Center for Academic Success, Inc.

Financial Statements
and Single Audit Reports

Years ended June 30, 2008 and 2007

Table of Contents

Page

Independent Auditor's Report 1-2

Financial Statements

Statements of Financial Position 3
Statements of Activities 4
Statements of Functional Expenses 5-6
Statements of Cash Flows 7-8
Notes to Financial Statements 9-16

Supplemental Information

Schedule of Expenditures of Federal Awards 17
Notes to Schedule of Expenditures of Federal Awards 18

Single Audit Reports

Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards* 19-20

Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133 21-22

Schedule of Findings and Questioned Costs 23-24

Summary Schedule of Prior Audit Findings 25

Walker & Armstrong LLP
CERTIFIED PUBLIC ACCOUNTANTS

4000 North Central Avenue
Suite 1100
Phoenix, Arizona 85012
602.230.1040
602.230.1065 (Fax)

www.wa-cpas.com

Independent Auditor's Report

Board of Directors
Center for Academic Success, Inc.
Sierra Vista, Arizona

We have audited the accompanying statement of financial position of Center for Academic Success, Inc. at June 30, 2008, and the related statement of activities, functional expenses and cash flows for the year then ended. These financial statements are the responsibility of Center for Academic Success, Inc.'s management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of Center for Academic Success, Inc. as of June 30, 2007 were audited by other auditors whose report dated March 28, 2008 expressed an unqualified opinion on those financial statements.

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

In our opinion, the 2008 financial statements referred to above present fairly, in all material respects, the financial position of Center for Academic Success, Inc. as of June 30, 2008, and the changes in its net assets and its cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards,* we have also issued our report dated February 26, 2009 on our consideration of Center for Academic Success, Inc.'s internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was performed for the purpose of forming an opinion on the basic financial statements of Center for Academic Success, Inc. taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as 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. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Walker & Armstrong LLP

Phoenix, Arizona
February 26, 2009

Center for Academic Success, Inc.
Statements of Financial Position
June 30, 2008 and 2007

	2008	2007
Assets		
Cash and cash equivalents	$ 191,677	$ 173,674
Grants receivable	82,067	91,382
Prepaid expenses	7,667	27,739
Due from affiliate	132,322	50,367
Bond issuance cost, net	180,645	-
Restricted cash and investments	4,240,056	73,512
Property and equipment, net	7,215,810	1,990,730
Total assets	$ 12,050,244	$ 2,407,404
Liabilities and Net Assets		
Liabilities		
Accounts payable and accrued liabilities	$ 118,711	$ 146,766
Construction payable	796,991	-
Accrued construction retainage	389,660	-
Accrued compensated absences	72,781	60,077
Interest payable	246,562	-
Note payable	-	900,000
Capital lease obligation	132,407	168,816
Bonds payable	8,818,141	-
Total liabilities	10,575,253	1,275,659
Net Assets		
Unrestricted net assets	1,229,332	1,058,233
Temporarily restricted net assets	245,659	73,512
Total net assets	1,474,991	1,131,745
Total liabilities and net assets	$ 12,050,244	$ 2,407,404

The accompanying notes are an integral part of these financial statements.

Center for Academic Success, Inc.
Statements of Activities
Years ended June 30, 2008 and 2007

	2008	2007
Change in unrestricted net assets:		
Support and revenue		
State grants	$ 3,483,408	$ 3,400,770
Federal grants	440,345	583,640
Job training	212,482	191,816
Food service program	354,389	379,445
Interest income	302,235	-
Preschool income	161,434	227,197
Miscellaneous	54,661	44,429
	5,008,954	4,827,297
Net assets released from restriction	175,087	351,113
Total unrestricted support and revenue	5,184,041	5,178,410
Expenses		
Program services		
Instruction	2,987,122	3,010,443
Youth job training	225,982	190,117
Food service	371,970	396,551
Special education	254,992	201,486
Total program services	3,840,066	3,798,597
Supporting services		
Management and general	1,207,093	1,165,688
Total expenses	5,047,159	4,964,285
Increase in unrestricted net assets	136,882	214,125
Changes in temporarily restricted net assets		
State Classroom Site Fund	347,234	360,913
Net assets released from restriction	(175,087)	(351,113)
Increase in temporarily restricted net assets	172,147	9,800
Increase in net assets	309,029	223,925
Net assets, beginning of year	1,131,745	907,820
Restatement of beginning net assets	34,217	-
Net assets, end of year	$ 1,474,991	$ 1,131,745

