



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

SINGLE AUDIT

FOR THE YEAR ENDED JUNE 30, 2011



Dave Yost • Auditor of State

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

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Dave Yost • Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

Cleveland Arts and Social Sciences Academy
Cuyahoga County
10701 Shaker Blvd
Cleveland, OH 44115

To the Board:

We have audited the accompanying basic financial statements of Cleveland Arts and Social Sciences Academy, Cuyahoga County, Ohio (the Academy), as of and for the year ended June 30, 2011 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 Cleveland Arts and Social Sciences Academy, Cuyahoga County, Ohio, as of June 30, 2011, and the changes in its financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements have been prepared assuming that the Academy will continue as a going concern. As discussed in Note 18 to the financial statements, the Academy's deficit net assets (\$997,679) and operating loss (\$1,401,257) 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 March 12, 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 federal awards revenues and expenses schedule provides additional information required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. The federal awards revenues and expenses schedule is management's responsibility, and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. 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.



Dave Yost
Auditor of State

March 12, 2012

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

*MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2011
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, 2011. 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 sixth year of operations during fiscal year 2011 serving Kindergarten through eighth grade. Enrollment varied during the year but averaged 340 students.

Key highlights for fiscal year 2011 are as follows:

- Net assets decreased \$435,308.
- Operating expenses for fiscal 2011 were \$3,773,177 as compared to \$1,886,334 for fiscal 2010.
- Operating revenues for fiscal 2011 were \$2,371,920 as compared to \$1,495,349 for fiscal 2010.
- The Academy had an operating loss of \$1,401,257, of which, \$1,012,128 was alleviated by non-operating federal grants.

Overview of the Financial Statements

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

Financial Analysis of the Academy as a Whole

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

The following tables represent a summary of the Academy's condensed financial information for 2011 derived from the Statement of Net Assets and the Statement of Revenues, Expenses, and Changes in Net Assets.

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

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

Table 1 provides a summary of the Academy's net assets for 2011 compared to 2010:

Table 1
Net Assets

	2011	2010	Change
<u>Assets:</u>			
Current Assets	\$218,669	\$222,186	(\$3,517)
Capital Assets	89,968	27,763	62,205
Total Assets	<u>308,637</u>	<u>249,949</u>	<u>58,688</u>
<u>Liabilities:</u>			
Current Liabilities	958,086	810,360	147,726
Long-Term Liabilities	348,230	1,960	346,270
	<u>1,306,316</u>	<u>812,320</u>	<u>493,996</u>
<u>Net Assets:</u>			
Invested in Capital Assets, Net of Related Debt	27,406	24,693	2,713
Restricted for Other Purposes	0	416	(416)
Unrestricted	<u>(1,025,085)</u>	<u>(587,480)</u>	<u>(437,605)</u>
Total Net Assets	<u>(\$997,679)</u>	<u>(\$562,371)</u>	<u>(\$435,308)</u>

Total net assets decreased \$435,308. The decrease is primarily the result of development costs recognized in the 2010-11 fiscal year. The Academy finished fiscal 2011 with 340 students and fiscal 2010 with 200 students. To accommodate the large increase in enrollment, in August 2010, the Academy moved into its recently renovated permanent school facility. The new facility can accommodate approximately 500 students. Enrollment as of the fall of 2011 has grown to 355. To fund the prior deficits, resources for the necessary programs have been made available by delaying payment on invoices from the Academy's management company for management services, other operating expenses and employee payroll. Liabilities increased \$493,996, which is primarily due to an increase in long-term liabilities resulting from a \$300,000 note payable issued with Mosaica Education, Inc.

