ARTS AND COLLEGE PREPARATORY ACADEMY
FRANKLIN COUNTY

REGULAR AUDIT

FOR THE YEAR ENDED JUNE 30, 2003

ARTS AND COLLEGE PREPARATORY ACADEMY
FRANKLIN COUNTY

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Auditor of State
Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

Arts and College Preparatory Academy
Franklin County
2202 South Hamilton Road
Columbus, Ohio 43232

To the Board of Governors:

We have audited the accompanying Balance Sheet of the Arts and College Preparatory Academy, Franklin County, Ohio (the Academy) as of June 30, 2003, and the related Statement of Revenues, Expenses and Changes in Retained Earnings and Statement of Cash Flows for the year then ended. These financial statements are the responsibility of 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 *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 financial statements referred to above present fairly, in all material respects, the financial position of the Arts and College Preparatory Academy, as of June 30, 2003, and the results of operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 1, 2003, 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 grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Betty Montgomery

Betty Montgomery
Auditor of State

November 1, 2003

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ARTS AND COLLEGE PREPARATORY ACADEMY
FRANKLIN COUNTY

BALANCE SHEET
AS OF JUNE 30, 2003

ASSETS		
Current Assets		
Cash and Cash Equivalents with Fiscal Agent	$	52,487
Intergovernmental Receivable		59,298
Prepaid Items		4,692
Total Current Assets		116,477
Non-Current Assets		
Security Deposits		10,000
Fixed Assets (Net of Accumulated Depreciation)		38,864
Total Non-Current Assets		48,864
Total Assets	$	165,341
LIABILITIES AND EQUITY		
Current Liabilities		
Accounts Payable	$	3,588
Accrued Wages		28,877
Intergovernmental Payable		7,214
Capital Lease Payable		2,421
Total Current Liabilities		42,100
Long Term Liabilities		
Capital Lease Payable		8,759
Total Long Term Liabilities		8,759
Total Liabilities		50,859
Equity		
Retained Earnings		114,482
Total Liabilities and Equity	$	165,341

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

ARTS AND COLLEGE PREPARATORY ACADEMY
FRANKLIN COUNTY

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN RETAINED EARNINGS
FOR THE YEAR ENDED JUNE 30, 2003

Operating Revenues	
Foundation Payments	$ 290,279
Donations	3,200
Total Operating Revenues	293,479
Operating Expenses	
Salaries	227,058
Fringe Benefits	56,508
Purchased Services	141,896
Materials and Supplies	61,168
Depreciation	5,305
Other Operating Expenses	25,605
Total Operating Expenses	517,540
Operating Loss	(224,061)
Non-Operating Revenues and (Expenses)	
Federal Restricted Grants	171,486
State Restricted Grants	3,000
Interest Income	696
Interest and Fiscal Charges	(456)
Total Non-Operating Revenues (Expenses)	174,726
Net Loss	(49,335)
Retained Earnings Beginning of Year	163,817
Retained Earnings End of Year	$ 114,482

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

ARTS AND COLLEGE PREPARATORY ACADEMY
FRANKLIN COUNTY

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2003

(Decrease) in Cash and Cash Equivalents	
Cash Flows from Operating Activities	
Cash received from State of Ohio	$ 290,279
Cash Payments to Suppliers for Goods and Services	(199,861)
Cash Payments to Employees for Services	(198,181)
Cash Payments for Employee Benefits	(49,622)
Cash Payments for Other Operating Uses	(30,297)
Other Operating Revenues	3,200
Net Cash Used in Operating Activities	(184,482)
Cash Flows Used in Noncapital Financing Activities	
Grants Received	115,188
Net Cash Provided by Noncapital Financing Activities	115,188
Cash Flows from Capital and Related Financing Activities	
Payments for Capital Acquisitions	(5,342)
Principal Payments	(1,738)
Interest Payments	(456)
Net Cash Used for Capital and Related Financing Activities	(7,536)
Cash Flows from Investing Activities	
Interest Income	696
Net Cash Provided by Investing Activities	696
Net Decrease in Cash and Cash Equivalents	(76,134)
Cash and Cash Equivalents at Beginning of Year	128,621
Cash and Cash Equivalents at End of Year	$ 52,487
Reconciliation of Operating Loss to Net Cash Used for Operating Actrivities	
Operating Loss	$ (224,061)
Adjustments to Reconcile Operating Loss to Net Cash Used for Operating Activities	
Depreciation	5,305
Changes in Assets and Liabilities:	
Increase in Prepaid Items	(4,692)
Increase in Accounts Payable	3,203
Increase in Accrued Wages Payable	28,877
Increase in Intergovernmental Payable	6,886
Total Adjustments	39,579
Net Cash Used for Operating Activities	$ (184,482)

Noncash Financing Activities
During fiscal year 2003, the Academy entered into a capital lease for a Xerox Document Centre. The present value of the minimum lease payments is $11,180 at June 30, 2003. The Academy made payments of $1,738 in 2003.