The accompanying notes are an integral part of these financial statements.

Center for Academic Success, Inc.
Statements of Functional Expenses
Year ended June 30, 2008

	Program Services					
	Instruction	Youth Job Training	Food Service	Special Education	Management and General	Total
Salaries and wages	$ 1,535,163	$ 141,165	$ 73,600	$ 189,682	$ 769,621	$ 2,709,231
Payroll taxes	139,150	13,453	7,899	16,876	69,781	247,159
Health insurance	258,345	9,790	22,408	28,948	86,606	406,097
Retirement	76,988	3,280	3,753	9,880	37,089	130,990
Total salaries and related	2,009,646	167,688	107,660	245,386	963,097	3,493,477
Depreciation and amortization	180,626	-	-	3,896	6,229	190,751
Rent	166,136	5,268	12,595	-	48,983	232,982
Food	8,764	-	207,448	-	-	216,212
Textbooks and instructional materials	115,343	-	-	-	-	115,343
Utilities	77,348	892	2,775	-	19,418	100,433
Travel	28,886	8,800	1,607	5,130	21,751	66,174
Building maintenance	82,968	604	-	-	21,194	104,766
Equipment maintenance and rental	16,108	380	730	-	5,801	23,019
Office supplies	38,144	772	21,979	-	2,844	63,739
Professional services	20,132	136	330	-	32,355	52,953
Insurance	29,379	-	-	-	39,330	68,709
Telephone and communications	41,064	3,706	2,073	-	20,119	66,962
Computer maintenance	4,225	288	-	-	1,400	5,913
College and job training assistance	14,726	18,472	300	-	-	33,498
Vehicle expense	32,221	4,026	3,471	-	65	39,783
Small equipment purchases	21,044	278	8,562	-	987	30,871
Staff training	26,964	923	-	-	5,855	33,742
Advertising and publications	17,781	2	55	-	658	18,496
Long-term disability and workers' compensation	8,210	358	495	-	3,600	12,663
Information and marketing	6,466	-	-	-	427	6,893
Interest expense	-	-	270	-	115	385
Printing	1,155	358	-	-	668	2,181
Graduation supplies	7,837	90	-	-	-	7,927
Board expense	-	4	-	-	4,632	4,636
Postage and shipping	892	13	10	-	976	1,891
Miscellaneous	27,247	12,924	1,610	580	6,589	48,950
Field trips	3,810	-	-	-	-	3,810
Total expenses	$ 2,987,122	$ 225,982	$ 371,970	$ 254,992	$ 1,207,093	$ 5,047,159

The accompanying notes are an integral part of these financial statements.

Center for Academic Success, Inc.
Statement of Functional Expenses
Year ended June 30, 2007