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

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

Table 2 reflects the changes in net assets for fiscal year 2011 as compared to 2010:

Table 2
Change in Net Assets

	2011	2010	Change
<u>Operating Revenues:</u>			
Foundation	\$2,363,704	\$1,455,732	\$907,972
Charges for Services	5,805	2,063	3,742
Miscellaneous	2,411	37,554	(35,143)
<u>Non-Operating Revenues:</u>			
Federal/State Restricted Grants	1,012,128	613,631	398,497
Total Revenues	\$3,384,048	\$2,108,980	\$1,275,068
<u>Operating Expenses:</u>			
Building	439,675	110,700	328,975
Purchased Services	3,041,303	1,640,662	1,400,641
Depreciation	45,712	34,381	11,331
General Supplies	209,017	66,981	142,036
Other Operating Expense	37,470	33,610	3,860
<u>Non-Operating Expenses:</u>			
Interest	46,179	61,341	(15,162)
Total Expenses	\$3,819,356	\$1,947,675	\$1,871,681
Total Increase (Decrease) in Net Assets	(\$435,308)	\$161,305	(\$596,613)

The fiscal year 2011 increase in revenues and expenses is primarily due to an increase in the average number of students served by the Academy from 200 in fiscal year 2010 to 340 in fiscal year 2011. Furthermore, building costs increased upon the August 2010 commencement of its lease for the Academy's new school facility. Lastly, in fiscal 2011, the Academy recognized \$300,000 of organizational and development costs incurred during the pre-opening stage of the Academy (see Note 13).

Budgeting

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

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

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

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2011, the Academy had \$89,968 invested in capital assets (net of accumulated depreciation) for computer and other equipment, an increase of \$62,205. The following table shows fiscal year 2011 compared to 2010:

Capital Assets at June 30 (Net of Depreciation)

	2011	2010	Change
Furniture & Equipment	\$89,968	\$16,672	\$73,296
Computer Equipment	0	11,091	(11,091)
Total Capital Assets, Net	\$89,968	\$27,763	\$62,205

The increase reflects the purchase of equipment offset by 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, 2011, the Academy had \$62,562 of capital leases outstanding, of which \$13,892 is due within one year. In addition, during fiscal 2011, the Academy recognized a \$300,000 promissory note due to Mosaica Education, Inc, a related party (see Note 16), to reimburse Mosaica for organizational and development costs incurred during the pre-opening stage of the Academy. The following table summarizes the Academy's debt outstanding as of June 30, 2011:

Outstanding Debt, at Year End

	2011	2010	Change
Capital Leases Payable	\$62,562	\$3,070	\$59,492
Promissory Note	300,000	-	300,000
Total	\$362,562	\$3,070	\$359,492

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, decision or conditions that have occurred that are expected to have a significant effect on the financial position or results of operation.

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

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

Operations

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

Requests for Information

This financial report is designed to provide citizens, taxpayers, investors, and creditors with a general overview of the Academy's finances and to show the Academy's accountability for the money it receives. If you have any question concerning this report, please contact Brenda Neff, Treasurer for Cleveland Arts and Social Sciences Academy, 436 N. Wiley Street, Crestline, Ohio 44827.

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

**STATEMENT OF NET ASSETS
JUNE 30, 2011**

Assets:

Current assets:

Cash and Cash Equivalents	\$	47,472
Intergovernmental Receivable		133,834
Prepaid Expense		37,363
Total current assets		218,669

Noncurrent assets:

Capital Assets, net of Accumulated Depreciation		89,968
Total noncurrent assets		89,968

Total assets	\$	308,637
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Liabilities:

Current liabilities:

Accounts Payable, Trade	\$	144,467
Accounts Payable, Related Party		798,861
Accrued Interest		426
Current Portion of Long-term Debt		14,332
Total current liabilities		958,086

Noncurrent liabilities:

Noncurrent Portion of Long-term Debt		348,230
Total noncurrent liabilities		348,230

Total liabilities		1,306,316
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Net Assets

Invested in Capital Assets, Net of Related Debt		27,406
Unrestricted Net Assets		(1,025,085)
Total Net Assets	\$	(997,679)