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

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NOTE 1 -- DESCRIPTION OF THE ENTITY

The Arts and College Preparatory Academy (The Academy) is a nonprofit corporation established pursuant to Ohio Revised Code Sections 3314 and 1702. The Academy is an approved tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code exclusively for educational purposes. Management is not aware of any course of action or series of events that have occurred that might adversely affect the Academy's tax-exempt status. The Academy is a general population high school that served grades 9 and 10 in fiscal year 2003 and will add grades 11 and 12 in 2004 and 2005, respectively. One of the Academy's missions is to provide students with academic and art knowledge and skills necessary for them to be successful in any post-secondary educational opportunities they choose. The Academy, which is part of the State's education program, is independent of any school district and is nonsectarian in its programs, admission policies, employment practices, and all other operations. The Academy may acquire facilities as needed and contract for any services necessary for the operation of the school.

The Academy was approved for operation under a contract with the Lucas County Educational Service Center (the Sponsor) for a period of five years effective for the 2001-2002 academic school year. 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. The sponsorship agreement states the Treasurer of Lucas County Educational Service Center will serve as the Chief Fiscal Officer (see note 11).

The Academy operates under the direction of a six-member Board of Governors. The Board of Governors is responsible for carrying out the provisions of the contract which include, but are not limited to, state-mandated provisions regarding student population, curriculum, academic goals, performance standards, admission standards, and qualifications of teachers. The Governing Board controls the Academy's one instructional/support facility staffed by 2 non-certificated and 9 certificated full time teaching personnel who provides services to 56 students.

NOTE 2 -- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Academy have been prepared in conformity with generally accepted accounting principles as applied to a governmental nonprofit organization. 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 statements and interpretations issued on or before November 30, 1989, provided they do not conflict with or contradict GASB pronouncements. The more significant of the Academy's accounting policies are described below:

A. BASIS OF PRESENTATION

The Academy uses enterprise accounting to track and report on its financial activities. Enterprise accounting is used to account for operations that are financed and operated in a manner similar to private business enterprises where the intent that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges or where it has been decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

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

B. MEASUREMENT FOCUS/BASIS OF ACCOUNTING

The accounting and financial reporting treatment is determined by its measurement focus. Enterprise accounting uses a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities are included on the balance sheet. Equity consists of retained earnings. Operating statements present increases (e.g. revenues) and decreases (e.g. expenses) in net total assets.

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made.

The accrual basis of accounting is used for reporting purposes. Revenues are recognized when they are earned, and expenses are recognized when they are incurred.

C. BUDGETARY PROCESS

Unlike other public schools located in the State of Ohio, community schools are not required to follow budgetary provisions set forth in Ohio Revised Code Chapter 5705, unless specifically provided in The Academy's contract with its Sponsor. The contract between the Academy and its Sponsor does prescribe an annual budget requirement in addition to preparing a 5 year forecast which is to be updated on an annual basis.

D. CASH AND CASH EQUIVALENTS

All monies received by the Academy are accounted for by the Academy's fiscal agent, the Lucas County Educational Service Center. All cash received by the fiscal agent is maintained in separate accounts in the Academy's name. Total cash is presented as "cash and cash equivalents" on the accompanying balance sheet.

E. FIXED ASSETS AND DEPRECIATION

Fixed assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the fiscal year. Donated fixed assets are recorded at their fair market value on the date received. The Academy maintains a capitalization policy of five hundred dollars. The Academy does not possess any infrastructure.

Leasehold 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.

Depreciation of furniture and equipment is computed using the straight-line method over an estimated useful life of five years. Leasehold improvements to fixed assets are depreciated over eleven years.

F. INTERGOVERNMENTAL REVENUES

The academy currently participates in the State Foundation Program. Revenue received from this program is recognized as operating revenues in the accounting period in which all eligibility requirements have been met.

Grants and entitlements are recognized as non-operating revenues in the accounting period in which all eligibility requirements have been met.

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

F. INTERGOVERNMENTAL REVENUES (Continued)

Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the academy must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the academy on a reimbursement basis.

The school also participates in the Federal Charter School Grant Program through the Ohio Department of Education. Under this program, the school was awarded $150,000 to offset start-up costs of the academy. Revenue received from this program is recognized as non-operating revenue in the accompanying financial statements.