	Program Services					
	Instruction	Youth Job Training	Food Service	Special Education	Management and General	Total
Salaries and wages	$ 1,574,437	$ 111,539	$ 88,942	$ 153,702	$ 763,622	$ 2,692,242
Payroll taxes	144,008	10,418	9,861	13,469	72,124	249,880
Health insurance	247,451	16,022	24,316	17,986	75,356	381,131
Retirement	68,131	3,629	4,563	6,906	33,978	117,207
Total salaries and related	2,034,027	141,608	127,682	192,063	945,080	3,440,460
Depreciation	190,926	-	-	3,896	-	194,822
Rent	187,741	5,346	12,271	-	53,761	259,119
Food	831	-	205,210	-	-	206,041
Textbooks and instructional materials	92,690	-	-	2,308	-	94,998
Utilities	79,966	1,289	2,958	-	20,201	104,414
Travel	27,784	4,816	2,716	3,219	28,646	67,181
Building maintenance	84,492	560	5,717	-	20,408	111,177
Equipment maintenance and rental	17,675	590	2,520	-	3,985	24,770
Office supplies	62,371	352	22,751	-	2,471	87,945
Professional services	34,755	65	299	-	21,699	56,818
Insurance	39,687	-	-	-	15,434	55,121
Telephone and communications	26,915	4,598	2,485	-	14,754	48,752
Computer maintenance	11,358	45	321	-	137	11,861
College and job training assistance	-	24,784	-	-	-	24,784
Vehicle expense	33,090	3,903	7,163	-	-	44,156
Small equipment purchases	13,538	4	-	-	3,297	16,839
Staff training	17,376	6	460	-	3,145	20,987
Advertising and publications	12,198	153	-	-	894	13,245
Long-term disability and workers' compensation	10,978	466	-	-	2,140	13,584
Information and marketing	3,520	25	-	-	-	3,545
Interest expense	19,630	-	2,126	-	19,437	41,193
Printing	1,947	220	-	-	279	2,446
Graduation supplies	3,736	37	-	-	-	3,773
Board expense	-	4	-	-	4,475	4,479
Postage and shipping	1,711	95	-	-	1,420	3,226
Miscellaneous	200	1,151	1,872	-	4,025	7,248
Field trips	1,301	-	-	-	-	1,301
Total expenses	$ 3,010,443	$ 190,117	$ 396,551	$ 201,486	$ 1,165,688	$ 4,964,285

The accompanying notes are an integral part of these financial statements.

Center for Academic Success, Inc.
Statements of Cash Flows
Years ended June 30, 2008 and 2007

	2008	2007
Cash flows from operating activities:		
Cash received from grantor agencies	$ 4,981,313	$ 5,054,201
Interest income received	302,235	-
Cash paid to vendors and employees	(4,817,085)	(4,833,118)
Interest paid	(385)	(41,193)
Net cash provided by operating activities	466,078	179,890
Cash flows from investing activities:		
Property and equipment purchases	(3,976,389)	(944,999)
Change in restricted cash	(4,166,544)	(9,800)
Net cash used for investing activities	(8,142,933)	(954,799)
Cash flows from financing activities:		
Borrowings on note payable	-	900,000
Proceeds from education bonds	8,818,141	-
Bond issuance cost	(186,874)	
Principal payments under capital lease obligation	(36,409)	(39,754)
Payments on note payable	(900,000)	(26,176)
Net cash provided by financing activities	7,694,858	834,070
Net increase in cash and cash equivalent	18,003	59,161
Cash and cash equivalents, beginning of year	173,674	114,513
Cash and cash equivalents, end of year	$ 191,677	$ 173,674
Noncash investing and financing activities		
Equipment purchased from proceeds of a capital lease	$ -	$ 49,165

The accompanying notes are an integral part of these financial statements.

Center for Academic Success, Inc.
Statements of Cash Flows - Continued
Years ended June 30, 2008 and 2007

	2008	2007
Reconciliation of increase in net assets to net cash provided by operating activities:		
Increase in net assets	$ 309,029	$ 223,925
Adjustment to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation and amortization	190,751	194,822
Decrease (increase) in:		
Grants receivable	9,315	(43,805)
Prepaid expenses	20,072	(21,056)
Due from affiliate	(81,955)	3,018
Increase (decrease) in:		
Accounts payable and accrued expenses	6,162	76,385
Compensated absences	12,704	5,385
Deferred revenue	-	(90,204)
Due to state of Arizona	-	(168,580)
Net cash provided by operating activities	$ 466,078	$ 179,890

The accompanying notes are an integral part of these basic financial statements.