See Accompanying Notes to the Basic Financial Statements

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

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

Operating Revenues:	
Community School Foundation	\$ 2,363,704
Charge for Services	5,805
Miscellaneous	2,411
Total Operating Revenues	<u>2,371,920</u>
 Operating Expenses:	
Building	439,675
Purchased Services	3,041,303
Depreciation	45,712
General Supplies	209,017
Other Operating Expenses	37,470
Total Operating Expenses	<u>3,773,177</u>
 Operating Loss	 <u>(1,401,257)</u>
 Nonoperating Revenues and Expenses:	
Federal and State Restricted Grants	1,012,128
Interest Expense	(46,179)
Net Nonoperating Revenues and Expenses	<u>965,949</u>
 Change in Net Assets	 (435,308)
Net Assets Beginning of Year	<u>(562,371)</u>
Net Assets End of Year	<u><u>\$ (997,679)</u></u>

See Accompanying Notes to the Basic Financial Statements

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

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

CASH FLOWS FROM OPERATING ACTIVITIES

Foundation Receipts	\$	2,345,899
Charge for Services		5,805
Other Operating Receipts		2,411
Cash Payments to Suppliers for Goods and Services		(3,304,230)
Net Cash Used for Operating Activities		(950,115)

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

Short-term Financing Payments		(21,473)
Federal and State Grant Receipts		1,013,708
Net Cash Provided by Noncapital Financing Activities		992,235

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Purchase of Assets		(37,697)
Capital Lease Interest Payments		(4,592)
Capital Lease Principal Retirement		(10,728)
Net Cash Used for Capital and Related Financing Activities		(53,017)

Net Decrease in Cash and Cash Equivalents		(10,897)
Cash and Cash Equivalents - Beginning of the Year		58,369
Cash and Cash Equivalents - Ending of the Year	\$	47,472

Reconciliation of Operating Loss to Net Cash Used for Operating Activities

Operating Loss	\$	(1,401,257)
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Adjustments to Reconcile Operating Loss to Net Cash Used for Operating Activities

Depreciation		45,712
Changes in assets and liabilities:		
Increase in Receivables		(17,806)
Decrease in Prepaid Expense		8,845
Increase in Accounts Payable, Trade		37,657
Increase in Accounts Payable, Related Party		76,734
Increase in Note Payable		300,000
Net Cash Used for Operating Activities	\$	(950,115)

Noncash Noncapital Financing Activity

The Academy entered into a promissory note agreement with Mosaica Education, Inc. for \$300,000 as part of the updated management agreement that the Academy would pay Mosaica Education, Inc for costs incurred during its start-up.

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, 2011**

Note 1 - Description of the School

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

The Academy was approved for operation pursuant to Ohio Revised Code Chapter 3314 under a contract with Ohio Council of Community Schools (the Sponsor) for a period of three academic years commencing April 26, 2005 and ending June 30, 2009. The contract was subsequently renewed. 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 or owners or employees of any for-profit firm that operates or manages an academy for the Governing Board. The Board is responsible for carry out the provisions of the contract that include, but are not limited to, state-mandated provision 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 principals (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, 2011
(Continued)**

Note 2 - Summary of Significant Accounting Policies (Continued)

C. Basis of Accounting

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

D. Budgetary Process

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

E. Cash and Cash Equivalents

Cash received by the Academy is reflected as "Cash and Cash Equivalents" on the Statement of Net Assets. The Academy had no investments during the fiscal year ended June 30, 2011.

F. Prepaid Items

The Academy records payments made to vendors for services that will benefit periods beyond June 30, 2011, 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 2011 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, 2011
(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 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.

The Statement of Net Assets reports no restricted net assets related to certain unspent federal grant receipts and \$27,406 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

The Academy has implemented Governmental Accounting Standards Board (GASB) Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions." The implementation of this statement did not result in any changes to the Academy's financial statements.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2011
(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, 2011, the bank balance of the Academy's deposits was \$115,807, and the carrying value was \$47,472. The bank balance was covered by federal depository insurance, which covers deposits up to \$250,000. There are no significant statutory restrictions regarding the deposit and investment of funds by the nonprofit corporation.