Amounts awarded under the above programs for the 2003 school year totaled $464,765.

G. USE OF ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

H. COMPENSATED ABSENCES

The employees of the Academy do not accumulate vacation, sick, or personal leave during the fiscal year. This policy may be subject to change as the school progresses.

I. SECURITY DEPOSIT

The Academy entered into a lease for the use of the building for the administration of the Academy. A security deposit, in the amount of $10,000, is held by the lessor.

NOTE 3 -- DEPOSITS

At June 30, 2003, the carrying amount of the Academy's deposits was $52,487 and the bank balance was $72,562.The bank balance was covered by federal depository insurance.

NOTE 4 -- RECEIVABLES

Receivables at June 30, 2003, consisted of intergovernmental receivables. All intergovernmental receivables are considered collectible in full.

NOTE 5 -- FIXED ASSETS

A summary of fixed assets follows:

	Balance 6/30/03
Furniture and Equipment	$ 10,361
Leasehold Improvements	35,659
Total Assets	46,020
Less Accumulated Depreciation	(7,156)
Net Fixed Assets	$ 38,864

NOTE 6 -- RISK MANAGEMENT

A. Property and Liability

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. For fiscal year 2003, the School contracted with the O'Neill Group for general liability insurance, with a $1,000,000 single occurrence limit and a $2,000,000 aggregate. Settled claims have not exceeded this commercial coverage in the past fiscal year.

Professional liability is protected by the O'Neill Group with a $1,000,000 single occurrence limit and $1,000,000 aggregate. The umbrella liability has a single occurrence limit of $10,000,000 and an aggregate limit $10,000,000. Commercial Property is covered up to $400,000 with a deductible of $1,000, and student accident insurance is covered up to $10,000 per student with a $500 a deductible.

B. Worker's Compensation

The Academy pays the State Worker's Compensation System a premium for employee injury coverage. The premium is calculated by multiplying the monthly total gross payroll by a factor that is calculated by the State.

C. Employee Medical, Dental and Vision Benefits

The Academy has contracted through an independent carrier to provide medical, dental, life, and disability insurance to its full-time employees who work 20 or more hours per week. The Academy pays the full amount of the monthly premiums for all selected coverage (medical, dental, life and disability).

NOTE 7 -- DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

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

Plan members are required to contribute 9 percent of their annual covered salary and The Academy is required to contribute at an actuarially determined rate. The current rate is 14 percent of annual covered payroll; 5.46 percent was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts by the SERS' Retirement Board. The Academy's required contribution for pension obligations to SERS for the year fiscal ended June 30, 2003 was $1,933; 96.45 percent has been contributed for fiscal year 2003 and 100 percent for fiscal year 2002. The unpaid contribution for fiscal year 2003, in the amount of $69 is recorded as a liability.

NOTE 7 -- DEFINED BENEFIT PENSION PLANS (Continued)

B. State Teachers Retirement System

The Academy participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement system. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3371 or by calling (614) 227-4090.

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5% 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 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. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan. Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one time irrevocable decision to transfer their account balances from the existing DB Plan into the DC Plan or the Combined Plan. This option expired on December 31, 2001. 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 dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

For the fiscal year ended June 30, 2003, plan members were required to contribute 9.3 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% for members and 14% for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The School District's required contributions for pension obligations to the DB Plan for the fiscal years ended June 30, 2003 and 2002 were $24,433 and $2,443 respectively; 84.14 percent has been contributed for fiscal year 2003 and 100 percent for fiscal year 2002. The unpaid contribution for fiscal year 2003, in the amount of $3,874 is recorded as a liability. No contributions were made to the DC and Combined Plans for fiscal year 2003 by the Academy.

NOTE 8 -- POST-EMPLOYMENT BENEFITS

The Academy provides comprehensive health care benefits to retired teachers and their dependents through the State Teachers Retirement System (STRS), and to retired non-certificated employees and their dependents through the School Employees Retirement System (SERS). Benefits include hospitalization, physicians' fees, prescription drugs and partial reimbursement of monthly Medicare premiums. Benefit provisions and the obligation to contribute are established by the Systems based on authority granted by State statute. Both systems are funded on a pay-as-you-go basis.

The State Teachers Retirement Board has authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of the coverage paid from STRS funds shall be included in the employer contribution rate, currently 14 percent of covered payroll. For year June 30, 2003, the Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Reserve Fund. For the Academy, this amount equaled $1,581 for the fiscal year ended June 30, 2003.