Note 1 – Nature of Activities and Summary of Significant Accounting Policies

Nature of Activities

Center for Academic Success, Inc. ("CAS") is an Arizona nonprofit corporation established in 1999 for the purpose of operating charter schools for grades kindergarten through twelfth and providing job training to students in Cochise County, Arizona. CAS operates five public schools under the Arizona State Board for Charter Schools (the "Sponsor"), which mandates operational guidelines. CAS is primarily funded through state equalization assistance and other government grants.

Prior to separate incorporation in 1999, the charter schools were operated by Cochise Private Industry Council, Inc. ("CPIC") and was considered to be, and was reported as, a component unit of CPIC. By determination by the board of directors, effective July 1, 2000, the assets, liabilities and operations of CAS were transferred to a separate entity governed by its own board. CAS is considered to be a related party of CPIC, dba Cochise County Workforce Development ("CCWD") due to common management, as well as shared facilities and financial management systems.

The significant accounting policies followed by CAS are as follows:

Basis of Accounting

The financial statements of CAS have been prepared on the accrual basis of accounting. Revenue and expenses are recognized and recorded when earned or incurred.

Basis of Presentation

The financial statements presentation follows the recommendation of Statement of Financial Accounting Standards (SFAS) No. 117, *Financial Statements of Not-For-Profit Organizations.* Under SFAS No. 117, CAS is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. There were no permanently restricted net assets as of June 30, 2008.

Management's Use of Estimates

The preparation of the financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Note 1 – Nature of Activities and Summary of Significant Accounting Policies - Continued

Cash and Cash Equivalents

Cash includes cash and cash equivalents such as short-term certificates of deposit and money market investment accounts with an initial maturity of three months or less. Accounts at each institution are insured in limited amounts by the Federal Deposit Insurance Corporation ("FDIC").

Grants Receivables

All grants receivable at June 30, 2008 and 2007 are considered to be fully collectible, and accordingly, an allowance for doubtful accounts is not considered necessary.

Property and Equipment

Purchased property and equipment are stated at cost. Outlays for routine repair and maintenance are charged to operations as incurred. Outlays which substantially extend the useful life of an asset are capitalized. CAS capitalizes assets with a cost of $1,000 or more and an estimated useful life of one year or more. Depreciation and amortization of property and equipment is computed on a straight-line basis over their estimated useful lives which range from three to 25 years.

Bond Issuance Cost

CAS has incurred $186,874 in costs associated with issuing bonds which are amortized on a straight-line basis over the bonds' term through 2037. CAS recognized $6,229 and $0 of amortization expense in connection with these costs during 2008 and 2007, respectively.

Revenue Recognition

Revenue is recognized on the accrual basis as earned. Depending on the grant or contract agreement, revenue is recognized based on the meeting conditions of the agreement which is typically measured by the number of students enrolled or amount of expenditures incurred.

CAS receives substantially all of its grant and contract revenue from the State of Arizona. CAS recognizes the majority of its contract revenue based on the number of students enrolled as calculated in accordance with the requirements of the Arizona Department of Education. All other grant and contract revenue is recognized as the underlying expenditure are incurred.

Note 1 – Nature of Activities and Summary of Significant Accounting Policies - Continued

Functional Expense Allocations

The costs of providing various programs and other activities have been summarized on a functional basis in the accompanying statement of activities. Accordingly, certain costs have been allocated among program and supporting services benefited based on square footage and payroll. Management and general include those expenses that are not directly identifiable with any specific program but provide for the overall support and direction of CAS.

Income Tax Status

CAS qualifies as a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code (the "Code") and, therefore there is no provision for income taxes. In addition, CAS qualifies for the charitable contribution deduction under Section 170 of the Code and has been classified as an organization that is not a private foundation. Income unrelated to CAS's exempt purpose is taxable.