Note 5 – Receivables

At June 30, 2011, the Academy had intergovernmental receivables in the amount of \$133,834. The receivables are expected to be collected within one year.

	Amount
Title I	\$60,609
State Foundation Adjustment	34,592
Title I ARRA	19,873
School Counselor Grant	10,934
National School Lunch Programs	4,333
Special Education Grant	3,365
Title II-D	128
Total Intergovernmental Receivables	\$133,834

Note 6 - Capital Assets

Capital asset activity for the fiscal year ended June 30, 2011, was as follows:

	Balance June 30, 2010	Additions	Deletions	Balance June 30, 2011
Furniture & Equipment	\$ 97,963	\$ 107,917	\$ -	\$ 205,880
Computer Equipment	73,940	-	-	73,940
Total at Historical Cost	171,903	107,917	-	279,820
Less Accumulated Depreciation	(144,140)	(45,712)	-	(189,852)
Depreciable Capital Assets, Net of Accumulated Depreciation	\$ 27,763	\$ 62,205	\$ -	\$ 89,968

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2011
(Continued)**

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 2011, the Academy contracted with Pashley Insurance Agency to provide insurance coverage with the Hanover Insurance Companies. The types and amounts of coverage provided are as follows:

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	15,000
Damage to Rented Premises - Each Occurrence	500,000
Personal and Advertising Injury	1,000,000
Automobile Liability:	
Combined Single Limit	1,000,000
Property:	500,000
Building	3,000,000
Business Personal Property / Modulars	1,200,000
Excess/Umbrella Liability:	
Each Occurrence	5,000,000
Aggregate Limit	5,000,000

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

Note 8 – Purchased Services

For the fiscal year ended June 30, 2011, purchased service expenses were as follows:

Service	Amount
Personnel	\$1,612,494
Staff and Administrative Services	769,785
Building/Custodial	274,234
Food Service	165,051
Student Services	117,779
Sponsor Fee	65,030
Professional Fees	15,615
Advertising	21,315
Total	<u>\$3,041,303</u>

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2011
(Continued)**

Note 9 - Defined Benefit Pension Plans

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

A. School Employee Retirement System

Plan Description - The Academy contributes to the School Employees Retirement System (SERS), a cost-sharing multiple employer pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746.

Funding Policy - Plan members are required to contribute 10 percent of their annual covered salary and the Academy is required to contribute at an actuarially determined rate. The current Academy rate is 14 percent of annual covered payroll. A portion of the Academy's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2011, 11.81 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, 2011, 2010 and 2009 were \$31,395, \$14,564 and \$9,748, respectively; 44.21 percent has been contributed for fiscal year 2011 and 100 percent for fiscal years 2010 and 2009.

B. State Teachers Retirement System

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

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.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2011
(Continued)**

Note 9 - Defined Benefit Pension Plans (Continued)

B. State Teachers Retirement System (Continued)

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

Funding Policy - For the fiscal year ended June 30, 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, 2010 and 2009 were \$115,184, \$78,124 and \$64,133, respectively; 56.07 percent has been contributed for fiscal year 2011 and 100 percent for fiscal years 2010 and 2009.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System of Ohio have an option to choose Social Security or the School Retirement System. As of June 30, 2011, none of the members of the Academy staff have elected Social Security. The contribution rate is 6.2 percent of wages.