STRS pays health care benefits from the Health Care Reserve Fund. The balance in the Fund was $3.011 billion at June 30, 2002 (the latest information available). For the fiscal year ended June 30, 2002, net health care costs paid by STRS were $354,697,000 and STRS had 105,300 eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten or more years of qualifying service credit, disability and survivor benefit recipients. Members retiring on or after August 1, 1989, with less than twenty-five years of service credit must pay a portion of their premium for health care. The portion is based on years of service up to a maximum of 75 percent of the premium.

For this fiscal period, employer contributions to fund health care benefits were 8.54 percent of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2003, the minimum pay had been established at $14,500. For the Academy, the amount to fund health care benefits, including surcharge, was $3,685 for the fiscal year ended June 30, 2003.

Health Care benefits are financed on a pay-as-you-go basis. The target level for the health care reserve is 150% of annual health care expenses. Expenses for health care at June 30, 2002 were $182,946,777 and the target level was $274.4 million. At June 30, 2002, the Retirement System's net assets available for payment of health care benefits as $335.2 million. The number of benefit recipients currently receiving health care benefits is approximately 50,000.

NOTE 9 – OTHER BENEFITS

A. Social Security Tax

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System have an option to choose Social Security System. As of June 30, 2003, the Academy has no employees or members of the governing board which contribute to the Social Security System.

NOTE 10 -- STATE SCHOOL FUNDING DECISION

On December 11, 2002, the Ohio Supreme Court issued its latest opinion regarding the State's school funding plan. The decision reaffirmed earlier decisions that Ohio's current school funding plan is unconstitutional.

The Supreme Court relinquished jurisdiction over the case and directed "...the Ohio General Assembly to enact a school funding scheme that is thorough and efficient...". The Academy is currently unable to determine what effect, if any, this decision will have on its future State funding and on its financial operations.

NOTE 11 -- FISCAL AGENT

The Academy entered into a fiscal agent agreement with the Lucas County Educational Service Center, (LCESC). The service agreement provides the Treasurer of the LCESC shall serve as the Chief Fiscal Officer of the Academy. As part of this agreement, the Academy shall compensate the LCESC two percent of the per pupil allotments paid to the Academy from the State of Ohio foundation payments. For the fiscal year the Academy paid the LCESC $5,806, which is the required amount under the agreement.

Based on the provisions of the agreement, the Chief Fiscal Officer of the Academy shall perform the following duties:

- Maintain custody of all funds received by the Academy in segregated accounts separate from Lucas County ESC or any other Community Academy's funds;
- Maintain all books and accounts of the Academy;
- Maintain all financial records of all state funds of the Academy and follow State Auditor procedures for receiving and expending state funds;
- Assist the Academy in meeting all financial reporting requirements established by the Auditor of Ohio;
- Invest funds of the Academy in the same manner as the funds of Lucas County ESC are invested, but the Treasurer shall not commingle the funds with any of Lucas County ESC or any other community school; and
- Pay obligations incurred by the Academy within a reasonable amount of time, not more than 14 calendar days after receipt of a properly executed voucher signed by the Chief Administrative Officer of the Academy so long as the proposed expenditure is within the approved budget and funds are available.

NOTE 12 -- PURCHASED SERVICES

For the period July 1, 2002 through June 30, 2003, purchased service expenses were payments for services rendered by various vendors, as follows:

Professional and Technical Services	$ 22,031
Property Services	113,432
Travel Mileage/Meeting Expense	487
Communications	3,830
Contracted Craft or Trade Services	1,513
Other Purchased Services	603
Total Purchased Services	$ 141,896

NOTE 13 -- CAPITAL LEASES - LESSEE DISCLOSURE

During fiscal year 2003, the Academy entered into a capital lease for a Xerox Document Centre. This lease meets the criteria of a 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 risks of ownership to the lessee. The capital lease has been recorded at the present value of the future minimum lease payments as of the inception date.

The following is a schedule of the future minimum lease payments required under the capital lease and the present value of the minimum lease payments as of June 30, 2003.

Fiscal Year Ending

2004	$ 2,925
2005	2,925
2006	2,925
2007	2,925
2008	733
Total Minimum Lease Payments	12,433
Less: Amount representing Interest	(1,253)
Present Value of Minimum Lease Payments	$ 11,180

NOTE 14 -- OPERATING LEASES - LESSEE DISCLOSURE

The Academy entered into an operating lease in September of 2001 for rent of a building to house the school. The lease became effective in August of 2002 and was renegotiated in April of 2003. This agreement is, in substance, an operating lease, and will be classified as operating lease rental payments in the financial statements. The lease is for a term of six (6) years, with the option to exercise an extension for an additional one to five years. The rental periods run from August 1 through July 31 of each year, with scheduled rent increases each period. The rent is scheduled to increase by four percent each year, however the increase from the 2003 to 2004 rental years was twenty percent, due to larger than expected renovation costs to place the building in operation. This led to the April 2003 renegotiated agreement. For the fiscal year ended June 30, 2003, the payments made on the lease were $110,000. The following summarizes future minimum lease payments under the operating lease at June 30, 2003:

Fiscal Year Ending June 30	Payments
2004	$ 141,615
2005	148,849
2006	154,806
2007	161,002
2008	167,438
2009	13,998

NOTE 15 -- 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, 2003.