Reclassifications

Certain amounts in the 2007 financial statements have been reclassified to conform to the 2008 presentation. These reclassifications had no effect on the net assets or changes in net assets as of June 30, 2007.

Note 2 – Cash and Cash Equivalents

In the normal course of business, CAS maintains bank balances in excess of FDIC insurance limits. As of June 30, 2008, bank deposits totaling $100,000 was covered by FDIC insurance and $501,840 uninsured and uncollateralized. In the case of deposits, there is custodial risk that in the event of bank failure, CAS's deposits may not be returned to it. CAS does not have a policy for minimizing custodial risk.

Note 3 – Restricted Cash and Investments

Restricted Cash

In accordance with Arizona Revised Statute §15-977, unspent Classroom Site Fund receipts must be used in future periods for specific purposes. These monies are restricted for cost associated with teacher base salary increases, class size reduction, AIMS intervention programs, and dropout prevention programs. Accordingly, unspent proceeds remaining at year-end are reported as restricted cash.

Note 3 – Restricted Cash and Investments – Continued

Restricted Investments

Restricted investments consist of U.S. government treasury bonds held by the trustee for education bond discussed further in Note 5. These accounts are then restricted for specific purposes such as new school construction costs, debt service, taxes and insurance and other miscellaneous costs. Substantially all of the income earned on these investments was interest. Restricted cash and investments are held in the following accounts as of June 30:

	2008	2007
Cash and investments restricted for:		
Project costs	$ 3,036,671	$ -
Bond principal	645,884	-
Bond interest	250,280	-
Taxes and insurance	46,646	-
Other bond costs	14,916	-
Total restricted investments	3,994,397	-
Restricted cash-Classroom Site Fund	245,659	73,512
Total restricted cash and investments	$ 4,240,056	$ 73,512

Note 4 – Property and Equipment

Property and equipment consists of the following as of June 30:

	2008	2007
Nondepreciable		
Land	$ 1,029,140	$ 1,029,140
Construction in progress	4,866,749	4,775
Total nondepreciable	5,895,889	1,033,915
Depreciable		
Buildings	1,160,718	661,015
Furniture and office equipment	1,396,423	1,348,501
Leasehold improvements	82,934	82,934
Vehicles	101,112	101,109
Total depreciable	2,741,187	2,193,559
Total property and equipment	8,637,076	3,227,474
Less: accumulated depreciation	(1,421,266)	(1,236,744)
Property and equipment, net	$ 7,215,810	$ 1,990,730

Note 4 – Property and Equipment - Continued

Interest incurred on debt used to finance construction costs is capitalized to the project until the project is used in operations. Total capitalized interest was $467,310 and $0 during 2008 and 2007, respectively.

Note 5 – Long-Term Debt

Bonds Payable

The following is a summary of bonds payable as of June 30:

	2008	2007
Series 2007B Education Revenue Bonds, issued July 12, 2007, due July 1, 2037 (with optional redemption at the option of the Issuer in whole or in part on date commencing July 1, 2013, at the redemption price of the principal amount to be redeemed without discount), with interest at 5.5% per annum paid semi-annually on July 1 and January 1. Principal payments in annual accelerating amounts commences July 1, 2014.	$ 7,500,000	$ -
Series 2007A Education Revenue Bonds, issued July 12, 2007, due July 1, 2022, with interest at 5.375% per annum paid semi-annually on July 1 and January 1. Principal payments in annual accelerating amount commences July 1, 2010.	1,500,000	-
	9,000,000	$ -
Unamortized discount	(181,859)	-
Total bonds payable	$ 8,818,141	$ -

Under terms of the bond agreements the equalization funding received from the state of Arizona is directly remitted to the bondholders to meet debt service requirements. There is no other collateral for the bonds listed above.