Note 10 - Postemployment Benefits

A. School Employee Retirement System

Plan Description – The Academy participates in two cost-sharing multiple employer defined benefit OPEB plans administered by the School Employees Retirement System for non-certificated retirees and their beneficiaries, a Health Care Plan and a Medicare Part B Plan. The Health Care Plan includes hospitalization and physicians' fees through several types of plans including HMO's, PPO's and traditional indemnity plans as well as a prescription drug program. The Medicare Part B Plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries up to a statutory limit. Benefit provisions and the obligations to contribute are established by the System based on authority granted by State statute. The financial reports of both Plans are included in the SERS Comprehensive Annual Financial Report which is available by contacting SERS at 300 East Broad St., Suite 100, Columbus, Ohio 43215-3746.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2011
(Continued)**

Note 10 - Postemployment Benefits (Continued)

A. School Employee Retirement System (Continued)

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 2011, 1.43 percent of covered payroll was allocated to health care.

Active employee members do not contribute to the Health Care Plan. Retirees and their beneficiaries are required to pay a health care premium that varies depending on the plan selected, the number of qualified years of service, Medicare eligibility and retirement status.

The Academy's contributions for health care for the fiscal years ended June 30, 2011, 2010 and 2009 were \$3,801, \$1,763 and \$4,448, respectively; 44.21 percent has been contributed for fiscal year 2011 and 100 percent for fiscal years 2010 and 2009.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For 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, 2010 and 2009 were \$2,020, \$937 and \$702, respectively; 44.21 percent has been contributed for fiscal year 2011 and 100 percent for fiscal years 2010 and 2009.

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 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, 2010 and 2009 were \$8,860, \$6,010 and \$4,933, respectively; 56.07 percent has been contributed for fiscal year 2011 and 100 percent for fiscal years 2010 and 2009.

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, 2011.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2011
(Continued)**

Note 11 – Contingencies (Continued)

B. Ohio Department of Education Enrollment Review

The Ohio Department of Education (ODE) conducts reviews of enrollment data and full-time equivalency (FTE) calculations made by community schools. These reviews are conducted to ensure the Academy is reporting accurate student enrollment data to the State, upon which state foundation funding is calculated. As a result of a recent review, it was determined that the Academy was under funded during fiscal 2011 by \$34,592. This amount was recognized at June 30, 2011 as an intergovernmental receivable (see Note 5).

Note 12 – Building Leases

Effective July 2008, the Academy entered into a lease agreement with Mosaica Education, Inc., a related party (see Note 16), for the use of modular building units while the Academy's permanent facility was being renovated. The lease extended through the earlier of: 1) June 2015 or 2) the new permanent facility was available for use. Monthly rent payments for the modulares were \$7,850. There was no land lease or required rent payments for use of the land. In August 2010, the modular lease terminated upon the commencement of the new facility lease. In addition to the modulares, the Academy leased additional classroom space from a local Church for \$1,500 per month for the period August 2009 through July 2010.

In October 2008, the Academy entered into a new lease agreement with Springfield Investment Properties, LLC, a wholly owned subsidiary of Mosaica Education, Inc., for use of a school facility. This new facility was put into service in August 2010, the commencement date of the lease. The lease term is the commencement date through June 2019. The annual base rent for the new facility was \$415,000 subject to adjustment for investments made by the landlord for site improvements. Effective March 2011 the annual base rent increased to \$564,720 to reflect the adjustment for the landlord's actual investment in excess of the stated lease base investment. Under the lease agreement, the Academy is responsible for payment of all utilities, repairs and maintenance and property taxes. Monthly rental payments began on the commencement date. Fiscal 2011 building costs were as follows:

Building	\$430,325
Modulars	7,850
Additional classroom space	<u>1,500</u>
Total Building Costs	\$439,675

The future minimum payments required under the facility lease:

Fiscal Year End	
<u>June 30,</u>	
2012	\$ 575,073
2013	586,575
2014	598,306
2015	610,272
2016	622,478
2017-2020	<u>2,616,921</u>
Total future minimum lease payments	\$5,609,625

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2011
(Continued)**

Note 13 – Long-Term Obligations

Changes in the Academy's long-term obligations during fiscal year 2011 were as follows:

	Balance 6/30/2010	Additions	Principal Payments	Balance 6/30/2011	Amount Due Within One Year
Capital Leases Payable	\$3,070	\$70,220	(\$10,728)	\$62,562	\$13,892
Promissory Note	-	300,000	-	\$300,000	440
Total Debt Obligations	<u>\$3,070</u>	<u>\$370,220</u>	<u>(\$10,728)</u>	<u>\$362,562</u>	<u>\$14,332</u>

In fiscal 2011, the Academy recognized a \$300,000 promissory note to reimburse Mosaica Education, Inc., a related party (see Note 16), for organizational and development costs incurred during the pre-opening stage of the Academy. The note bears interest at 2.5% and matures in June 2019. Interest accrues with no payments due through December 2011. Beginning January 2012, monthly payments of \$3,891 are payable through maturity.

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 2011 were \$10,728.

	Amount
Furniture and Equipment	\$205,880
Computer Equipment	\$73,940
Less Accumulated Depreciation	(189,852)
Total June 30, 2011	<u>\$89,968</u>

The following is a schedule of the future long-term minimum lease payments required under the capital lease and the present value of the minimum lease payments as of June 30, 2011:

Fiscal Year Ending June 30	Principal	Interest
2012	\$13,892	\$4,501
2013	14,516	3,319
2014	14,932	2,126
2015	16,201	848
2016	3,021	10
Total	<u>\$62,562</u>	<u>\$10,804</u>

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2011
(Continued)**

Note 15 –Tax Exempt Status

In November 2010, the Academy received notification from the Internal Revenue Service that its application for tax exemption under section 501 (c)(3) of the Internal Revenue Code has been approved with an effective date of exemption of April 14, 2005.

Note 16 – Related Party Transactions/Management Company

The Academy shares a common governing board with Arts and Science Preparatory Academy.

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 2011 was \$422,705. In addition, the Academy recognized \$300,000 of development costs related to pre-opening costs.

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 2011 was \$2,070,375.

At June 30, 2011, the Academy had payables to Mosaica Education, Inc. in the amount of \$798,861. The following is a schedule of amounts owed to Mosaica Education, Inc. at June 30, 2011.

	<u>Amount</u>
Payroll	\$499,568
Management Fee	129,278
Rent	141,181
Interest/Finance Charges	19,687
Miscellaneous	<u>9,147</u>
Total at June 30, 2011	<u><u>\$798,861</u></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. Contract extensions were executed extending the contract period to June 30, 2011. As part of this contract, the Sponsor is entitled to a maximum of three percent of all revenues. There is a reduction in the fee as enrollment among all schools sponsored by the Ohio Council of Community Schools and managed by Mosaica Education, Inc. reached certain benchmarks. Total Sponsor Fees incurred during fiscal year 2011 was \$65,030.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2011
(Continued)**

Note 18 – Management’s Plan

For fiscal year 2011, the Academy had an operating loss of \$1,401,257, a net deficit of \$435,308, and net asset deficit of \$997,679. The Academy’s net deficit in fiscal year 2011 was a decline from the \$161,305 net surplus earned in fiscal 2010. As of February 2012 the Academy had a cash balance of \$3,154. Fiscal 2011 was a transitional year for the Academy with large growth in enrollment and the moving from modular buildings to the newly renovated permanent school facility. Enrollment grew from approximately 200 students in fiscal 2010 to 340 students in fiscal year 2011. The capacity of the new facility is approximately 500 students. 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 Academy to recover from its prior deficits.

Note 19 – Subsequent Event

The Academy renewed their Sponsor agreement with the Ohio Council of Community Schools, effective July 1, 2011 through June 30, 2016.

