahoga County  
19114 Bella Drive  
Cleveland, Ohio 44119

To the Board of Directors:

We have audited the basic financial statements of the business-type activities of the Bella Academy of Excellence, Cuyahoga County, (the Academy) as of and for the year ended June 30, 2011, which collectively comprise the Academy's basic financial statements and have issued our report thereon dated February 27, 2012. 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.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or combination of internal control deficiencies resulting in more than a reasonable possibility that a material misstatement of the Academy's financial statements will not be prevented, or detected and timely corrected.

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

### **Compliance and Other Matters**

As part of reasonably assuring whether the Academy's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed 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 27, 2012.

We intend this report solely for the information and use of management, the audit committee, Board of Directors, the Academy's sponsor, federal awarding agencies and 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 27, 2012



# 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

Bella Academy of Excellence  
Cuyahoga County  
19114 Bella Drive  
Cleveland, Ohio 44119

To the Board of Directors:

### Compliance

We have audited the compliance of the Bella Academy of Excellence (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 Bella Academy of Excellence's major federal programs for the year ended June 30, 2011. 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 opine on the Academy's compliance based on our audit.

Our compliance audit followed 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*. These 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 these 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 these requirements.

In our opinion, the Bella Academy of Excellence complied, in all material respects, with the requirements referred to above that could directly and materially affect each of its major federal programs for the year ended June 30, 2011.

Lausche Building, 615 Superior Ave., NW, Twelfth Floor, Cleveland, Ohio 44113-1801

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[www.ohioauditor.gov](http://www.ohioauditor.gov)

### 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 a major federal program, 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.

We intend this report solely for the information and use of the audit committee, management, Board of Directors, the Community School's sponsor, others within the entity, federal awarding agencies, and pass-through entities. It is not intended for anyone other than these specified parties.



**Dave Yost**  
Auditor of State

February 27, 2012



**BELLA ACADEMY OF EXCELLENCE  
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS  
OMB CIRCULAR A-133 § .505  
JUNE 30, 2011**

**1. SUMMARY OF AUDITOR'S RESULTS**

|                     |  |   |
|---------------------|--|---|
| <i>(d)(1)(i)</i>    | Type of Financial Statement Opinion  | Unqualified   |
| <i>(d)(1)(ii)</i>   | Were there any material control weaknesses reported at the financial statement level (GAGAS)?                  | No  |
| <i>(d)(1)(ii)</i>   | Were there any significant deficiencies in internal control reported at the financial statement level (GAGAS)? | No  |
| <i>(d)(1)(iii)</i>  | Was there any reported material noncompliance at the financial statement level (GAGAS)?                        | No  |
| <i>(d)(1)(iv)</i>   | Were there any material internal control weaknesses reported for major federal programs?                       | No  |
| <i>(d)(1)(iv)</i>   | Were there any significant deficiencies in internal control reported for major federal programs?               | No  |
| <i>(d)(1)(v)</i>    | Type of Major Programs' Compliance Opinion   | Unqualified   |
| <i>(d)(1)(vi)</i>   | Are there any reportable findings under § .510(a)?   | No  |
| <i>(d)(1)(vii)</i>  | Major Programs (list):   | Title I Grants to Local Education Agencies and ARRA Title I Grants to Local Education Agencies – CFDA #84.010 and 84.389<br><br>Education Stabilization Fund – CFDA #84.394 |
| <i>(d)(1)(viii)</i> | Dollar Threshold: Type A/B Programs  | Type A: > \$ 300,000<br>Type B: all others  |
| <i>(d)(1)(ix)</i>   | Low Risk Auditee?  | No  |

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

None.

**3. FINDINGS FOR FEDERAL AWARDS**

None.





# Dave Yost • Auditor of State

**BELLA ACADEMY OF EXCELLENCE**

**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 22, 2012**