The bond agreements require that CAS comply with certain covenants including meeting a debt service coverage ratio (defined as the ratio of net income available for debt service divided by the maximum annual debt service) of at least 1.1 to 1. As is typical of a school in the development phase of a construction project, CAS was not in compliance with the debt service coverage ratio as of June 30, 2008.

Note 5 – Long-Term Debt – Continued

The annual bond principal requirements to maturity as of June 30, 2008 are as follows:

Year ending June 30,	Amount
2009	$ -
2010	-
2011	135,000
2012	140,000
2013	150,000
Thereafter	8,575,000
	$ 9,000,000

Capital Lease Obligation

CAS leases certain office equipment under a capital lease expiring in December 2011 and bearing interest at 10.25%. Future minimum lease payments under the capital lease obligation at June 30, 2008 follows:

Year ending June 30,	Minimum Lease Payment
2009	$ 47,389
2010	119,194
Total	166,583
Less amount representing interest	(34,176)
Present value of net minimum lease payments	$ 132,407

The following is a schedule of equipment accounted for as a capital lease as of June 30:

	2008	2007
Equipment held under capital lease	$ 159,405	$ 159,405
Less: accumulated amortization	(63,762)	(31,881)
	$ 95,643	$ 127,524

Note 5 – Long-Term Debt – Continued

Note Payable

Note payable consists of the following at June 30:

	2008	2007
Note payable with the entire principal amount due in October 2008 with interest payable monthly at a variable rate (10.25% at June 30, 2007). The note was collateralized by real property and repaid with the education bond proceeds in July 2007.	$ -	$ 900,000

Note 6 – Operating Leases

CAS conducts part of its operations in a facility shared with CCWD under an operating lease ending August 31, 2009. Management estimates that CAS occupies 30% of the total space of this shared facility pursuant to an informal sublease agreement. CAS's share of rent expense for the years ended June 30, 2008 and 2007 was $232,982 and $259,119, respectively.

Note 7 – Pension Plans

Eligible CAS employees can participate in a 403(b) defined contribution plan and a simplified employee pension plan. These plans are combined plans that include employees of CAS and CCWD. The plans were established pursuant to authorization by the board of directors and can be amended upon the board's approval. To be eligible, employees must be 21 years of age or older and earn the minimum amount required by the Internal Revenue Service. All participants are fully vested upon entering the plans. CAS's contribution to the plans was $130,990 and $117,207 in 2008 and 2007, respectively.

Note 8 – Related Party Transactions

During the years ended June 30, 2008 and 2007, CAS received $212,482 and $191,816, respectively in revenue from CCWD for reimbursement of expenses related to the Professional Youth Quest ("PYQ") program that CAS operates on behalf of CCWD. These expenses are reported as the job training function in the statements of activities.

The amount due from CCWD related to this program was $43,386 and $50,376 as of June 30, 2008 and 2007, respectively.

Note 9 - Construction Commitment

As of June 30, 2008, CAS has a commitment to its general contractor related to the construction of the new School facility totaling $1,898,664.

Note 10 – Restatement of Beginning Net Assets

Net assets at July 1, 2007 have been adjusted to correct an error for an overstatement of accounts payable of $34,217. This error had no effect on the change in net assets for fiscal year ended June 30, 2007.

Supplemental Information

Center for Academic Success, Inc.