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

**FEDERAL AWARDS REVENUES AND EXPENSES SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2011**

Federal Grantor/ Pass Through Grantor Program Title	Grant Award Year	Federal CFDA Number	Revenues	Expenses
<u>U.S. DEPARTMENT OF AGRICULTURE</u>				
<i>Passed Through Ohio Department of Education:</i>				
Nutrition Cluster:				
National School Breakfast	2011	10.553	\$ 45,029	\$ 45,029
National School Lunch Program	2011	10.555	149,193	149,193
Total U.S. Department of Agriculture			194,222	194,222
<u>U.S. DEPARTMENT OF EDUCATION</u>				
<i>Passed Through Ohio Department of Education:</i>				
Special Education Grants to States	2011	84.027	36,196	36,196
Special Education Grants to States - ARRA	2011	84.391	20,929	20,929
Total Special Education Grants to States			57,125	57,125
State Fiscal Stabilization Fund - Education State Grants- ARRA	2011	84.394	198,413	198,413
Title I Grants to Local Educational Agencies	2011	84.010	361,065	361,065
Title I Grants to Local Educational Agencies - ARRA	2011	84.389	122,714	122,714
Total Title I Grants to Local Educational Agencies			483,779	483,779
Safe and Drug Free Schools and Communities - State Grants	2011	84.186	271	542
Improving Teacher Quality State Grants	2011	84.367	10,836	10,836
Educational Technology State Grants	2011	84.318	1,265	1,410
Total U.S. Department of Education			751,689	752,105
Totals			\$ 945,911	\$ 946,327

The accompanying notes are an integral part of this statement.

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

**NOTES TO THE FEDERAL AWARDS REVENUES AND EXPENSES SCHEDULE
FISCAL YEAR ENDED JUNE 30, 2011**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B - CHILD NUTRITION CLUSTER

The Academy commingles 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*

Cleveland Arts and Social Sciences Academy
Cuyahoga County
10701 Shaker Blvd
Cleveland, OH 44115

To the Board:

We have audited the financial statements of Cleveland Arts and Social Sciences Academy, Cuyahoga County, Ohio (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 March 12, 2012 wherein we noted matters which raise substantial doubt about the Academy's ability to continue as a going concern. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

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

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 March 12, 2012

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



Dave Yost
Auditor of State

March 12, 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

Cleveland Arts and Social Sciences Academy
Cuyahoga County
10701 Shaker Blvd
Cleveland, OH 44115

To the Board:

Compliance

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

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 those requirements and performing other procedures we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Academy's compliance with these requirements.

In our opinion, Cleveland Arts and Social Sciences Academy, Cuyahoga County, Ohio complied, in all material respects, with the requirements referred to above that that could directly and materially affect its major federal program for the year ended June 30, 2011.

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 a material weakness, as defined above.

We intend this report solely for the information and use of the audit committee, management, the Board, the Academy's sponsor (the Ohio Council of Community Schools), 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

March 12, 2012

**CLEVELAND ARTS AND SOCIAL SCIENCES ACADEMY
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, CFDA # 84.010 Title I ARRA, CFDA #84.389
<i>(d)(1)(viii)</i>	Dollar Threshold: Type A/B Programs	Type A: > \$ 300,000 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 noted.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None noted.

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

**SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2011**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain:</i>
2010-001	Financial Reporting – Material Weakness	No	Partially Corrected; re-issued as a Management Letter Recommendation.



Dave Yost • Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT ON APPLYING AGREED-UPON PROCEDURE

Cleveland Arts and Social Sciences Academy
Cuyahoga County
10701 Shaker Blvd
Cleveland, OH 44115

To the Board:

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

1. We noted the Board did not amend its anti-harassment policy to include violence within a dating relationship within its definition of harassment, intimidation or bullying.

Ohio Rev. Code Section 3313.666 required the Board to amend its definition by September 28, 2010.

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 and Academy's sponsor (the Ohio Council of Community Schools) and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Dave Yost".

Dave Yost
Auditor of State

March 12, 2012

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

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Dave Yost • Auditor of State

CLEVELAND ARTS AND SOCIAL SCIENCES ACADEMY

CUYAHOGA COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
MARCH 29, 2012