B. Pending Litigation

A suit was filed in Franklin County Common Pleas Court on May 14, 2001, alleging that Ohio's Community (i.e., Charter) Schools program violates the State Constitution and State Law. On April 21, 2003, the Court dismissed the counts containing constitutional claims and stayed the other counts pending appeal of the constitutional issues. The Plaintiff's appealed to the Court of Appeals, the issues have been briefed, and the case is set for argument on November 18, 2003.

C. Fulltime Equivalency

The Ohio Department of Education conducts reviews of enrollment data and full time equivalency (FTE) calculations made by the Academy. These reviews are conducted to ensure the Academy is reporting accurate student enrollment data to the State, upon which state foundation funding is calculated. The results of this review could result in state funding being adjusted. For the fiscal year 2003, the Academy does not anticipate revenue adjustments based on the results of any such review.

NOTE 16 -- MANAGEMENT'S PLAN

The Academy had an operating loss of $224,061 and negative cash flow from operating activities of $184,482 for fiscal year 2003. This operating loss is due to this fiscal year being the initial year of operations for the Academy, which would result in increased expenditures for start-up expenses.

In response, management has made efforts to increase enrollment through active advertising and through referrals of current parents. The Academy has also added 11th grade students to its enrollment during fiscal year 2004, and plans to add 12th grade students in fiscal year 2005. As of the date of this report, enrollment has increased by 45 students.

NOTE 17 -- BEGINNING RETAINED EARNINGS

The School received $200,000 from the Ohio Department of Education prior to July 1, 2002 to offset start-up costs. Additionally, $388 of interest was earned on these monies. The School incurred expenses of $36,571, resulting in beginning retained earnings amount of $163,817.

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Auditor of State
Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE AND ON INTERNAL CONTROL REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

Arts and College Preparatory Academy
Franklin County
2202 Hamilton Road
Columbus, Ohio 43232

To the Board of Governors:

We have audited the financial statements of the Arts and College Preparatory Academy, Franklin County, Ohio, (the Academy) as of and for the year ended June 30, 2003, and have issued our report thereon dated November 1, 2003. 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 *Government Auditing Standards,* issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Academy's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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 that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Academy's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Academy's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described in the accompanying schedule of findings as item 2003-001.

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A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we do not believe the reportable condition described above is a material weakness. We also noted other matters involving the internal control over financial reporting that do not require inclusion in this report that we have reported to the management of the Academy in a separate letter dated November 1, 2003.

This report is intended for the information and use of management and the Board of Governors, and is not intended to be and should not be used by anyone other than these specified parties.

Betty Montgomery

Betty Montgomery
Auditor of State

November 1, 2003

ARTS AND COLLEGE PREPARATORY ACADEMY
FRANKLIN COUNTY

SCHEDULE OF FINDINGS
JUNE 30, 2003

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

Finding Number	2003-001

Monitoring Controls
The Board of Governors did not request and review periodic financial reports of the Academy. The performance of other financial monitoring activities by the Board and Academy management was not documented in the Board minutes. Lack of effective monitoring controls could allow for operational failures and errors to occur without timely detection by management.

Monitoring controls should be comprised of regular management and supervisory activities established to oversee whether management's objectives are being achieved, including operational, legal compliance, and financial control objectives. Effective monitoring controls should identify unexpected results or exceptions (including significant compliance exceptions), investigate underlying causes, and take corrective action.

To assist management in detecting potential material financial and or compliance transactions that may effect financial operations, we recommend the Board develop and implement monitoring controls. Some of these monitoring controls may consist of, but should not be limited to, the following:

- regular review of monthly budgeted and actual figures;
- regular review of financial summaries (detailed revenue, expenditure, and fund balance reports)
- review of key performance indicators;
- review of payable aging reports;
- review of unusual or significant and long outstanding items;
- monitoring grant expenditures in accordance with grant requirements;
- ensuring adequate segregation of duties exist; and,
- review of monthly bank reconciliations.

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ARTS AND COLLEGE PREPARATORY ACADEMY

FRANKLIN 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
DECEMBER 30, 2003