Schedule of Expenditures of Federal Awards

Year ended June 30, 2008

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Contract Number	Federal Expenditures
U.S. Department of Agriculture			
Passed through the Arizona Department of Education			
Child Nutrition Cluster			
National School Lunch - Local Wellness	10.55A	10.55	$ 5,000
School Breakfast Program	10.553	02-87-50	82,187
National School Lunch Program	10.555	02-87-50	194,114
Summer Food Service Program for Children	10.559	02-87-50	73,088
			354,389
State Administrative Matching Grants for Food Stamp Program	10.561	N/A	20,596
Total U.S. Department of Agriculture			374,985
U.S. Department of Labor			
Passed through the Arizona Department of Economic Security, Cochise County, Arizona and Cochise Private Industry Council			
WIA Youth Activities	17.259	E5706002 & E5705002	212,482
U.S. Department of Education			
Passed through the Arizona Department of Education			
Title I Grants to Local Educational Agencies	84.010	S010A070003	237,830
Special Education - Grants to States	84.027	H027A0070007	82,065
Safe and Drug-Free Schools and Communities - Safe Grants	84.186	S186A070003	5,611
Education for Homeless Children and Youth	84.196	S196A060003A	14,725
State Grants for Innovative Programs	84.298	S298A070003	897
Title II Enhancing Education through Technology	84.318	S318X070003	2,027
English Language Acquisition Grants	84.365	T365A020003	29,373
Improving Teacher Quality - State Grants	84.367	S281A030003	14,430
Total U.S. Department of Education			386,958
U.S. Department of Health and Human Services			
Passed through the Arizona Department of Economic Security			
Childcare and Development Block Grant	93.575	P0001316001 & 86091032801	32,791
Total expenditures of federal awards			$ 1,007,216

See accompanying notes to this schedule.

Center for Academic Success, Inc.
Notes to Schedule of Expenditures of Federal Awards
Year Ended June 30, 2008

Note 1 - Basis of Accounting

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Center for Academic Success, Inc. and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of U.S. Office Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements. Center for Academic Success, Inc. did not provide federal awards to subrecipients during the year ended June 30, 2008.

Note 2 - Catalog of Federal Domestic Assistance (CFDA) Numbers

The CFDA program titles and numbers were obtained from the 2008 *Catalog of Federal Domestic Assistance.*

Note 3 - Subrecipients

CAS did not have any subrecipients for 2008.

Single Audit Reports

Walker & Armstrong LLP
CERTIFIED PUBLIC ACCOUNTANTS

4000 North Central Avenue
Suite 1100
Phoenix, Arizona 85012
602.230.1040
602.230.1065 (Fax)

www.wa-cpas.com

Report on Internal Control over Financial Reporting
And on Compliance and Other Matters Based on an Audit of Financial Statements
Performed in Accordance with *Government Auditing Standards*

Board of Directors
Center for Academic Success, Inc.
Sierra Vista, Arizona

We have audited the financial statements of Center for Academic Success, Inc. as of and for the year ended June 30, 2008, and have issued our report thereon dated February 26, 2009. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered Center for Academic Success, Inc.'s internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the basic financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Center for Academic Success, Inc.'s internal control over financial reporting.

Our consideration of the internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily disclose all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a deficiency in internal control over financial reporting that we consider to be a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process or report financial data reliably in accordance with U.S. generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiency described in the accompany schedule of findings and questioned costs as item 08-001 to be a significant deficiency in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclosed all significant deficiencies that are also considered to be material weaknesses. However we do not believe the significant deficiency described above is considered to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Center for Academic Success, Inc.'s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on 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 such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Center for Academic Success, Inc.'s response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit Center for Academic Success, Inc.'s response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the board of directors, management, awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Walker & Armstrong LLP

Phoenix, Arizona
February 26, 2009

Walker & Armstrong LLP
CERTIFIED PUBLIC ACCOUNTANTS

4000 North Central Avenue
Suite 1100
Phoenix, Arizona 85012
602.230.1040
602.230.1065 (Fax)

www.wa-cpas.com

Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133

Board of Directors
Center for Academic Success, Inc.
Sierra Vista, Arizona

Compliance

We have audited the compliance of Center for Academic Success, Inc. with the types of compliance requirements described in the *U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2008. Center for Academic Success, Inc.'s major federal programs are identified in the summary of audit results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Center for Academic Success, Inc.'s management. Our responsibility is to express an opinion on Center for Academic Success, Inc.'s compliance based on our audit.

We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Center for Academic Success, Inc.'s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Center for Academic Success, Inc.'s compliance with those requirements.

In our opinion, Center for Academic Success, Inc. complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2008.

Internal Control over Compliance

The management of Center for Academic Success, Inc. is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Center for Academic Success, Inc.'s internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more on the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the board of directors, management, federal awarding agencies and pass -through entities and is not intended to be and should not be used by anyone other than these specified parties.

Walker & Armstrong LLP

Phoenix, Arizona
February 26, 2009

Center for Academic Success, Inc
Schedule of Findings and Questioned Costs
June 30, 2008

A. Summary of Audit Results

Financial Statements

Type of auditor's report issued:	**Unqualified**	
	Yes	**No**
Material weakness(es) identified in internal control over financial reporting?		X
Significant deficiencies identified not considered to be material weaknesses?	X	
Noncompliance material to the financial statements noted?		X

Federal Awards

Material weaknesses identified in internal control over major programs?		X
Significant deficiencies identified not considered to be material weaknesses?		X
Type of auditor's report issued on compliance for major programs:	**Unqualified**	
Any audit findings disclosed that are required to be reported in accordance with Circular A-133 (section .510[a])?		X

Identification of major programs:

CFDA No.	Name of Federal Program
10.55A, 10.553, 10.555 and 10.559	Child Nutrition Cluster
17.259	WIA Youth Activities

Dollar threshold used to distinguish between Type A and B programs:	**$300,000**	
Auditee qualified as a low risk auditee?		X

Other Matters

Auditee's Summary Schedule of Prior Audit Findings required to be reported in accordance with Circular A-133 (section .315[b])?		X

B. Financial Statement Finding

08-001 Improve Accounting for Property and Equipment

Condition: During 2008, CAS incurred substantial costs and issued related debt in connection with the construction of a new school complex. The underlying records were maintained by a trustee which requires detailed analysis and entries to record the activity and balances in the accounting system. CAS maintained detailed records of the trustee activity and the majority of the activity was recorded in the general ledger during the year, however, not all construction related activity that occurred in the last quarter of fiscal year 2008 was recorded at year-end.

Also, although CAS maintained property and equipment records in a spreadsheet, because of the manner in which depreciation expense was calculated, certain adjustments were necessary to correct depreciation expense and the related accumulated depreciation balance.

Recommendation: We recommend that CAS's year-end closing process include the construction activity as maintained by the trustee. We also recommend that CAS consider using a software program designed specifically to maintain detailed property and equipment records, including calculating depreciation expense. This will assist in providing complete and accurate financial information to decision makers in a timelier manner.

Management's Response: Management concurs with the finding and recommendations. Fiscal year 2008 was unique due to the high volume of transactions related to the construction of the new school facility in Sierra Vista and the related bonds payable. This project was completed subsequent to year-end and accordingly, fiscal year 2009 will have substantially less activity.

C. Federal Award Findings and Questioned Costs

No matters were identified that were required to be reported.

Center for Academic Success, Inc.
Summary Schedule of Prior Audit Findings
Year Ended June 30, 2008

Item 2007-04:

Condition: CAS did not completely and accurately identify its federal awards in the schedule of expenditures of federal awards.

Status: No similar audit finding as noted in fiscal year 2008.

Item 2007-05:

Condition: Significant year-end adjustments to the financial statements were necessary for the financial statements to conform to U.S. generally accepted accounting principles.

Status: No similar audit finding applicable to CAS's federal awards were noted in fiscal year 2008.

Item 2007-06:

Condition: The accounting staff did not appears to have adequate training or expertise to prepare the Organization's annual financial statements in accordance with U.S. generally accepted accounting principles.

Status: No similar audit finding as noted in fiscal year 2008.

Item 2007-07:

Condition: CAS inaccurately calculated the number of meals served and reported in the incorrect number to the grantor agency.

Status: No similar audit finding as noted in fiscal year 2008.